



**So close and so far away. The Case of Portuguese and Italian  
distance**

by

Lorenzo Ferrini

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Supervisor: Professor Raquel Meneses

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## **Biographic Note**

Lorenzo Ferrini was born in Rimini on July 23<sup>th</sup>, 1993. In 2012, he started his undergraduate studies (BSc) in Business Administration at the University of Bologna. In 2014, he joined in the Erasmus+ program for an exchange semester at the Universitatea Romano-Americana in Bucharest, Romania. He successfully graduated in July 2015 with a final grade of 110/110.

In 2015, he was accepted for a two years Double Degree Master's in Management, a partnership between the School of Economics and Management of University of Porto and the Kedge Business School. Within this time, he was also able to perform a six-month internship as a Business Consultant at Market Access in Porto, where the topic of his master's dissertation found its origin. Currently he is employed as a Business Development Representative at S2M-group in Barcelona, Spain.

## **Abstract**

**Purpose** - This paper aims to examine the relationship between Portugal and Italy.

Although the two countries seem to be similar from different point of views, this does not necessarily lead to a stronger commercial relationship. The research question that this paper intends to answer is: What is the real distance between Portugal and Italy?

**Methodology** - The study is based on a case study methodology using secondary data indicators to measure the distance between the two countries and through semi-structured interviews to understand the distance's perception in more detail.

**Findings** - The results indicate that even though there are some differences regarding few of the multidimensional distances considered, they present a lot of resemblances that lead to a very small distance. It is worth to notice that the results of the interviews are consistent with the secondary data.

**Research limitations** - Since this case study is based on interviews of a small sample of people, a larger sample might increase the level of validity of the conclusions. Furthermore, although this study collected and analysed as many secondary data as possible coming from different fields, there might be some that were not taken into consideration, but a future research could include.

**Practical implications** - This study gives practical information regarding the distance between Portugal and Italy, that might be useful during the internationalization strategy analysis.

**Originality** - The paper provides a new approach on cross-national distance applicable also to other cases.

**Keywords** Cultural Distance, Economic Distance, Geographical Distance, Administrative Distance, Internationalization

**JEL-Codes** M10, M14, M16

**Paper type** Case study

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# 1. Introduction

The economy in the last decade has become more globalized than never. In this context, lot of firms decided to move also to other markets in order to gain a competitive advantage over the competitors.

This paper examines the relationship between Portugal and Italy which seem to be similar countries from different point of views, but this does not necessarily lead to a stronger commercial relationship. Besides, this study emphasizes the relevance of the partnership agreement between Portugal and European Commission, called “Portugal 2020” by which Portugal will receive 25 billion euros between 2014 and 2020 with the objective to relaunch Portugal into international markets and the development of the Portuguese economy based on business expertise and innovation. In fact, lot of organizations have already decided to use those incentives to expand their activities in other countries, especially in Europe. Therefore, it will be useful to understand if in the last years this opportunity has increased Portuguese exports or foreign direct investments in Italy.

This paper is an internship report, which is not a journal with the description of all activities, but a deep research and discussion about a related topic.

In fact, the author did an internship at Market Access, a Portuguese company specialized in international trade and development that helps Portuguese firms to achieve success in global markets. In this context, it is useful to fully understand the distance within the countries considered to maximize the possible benefits of another market (that is why this research acquire also more relevance).

This paper further analyzes the differences between these two countries through the CAGE distance framework in order to highlight the main differences in terms of culture, administration, geography and economy (Ghemawat, 2001). Another relevant framework adopted to understand countries’ distance is Berry, Guillén, and Zhou (2010) which considers more types of distance than Ghemawat (2001).

Although the impact of distance, which is not necessarily the geographical one, has already been investigated intensively, there is a lack of research regarding the concrete comparison between some countries.



This is the case of Portugal and Italy that share the same economic area but in according to Simoes and Hidalgo (2011), Italy imported only the 0.41% of the total products from Portugal in 2015 while Portugal imported the 5.3% of the total goods in the same year. The studies of Geert Hofstede (2001), Hall and Du Gay (1996), Trompenaars and Hampden-Turner (2011) and Ionascu, Meyer, and Estrin (2004) are the starting points to build the theoretical framework, focusing on the distance between the two countries. In this optic, also the analysis made by The Globe Project is fundamental because investigates the influence of culture on societal and organizational effectiveness (Chhokar, Brodbeck, & House, 2013). The Globe Project groups similar cultures in a cluster and compares them to different one. Portugal and Italy are in the same cluster, which is called the GLOBE Latin Europe together with France, Spain, Switzerland (French-speaking), and Israel.

To summarize, the main objective of this paper is to analyse the distance between Italy and Portugal using different type of distance.

The research question that this study intends to answer is:

- What is the real distance between Portugal and Italy?

To answer this question, the paper is based on a case study methodology. The objective is achieved through secondary data indicators, measuring the economic, financial, political, administrative, cultural, demographic, knowledge, global connectedness and geographic distance. Furthermore, other data are collected using a qualitative methodology through semi-structured interviews of people involved in an experience regarding the perception of both countries.

The next chapter presents the literature review of the topic, introducing the main definitions and theories on the subject, which helps the reader to have a general overview on the topic. In chapter three, it is presented the methodology used by the research to answer the research question. In chapter four, the results of the conducted empirical study are discussed. Concluding this study, chapter five summarizes the most important findings and highlights the limitations as well as different future research approaches of this topic.

## **2. Literature Review**

In this section 2.1. and 2.2 are discussed the main definitions and theories regarding cross-national distance. Other similar studies are also analyzed in section 2.3 and a critical analysis about the literature is given in section 2.4.

### **2.1. Internationalization and Distance**

One of the most important model regarding internalization processes is The Uppsala, which was theorized by Johanson and Vahlne (1977) . Their approach was based on the work of Cyert and March (1963), Aharoni (1966), Johanson and Wiedersheim-Paul (1975) and showed the gradual steps that a firm may take during the expansion to another country.

Internationalization is seen as a growth process where the company stores market knowledge thanks to the experience and learns how to adapt to the internal and external changes.

The gradual learning and knowledge acquisition are therefore used as a connection between the different steps, allowing to reduce the perception of risk and uncertainty and constituting one of the driving force of the expansion process (Johanson & Vahlne, 1977).

This process is incremental, because it works inside a single market but also when a company switches from countries with little cultural distance. In fact, most of the time a firm tends to expand in a market which is culturally and geographically closer with more opportunities and less uncertainty.

In this optic, it is very important to clarify the concept of psychic distance which is composed by several factors (language, culture administrative system, political system) that might compromise the information flow between a company and a market (Johanson & Vahlne, 1977). The main consequence is, the greater the psychic distance is the greater the liability of foreignness (Johanson & Vahlne, 2009).

The liability of foreignness is defined as the set of foreign management costs that are associated with the position of a company in an own market, which leads to a

competitive disadvantage due to the additional costs that would not exist for a local company (Zaheer, 1995).

These management costs caused by distance can be divided into three main categories: costs due to company's lack of knowledge with the environment (Johanson & Vahlne, 1990); costs directly derived from the physical and geographical distance, such as transport costs and the transfers (Eden & Miller, 2004; Zaheer, 1995); costs transmitted to the host country such as economic nationalism and absence of legitimacy for foreign companies (Eden & Miller, 2004; Zaheer, 1995).

In the last decade, lot of authors questioned if psychic distance still matters during the internationalization process.

According to Ellis (2007, p. 573): "consecutive export locations tend to be culturally related suggesting that exporters are able to transfer learning between similar markets".

Authors also distinguished between the effect of psychic distance for SMEs and multinational companies, because there might be a different impact in the firm's strategy. Even in this case, distance is important for internationally-oriented small firms. Psychic distance comprehending the economic, geographic and cultural distance assumes more relevance than what expected before (Brock, Johnson, & Zhou, 2011). These researches are consistent with Ghemawat (2001) for the importance of distance during international business.

Most of the costs that organizations should bear in their growth path towards the foreign market, derive not only from the geographical distance, but also from the economic, political-administrative and cultural one (Ghemawat, 2001).

These kinds of distance are very significant nowadays, therefore it is worth to examine them one by one. In Table 1 are presented the main characteristics of the four distance factors according to Ghemawat (2001).

**Table 1 - The CAGE framework**

	<b>Cultural Distance</b>	<b>Administrative and Political Distance</b>	<b>Geographic Distance</b>	<b>Economic Distance</b>
Distance between two countries increase with. . .	<ul style="list-style-type: none"> <li>• Different language, ethnicities, religions, social norms</li> <li>• Lack of connective ethnic or social networks</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of shared monetary or political association</li> <li>• Political hostilities</li> <li>• Weak legal and financial institutions</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of common border, waterway access, adequate transportation or communication links</li> <li>• Physical remoteness</li> <li>• Different climates</li> </ul>	<ul style="list-style-type: none"> <li>• Different consumer incomes</li> <li>• Different costs and quality of natural, financial, and human resources</li> <li>• Different information or knowledge</li> </ul>
Distance most affects industries or products. . .	<ul style="list-style-type: none"> <li>• With high linguistic content (TV)</li> <li>• Related to national identity (foods)</li> <li>• Carrying country-specific quality associations (wines)</li> </ul>	<ul style="list-style-type: none"> <li>• That a foreign government views as staples (electricity), as building national reputations (aerospace), or as vital to national security (telecommunications)</li> </ul>	<ul style="list-style-type: none"> <li>• With low value-to-weight ratio (cement)</li> <li>• That are fragile or perishable (glass, fruit)</li> <li>• In which communications are vital (financial services)</li> </ul>	<ul style="list-style-type: none"> <li>• For which demand varies by income (cars)</li> <li>• In which labor and other cost differences matter (garments)</li> </ul>

Source: (Ghemawat 2001, p. 2)

The CAGE distance framework analyses the four dimensions that affect the internationalization process (Ghemawat, 2001). In fact, depending on the industry, the four elements (culture distance, administrative and political distance, geographic distance and economic distance) acquire more relevance.

The first dimension that a firm faces when it expands abroad is the culture distance. In the 1990s, the Professor Robert J. House founded an organization called GLOBE (Global Leadership and Organizational Behavior Effectiveness research program) with the aim to study the relationship among societal culture, leadership and organizational practice. GLOBE gave the following definition of culture “the shared motives, values, beliefs, identities, and interpretations or meanings of significant events that result from

common experiences of members of collectives that are transmitted across generations” (R. House, Javidan, Hanges, & Dorfman, 2002).

The administrative and political distance is represented by the absence of colonial ties, absence of shared monetary, political hostility, legality and financial institutions differences (Ghemawat, 2001).

The geographical distance on the other hand depends on the presence of a common border or an acceptable transportation infrastructure and the sharing of a common climate.

The last dimension is the economic distance defined on differences in cost or quality of natural resources, financial resources, income human resources, infrastructure and knowledge (Ghemawat, 2001).

A further study regarding distances between two countries is Berry et al. (2010) which proposes a set of multidimensional measures, including economic, financial, political, administrative, cultural, demographic, knowledge, and global connectedness as well as geographic distance. In this case a higher number of distances compared to Ghemawat (2001) is presented.

The following sections explore in further details the multidimensional measures explained above, considering also the ones proposed by Berry et al. (2010).

### **2.1.1. Cultural Distance**

The cross-national cultural differences have been studied intensively by Geert Hofstede (1984), Smith, Dugan, and Trompenaars (1996), Schwartz (1999) and R. J. House, Hanges, Javidan, Dorfman, and Gupta (2004).

Each of the researches interpreted this topic in a slightly different way.

Geert Hofstede (2001) differentiated cultural distance in six different cultural dimensions: power distance, uncertainty avoidance, indulgence, individualism versus collectivism, masculinity versus femininity, and long term versus short term orientation.

Trompenaars and Hampden-Turner (2011) focused in the explanation of cultural diversity in business. In fact, the study distinguished seven cultural dimensions that affect every country’s culture: universalism versus particularism, individualism versus communitarianism, neutral versus affective, specific versus diffuse, achievement versus ascription, sequential versus synchronic, and internal versus external control.

R. J. House et al. (2004) through the GLOBE project used the studies of Kluckhohn and Strodtbeck (1961), McClelland (1967), and Geert Hofstede (1984) as a starting point in order to create a more accurate model to describe national cultures. R. J. House et al. (2004) defined nine cultural dimensions: power distance, uncertainty avoidance, assertiveness, institutional collectivism, in-group collectivism, future orientation, performance orientation, humane orientation, and gender egalitarianism.

In the last decade, numerous authors such as Brouthers (2002), Tihanyi, Griffith, and Russell (2005) and Kogut and Singh (1988) based their researches to the ones previously mentioned to elaborate different studies about the influence of culture in the choice of entry mode.

Kogut and Singh (1988) developed a theoretical argument for why culture influence the entry mode choice grouping the different cultural dimensions based on Geert Hofstede (1984) in one single index able to measure the cultural distance.

Brouthers (2002) analyzes market entry mode choices and related performance in foreign countries. The performance considers not only financial indicators but also non-financial ones in order to find if organizations choose their entry mode depending on transaction cost, institutional context, and cultural context variables, that achieve better results than organizations that make other mode choices. The result found by Brouthers (2002) is that the entry mode choice matters, in fact “firms whose mode choice could be predicted by the extended transaction cost model performed significantly better, on both financial and non-financial measures, than did firms whose mode choice could not be predicted by the extended transaction cost model” (Brouthers, 2002, p. 1).

Tihanyi et al. (2005) studied the relationships of cultural distance with entry mode choice, international diversification, and MNE performance. The main result of this study was a different correlation between cultural distance and entry mode choice depending on the industry for US-based MNEs.

With time and greater involvement, the company will be less influenced by the factors that characterize the country of origin and will give greater importance to those related to the host country. The culture of individuals affects not only their behavior, but also the way they speak to others and the interpretation of the information received.

Therefore, a high cultural distance increases the difficulty of understanding and the risk of misunderstanding between the actors involved. These difficulties result in an increase

of transaction costs, both real and perceived, that influence the assessment of how convenient it is to do business with local operators (Tihanyi et al., 2005).

The subcategories that characterize the cultural environment composition according to Albaum and Duerr (2008) are the following: social structure (social institutions, hierarchical structures, mobility and social stratification), language (spoken, written, formal, ceremonial and family, the media), religion (beliefs, standards, philosophies and rituals), values and attitudes (conception of time and space, work, objectives, willingness to change, risk-taking); education (primary, secondary and higher), technology and scientific culture (transport infrastructure, communication tools, urbanization, level of scientific development). The social structure significantly influences the design of the organizational structure of a company and its operational processes, as well as intercultural communication between local staff and foreign actors (Albaum & Duerr, 2008).

The cultural distance, determined by different attitudes, behaviors and preferences that characterize the society, also affects the decisions and choices that a company takes when deciding to expand in the foreign country (Zetterholm, 1994).

In fact, the way of conducting business activities, to select partners and to relate to them, is conditioned by various governmental and business structures of the foreign country.

The way to approach, cooperate and develop relationships with customers, consumers and suppliers can significantly change depending on the specific cultural context. The choice of products to offer to the new market is influenced by the tastes and preferences of customers and (local) consumers (Zetterholm, 1994).

All of these studies confirm that foreign companies that wish to expand their activities abroad, should adapt to the national culture and plan their organizational structure considering cultural distances.

#### **2.1.1.1. Hofstede Dimensions**

Among all of the cultural studies, one of the most relevant one was realized by Geert Hofstede and Minkov (1991).

They analyzed the cultural diversity of many countries to determine how it influences the behavior of people during the process of international interaction and how they are

important to define the cultural distance between countries. The model they developed is designed to interpret and measure culture through universal parameters that are also found in the choices and behaviors of organizations and institutions.

Therefore, Geert Hofstede (2011) developed a model composed by six cultural dimensions which allows to measure the culture that determines the behavior of people in the interaction between them, the working environment and institutions.

The first dimension is the Power Distance which deals with the fact that all individuals in societies are not equal and it expresses the attitude of the culture towards these inequalities amongst us. Power Distance is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. The level of inequality is therefore defined not so much by the power of the leaders but from the submission of subordinates individuals (Geert Hofstede, 2011).

The second dimension is Uncertainty Avoidance that measures the degree of perception if the situation is uncertain and obscure, as frightening and threatening, leading individuals to an attitude of resistance to all that is new and unknown, in search of trade and security. Uncertainty avoidance within an organization can be defined as a preference of structured relations with clear, precise rules of behavior. These rules can be formalized by the company or they can be supported by traditions (Geert Hofstede, 2011).

With the third-dimension Masculinity/Femininity, Geert Hofstede (2011) identifies the distribution of male and female roles, referring to the values that characterize them: the acceptance and modesty for women, competitiveness for men. In a managerial context, the male culture gives more weight to the status, while the female values the quality of life and human relationships (Geert Hofstede, 2011).

Individualism versus collectivism reflects how society, or more specifically the group, may affect the individual's personality. High values of this index mean that the individual is more oriented towards their own interests and can look after himself, the collective logic, however, exerts little influence on the person. Lower values refer to the orientation collectivist values and therefore the needs and interests of the group exceed those of individuals (Geert Hofstede, 2011).



Another dimension is the long or short-term orientation. The long-term orientation is characterized by a vision towards the future and is evident in an aspiration to savings and accumulation, in the stubbornness of achieve planned objectives. The short-term orientation is characterized by the respect for tradition and social obligations (Geert Hofstede, 2011).

The last dimension identified by Geert Hofstede (2011) is the indulgence/restraint. This dimension is described as the extent to which people try to control their desires and impulses, based on the way they were raised. Relatively weak control is called “Indulgence” and relatively strong control is called “Restraint” (Geert Hofstede, 2011).

### **2.1.1.2 The GLOBE Project**

Another important study regarding cultures is the GLOBE project. The "Global Leadership and Organizational Behavior Effectiveness" (GLOBE) Research Program was founded in 1991 by Robert J. House. In 2004, the first volume called "Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies" has been published. It is based on results from about 17,300 middle managers from 951 organizations in the food processing, financial services, and telecommunications services industries. The second major volume called "Culture and Leadership across the World: The GLOBE Book of In-Depth Studies of 25 Societies" was published in 2007. It includes the findings from the first volume with in-country leadership literature analyses, interview data, focus group discussions and formal analyses of printed media to provide in-depth descriptions of leadership theory and leader behavior in those 25 cultures (Hoppe, 2007).

GLOBE's major finding is that leader effectiveness is contextual, it is embedded in the societal and organizational norms, values, and beliefs of the people being led. GLOBE empirically established nine cultural dimensions that make it possible to capture the similarities and/or differences in norms, values, beliefs - and practices - among societies (Hoppe, 2007). It is based on previous researches such as Geert Hofstede (1984), Schwartz (1994), Smith et al. (1996) and Inglehart (1997).

Table 2 shows the definition of each cultural dimension based on R. J. House et al. (2004).

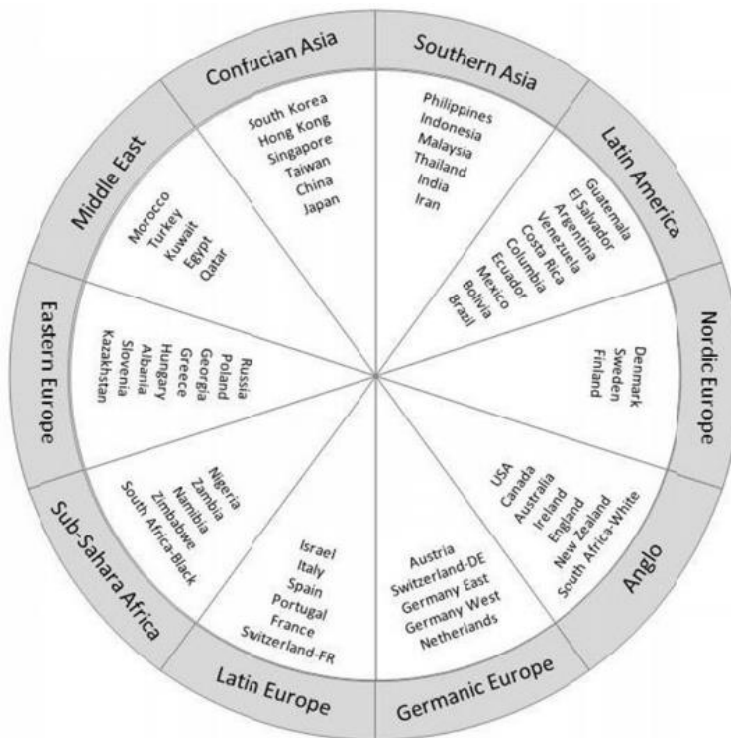
**Table 2 - Cultural dimensions definitions**

<b>Cultural dimension</b>	<b>Definition</b>
Power Distance	The degree to which members of a collective expect power to be distributed equally
Uncertainty Avoidance	The extent to which a society, organization, or group relies on social norms, rules, and procedures to alleviate unpredictability of future events
Humane Orientation	The degree to which a collective encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others
Collectivism I (Institutional)	The degree to which organizational and societal institutional practices encourage and reward collective distribution of resources and collective action
Collectivism II (In-Group)	The degree to which individuals express pride, loyalty, and cohesiveness in their organizations or families
Assertiveness	The degree to which individuals are assertive, confrontational, and aggressive in their relationships with others
Gender Egalitarianism	The degree to which a collective minimizes gender inequality
Future Orientation	The extent to which individuals engage in future-oriented behaviours such as delaying gratification, planning, and investing in the future
Performance Orientation	The degree to which a collective encourages and rewards group members for performance improvement and excellence

Source: Adapted from Hoppe (2007)

GLOBE includes 60 of the 62 countries studied into country-clusters. It is important to notice that cultural similarity is greater among societies that constitute a cluster and cultural difference increases the further clusters are apart (Hoppe, 2007).

**Figure 1 – Country-Clusters**



Source: Hoppe (2007)

Portugal and Italy are included in the Latin Europe cluster with France, Spain, Israel and Switzerland (French-speaking).

The following step of GLOBE was to analyze the answers of around 17,300 middle managers from 61 of the 62 countries to 112 leader characteristics, such as modest, decisive, autonomous, and trustworthy. The result was the creation of six leadership styles applied in a different way in each cluster. The following table gives the definition for each leadership style in according to Chhokar et al. (2013).

**Table 3 - Leader style definitions**

<b>Leader style</b>	<b>Definition</b>
Charismatic	The ability to inspire, to motivate, and to expect high performance outcomes from others based on firmly held core values
Team-oriented	The ability effectively to build teams and implement a common purpose or goal among team members
Participative	The degree to which managers involve others in making and implementing decisions

Human oriented	The degree to which leaders are supportive and considerate but also includes compassion and generosity
Autonomous	The degree to which leaders are independent and individualistic
Self-protective	The degree to which leadership focuses on ensuring the safety and security of the individual and group through status enhancement and face saving

Source: (Chhokar et al., 2013)

### **2.1.2. Administrative and Political Distance**

The administrative and political distance between two countries incorporates normative, regulatory and cognitive aspects (Ionascu et al., 2004). The greater the institutional difference between the two countries is, the more difficult it will be to face the entrance to a foreign market.

The policies held by individual governments may generate and increase institutional distances between countries and cause the main barriers for foreign companies in their internationalization process.

The barriers created by government authorities are created to protect their own markets and corporate interests from foreign competitors (Ionascu et al., 2004).

This distance between two countries is also evident in the lack of political relationship, common regulations of the legal or financial institutions, economic agreements in different bureaucratic models. This distance decreases when either or both countries create unilateral measures (Ghemawat, 2001).

Administrative barriers include a vast amount of regulations, excessive or unnecessary, and other impediments that may arise because of the unofficial administrative and politic procedures of the host country (Ghemawat, 2001). A structural rigidity and the political rules combined with cultural and social factors may jeopardize the development of the activities of foreign companies and discourage their entrance into the new market. Among the administrative barriers there is the excessive bureaucracy, a lack of transparency, an incomplete and frequently changing of legislation, the inadequate implementation of existing laws and regulations, justice's controversial operation and corruption (Ghemawat, 2001). Those dysfunctions affect the transaction costs, which are expressed through an increased use of time to comply with the

established rules and through the increase in financial expenses, which most of the time are not recorded in the financial statements (Ghemawat, 2001).

It was also demonstrated that countries which have shared historical events, or political history, are closer countries rather than countries where these dynamics have never occurred. Researches demonstrated, that the links between nations, with a past relationship of colonization, increase the commercial trades between those countries by 900% compared to situations where these circumstances have never happened (Ghemawat, 2001).

Preferential trade agreements, a common currency and political union can also increase commercial trades by over 300% (Ghemawat, 2001).

### **2.1.3. Geographical Distance**

It is not difficult to perceive that the greater the geographic distance between the organization's home country and another one is, the more difficult it is to lead business, but it is wrong to consider the geographical distance based on a single attribute such as kilometres. During the geographical distance's assessing between countries, other factors should also be considered, such as a natural one and an artificial one: the first includes the physical size of the country, the possibility to access waterways or oceans and the topography, while the second consists of transportation system and infrastructures (Ghemawat, 2001).

Geographical distance has always been considered an obstacle to international expansion, having an impact on transportation costs and communication and is often a restraint force for business, especially when it is considerable (Ghemawat, 2001).

The distribution and quality of transportation infrastructures plays an important role, because they influence the process of production and distribution of goods, availability, and access to communication networks that impact marketing and service activities (Ghemawat, 2001).

Other geographic factors that affect the distance between states are the presence or absence of a common border, differences in time zones and climates (Ghemawat, 2013).

The impact of geographical distance should be emphasized, also regarding business services and intangibles: the capital flows between different countries is affected by geographic distance, in particular by the level of information infrastructures, as

measured by the telephone traffic and the presence of multinational banks branches (Ghemawat, 2001).

#### **2.1.4. Economic Distance**

The wealth or income of consumers is the most important economic attribute that creates distance between countries and it has a marked effect on the levels of trade and the types of partners a country trades with. Rich countries engage in more cross-border economic activities than the poor ones. Thus, there is a positive relation between GDP per capita and trade and investment flows, most of this activity occurs with other rich countries, but poor nations also trade more with rich countries than with other poor ones (Ghemawat, 2001).

It is easy to understand that high per-capita income means higher labor cost. This situation can be looked also in terms of different skill levels or types of training. Other factors of production to consider are land, natural resources, capital, and more-advanced man-made resources, such as infrastructure and information (Ghemawat, 2013).

Companies that rely on economies of experience, scale, and standardization should focus more on countries that have similar economic profiles. This is because they have to replicate their existing business model to exploit their competitive advantage, which is hard to pull off in a country, where customer incomes are very different (Ghemawat, 2001).

#### **2.1.5. Financial Distance**

The financial distance measures the differences in financial sector development. The financial sector is defined by Dunia (2012) as “the set of institutions, instruments, markets, as well as the legal and regulatory framework that permit transactions to be made by extending credit”.

According to lot of studies made in the 1990s, there is a strong positive link between the functioning of the financial system and long-run economic growth (Levine, 1997).

Countries with more developed financial systems tend to grow faster in the long term period (Demetriades & Hussein, 1996).

### **2.1.6. Demographic Distance**

It is also worth to consider the demographic distance because countries are different in terms of the size, growth, age structure and qualities of their populations. These dimensions have a direct implications for market attractiveness and growth potential (Berry et al., 2010). In fact, the characteristics of the population of countries may affect consumer behaviour and other market related processes of interest to firms (Berry et al., 2010).

### **2.1.7. Knowledge Distance**

Nowadays the capacity to create knowledge and to innovate plays, a key role in the global economy. However, the distribution of high human capital individuals is fundamental in the distribution of high-tech firms and in regional economic outcomes. High-technology industry has the tendency to follow the talents. Together, talents and technology based industries generate positive regional economic outcomes in the form of higher incomes per capita (Florida, 2002). Countries should provide the infrastructure required if they want to generate, attract, and retain talent. (Florida, 2002).

Therefore, high skilled individuals generate the ability to innovate, that provide a country with innovative technology in the long term period (Furman, Porter, & Stern, 2002). National innovative capacity depends on the strength of a nation's common innovation infrastructure, the environment for innovation in a nation's industrial clusters and the strength of linkages between these two (Furman et al., 2002). Thus, national innovative capacity influences downstream commercialization, such as achieving a high market share of high-technology export markets (Furman et al., 2002).

### **2.1.8. Global Connectedness Distance**

Global connectedness is the ability of resident individuals and organizations to interact with other parts of the world, obtain information, and diffuse their own activities (Oxley & Yeung, 2001).

The main purpose to measure this distance is to provide the most comprehensive and timely account of the world's global connectedness. It is focused on twelve types of trade, capital, information, and people flows (Ghemawat & Altman, 2011).

## **2.2. Distance Perception**

In order to assess properly the concept of distance it is fundamental to analyze in detail the difference between cultural distance and psychic distance. Both concepts have been used interchangeably in the international business literature but in fact they represent diverse phenomena even if they are still related (Sousa & Bradley, 2006).

Cultural distance is defined as the degree from which cultural values in one country are different from those in another one.

The cultural distance conception adopts cultural values to assess the distance among countries not taking the individual level in consideration. The main consequence of this process is that the cultural distance concept should be applied only at a country level (Sousa & Bradley, 2008).

On the other hand, the concept of psychic distance is associated with the distance presents in individual's mind, which depends on how a certain person perceives the world. Therefore, it is how an individual perceives the difference between the home country and the foreign country that shapes the psychic distance concept. Thus, psychic distance cannot be assessed by factual indicators because is a subjective measure of the reality and it is considered at an individual level (Sousa & Bradley, 2006).

In the end, the cultural distance and the psychic distance are two different concepts and for this reason they should be assessed in two different ways. In fact, the psychic distance should be analyzed by an individual score while the cultural distance should be assessed on a country level. By assessing psychic distance at an individual level, it is possible to reduce the psychic distance between a manager and foreign markets if the appropriate steps are taken (Sousa & Bradley, 2006).

The influence of perception of cultural differences on perceived relational risk was examined by Silva and Nardon (2007). Perceived relational risk is defined as the degree of satisfaction of being involved in business activities with nationals of a given country (Silva & Nardon, 2007). Cultural differences are sometimes perceived as a desirable characteristic and may be associated with lower relational risk. Portuguese managers' assessments of foreign partners' relational risk is influenced by perceptions of national cultural differences, but the amount of national cultural difference is not the most important criteria (Silva & Nardon, 2007). In fact, the nature of the task or purpose of interaction is more important. In other words, cultural differences are sometimes



perceived as desirable, and sometimes perceived as undesirable, depending on the task characteristics (Silva & Nardon, 2007).

### **2.3. Related Studies**

The distance's impact on the internationalization strategies has been studied by many authors considering different aspects of the subject.

Kogut and Singh (1988) analyzed how national culture affect the entry-mode choice studying data about 228 entries into the United States market by acquisition, wholly owned greenfield, and joint venture.

The research shows how culture affects managers' perception of costs and uncertainty of these three different entry modes. There are two hypotheses in according with the authors. The first one is if there is higher cultural distance, Joint Ventures or Greenfield investments are preferred over Acquisitions and the second one is if there is higher Uncertainty Avoidance, Joint Ventures or Greenfield investments are preferred over Acquisitions.

They used Hofstede's dimension of Uncertainty Avoidance as a measure of cultural distance. They collected also data of foreign companies entering the US market. The conclusion found by the research is that although both hypotheses are true, the results for the second hypothesis are more convincing. In the end, they acknowledge that their conclusion confirms Hofstede's framework (Kogut & Singh, 1988).

The management is very concerned about the distance dimensions, even more then the entry-mode choice, which is viewed only as subordinate to the environmental factors (Kraus, Ambos, Eggers, & Cesinger, 2015). Kraus et al. (2015) studied 126 CEOs and top managers responsible for internationalization in companies with headquarters in Germany, Switzerland, or Austria.

On the other hand, Dimitratos, Petrou, Plakoyiannaki, and Johnson (2011) studied how national culture values affect strategic decision-making processes and found out that the national culture of the focal firm matters as far as strategic decision-making processes in internationalization are concerned.

Another study was made by Brock et al. (2011) and confirmed that some components of distance still matter for internationally-oriented small firms and that cultural distance is sample source and concept sensitive. In addition, psychic distance acts as a mediator

construct to the more objective, external distance measures of economic, geographic, and cultural distance, confirming the proposed distance framework (Brock et al., 2011). A similar one was done by López-Duarte and Vidal-Suárez (2010) and is focused on the importance of cultural distance, political risk and language diversity.

Child, Ng, and Wong (2002) studying internationalization processes of firms based in Hong Kong, found out that there are other factors than culture, influencing the perception of psychic distance, such as local skill levels, social and political stability, host government policy and previous experience with that country.

In the Table 4 a summary of related studies is presented.

**Table 4 - Related literature studies**

<b>Study</b>	<b>Title</b>	<b>Main topic</b>	<b>Result</b>
Brock et al., 2011	Does distance matter for internationally-oriented small firms?	Relevance of distance and its key components in international business for young, internationally-oriented small firms	Components of distance still matter for internationally-oriented small firms and that cultural distance is sample source and concept sensitive
Child et al., 2002	Psychic distance and internationalization: Evidence from Hong Kong firms	Studying internationalization processes of firm based in Hong Kong	Other factors other than culture also carry weight in the perception of psychic distance such as local skill levels, social and political stability, host government policy, and previous experience with that country
Dimitratos et al., 2011	Strategic decision-making processes in internationalization: Does national culture of the focal firm matter?	How national culture values affect strategic decision-making processes	The national culture of the focal firm matters as far as strategic decision-making processes in internationalization are concerned
Kraus, 2015	Distance and perceptions of risk in internationalization decision	Top managers' risk perceptions in internationalization decisions	Distance dimensions are the primary drivers of risk assessment, whereas entry-mode choice is secondary

Lopez-Duarte, 2010	External uncertainty and entry mode choice: Cultural distance, political risk and language diversity	Importance of cultural distance, political risk and language diversity	Existence of a moderating/intensifying effect of political risk on the role played by CD on the entry mode choice
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Table 5 presents the methodological aspects of the related studies.

**Table 5 – Methodology of related studies**

Authors	Country of study	Size of sample	Industrial sector	Firm size	Data collection	Response rate	Key informant
Brock et al., 2011	American, British, and German	Germany 280, UK 600, USA 600	High technology firms	SME	Survey	Average 30% between the countries	CEOs or other top managers
Child et al., 2002	Hong Kong	26	Multiple industries	Every size	Interview	N/a	Chairman and CEO
Dimitratos et al., 2011	USA, UK, Greece and Cyprus	528	N/a	SME	Survey	Average 20% between the counties	Owners and CEO
Kraus, 2015	Germany, Switzerland, or Austria	126	Multiple industries	Every size	Survey	100%	CEO and top managers
Lopez-Duarte, 2010	Spain	63	Multiple industries	Listed companies	N/a	100%	Database

The related studies analyze the relation between different countries, industrial sector and size. The data collection is composed mainly by surveys, but Child et al. (2002) used interviews. The common thing between these researches is the key informant, which is the top management.

These studies have the starting point, which is a distance analysis between two or more countries, in common. Most of them use models and theories of authors that this research adopts in the literature review's section.

## **2.4 Critical analysis**

The main objective of this chapter was to analyse the academic approaches utilized by past studies related to a similar topic. The reviewed studies were useful to give theoretical definitions and to build the next steps of this research. It is clear from the researches reviewed that the distance between two countries cannot be measured only considering one type of factor. It is only through several indicators and approaches that it is possible to understand the relationship between two countries and their real distance better.

Since most of the considered studies had the purpose to create a theoretical framework to analyze the relation between two countries, this paper uses them as a starting point to go deeper in the analysis of the real distance between Italy and Portugal.

The following chapter presents the methodology, that the author used in order to understand the distance between Portugal and Italy.

### **3. Methodology**

This chapter does not only deal with the methodology used within this study, but also with the steps conducted to find the most important findings. Therefore, it plays a key-role because it illustrates how the study carried out the investigations. The examination has the purpose to explore the research question and to explain the specific methods used to analyse, choose and measure the data and information. Therefore, the main methodology objective is to answer two main questions: How was the data collected or generated? And, how was it analysed? (Kallet, 2004).

The aim of this study is to seek a better understanding about the real distance between Portugal and Italy, which is apparently low.

To achieve this goal, the case study methodology using a qualitative methodology was applied.

Case study method permits to closely analyse the data within a specific context. Case studies explore and investigate contemporary real-life phenomena through detailed contextual analysis of a limited number of events or conditions and their relationships (Zainal, 2007). The definition that Yin (1984, p. 23) gives to the case study research method is “an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used”. The principal reason why this research uses a case study, is because it is a unique way of observing any natural phenomenon which exists in a set of data (Yin, 1984). It is unique because only a very small geographical area or number of subjects of interest are examined in detail (Zainal, 2007).

Section 3.1 presents how data were collected while section 3.2 analyses the step adopted by the study.

#### **3.1. Collection of Data, Databases and Sample**

To obtain the distance perception, the research uses primary data through semi-structured interviews to people involved in an experience regarding both countries. The interviews were analyzed through a qualitative content analysis, because it is a flexible method for analyzing text data (Hsieh & Shannon, 2005).

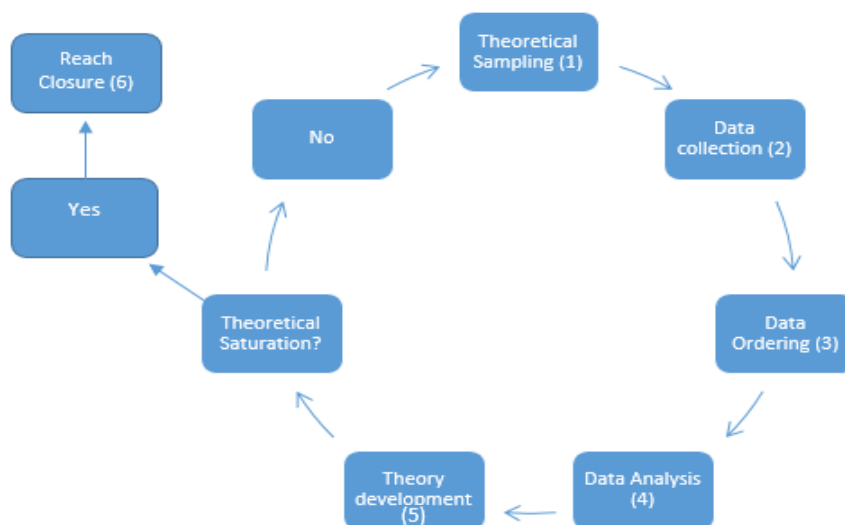
Besides, the study also utilizes secondary data, such as index and scales in order to compare the two countries. It is relevant to investigate the distance through these indicators because they measure concretely multidimensional distance giving a deeper insight on the subject.

### 3.1.2. Semi-structured Interviews

The first part of the empirical study includes semi-structured interviews that pursue the following process.

The methodology process is divided in five analytic phases in accordance with the grounded theory building: theoretical sampling, data collection, data ordering, data analysis and literature comparison. Each phase includes some steps to precede to the next one. Theoretical sampling phase is divided in two steps, which are review of technical literature and selecting cases, data collection phase includes develop rigorous data collection protocol and entering the field, data ordering phase utilizes data ordering, data analysis phase consists analyzing data relating to the first case, theoretical sampling phase (go to step 2 until theoretical saturation) and reaching closure, while literature comparison phase compares emergent theory with extant literature) (Pandit, 1996).

**Figure 2 - The Interrelated Processes of Data Collection, Data Ordering, and Data Analysis to Build Grounded Theory**



Sources: Adaptation from Pandit (1996)

The semi-structured interviews were made only with Portuguese and Italian people who have lived in the other country for at least a period of six months. The reason of this criteria is to avoid interviewing people who have been only on vacation in the other state and to have a more reliable result.

The interviews followed a predetermined set of questions, but the interviewees could add comments and opinions on topics, which were not covered. The questions asked during each interview were the same for Portuguese and Italian people.

As explained in the literature review, cultural distance can be assessed only at a country level, since it adopts cultural values to assessing the distance among countries, but not taking in consideration the individual level. The consequence is that through semi-structured interviews it is possible to understand part of the psychic distance which is associated with the distance presented in the individual's mind depending on how a certain person perceives the world. The aim is to understand similarities and differences of perceptions between people from Portugal and Italy who have lived in the country. Table 6 shows the country of origin, the city where the interviewees lived and the current job position to simplify the comprehension of the result explained in the empirical analysis chapter.

**Table 6 - Interviewees details**

<b>Country of origin</b>	<b>Interviewed code</b>	<b>City</b>	<b>Current job</b>
Italy	IT1	Lisbon	Equity Research Analyst
Italy	IT2	Lisbon	Hotel Manager
Italy	IT3	Porto	Portfolio Analyst
Portugal	PT1	Bologna	Assistant Tax Consultant
Portugal	PT2	Pisa	Junior Engineer
Portugal	PT3	Milan	Trade Marketing Intern

### **3.1.2. Secondary data – Indicators**

The second part of the empirical study analyzes secondary data, such as indicators and scales to measure the distance between Portugal and Italy.

The secondary data are the result of a merge between two different methodologies used to compare the two countries. The first is the one theorized by Ghemawat (2001) and the second is the one formulated by Berry et al. (2010). Both researches present similar approaches but they do not adopt always the same indicators or scales. On the contrary

to that, this study analyzes both methodology and merges them to create a better and deeper result.

Ghemawat's (2001) method compares two countries through four types of distance which are cultural distance, administrative and political distance, geographic distance and economic distance. Each distance is analyzed with specific indicators (qualitative or quantitative) and the comparison regarding the results gives a match, a similarity or a high distance between the two countries.

The first distance analyzed is the cultural distance. Ghemawat (2001) defines it as a difference in language, ethnicity, religion, social norms and lack of connective ethnicity or social networks. The indicators used for cultural distance are language, religion and diaspora.

Melitz and Toubal (2014) are the source used for the language which is divided in three categories: official, spoken by more than twenty percent and spoken between nine and twenty percent. Washington DC: Central Intelligence Agency (2017) is the source for the religion indicator which is divided by percentage of population.

Diaspora is composed of two categories which are: how many migrants from Portugal are in Italy and vice versa. In this case DESA (2010) serves as a source.

The second distance is the administrative and political one which is characterized according to Ghemawat (2001) by absence of shared monetary or political association, political hostilities and weak legal and financial institutions.

The indicators used to analyze it are trade bloc, currency, colony/colonizer, corruption and legal origin.

Ghemawat utilizes various sources for the trade bloc and this study utilizes the European Union (2017) as both countries are member states.

For the currency, the source is Washington DC: Central Intelligence Agency (2017).

Colony/Colonizer match is defined by Ghemawat (2001) as home country or target country having colonized the other at some time in history. Two former colonies sharing the same former colonial master ("common colonizer") are not defined as a match in this model. Also in this case the author presents various sources and this research relies on Mayer and Zignago (2011).

Corruption is displayed as a result of the Transparency International Corruption Perceptions Index Score (higher scores indicate less corruption). According to



Transparency International (2015) corruption indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean). The rank position of Portugal and Italy is also presented relative to the other countries in the index (Transparency International, 2015).

La Porta, Lopez-de-Silanes, and Shleifer (2008) is the source for the legal origin.

The third distance considered is the geographical one which is defined by lack of common border, waterway access, adequate transportation or communication links, physical remoteness and different climates (Ghemawat, 2001). Geographical distance includes the following indicators: kilometers between main cities, adjacency, land area, time and climate zone.

The kilometers between main cities uses the great circle distance as indicators. In this case it is calculated with the distance between the two capitals which are Lisbon and Rome. The source is DistanceFromTo (2017).

Adjacency on the other hand, adopts Washington DC: Central Intelligence Agency (2017) as a source. Land Area is displayed in square kilometers Washington DC: Central Intelligence Agency (2017) and is defined as the aggregate of all surfaces delimited by international boundaries and/or coastlines, excluding inland water bodies (lakes, reservoirs, rivers).

Time Zone is shown as GMT +/- and the source is Time and Date AS (2017).

Climate zone is described as the typical weather regimes throughout the year and also in this case Washington DC: Central Intelligence Agency (2017) serves as a source.

The last distance is the economic one, which is composed by different consumer incomes, different costs and quality of natural, financial, and human resources as well as different information or knowledge. The indicators used for the analysis are GDP per capita, GDP growth (annual%), human development index and internet penetration.

GDP Per Capita (in USD) is used as a source and is defined by The World Bank Group (2017) as the gross domestic product divided by midyear population.

GDP growth (annual%) adopts The World Bank Group (2017) as a source and it is the annual percentage growth rate of GDP at market prices based on constant local currencies. Aggregates are based on constant 2010 U.S. dollars.

United Nations Development Programme (2015) is the source for the Human Development Index.

Washington DC: Central Intelligence Agency (2017) is the source for internet penetration which is the total number of individuals within a country who can access the Internet at home, via any device type (computer or mobile) and connection.

Table 7 shows which is the source adopted for each indicator considering the Ghemawat (2001) approach.

**Table 7 - Indicators' sources by Ghemawat**

<b>Indicator</b>	<b>Source</b>
1. Cultural factors	
Language	Melitz and Toubal (2014)
Religion	Washington DC: CIA (2017)
Diaspora	DESA (2010)
2. Administrative factors	
Trade block	European Union (2017)
Currency	Washington DC: CIA (2017)
Colony/colonizer	Washington DC: CIA (2017)
Corruption	Transparency International (2015)
Legal origin	La Porta et al. (2008)
3. Geographic factors	
Km between main cities	DistanceFromTo (2017)
Adjacency	Washington DC: CIA (2017)
Land Area (in square kilometres)	Washington DC: CIA (2017)
Time Zone (GMT +/-)	Time and Date AS (2017)
Climate Zone	Washington DC: CIA (2017)
4. Economic factors	
GDP Per Capita (in USD)	The World Bank Group (2017)
GDP growth (annual %)	The World Bank Group (2017)
Human Development Index	UN Development Programme (2015)
Internet Penetration	Washington DC: CIA (2017)

The second methodology analyses the distance between two or more countries, based on the theory of Berry et al. (2010) which proposes a set of multidimensional measures, including economic, financial, political, administrative, cultural, demographic, knowledge, and global connectedness as well as geographic distance.

This multidimensional approach is based on the lack of consideration by previous studies about some dimensions that affect the cross-national distance. First of all,

Hofstede reduces the cross-national distance only considering the cultural distance and in his study this dimension does not change over the time which is not true in according to further studies (Inglehart & Baker, 2000; Shenkar, 2001; Webber, 1969). For Berry et al. (2010) a better approach is the one given by Ghemawat (2001) however, it does not take into consideration finance, politics, demography, knowledge, or global connectedness.

Therefore, Berry et al. (2010) analyses the cross-national distance based on 9 different dimensions which are: economic, financial, political, administrative, cultural, demographic, knowledge, connectedness, geographic.

The first dimension is the economic one which is defined as the difference in economic development and macroeconomic characteristics (Whitley, 1992). According to Caves (1996), countries differ in income levels (GDP per capita), inflation rates (GDP deflator %GDP) and levels of trade with other countries (export/import of goods and services (%GDP)). The source for these indicators is the The World Bank Group (2017).

The second dimension is the financial distance which is the difference in financial sector development (Whitley, 1992). Berry et al. (2010) have proposed as indicators domestic credit to private sector (%GDP), market capitalization of listed companies (%GDP) and number of listed companies (per 1 million population). Also in this case the source for the indicators is The World Bank Group (2017). The only difference this research applies consider the number of listed companies (per 1 million population). Since the only available data of The World Bank Group (2017) is the total number of listed companies. This indicator is calculated through a division between the total number of listed companies and the number of population of that country in the same year (The World Bank Group (2017) is also the source).

The next dimension considered is the political distance which is according to Henisz and Williamson (1999), the differences in political stability, democracy, and trade bloc membership. The indicators used to calculate are the political stability measured by considering independent institutional actors, democracy scores, government consumption as a percentage of GDP, membership in WTO and the dyadic membership in the same trade bloc.

The democracy score is available at Freedom House (2016), the government consumption at The World Bank Group (2017) and the world and regional trade agreements of World Trade Organization (2016).

Since the data are no longer available on POLCOV, this study analyzes the political stability based on the source of TheGlobalEconomy.com (2015).

Another dimension used in the study is the administrative distance that refers to differences in bureaucratic patterns due to colonial ties, language, religion, and the legal system (Ghemawat, 2001; Henisz, 2000; La Porta et al., 2008; Whitley, 1992). In this case Berry et al. (2010) propose similar indicators to the ones used (Ghemawat, 2001) such as language, religion, legal system and colonizer- colonized link.

Washington DC: Central Intelligence Agency (2017) is the source adopted for language, religion and colonizer-colonized link while for the legal system it is La Porta et al. (2008).

The fifth dimension is the cultural distance. In this case indicators are proposed by Geert Hofstede, Hofstede, and Minkov (2010) such as power distance, uncertainty avoidance, individualism, masculinity, long term orientation and indulgence. On the other hand, the source used to calculate them by Berry et al. (2010) is the World Values Survey but this study will follow the approach used by Ghemawat (2001) using the results presented by Geert Hofstede et al. (2010) since it is possible to group them into a single indicator. In fact, Kogut and Singh (1988) composed an index based on the deviation along each of the six cultural dimensions of each country from United States. In this case instead of United States, this case considers Portugal and Italy. Following Kogut and Singh (1988) “the deviations were corrected for differences in the variances of each dimension and then arithmetically averaged.” The index it is adapted to six instead of four cultural dimensions and it is the following:

$$CD_j = \sum_{i=1}^6 \{(I_{ij} - I_{iu})^2 / V_i\} / 6 ,$$

where  $I_{ij}$  stands for the index for the  $i$ th cultural dimension and  $j$ th country,

$V_i$  is the variance of the index of the  $i$ th dimension,  $u$  indicates Portugal and Italy and  $CD_j$  is cultural difference of the  $j$ th country from Portugal and Italy (Kogut & Singh, 1988). The final result is an index of distance between Portugal/Italy and all of the other countries considered in the Geert Hofstede et al. (2010) research. To give more

relevance the cultural distance index has been calculated between Portugal/Italy and the European Union average score<sup>1</sup>.

The next dimension is the demographic distance defined as the differences in demographic characteristics (Whitley, 1992).

According to Berry et al. (2010, p. 9) “Countries differ in terms of the size, growth, age structure, and qualities of their populations. These dimensions have direct implications for market attractiveness and growth potential”.

The indicators used are life expectancy, birth rate, population under fourteen and population over 65. They assume importance because they affect the consumer behavior of a certain country. The source for those indicators is the The World Bank Group (2017).

The seventh dimension is the knowledge distance which is the differences in patents and scientific production. This is measured through the number of patents and scientific articles per capita (Furman et al., 2002; Nelson & Rosenberg, 1993). This dimension is of great relevance because the proximity to knowledge influence the location choice of multinational firms where talent, innovation, and creativity are not distributed evenly across locations (Berry et al., 2010). The source for the number of patents used by this study is The World Bank Group (2017). In order to find the value for 1 million population is taken in both cases the total number of patents or scientific articles and is divided by millions of populations in the same country (population data available at (The World Bank Group, 2017).

Another cross-national dimension regarding the global connectedness distance is the ability of resident individuals and companies to interact with other parts of the world, obtain information, and diffuse their own activities (Oxley & Yeung, 2001).

Berry et al. (2010) analyzed this dimension by using international tourism expenditures as a percentage of GDP, international tourism receipts as a percentage of GDP and internet user as a percentage of population. The source of the three indicators is The World Bank Group (2017).

The last dimension is the geographical one. It has an effect on trade, foreign investment, and other types of economic activities taking place between countries according to

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<sup>1</sup> In this case only 26 countries are considered since no data are available about Cyprus and the country itself is not considered in this average.

(Anderson, 1979). As for Ghemawat (2001), also this case is calculated through the great circle method with the same method and source.

In order to give more relevance and actuality to the study, always the last update of every source has been used<sup>2</sup>. This is important since most of the indicators change over time and this might influence the distance between countries which can be higher or lower depending on the period considered.

Table 8 shows which is the source adopted for each indicator considering Berry et al. (2010) methodology.

**Table 8 - Indicators' sources by Berry**

<b>Indicator</b>	<b>Component variable</b>	<b>Source</b>
1. Economic distance		
Income	GDP per capita (current US\$)	The World Bank Group (2017)
Inflation	Inflation, GDP deflator (annual %)	The World Bank Group (2017)
Exports	Export of goods and services (% GDP)	The World Bank Group (2017)
Imports	Import of good and services (% GDP)	The World Bank Group (2017)
2. Financial distance		
Private credit	Domestic credit to private sector (% GDP)	The World Bank Group (2017)
Stock market cap	Market capitalization of listed domestic companies (% GDP)	The World Bank Group (2017)
Listed companies	Number of listed companies (per 1 million population)	The World Bank Group (2017)
3. Political distance		
Policy-making uncertainty	Political stability	The World Bank Group (2017)
Democracy score	Democracy score	Freedom House (2016)
Size of the state	General government final consumption expenditures (%GDP)	The World Bank Group (2017)
World trade agreements	Membership in WTO	WTO (2016)
Regional trade agreements	Dyadic membership in the same trade bloc	EU (2017)
4. Administrative distance		
Colonizer-colonized link	Whether dyad shares a colonial tie	Washington DC: CIA (2017)
Common language	% population that speak the same language in the dyad	Washington DC: CIA (2017)

<sup>2</sup> The last update considered is on April 2017

Common religion	% population that speak the same religion in the dyad	Washington DC: CIA (2017)
Legal system	Whether dyad shares the same legal system.	(La Porta et al., 2008)
5. Cultural distance		
Power distance	Hofstede	Geert Hofstede et al. (2010)
Uncertainty avoidance	Hofstede	Geert Hofstede et al. (2010)
Individualism	Hofstede	Geert Hofstede et al. (2010)
Long term orientation	Hofstede	Geert Hofstede et al. (2010)
Indulgence	Hofstede	Geert Hofstede et al. (2010)
Masculinity	Hofstede	Geert Hofstede et al. (2010)
6. Demographic distance		
Life expectancy	Life expectancy at birth, total (years)	The World Bank Group (2017)
Birth rate	Birth rate, crude (per 1000 people)	The World Bank Group (2017)
Population under 14	Population ages 0-14 (% of total)	The World Bank Group (2017)
Population over 65	Population ages 65 and above (% of total)	The World Bank Group (2017)
7. Knowledge distance		
Patents	Number of patents per 1 million population	The World Bank Group (2017)
Scientific articles	Number of scientific articles per 1 million population	The World Bank Group (2017)
8. Global connectedness distance		
International tourism expenditure	International tourism, expenditures (% of total imports)	The World Bank Group (2017)
International tourism receipts	International tourism, receipts (% of total exports)	The World Bank Group (2017)
Internet users	Internet users per 100 people	The World Bank Group (2017)
9. Geographic distance		
Great circle distance	Great circle distance between two countries according to the coordinates of the two capitals	DistanceFromTo (2017)

As already explained, this study combines the indicators used by both methodologies. By doing so, it is necessary to do adjustments because some indicators presented in both methods belong to different distances/factors or different sources are used to calculate them.

The following table is the result of the combination of both indicators. After the table, the adjustments are explained, which were made to ensure a consistent approach.

**Table 9 - Full list of indicators**

<b>Indicator</b>	<b>Source</b>	<b>Used by</b>
<b>1. Cultural distance</b>		
Power distance	Geert Hofstede et al. (2010)	Berry
Uncertainty avoidance	Geert Hofstede et al. (2010)	Berry
Individualism	Geert Hofstede et al. (2010)	Berry
Long term orientation	Geert Hofstede et al. (2010)	Berry
Indulgence	Geert Hofstede et al. (2010)	Berry
Masculinity	Geert Hofstede et al. (2010)	Berry
<b>2. Administrative factors</b>		
Currency	Washington DC: CIA (2017)	Ghemawat
Corruption	Transparency International (2015)	Ghemawat
Colonizer-colonized link	Washington DC: CIA (2017)	Both
Common language	Melitz and Toubal (2014)	Both
Common religion	Washington DC: CIA (2017)	Both
Legal system	La Porta et al. (2008)	Both
<b>3. Geographic factors</b>		
Adjacency	Washington DC: CIA (2017)	Ghemawat
Land Area (in square kilometres)	Washington DC: CIA (2017)	Ghemawat
Time Zone (GMT +/-)	Time and Date AS (2017)	Ghemawat
Climate Zone	Washington DC: CIA (2017)	Ghemawat
Great circle distance	DistanceFromTo (2017)	Both
<b>4. Economic factors</b>		
Income	The World Bank Group (2017)	Both
GDP growth (annual %)	The World Bank Group (2017)	Ghemawat
Human Development Index	UN Development Programme (2015)	Ghemawat
Inflation	The World Bank Group (2017)	Berry
Exports	The World Bank Group (2017)	Berry
Imports	The World Bank Group (2017)	Berry
<b>5. Financial distance</b>		
Private credit	The World Bank Group (2017)	Berry
Stock market cap	The World Bank Group (2017)	Berry
Listed companies	The World Bank Group (2017)	Berry
<b>6. Political distance</b>		
Diaspora	DESA (2010)	Ghemawat
Policy-making uncertainty	TheGlobalEconomy.com (2015)	Berry
Democracy score	Freedom House (2016)	Berry
Size of the state	The World Bank Group (2017)	Berry
World trade agreements	WTO (2016)	Berry



Regional trade agreements	European Union (2017)	Both
7. Demographic distance		
Life expectancy	The World Bank Group (2017)	Berry
Birth rate	The World Bank Group (2017)	Berry
Population under 14	The World Bank Group (2017)	Berry
Population over 65	The World Bank Group (2017)	Berry
8. Knowledge distance		
Patents	The World Bank Group (2017)	Berry
Scientific articles	The World Bank Group (2017)	Berry
9. Global connectedness distance		
Internet users	The World Bank Group (2017)	Both
International tourism expenditure	The World Bank Group (2017)	Berry
International tourism receipts	The World Bank Group (2017)	Berry

Table 9 shows the result that nine distances and 41 indicators are considered.

The merge process required some adjustments.

The first difference is that the indicators regarding language and religion are considered as a cultural factor by Ghemawat (2001) while for Berry et al. (2010) they are administrative ones. This study will include them as indicators to calculate the administrative distance. Besides, Ghemawat (2001) includes the diaspora's indicator as a cultural factor but this research includes it as a political one. The reason is that Ghemawat (2001) does not present the political distance but following Berry et al. (2010) this research includes it.

Internet penetration is considered by Ghemawat (2001) as an economic index, while Berry et al. (2010) uses it as global connectedness distance factor. Internet distance is analyzed as global connectedness distance factor as well.

The regional trade agreements indicator is considered by Berry et al. (2010) as a political distance, while Ghemawat (2001) includes it in the administrative one. Thus, more than four dimensions are analyzed. In fact, despite the four common ones, such as culture, administrative, geographic and economic this study includes also financial, political, demographic, knowledge and global connectedness following the approach of Berry et al. (2010).

To give more relevance to the study, the two countries are compared also with the values obtained by the European Union for the quantitative indicators. These values are

obtained by summing the value of each European country and dividing this number by the total number of European members which is 28 (European Union, 2017).

### **3.2. Phases of the Study**

As this chapter has been presents the methodology used within this study, the research further adopts a case study methodology using a qualitative method.

Primary data was found through semi-structured interviews conducted with people who lived in both countries. Furthermore, the study adopts also secondary data such as index and scales for each distance factors in order to compare the two countries.

Once the data was collected and ordered, the data analysis was carried out. After those phases, there was the theory development and in case there was a theoretical saturation, it was discussed in the conclusion.

## **4. Empirical Analysis**

This chapter concentrates on the result of the analysis obtained through the interviews in section 4.1 and through the secondary data collected in section 4.2. Section 4.3 gives a discussion of the results.

### **4.1. Countries Overview**

This section illustrates the interviews' outcome in two sub-sections. One about Portugal from an Italian prospective and vice versa.

#### **4.1.1. Portugal**

The Italian people interviewed agreed most of the topics considered during the interviews. They all thought that in general Portugal is very similar to Italy and there are only small differences between the two countries. They were easily integrated into the Portuguese lifestyle thank to the hospitality and cordiality of Portuguese people. They agreed on that Portuguese people are very helpful and according to IT2: "If I needed anything I could easily ask for help and this made me feel immediately integrated". That is the reason why they were incorporated into the Portuguese society without any difficulties. Besides, they found it uncomplicated to talk with the local people because most of the population speaks English. For IT1: "I was well surprised by their English level which is way better than in Italy". According to them, in Portugal there is a low level of bureaucracy and this made all of the processes that a person might bear when moving into another country faster. In this case, it is worth to notice that since both countries are part of European Union the bureaucracy level when you travel or move to live in another country is very low. In general, the integration process was not complicated and for IT3: "I did not experience any kind of cultural shock caused by any drastic changes". Portugal is also easy to access since it is only around two hours flight from the main Italian cities such as Milan and Rome. As IT3 noticed, this geographical closeness is sometimes underestimated. In fact, it gives the possibility to move back to the country of origin for any kind of reason in an economic and fast way. Following IT3: "Even though you do not have the need to go back to Italy soon, you always know

that you can do it easily. This gives you an ease feeling that should not be underestimated”.

From the cultural point of view, they all agree that the two countries are similar, especially in interests and traditions. Both countries have a flexible conception of time and focused on personal relations. The cultural difference with Portugal seems higher with the north of Italy than in the south. In fact, for IT1 and IT2, Portugal is very linked to the historic traditions and for some aspects appears conservative. According to IT1: “This situation is similar to the south of Italy where traditions, heritage and historical festivals still matter while the north, in particular Milan, is more innovative and projected towards the future, which lead to a loss of historical heritage”. A cultural similarity between the two countries following IT3, is the fact that even in Lisbon life is not too fast as it might be in other European capitals. For all of them the food is similar to the Italian one and IT2 appreciated the fact that it still possible to find lot of traditional restaurants owned by locals even in Lisbon which is the capital. From the economic point of view, for IT3, Portugal is in a better situation than expected. There are lot of job opportunities even for expats also due to the high number of start-ups. Following IT3: “Portugal is growing a lot, probably even more than Italy. It is an innovative hub where it is easy to start an own business. One of the biggest technology conference called Web Summit is held for the second year in a row in Lisbon. This is a strong sign that the country is looking to the future and has an innovative perspective”. On the other hand, IT1 does not completely agree since Milan offers more job opportunities and is more innovative.

Regarding transportation IT1 and IT2, agree that is even more efficient than a lot of Italian cities while IT3 thinks that there is no difference compared with Italy.

They all agree on the fact that in Portugal there are lot of buildings not maintained and at the same time lot of new construction occur all around the city which lead for IT2: “to have a fascinating contrast”.

#### **4.1.2. Italy**

Portuguese people who have lived in Italy agreed as well in most of the ideas and topics discussed, but in this case, there have been more different point of views. PT1 and PT2

found it not difficult to integrate into the Italian reality thank to the local people that helped them at the beginning. The only difficult thing at the beginning was for PT1 the language barrier: “It was not easy to communicate in English with locals and I managed only once I learned Italian”. For PT3 it was more difficult the integration and according to him: “During the first period of my experience it was a bit difficult. I had to adapt my habits and routine to the Italian ones and for one month it was not easy”.

Even in this case they did not have any problems to access to Italy but they confirmed the fact that in Italy there is a higher level of bureaucracy.

They think cultural distance is not high even though it presents some differences.

According to PT2: “Italian people are less helpful when you have a problem. If helping requires a huge effort then they do not do it”. PT3 felt the same in Milan where people are very focused on work and the city seems to push you into this direction. Despite this fact, both countries share the same interests and habits for most of the things. As PT2 noticed: “In general the two states are very similar from the interests’ point of view. We both value the traditions and the family”. PT1 noticed: “I think it is difficult to compare a country with Italy. In fact, in Italy everything changes depending on the city or region. I personally believe that Portugal is more similar to the south of Italy where people are more hospital and linked to the traditions”.

From an economic perspective Italy seems more expensive, especially in the big and touristic cities. Following PT2: “Both countries have suffered a lot the economic crisis and they are both starting to recover now. A concern in Italy for people between 24 and 30 years old is the possibility to find a stable job”.

In according to PT3 it is not easy to for an expat to find a job if the Italian language is not spoken. For PT1 that worked in Italy: “I did not find different leadership style in the work environment. The personal relationships are the basement for both nations and everything is built on that”.

They also found Italy very geographically accessible from Portugal. For PT2: “It was very easy to move to Italy. The fact that I did not need any kind of extra papers was extremely comforting”.

The living standard are basically the same and for PT3: “The climate is also very similar thus I did not have to adapt to a completely different lifestyle. Thank to this my stay in Italy was facilitate”.

### **4.1.3. Portugal versus Italy**

The interesting thing regarding the interviews is, that in general they are very consistent within the people from the same country. Nevertheless, the perception of the two nations do not present a lot of differences. Portugal is seen by Italian as a very open and easy to approach country, while Italy seems slightly more difficult also because of the English level of the population.

Portuguese culture seems to be closer to Southern Italy, where family and traditions are one of the most important values. That might be a reason why Portuguese experience a more difficult integration in the north of Italy, especially in big cities such as Milan. It is also important to notice that they all agree on the fact that both cultures share the same interests and lifestyles.

The economic situation is slightly different but both countries were strongly affected by the economic crisis in 2008. The costs of living in Portugal is lower as well as the salaries but Italian people are worried about the high unemployment rate.

Their geographical distance is not high and this represents an advantage to take the decision moving to the other country, because if something happens it is always easy to move back.

Despite, Italy has more bureaucracy. Everything is facilitated by the fact that both countries belong to the European Union, which extremely helps the expat process.

## **4.2. Secondary data Analysis**

This section, focuses on the comparison between Portugal and Italy results based on the analysis of the nine-distance dimension. In fact, for each of the nine dimensions it is possible to understand how close or far are the two countries. For some quantitative indicators, also the European Union average score is considered to see if Portugal is closer to the European Union average rather than Italy and vice versa.

### **4.2.1. Cultural Distance Analysis**

Before applying the methodology of comparison of two countries based on Ghemawat (2001) and Berry et al. (2010), it is worth to analyze the Latin Europe cluster (where

Italy and Portugal are) following the research made by the GLOBE project (R. J. House et al., 2004).

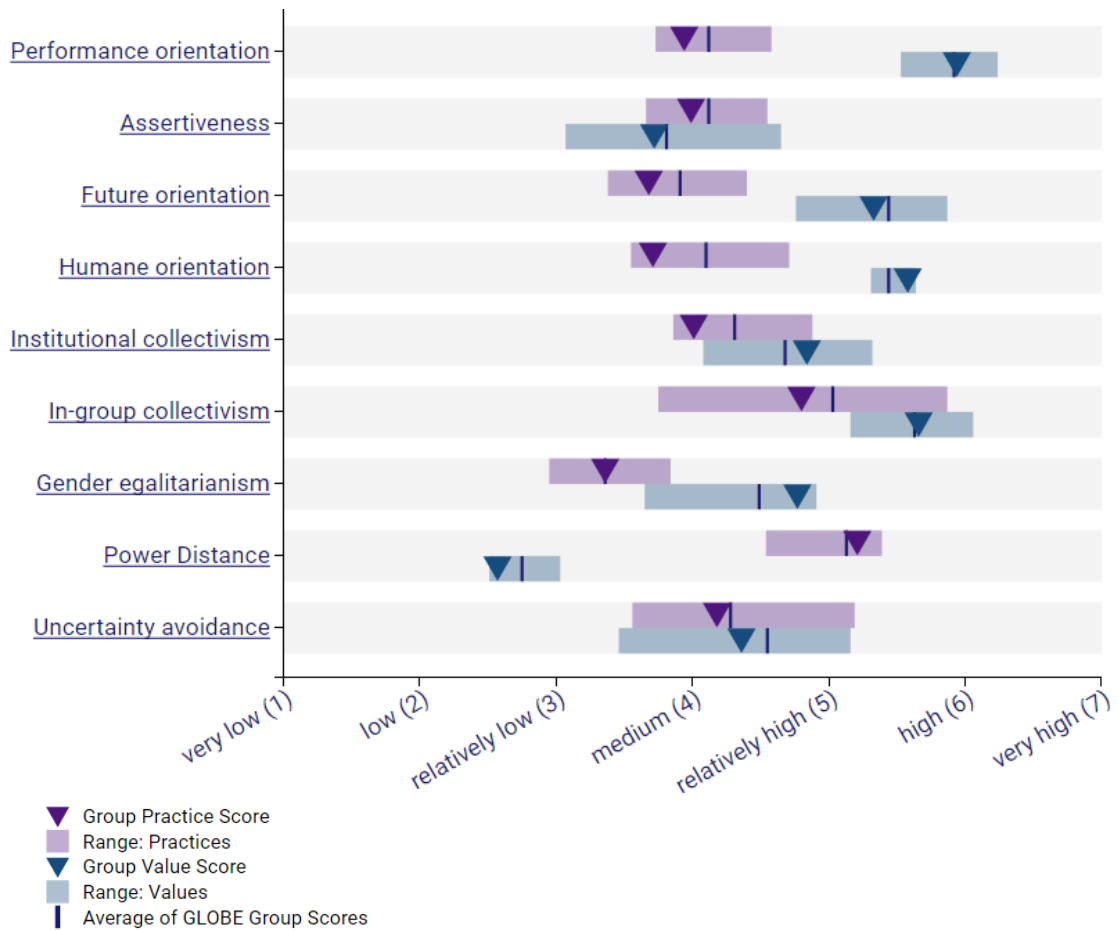
#### **4.2.1.1. The Europe Latin Cluster**

As already explained, Portugal and Italy are included in the Latin Europe cluster with France, Spain, Israel and Switzerland (French-speaking).

The Latin Europe cluster presents medium scores on most cultural practices dimensions, except for high scores on Power Distance and relatively low scores on Humane Orientation. Members of societies that show a high score regarding Power distance do not expect power to be distributed evenly among its citizens. Gender Egalitarianism score is the lowest for this cluster, but in average with the others. It is worth to notice that Future orientation and In-Group and Institutional Collectivism present a score lower than another clusters' average. In-Group Collectivism is higher than Institutional Collectivism, which means that societies in this cluster are family and group oriented, but they do not encourage a collective distribution of resources. According to The GLOBE (2017) "the societies in this cluster are somewhat male-dominated, not particularly humane-oriented and experience an unequal distribution of power and status among citizens".

Regarding societal values, the Latin Europe cluster has high score on Performance Orientation, In-Group Collectivism, Future Orientation and Humane Orientation. In general, the cluster wishes to have an increase in terms of performance and future orientation, to be more humane and to have more gender equality. There is also a strong desire to reduce Power Distance. It is also interesting to notice the small difference between cultural practice and societal values scores on Uncertainty Avoidance and Assertiveness dimensions, which means that these societies consider the current level acceptable. On the other hand, this cluster wishes to have an increase in In-Group and Institutional Collectivism (The GLOBE, 2017).

**Figure 3 - Cultural Practice and Values in the Latin Europe Group**



Source: The GLOBE (2017)

For the leadership dimensions the Latin Europe cluster considers as most contributing to outstanding leadership in this cluster including Charismatic/Value- Based, followed by Team Oriented and Participative Leadership.

This result is in general in average with all the other clusters.

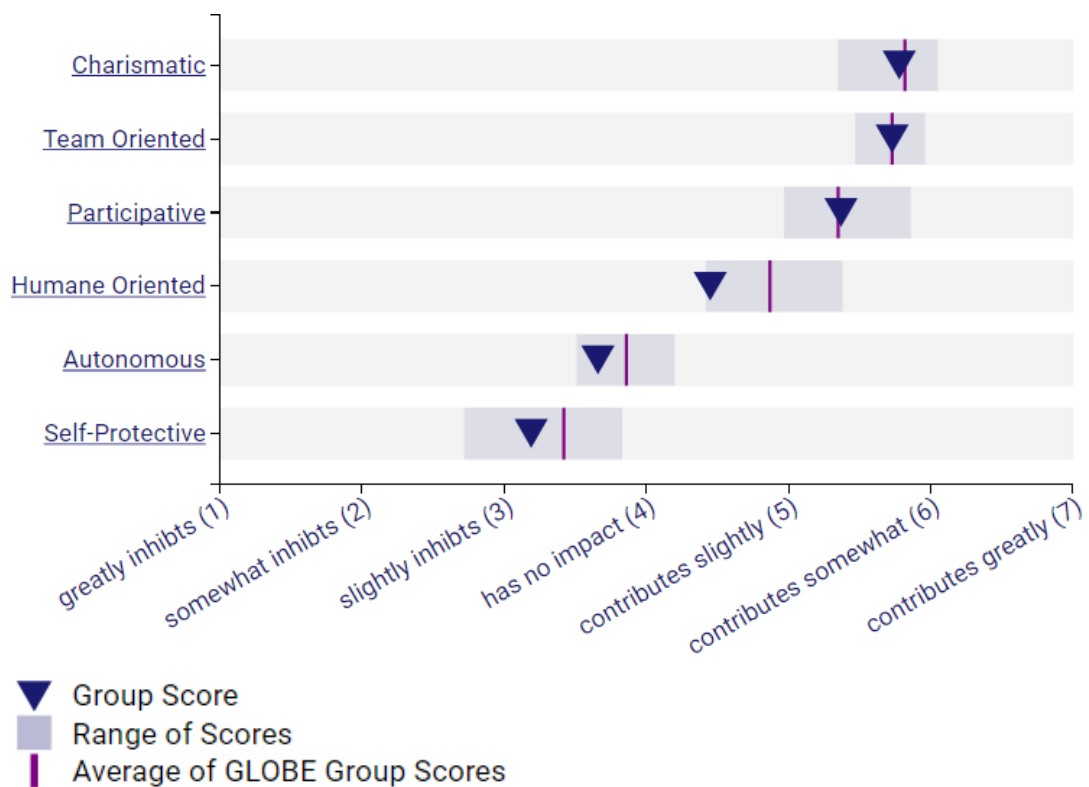
According to The GLOBE (2017) “the Charismatic attributes that are endorsed include a realistic vision, high performance orientation, integrity, and decisiveness. These societies also value team oriented leaders, whose characteristics include developing outstanding teams by using their administrative and interpersonal skills to create cohesive working groups)”.

Participative leadership is relevant for the cluster but its score is average among the clusters.



Humane-Oriented Leadership is viewed positively, but is lower than the average of other clusters. Autonomous Leadership is considered as slightly negative and is more negative than most other clusters. Self-Protective Leadership is also seen negatively showing that these societies reject leaders who are self-centered and status conscious. Overall, in Latin Europe a person is considered as outstanding leader who is moderately charismatic, team-oriented and participative but not particularly caring or acting in an independent manner (The GLOBE, 2017).

**Figure 4 - Leadership Scores for Outstanding Leadership in the Latin Europe Group**



Source: The GLOBE (2017)

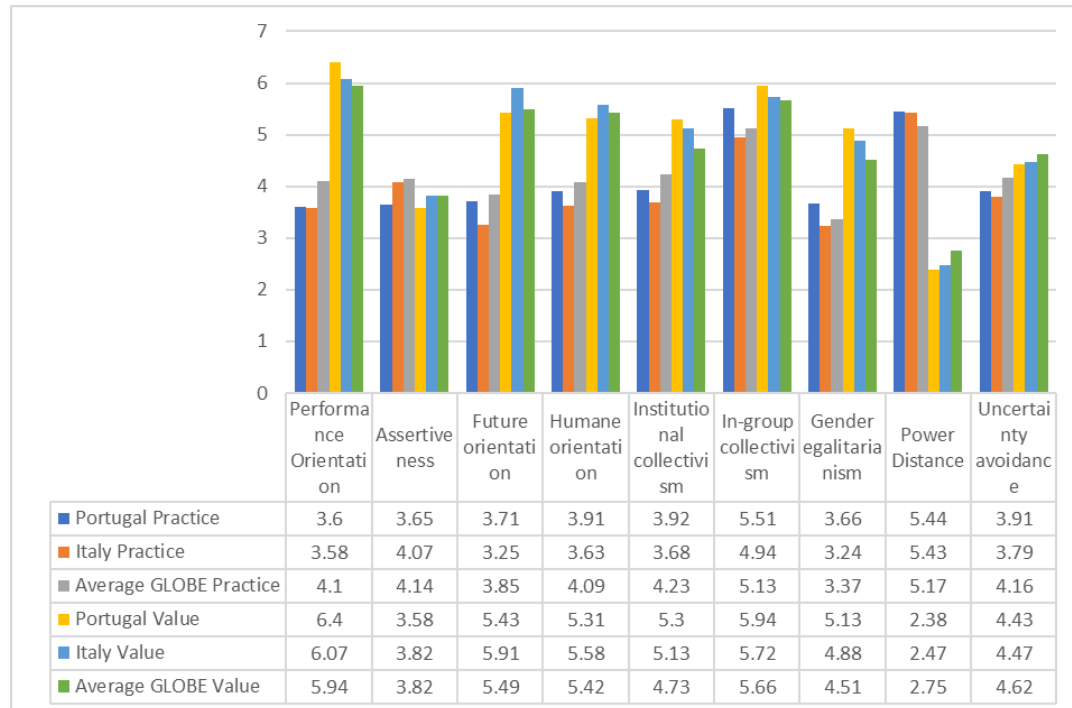
Even though Portugal and Italy are included in the same cluster, it is noteworthy to compare the two countries in relation with the average score of the others.

Table 10 shows a comparison between Portugal, Italy and the average GLOBE scores regarding nine cultural dimensions.

Instead of focusing on each cultural dimension's score it is worth to notice the trend of the two countries. In fact, they present the same trend (both under/over the average) in

14 of the 18 dimensions. The only dimensions with a different trend are Future Orientation Value, Humane Orientation Value, In-Group Collectivism Practice and Gender Egalitarianism Practice. This means that despite those four scores, all the others have the same trend which can be over or under the average.

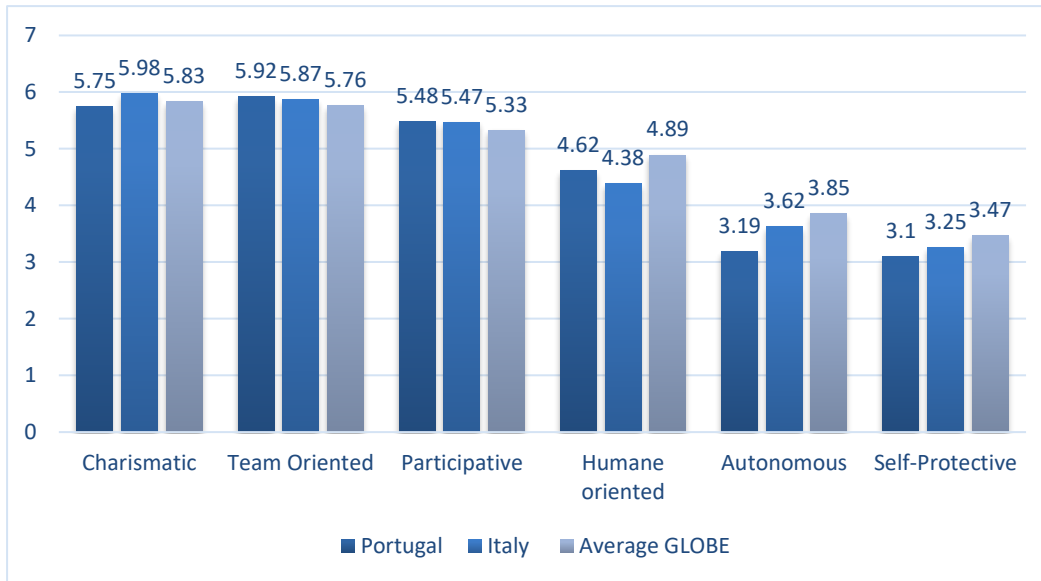
**Table 10 - Cultural dimension comparison**



Source: Adapted from The GLOBE (2017)

It is possible to apply the same analysis regarding the leadership scales. As Figure 5 shows, both countries have the same trend for 5 out of 6 scales compared to average GLOBE score. Only Charismatic leadership style is different because Portugal has a lower score than the average while Italy displays a higher one.

**Figure 5 - Leadership style**



Source: Adapted from The GLOBE (2017)

#### 4.2.1.2. Hofstede Indicators Analysis

To measure the cultural distance this study analyzes each cultural indicator individually and in the end a general index is given.

Portugal presents a level of 63 regarding power distance while Italy 50. This means that in Portugal hierarchical distance is accepted and people who are in higher positions admit to have privileges. In Italy, the situation is slightly different because the Northern Italy prefers equality and decentralization of power and decision-making while in the South the situation is the opposite and more similar to the Portuguese one (Geert Hofstede et al., 2010).

The biggest difference in terms of culture between Portugal and Italy is found in the degree of interdependence a society maintains among its members. In fact, Portugal with a score of 27 is a collectivist society while Italy with a score of 76 is an individualistic society. The result is that in Portugal there is a “close long-term commitment to the member 'group', be that a family, extended family, or extended relationships and it can be found also in the workplace where offence leads to shame and loss of face. Employer/employee relationships are perceived in moral terms (like a family link), hiring and promotion of decisions take account of the employee’s in-group, management is the management of groups” (Geert Hofstede et al., 2010). On the other hand, in Italy the individualistic culture prevails. The consequence is that Italians perceive the way to

happiness only through personal fulfillment, especially in the North. In the South is possible to find a situation more similar to Portugal where family network and relationships assume more importance (Geert Hofstede et al., 2010).

Another important cultural difference is that Portugal, with a score of 31, is a feminine society while Italy is a masculine one with a score of 70. This means that in Portugal the most important values are caring for the others and the quality of life. In terms of workplace incentives free time and flexibility are preferred and there is a tendency in resolving conflicts with compromise and negotiation. On the contrary, the most important values in Italy are achievement, success which lead to high level of competition since school life until organizational life. In the working environment, the competition for making career can be very strong (Geert Hofstede et al., 2010).

Another cultural indicator is the uncertainty avoidance which is defined by Geert Hofstede et al. (2010) as the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these.

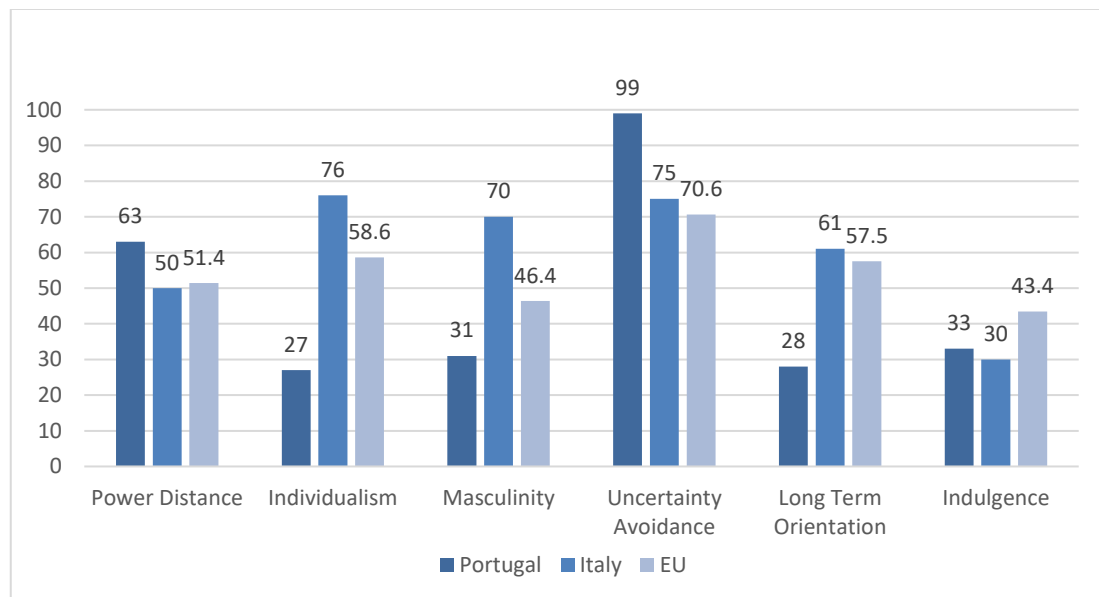
Portugal presents a score of 99 which means that rigid codes of belief and behavior are kept while unconventional ideas and attitudes are discouraged. Italy has also a high score of 75 and therefore Italians are not comfortable in ambiguous situations. According to Geert Hofstede et al. (2010) “In Italy the combination of high Masculinity and high Uncertainty Avoidance makes life very difficult and stressful. To release some of the tension that is built up during the day Italians need to have good and relaxing moments in their everyday life, enjoying a long meal or frequent coffee breaks. Due to their high score in this dimension Italians are very passionate people: emotions are so powerfully that individuals cannot keep them inside and must express them to others, especially with the use of body language”.

Long-term orientation is a dimension that presents also different results regarding the two countries. Portuguese culture with 28 indicates the prefers towards normative thoughts over pragmatic ones. Traditions are very important and the achievement of quick results is preferred over long-term ones. On the other hand, Italy has a score of 61 which means that the Italian culture is pragmatic. There is a trend to save and invest because the long term is always kept in mind (Geert Hofstede et al., 2010).

The most similar score is displayed in the last dimension which is Indulgence or the Restraint of a society. Portugal with a score of 33 presents a restraint culture and society tends to be cynic and pessimistic. Italy with 30 has a quite similar result and tendency (Geert Hofstede et al., 2010).

Figure 6 shows the result explained above adding also the European Union average score.

**Figure 6 - Hofstede comparison**



Source: Adapted from Geert Hofstede et al. (2010)

It is worth to analyze the trend of Portugal and Italy in comparison with the European Union average. Portugal and Italy do not present a similar score compared to the European Union one. This result might lead to the conclusion that both nations are not very similar to each other culturally wise.

A general cultural distance index is found adopting the process explained in the Methodology chapter using the formula given by Kogut and Singh (1988).

In this case Portugal and Italy have a cultural distance of 2.25. Besides, Portugal has a cultural distance of 2.1 of European Union average score while Italy shows a score of 1.45. This result confirms the apparent cultural distance between the two countries using Geert Hofstede et al. (2010) approach. This is in contrast with the results presented by The GLOBE (2017) where the cultural distance seemed very low.

#### 4.2.2. Administrative Distance Analysis

The second distance considered is the administrative one. The mutual membership of the European Union is reflected in the currency since both countries use the Euro. This is because they belong to the Eurozone since the 1<sup>st</sup> January 1999. However, they do not share a colony/colonizer relationship.

Regarding the corruption index of Transparency International (2015), Portugal is less corrupted than Italy with a score of 62 (29<sup>th</sup> in the world) against 47 of Italy (60<sup>th</sup> in the world). This means that in Italy there is more corruption, unequal distribution of power in society as well as unequal distribution of wealth.

The European Union score is 64.6, thus both countries are below the average especially Italy has a high gap and it is one of the lowest scores in the continent.

A common characteristic is that they share the legal origin because in both countries it is French (La Porta et al., 2008).

For the language, Portuguese and Italian are the official and most spoken ones and both present an origin from Latin. English is also a language spoken in both countries by 32% in Portugal and 29% in Italy of the population. Another common language used is French, in Portugal 24% while in Italy 14% of the people. Spanish is also spoken by 9% in Portugal and 4% in Italy. Thanks to the border to German speaking countries, such as Switzerland and Austria, 5% of the Italian population speaks German. In this case, the main similarity between the two countries is the usage of secondary languages which are spoken by the minority of the population (Melitz & Toubal, 2014).

**Table 11 - Language**

<b>Official</b>	<b>Spoken by &gt;20%</b>	<b>Spoken by &gt;9-20%</b>
Italian	Italian	French
	English	German
		Spanish
Portuguese	Portuguese	Spanish
	English	
	French	

Source: Adapted from Melitz and Toubal (2014)

Religion practiced plays a very similar result, because Christianity is the main one and it is practiced by more than 80% of the people in both countries (Washington DC: Central

Intelligence Agency, 2017). Regarding this indicator there are little differences for the religions less practiced such as Jewish or Muslim.

**Table 12 - Religion**

	<b>Chatholic</b>	<b>Unspecified</b>	<b>Jewish, muslim, other</b>	<b>Atheist and agnostic</b>
<b>Portugal</b>	84.3%	8.3%	0.6%	6.8%
<b>Italy</b>	80%	0%	1.5%	20%

Source: Adapted from Washington DC: Central Intelligence Agency (2017)

In general, Portugal and Italy are not distant regarding administrative factors. In fact, they share the same currency, legal system and religion. There are still differences because the two populations do not speak the same language even though both come from the Latin one. As already explained, Italy has a high level of corruption which is not consistent with the European Union average while Portugal is. They do not share a colonial tie either as Ghemawat (2001) showed, nations that had a colony/colonizer situation, show stronger relationships regarding every factor. This is the case, for example, of Portugal with the former colony Mozambique and Angola.

#### **4.2.3. Geographical Distance Analysis**

The third distance is the geographical one. The first indicator is the kilometers between the main cities. In this case the capitals Lisbon and Rome are considered as the main cities. They are 1865.09 kilometres distant.

They are not adjacent even though they belong to the same continent. Portugal shares the borders only with Spain while Italy with France, Switzerland, Austria, Slovenia, San Marino and Holy See (Vatican City).

Italy is a bigger country with a land area of 294,14 square kilometers while Portugal has 91,47 square kilometers (Washington DC: Central Intelligence Agency, 2017).

There is one-hour difference regarding the time zone because Portugal presents 0 in the GMT +/- scale while Italy 1.

The climate zone is slightly different. In fact, in Portugal the climate is maritime temperate, cool and rainy in north, warmer and drier in south and in Italy It is

predominantly Mediterranean, alpine in the far north and hot, dry in the south (The World Bank Group, 2017) .

Even though Portugal and Italy do not share a common border, are close geographically speaking and even though the time zone is not the same, the difference is minimal and does not affect their relationship.

#### **4.2.4. Economic Distance Analysis**

Before following the approach explained in the methodology, an economic overview of the two states will be given.

##### **4.2.4.1. Economic profile**

Italy exhibits economic differences between the north and the south. The north is more developed and industrial, dominated by private companies while in the south the unemployment rate is higher, less developed, highly subsidized and the agricultural industry is more expanded (Washington DC: Central Intelligence Agency, 2017). The Italian economic drivers are the manufacture of high-quality consumer goods produced by small and medium-sized enterprises. Most of them are family-owned. Another important component of the Italian economy is the underground economy that includes activities, such as agriculture, construction and service sectors. Those activities constitute 17% of the GDP according to some estimations (Washington DC: Central Intelligence Agency, 2017). Even though Italy is the third largest economy in the euro zone, it is considered vulnerable to scrutiny by financial markets because of its high public debt and structural impediments. Since 2007 public debt has increased, reaching 135% of GDP in 2015 bringing down Italy's borrowing costs on sovereign government debts from euro-era records. In the past years Italy faced the pressure from investors and European Union to address the structural impediments to growth such as labor market inefficiencies and tax evasion. In 2014 the unemployment was 12.7% and youth unemployment 40%, but in 2015 Italy began to recover with marginal growth and a slight reduction in unemployment (Washington DC: Central Intelligence Agency, 2017).

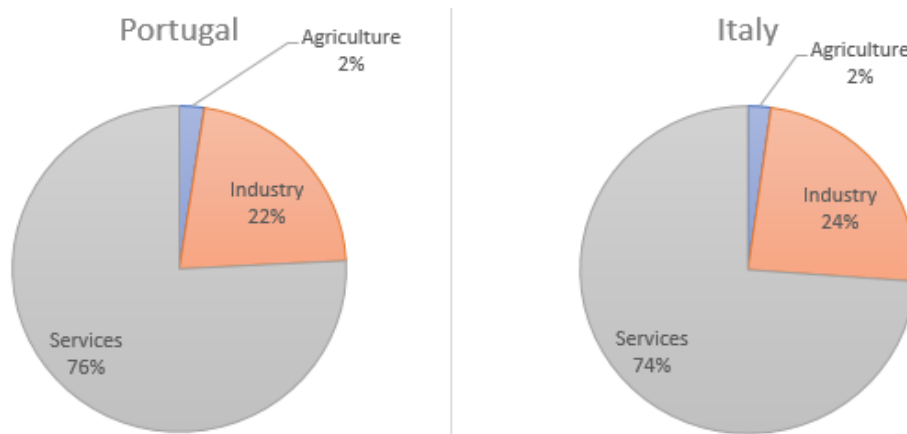


Since Portugal joined the European Community in 1986 (former European Union), it has become a diversified and increasingly service-based economy. In the last two decades governments have privatized many state-controlled firms and liberalized strategic economic areas, such as financial and telecommunications ones. The economy during the 1990s has been higher than the EU average but the rate of growth slowed between 2001 and 2008. In 2009 the economy has been contracted and from 2011 to 2014 fell as the government signed with the European Union and the International Monetary Fund in May 2011 for a financial rescue package. This agreement had as condition the spending cuts and tax increases. Thanks to strong export results and a rebound in private consumption, the economy started to recover in 2013 and gathered steam in 2014. The implementation of austerity measures had the goal to reduce the budget deficits but contributed to record unemployment and an emigration wave not seen since the 1960s (Washington DC: Central Intelligence Agency, 2017).

In Italy the GDP is composed of agriculture 2.2%, industry 23.9% and services 73.8% (Washington DC: Central Intelligence Agency, 2017). The main agricultural products produced in the country are fruits, vegetables, grapes, potatoes, sugar beets, soybeans, grain, olives; beef, dairy products and fish while the main industries of the country are tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear and ceramics (Washington DC: Central Intelligence Agency, 2017). In Portugal, the GDP is composed of agriculture 2.4%, industry 21.9% and services 75.9%. The main agricultural products are grain, potatoes, tomatoes, olives, grapes; sheep, cattle, goats, pigs, poultry, dairy products; fish while the main industries are textiles, clothing, footwear, wood and cork, paper and pulp, chemicals, lubricants, automobiles and auto parts, base metals, minerals, porcelain and ceramics, glassware, technology, telecommunications, dairy products, wine, other foodstuffs, ship construct (Washington DC: Central Intelligence Agency, 2017).

As Figure 7 shows the GDP composition is almost the same. They differ only by around the two percent regarding industry and services while agriculture is basically the same percentage of the total GDP.

**Figure 7 - GDP composition**



Source: Adapted from Washington DC: Central Intelligence Agency (2017)

In Italy, the labor force in 2016 was 25.6 million and is divided in the following way: agriculture 3.9%, industry 28.3% and services 67.8% (Washington DC: Central Intelligence Agency, 2017). The unemployment rate was in 2016 11.4% which ranked as the 130<sup>th</sup> place worldwide (Washington DC: Central Intelligence Agency, 2017). In Portugal, the labor force in 2016 was 5.167 million divided in agriculture 8.6%, industry 23.9% and services 67.5%.

The unemployment rate is 11.3%, which is the 129<sup>th</sup> in the world for this indicator (Washington DC: Central Intelligence Agency, 2017).

The only difference in this case is that in Italy the labor force is more concentrated in the industry sector and less in the agricultural one compared to Portugal. The unemployment rate is basically the same with a rate of 11.4% in Italy and 11.3% in Portugal.

Italy has exported \$436.3 billion<sup>3</sup> in 2016 and is ranked on the 10<sup>th</sup> place in the world for export. The main commodities exported are engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment, chemicals; foodstuffs, beverages, and tobacco; minerals, nonferrous metals while the main partners in 2015 were Germany 12.3%, France 10.3%, US 8.7%, UK 5.4%, Spain 4.8%, Switzerland 4.7% (Washington DC: Central Intelligence Agency, 2017).

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<sup>3</sup> Data are expressed in dollars since the source is Washington DC: Central Intelligence Agency (2017)

Italy has imported \$372.2 billion in 2016 and is the 14<sup>th</sup> in the world for import. The main commodities imported are engineering products, chemicals, transport equipment, energy products, minerals and nonferrous metals, textiles and clothing; food, beverages, tobacco while the main partners in 2015 were Germany 15.4%, France 8.7%, China 7.7%, Netherlands 5.6%, Spain 5%, Belgium 4.7% (Washington DC: Central Intelligence Agency, 2017).

On the other hand, Portugal has exported \$52.2 billion in 2016 and is the 47<sup>th</sup> in the world. The main commodities exported are agricultural products, foodstuffs, wine, oil products, chemical products, plastics and rubber, hides, leather, wood and cork, wood pulp and paper, textile materials, clothing, footwear, machinery and tools, base metals while the main partners in 2015 were Spain 25%, France 12.1%, Germany 11.8%, UK 6.7%, US 5.2%, Angola 4.2%, Netherlands 4% (Washington DC: Central Intelligence Agency, 2017).

Portugal has imported in the same year \$61.7 billion and is on the 42<sup>nd</sup> place worldwide. The main imported commodities are agricultural products, chemical products, vehicles and other transport material, optical and precision instruments, computer accessories and parts, semiconductors and related devices, oil products, base metals, food products, textile materials while the main partners in 2015 were Spain 32.9%, Germany 12.9%, France 7.4%, Italy 5.4%, Netherlands 5.1% (Washington DC: Central Intelligence Agency, 2017).

#### **4.2.4.2. Economic Relationship between Portugal and Italy**

Economic and trade relations between Portugal and Italy are characterized by moderate growth. In 2015, Italy increased its exports to Portugal (+ 5.2%) reaching the fourth place among exporting countries in Portugal (after Spain, Germany and France) with a market share of 5,4%. In the same period, imports of Portuguese products increased by 2.9%, confirming Italy as the eighth biggest export market for Portugal, preceded by Spain, France, Germany, United Kingdom, United States of America, Angola and the Netherlands with a market share of 3.2%, worth 1.6 billion euros. The Italian/Portuguese trade balance in 2015 is thus confirmed with a positive result for Italy estimated at about 1.2 billion euros. Statistics therefore shows how Italy remains a

reference business partner for Portugal, especially in some areas with a major manufacturing specialization (mechanical, chemical, pharmaceutical, automotive, textile and clothing) (Info Mercati Esteri, 2017).

There is a different situation regarding the flow of bilateral foreign direct investment. Even with alternating phases, Italian FDI towards Portugal in recent years have marked a substantially negative evolution with significantly lower volumes than the major European partners. For years, Italy has not been ranked in the ranking of the top 10 investors in the Iberian country and the annual flows are declining. In 2014, Italian investments were 736.5 million euros, while in 2015 they dropped dramatically to 27.2 million. Even more limited are Portuguese foreign direct investment in Italy with a total of 7.7 million euros invested in 2014 and 12.3 million in 2015.

There are about 150 Italian-owned companies operating in Portugal, mainly small and medium-sized enterprises with a commercial presence (branches, branch offices, distribution centers or retail outlets). There are, however, bigger Italian groups, which operate through a stable production presence or in the form of industrial partnerships with local partners, including Gres-Panaria (ceramics), OLI (hydraulic systems), Seda Group (packaging). In Portugal, there are also large Italian multinational companies, including ENI, Agusta Westland, FCA, Generali, Ferrero, Calzedonia Group, Benetton, GiGroup (Info Mercati Esteri, 2017).

The presence of Portuguese companies in Italy is more limited. The Italian market is often considered attractive but at the same time it is difficult to manage and highly competitive. The most important Portuguese investment sectors are represented by the real estate (three shopping centers owned by the Sonae Sierra group), the plastic packaging sector (Logoplaste), the renewable energy, wind power (EDP Renováveis), photovoltaic (Martifer Solar) and pharmaceuticals (BIAL) (Info Mercati Esteri, 2017).

It is also worth to analyse which products are traded between Portugal and Italy.

There are four main and most strategic exported products from Portugal to Italy, which are food products, paper products, motor vehicles, trailers and semi-trailers and other transport equipment (Info Mercati Esteri, 2017).

The most exported food products are processed fish, animal meal and wine.

Uncoated paper is the main paper product imported by Italy from Portugal. Regarding machines, engine parts and insulated wires are the products traded the most (Info

Mercati Esteri, 2017). Table 13 shows for each economic activity the amount of the total export between 2014 and 2016.

**Table 13 - Portuguese export to Italy**

<b>Economic Activities (million €)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Agriculture, forestry and fishing	53.59	47.64	66.23
Mining and quarrying	21.1	14.85	17.89
Manufacture of food products	161.36	175.41	195.11
Manufacture of beverages	9.02	6.8	8.96
Manufacture of textiles	56.04	43.78	52.54
Manufacture of wearing apparel	76.98	74.54	80.95
Manufacture of leather and related products	106.44	103.34	119.13
Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	55.86	47.57	56.1
Manufacture of paper and paper products	104.04	99.97	102.97
Manufacture of coke and refined petroleum products	121.23	122.82	126.44
Manufacture of chemicals and chemical products	37.32	14.93	12.52
Manufacture of basic pharmaceutical products and pharmaceutical preparations	110.34	89.75	100.53
Manufacture of rubber and plastic products	10.32	10.77	14.01
Manufacture of other non-metallic mineral products	65.92	79.8	84.71
Manufacture of basic metals	39.05	44.69	53.05
Manufacture of fabricated metal products, except machinery and equipment	66.31	68	54.3
Manufacture of computer, electronic and optical products	19.5	26.49	22.9
Manufacture of electrical equipment	35.64	31.76	23.13
Manufacture of machinery and equipment n.e.c.	74.27	64.69	55.82
Manufacture of motor vehicles, trailers and semi-trailers	77.89	84.98	90.49
Manufacture of other transport equipment	118.19	144.46	153.62
Manufacture of furniture	18.22	26.6	26.4
Other manufacturing	10.57	10	13.22
Electricity, gas, steam and air conditioning	15.96	22.17	24.88
Other products and activities	29.64	29.71	32.14

Source: Adapted from Info Mercati Esteri (2017)

On the other hand, the Table 14 explains which kind of products Italy exports to Portugal. There are five important types of products that Italy exports to Portugal, which are food products, textiles, basic pharmaceutical products, machinery and equipment, and other manufacturing products (Info Mercati Esteri, 2017).

Regarding the food products the country that exports the most in Portugal is Spain followed by France, The Netherlands and Germany. This remains a key sector for the Italian organizations that want to expand their activities to Portugal, because it has growth margin for the future, even though Italy is not in the top exporters of food (Info Mercati Esteri, 2017).

The textiles export has been growing since 2010 and Italy is the second exporter after Spain. The growth of this sector has been consistent for every kind of textiles products. Besides, Germany is the basic pharmaceutical products leader but Italy has gained marked shares in the last decade. There are a lot of Italian pharmaceutical companies with a Portuguese subsidiary. The most important ones are Rottapharm, Angelini, Italfarmaco, Zambon and Menarini.

Machinery and equipment are the biggest Italian export sectors to Portugal. In particular, Italy is the second exporter after Germany of woodworking machines. Italy is the world leader in the export to Portugal of footwear and leather manufacturing machines and machines for the wine-making industry (Info Mercati Esteri, 2017).

**Table 14 - Italian export to Portugal**

<b>Economic Activities (million €)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Agriculture, forestry and fishing	32.08	34.51	37.84
Mining and quarrying	2.21	2.86	4.91
Manufacture of food products	134.85	148.62	148.76
Manufacture of beverages	31.33	29.23	20.46
Manufacture of textiles	281.76	293.53	305.5
Manufacture of wearing apparel	176.46	184.58	198.16
Manufacture of leather and related products	274.28	282	263.01
Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	10.83	10.81	10.55
Manufacture of paper and paper products	70.55	76.22	73.08
Manufacture of coke and refined petroleum products	1.95	1.93	1.79
Manufacture of chemicals and chemical products	260.54	269.2	277.31
Manufacture of basic pharmaceutical products and pharmaceutical preparations	181.09	185.39	163.95
Manufacture of rubber and plastic products	147.89	157.98	160.87
Manufacture of other non-metallic mineral products	36.36	39.82	44.03
Manufacture of basic metals	227.74	250.18	237.84
Manufacture of fabricated metal products, except machinery and equipment	124.45	130.15	140.68
Manufacture of computer, electronic and optical products	96.79	97.24	96.73

Manufacture of electrical equipment	152.73	147.69	145.55
Manufacture of machinery and equipment n.e.c.	561.89	583.6	678.95
Manufacture of motor vehicles, trailers and semi-trailers	177.46	222.93	260.99
Manufacture of other transport equipment	22.57	29.91	28.04
Manufacture of furniture	47.42	50.59	56.13
Other manufacturing	103.23	107.03	117.01
Electricity, gas, steam and air conditioning	N/A	38.82	N/A
Other products and activities	37.48	N/A	40.68

Source: Adapted from Info Mercati Esteri (2017)

Table 15 displays the total million exported between the two countries in the past years. As it is possible to notice, the export increased for both countries and even the data that compares Jan-May 2016 with Jan-May 2017 shows a positive trend for the Portuguese and Italian export.

**Table 15 - Total export between Portugal and Italy**

<b>Portuguese export to Italy (million €)</b>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>Jan-May 2016</i>	<i>Jan-May 2017</i>
<i>Total</i>	1494.78	1485.49	1588.15	646.22	759.08
<b>Italian export to Portugal (million €)</b>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>Jan-May 2016</i>	<i>Jan-May 2017</i>
<i>Total</i>	3194.43	3375.46	3517.14	1446.09	1636.62

Source: Adapted from Info Mercati Esteri (2017)

#### 4.2.4.3. Economic Indicators Analysis

The fourth distance considered is the economic one. The GDP per capita (in USD)<sup>4</sup> is 19,222.9 for Portugal and 29,957.8 for Italy. The average in the European Union is 32,004.9, so both countries are below it (The World Bank Group, 2017).

Despite Italy has a higher GDP per capita, Portugal has a higher GDP growth (annual %). In fact, it is 1.5 in Portugal while 0.8 in Italy. Italy exhibits one of the lowest GDP growth rates of the entire European Union since the world economic crisis in 2008. Also in this case the two states are below the European Union average, which is 2.2.

The human development index is an indicator from 0 to 1, where a lower score means a lower human development. In this case, the score is very similar because it is 0.83 in

<sup>4</sup> Data are expressed in dollars since the source is The World Bank Group (2017)

Portugal and 0.873 in Italy. Portugal is on the 43th position worldwide and Italy on the 27<sup>th</sup>, which means that both have a high level of development regarding life expectancy at birth, the education index and the standard of living. All of the countries that belong to the EU present a very high score regarding this index with an average of 0.873.

The GDP deflator (annual %) that measure, the rate of price change in the economy is 1.9 in Portugal and 0.6 in Italy. This indicator is the ratio of GDP in current local currency to GDP in constant local currency. In average, Europe presents 1.0 for this indicator.

In general, Portugal exports and imports more than Italy considering it as a percentage of the total GDP.

In fact, in Portugal the export of goods and services makes up 40.3% of the GDP while in Italy it is 30.1%. This indicator includes the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal and government services (The World Bank Group, 2017).

The import of goods and services as a percentage of GDP shows a similar result. It is 39.6 in Portugal and 27.0 in Italy. It includes the same goods and services as the export indicator. In both cases Portugal presents a score closer than Italy to the average of European countries which is 43.2% and 40%.

Both countries were strongly affected by the economic crisis in 2008. Italy has a higher GDP per capita but a lower GDP growth. It is worth to notice in this case that although they have a quite different result, both are lower than the average of the European Union. This is also the case in exports of goods and services as percentage of the GDP. The only big difference is represented by the inflation that is way higher than the rest of the European Union in the case of Portugal.

Besides, as Figure 7 shows, they have a similar economic structure and the GDP composition is basically the same. Even the employment rate and the labor force composition gives a very similar result.

#### **4.2.5. Financial Distance Analysis**

The fifth dimension considered is the financial one. Portugal has a higher level of domestic credit to private sector (% GDP) with 120.1 while Italy shows 88.0. This



indicator represents the financial resources such as loans, purchases of nonequity securities, trade credits and other accounts receivable that financial corporations provide to the private sector. European Union countries present an average of 97.9%, which means that Portugal presents a higher value and Italy a lower one.

The market capitalization of listed companies (% GDP) presents a similar result, 25.1 for Portugal and 27.3 for Italy. It is the result of share price times the number of shares outstanding (including their several classes) for listed domestic companies. Both countries are below the European Union value of 52.6.

The number of listed companies (per 1 million population) is also similar because it is 4.518 in Portugal and 4.77 in Italy. Listed domestic companies, including foreign companies which are exclusively listed, are those ones which have shares listed on a stock exchange at the end of the year.

Portugal and Italy are not financial distant since they present a very similar result regarding two out of three indicators but even though their score of domestic credits to private sector it is different, it is below the average score of the European Union.

#### **4.2.6. Political Distance Analysis**

The political distance is considered separated from the administrative one following the methodology used by Berry et al. (2010).

The diaspora indicator shows how many people moved into the other country in a stable way. The number is very low because 4,842 Portuguese people live in Italy and only 590 Italians in Portugal. Both numbers are very low compared to the total population of both countries, especially if we consider the total amount of the Italian population (around 62 million inhabitants).

The political stability index is 0.87 in Portugal (ranked 44<sup>th</sup> in the world) and 0.34 in Italy (ranked 77<sup>th</sup> in the world). It is an index that reflects the likelihood of a disorderly transfer of government power, armed conflict, violent demonstrations, social unrest, international tensions, terrorism, as well as ethnic, religious or regional conflicts (TheGlobalEconomy.com, 2015). It is included between -2.5 and 2.5, where -2.5 is a weak and 2.5 is a strong when it comes to political stability. The European Union presents 0.69, thus Italy is more politically unstable than the average of European members.

In Portugal, the democracy score rating is 97 and in Italy 89, where 100 is the maximum and 0 the minimum. This means that both countries are considered free. They have high scores regarding political rights, such as electoral process, political pluralism and participation, functioning of government and civil liberties such as freedom of expression and belief, rule of law, associational and organizational rights, personal autonomy and individual rights. In general, all of the European Union members are considered free, in fact the average score is 92.

General government final consumption expenditures, as a percentage of GDP, shows a very similar result, because it is 18.1 in Portugal while it is 19 in Italy. It includes all government current expenditures for purchases of goods and services. The two scores are also close to the average score of the European Union members, which is 20.7.

Both countries belong to the WTO since 1<sup>st</sup> January 1995 and to the same trade bloc which is the European Union. As already said, Portugal is a member of the European Union since the 1<sup>st</sup> of January 1986, while Italy is a member since the 1<sup>st</sup> of January 1958. In this case, a very close experience to the reality of the Portuguese and Italian trade systems, is certainly represented by the fact that the European Union has produced a set of directives that has contributed to make the EU a single economic system, designed to decrease the administrative and political distance between potential business partners.

Since both countries are members of the WTO and the EU, they do not have political barriers to trade. They are very close for political factors because they both presents high democracy scores and the general government final consumption expenditures are very similar. The indicator that is not in line with the others is the diaspora since not that many people decided to move to the other country to live.

#### **4.2.7. Demographic Distance Analysis**

The demographic distance is the seventh dimension and presents similar results regarding most of the indicators.

Life expectancy is higher in Italy where it is 82.7 years while it is 80.7 in Portugal. It represents the number of years a newborn infant would live, if prevailing patterns of mortality at the time of its birth were to stay the same throughout its whole life. This result is in line with the European Union average, which is 80.7.

The crude birth rate per 1000 people is also higher in Italy, with a score of 8.3, and in Portugal 7.9. Both are below the European Union average, which is 10.1.

People under 14 are the 14.1 % of the total population in Portugal and 13.7% in Italy. In Europe, this indicator is also higher with a score of 15.5%. On the other hand, people over 65 years are 20.8% of the total amount in Portugal and 22.4% in Italy, while in Europe they are the 19.2%.

Also, for this distance, both countries are very similar, since they present the same trends compared also to the average score European Union members.

#### **4.2.8. Knowledge Distance Analysis**

The knowledge distance is the eighth dimension and presents different results. In fact, the number of patents per 1 million population is 69.416 in Portugal while in Italy it is 141.489. The result is more than the double in Italy, where there are more inventions regarding products or processes that provide new ways able to offer something new or a new technical solution to a problem.

On the other hand, the number of scientific articles per 1 million population is 1303.29 for Portugal and 1090.82 for Italy. This indicator refers to the number of scientific and engineering articles published in the following fields: physics, biology, chemistry, mathematics, clinical medicine, biomedical research, engineering and technology, and earth and space sciences (The World Bank Group, 2017).

It seems that Italy is able to produce more patents while Portugal therefore, more scientific articles. Thus, they do not present the same trend for the knowledge factors.

#### **4.2.9. Global Connectedness Distance Analysis**

Global connectedness distance is the last dimension to consider. The internet penetration shows a similarity and it is 68.6% in Portugal while it is 65.6% in Italy. Both countries are below the European Union score, where almost 80 people out of 100 use the internet.

In Portugal, international tourism expenditures (% of total imports) are 5.9 and 5.1 in Italy. Both results are similar to the European one, which is 5.8.

In Portugal, international tourism receipts (% of total exports) are 18.9 and 7.2 in Italy. In this case Portugal has a very high score, considering also that European Union presents an average of 6.0.

Despite the international tourism receipts indicator, the internet users and international tourism expenditures are very similar, which means that they are not far from the global connectedness point of view.

**Table 16 - Overview of the results**

<b>Indicators</b>	<b>Portugal</b>	<b>Italy</b>	<b>EU</b>
<b>1. Cultural distance</b>			
Power distance	63	50	51.4
Uncertainty avoidance	99	75	58.6
Individualism	27	76	46.4
Long term orientation	28	61	70.6
Indulgence	33	30	57.5
Masculinity	31	70	43.4
Overall	2.25	2.25	2.1/1.45
<b>2. Administrative factors</b>			
Currency	EUR	EUR	EUR
Corruption	62	47	64.6
Colony/colonizer	No	No	
Common language	Table 11	Table 11	
Common religion	Table 12	Table 12	
Legal system	France	France	
<b>3. Geographic factors</b>			
Adjacency	No	No	
Land Area (in square kilometres)	91,47	294,14	
Time Zone (GMT +/-)	0	1	
Climate Zone	Section 4.2.3	Section 4.2.3	
Great circle distance	1865.09 km	1865.09 km	
<b>4. Economic factors</b>			
GDP per capita (current US\$) 2015	19,222.9	29,957.8	32,004.9
GDP growth (annual %)	1.5	0.8	2.2
Human Development Index	0.83	0.873	0.873
Inflation, GDP deflator (annual %) 2015	1.9	0.6	1.0
Export of goods and services (% GDP) 2015	40.3	30.1	43.2
Import of good and services (% GDP) 2015	39.6	27	40.0
<b>5. Financial distance</b>			
Domestic credit to private sector (% GDP) 2015	120.1	88.0	97.9

Market capitalization of listed domestic companies (% GDP) 2014	25.1	27.3	52.6
Number of listed companies (per 1 million population)	4.518	4.77	
6. Political distance			
Diaspora	4,842	590	
Political stability 2015	0.87	0.34	0.69
Democracy score 2016	97	89	92
General government final consumption expenditures (%GDP) 2015	18.1	18.9	20.7
World trade agreements	1995	1995	
Regional trade agreements	EU 1986	EU 1958	
7. Demographic distance			
Life expectancy at birth, total (years) 2014	80.7	82.7	80.7
Birth rate, crude (per 1000 people) 2014	7.9	8.3	10.1
Population ages 0-14 (% of total) 2015	14.1	13.7	15.5
Population ages 65 and above (% of total) 2015	20.8	22.4	19.2
8. Knowledge distance			
Number of patents (per 1 million population) 2015	69.416	141.489	
Number of scientific articles (per 1 million population) 2015	1303.29	1090.82	
9. Global connectedness distance			
Internet users per 100 people 2015	68.6	65.6	79.6
International tourism, expenditures (% of total imports) 2014	5.9	5.1	5.8
International tourism, receipts (% of total exports) 2014	18.9	7.2	6

### 4.3. Discussion

Before to analyse the results in general it is worth to notice that in this study some indicators have been compared to European Union. This process was made to give a parameter in order to understand better the value of each indicator.

When comparing the results, it is possible to notice that the answers given by the interviews are very consistent with the secondary data. Considering The GLOBE (2017) approach, the outcomes are very similar in terms of cultural aspects. A different output is given by the Hofstede's comparison were the two countries are not very similar compared to the score of European Union. As also showed the results of Hofstede, Portugal is more similar to the Southern part of Italy and according to the interviews this is because both are very linked to the family and the traditions.

Based on the fact, that both countries belong to the European Union, the political and administrative distance is very low, which is supported by the interviewee's answers. This mutual membership to EU decrease their administrative and political distance although Italy exhibit a higher level of bureaucracy.

During the interviews, also the benefits of the geographical closeness turned out to be in line with the secondary data.

The effect of the economy is also shown in the interviews, where in Portugal the costs of living and salaries are lower, but it is recovering faster from the economic crisis in 2008. It is worth to notice that their mutual export/import relation increased in the last years although the foreign direct investment decreased.

For all of the dimensions considered, it is important to highlight, that the results of the interviews and secondary data show, that the two countries are very close to each other.

## 5. Conclusions

The fundament of this thesis was the research question: What is the real distance between Portugal and Italy? Taking the research question into consideration, the aim of this study was to examine the relationship between Portugal and Italy, which seem to be similar countries from different point of views, but this does not necessarily lead to a stronger commercial relationship.

This study, is an internship report, and it is considered relevant because it gives practical information regarding the distance between Portugal and Italy, that might be useful during the internationalization strategy analysis.

The results given by the interviews were very consistent with the secondary data analysed, showing a very small distance for most of the indicators. The idea that the two countries were very close to each other was thus confirmed by the interviews and secondary data analysed.

From the theoretical point of view, this research contributes to add a case study about the distance between the two nations and contributes to fill an existing gap of the relations of Portugal and Italy. Furthermore, it constitutes a deep analysis on cross-national distance giving a framework based on different approaches and theories. Regarding the methodological contributions and implications, this research might be useful in terms of applying the same methodology to measure distance for different countries. A set of multidimensional distance was given showing, how it is possible to measure each of them. Therefore, the methodology used is not linked to this specific case, but also to different ones based on the countries of interest. Furthermore, the methodology can be adopted as a starting point to build a different framework to measure cross-national distances in a different way.

In practical terms, this study provides useful information regarding the distance between Portugal and Italy, that might be helpful during the internationalization strategy analysis. Besides, it illustrates a deep analysis of each dimensions that can be used singularly to analyse the relation between Portugal and Italy on certain topics.

Despite the conclusions of the study and the contributions mentioned above, there are limitations regarding the methodology and the results that are important to analyse.

First of all, this study is based on interviews of a small sample of people, that might affect the final result about the perception of Italy and Portugal. Besides, the interviewees' perception of distance is related with their personal background and experience which might be different if they had been in another context.

Therefore, a larger number of sample would increase the level of sustainability of the conclusions.

Furthermore, although this study collected and analysed as many secondary data as possible and from different fields, there might be some that were not taken in consideration. It might be also possible to use the secondary data collected or find new ones in a different way to measure the distance leading to a different result.

The concept of distance is very broad and can be analysed from different point of views and methodologies. The author decided to use the case study methodology, which also has some limitations. Although case studies are favourable to generate hypotheses, it should not be used to generalize from a single case. Another limitations is that since they consider a specific situation within a specific context, case studies contain a bias towards verifications (Flyvbjerg, 2006).

Given the limitations of this study, further research can be done regarding this topic.

A larger number of interviews would be relevant to ensure a higher level of sustainability and to dig further on subjects not covered within this paper.

Furthermore, this research compared the two countries with the European Union average score based on some indicators. Other countries can also be included in this comparison to give a wider prospective of the distance between the two countries.

Besides, different kind methodologies and approaches can be used to measure distance between two countries. This paper followed the one proposed by Berry et al. (2010) and Ghemawat (2001), but future research can be made using different frameworks and type of distance.

To conclude, it has been confirmed the idea that Portugal and Italy are not distant countries. This result was achieved through interviews and secondary data that constituted a deep analysis of each multidimensional type of distance considered. The two countries exhibit lot of similarities in most of the distances considered.



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## 7. Appendices

### Appendix 1 – Interview Script

1. How similar do you think Portugal and Italy are?
2. How different do you think Portugal and Italy are?
3. When you moved into the other country did you experience any kind of barrier?
4. Do you think they are similar from the administrative point of view?
5. What are the similarities and differences regarding the culture?
6. Was it easy to move into the other country from a practical point of view?
7. What do you think about the economic situation of the country?

### Appendix 2 - EU indicators' average

Country	PDI	IDV	MAS	UAI	LTO	IND	COI	HDI	DS	PMU
Austria	11	55	79	70	60	63	75	0.89	95	1.19
Belgium	65	75	54	94	82	57	77	0.89	95	0.6
Bulgaria	70	30	40	85	69	16	41	0.79	80	0.02
Croatia	73	33	40	80	58	33	49	0.82	87	0.58
Cyprus							55	0.85	94	0.54
Czech Republic	57	58	57	74	70	29	55	0.87	94	0.96
Denmark	18	74	16	23	35	70	90	0.92	97	0.89
Estonia	40	60	30	60	82	16	70	0.86	94	0.62
Finland	33	63	26	59	38	57	89	0.89	100	1.04
France	68	71	43	86	63	48	69	0.89	90	0.27
Germany	35	67	66	65	83	40	81	0.92	95	0.72
Greece	60	35	57	100	45	50	44	0.86	84	-0.23
Hungary	46	80	88	82	58	31	48	0.83	76	0.73
Ireland	28	70	68	35	24	65	73	0.92	96	0.93
Italy	50	76	70	75	61	30	47	0.88	89	0.34
Latvia	44	70	9	63	69	13	57	0.83	87	0.45
Lithuania	42	60	19	65	82	16	59	0.84	91	0.7
Luxembourg	40	60	50	70	64	56	81	0.89	98	1.41
Malta	56	59	47	96	47	66	55	0.85	96	1.04
Netherlands	38	80	14	53	67	68	83	0.92	99	0.93
Poland	68	60	64	93	38	29	62	0.85	89	0.87
Portugal	63	27	31	99	28	33	62	0.84	97	0.87
Romania	90	30	42	90	52	20	48	0.80	84	0.2
Slovakia	100	52	100	51	77	28	51	0.84	89	0.96

Slovenia	71	27	19	88	49	48	61	0.89	92	0.92
Spain	57	51	52	86	48	44	58	0.88	94	0.29
Sweden	31	71	5	29	53	78	88	0.91	100	0.97
United Kingdom	35	89	66	35	51	69	81	0.91	95	0.56
Average	51.5	58.6	46.4	70.6	57.5	43.4	64.6	0.87	92	0.692

### Legend Table:

PDI: Power Distance; IDV: Individualism vs. Collectivism; MAS: Masculinity vs. Femininity; UAI: Uncertainty Avoidance; LTO: Long Term Orientation vs. Short Term Normative; IND: Indulgence vs. Restraint; COI: Corruption Index; HDI: Human Development Index; DS: Democracy Score; PMU: Policy-making uncertainty

### Appendix 3 – Cultural distance between Portugal and Italy with the rest of the world

Country	PDI	IDV	MAS	UAI	LTO	IND	From Portugal to	From Italy to
Albania	90	20	80	70	61	15	2.30	1.84
Angola	80	25	45	70	15	83	1.34	3.10
Arab Emirates	90	25	50	80			1.18	3.16
Argentina	49	46	56	86	20	62	0.87	1.29
Australia	36	90	61	51	21	71	3.45	1.40
Austria	11	55	79	70	60	63	3.41	1.12
Bangladesh	80	20	55	60	47	20	1.15	1.74
Belgium	65	75	54	94	82	57	2.17	0.71
Bhutan	94	52	32	28			3.03	3.93
Brazil	69	38	49	76	44	59	0.71	1.22
Bulgaria	70	30	40	85	69	16	0.74	1.48
Burkina Faso	70	15	50	55	27	18	1.04	2.21
Canada	39	80	52	48	36	68	2.80	1.13
Cape Verde	78	20	45	65	12	83	1.48	3.36
Caucasus	70	20	50	60			1.36	2.96
Chile	63	23	28	86	31	68	0.45	2.74
China	80	20	66	30	87	24	3.62	2.42
Colombia	67	13	64	80	13	83	1.62	3.10
Costa Rica	35	15	21	86			1.04	4.11
Croatia	73	33	40	80	58	33	0.50	1.34
Czech Republic	35	58	45	74	70	29	1.51	0.55
Denmark	18	74	16	23	35	70	4.24	3.62
Dominican Republic	65	30	65	45	13	54	1.90	2.06
Ecuador	78	8	63	67			1.70	3.39
Egypt	70	25	45	80	7	4	0.65	2.50
El Salvador	66	19	40	94	20	89	1.06	3.43
Estonia	40	60	30	60	82	16	2.13	1.25
Ethiopia	70	20	65	55			1.93	2.83
EU	51.5	58.6	46.4	70.6	57.5	43.4	2.10	1.45

Fiji	78	14	46	48			1.80	3.63
Finland	33	63	26	59	38	57	1.61	1.67
France	68	71	43	86	63	48	1.27	0.66
Germany	35	67	66	65	83	40	2.87	0.34
Ghana	80	15	40	65	4	72	1.27	3.69
Greece	60	35	57	100	45	50	0.56	1.15
Guatemala	95	6	37	99			1.14	4.69
Honduras	80	20	40	50			1.63	3.56
Hong Kong	68	25	57	29	61	17	2.59	1.96
Hungary	46	80	88	82	58	31	3.18	0.20
Iceland	30	60	10	50	28	67	2.27	3.12
India	77	48	56	40	51	26	2.02	1.14
Indonesia	78	14	46	48	62	38	1.59	2.24
Iran	58	41	43	59	14	40	0.82	1.64
Iraq	95	30	70	85	25	17	1.34	2.00
Ireland	28	70	68	35	24	65	3.67	1.59
Israel	13	54	47	81	38		1.83	1.42
Italy	50	76	70	75	61	30	2.25	0.00
Jamaica	45	39	68	13			4.21	3.33
Japan	54	46	95	92	88	42	3.45	1.02
Jordan	70	30	45	65	16	43	0.63	1.93
Kenya	70	25	60	50			1.92	2.76
Kuwait	90	25	40	80			1.03	3.42
Latvia	44	70	9	63	69	13	2.16	2.14
Lebanon	75	40	65	50	14	25	1.69	1.62
Libya	80	38	52	68	23	34	0.75	1.48
Lithuania	42	60	19	65	82	16	2.03	1.71
Luxemburg	40	60	50	70	64	56	1.64	0.56
Malawi	70	30	40	50			1.53	3.01
Malaysia	104	26	50	36	41	57	2.53	3.11
Malta	56	59	47	96	47	66	0.96	1.01
Mexico	81	30	69	82	24	97	2.25	2.92
Morocco	70	25	53	68	14	25	0.71	1.92
Mozambique	85	15	38	44	11	80	2.15	4.20
Namibia	65	30	40	45	35		1.48	2.12
Nepal	65	30	40	40			1.91	3.17
Netherlands	38	80	14	53	67	68	3.00	2.34
New Zealand	22	79	58	49	33	75	3.45	1.49
Nigeria	80	30	60	55	13	84	2.14	2.89
Norway	31	69	8	50	35	55	2.34	2.80
Pakistan	55	14	50	70	50		1.07	1.89
Panama	95	11	44	86			1.20	4.07
Peru	64	16	42	87	25	46	0.21	2.28
Philippines	94	32	64	44	27	42	2.09	2.19
Poland	68	60	64	93	38	29	1.01	0.51
Portugal	63	27	31	99	28	33	0.00	2.25
Puerto Rico	68	27	56	38	19	99	3.08	3.58
Romania	90	30	42	90	52	20	0.60	1.90
Russia	93	39	36	95	81	20	1.32	2.09
Saudi Arabia	95	25	60	80	36	52	1.10	2.09

Senegal	70	25	45	55	25		1.18	2.21
Serbia	86	25	43	92	52	28	0.48	1.92
Sierra Leone	70	20	40	50			1.54	3.37
Singapore	74	20	48	8	72	46	3.93	3.35
Slovakia	100	52	100	51	77	28	4.83	1.92
Slovenia	71	27	19	88	49	48	0.35	2.58
South Africa	49	65	63	49	34	63	2.33	0.88
South Korea	60	18	39	85	100	29	1.73	2.23
Spain	57	51	42	86	48	44	0.50	0.81
Sri Lanka	80	35	10	45	45		1.87	3.51
Suriname	85	47	37	92			0.94	2.85
Sweden	31	71	5	29	53	78	4.05	3.87
Switzerland	34	68	70	58	74	66	3.31	0.68
Syria	80	35	52	60	30		1.26	1.76
Taiwan	58	17	45	69	93	49	1.85	2.01
Tanzania	70	25	40	50	34	38	0.97	2.01
Thailand	64	20	34	64	32	45	0.53	2.23
Trinidad	47	16	58	55	13	80	1.99	2.96
Turkey	66	37	45	85	46	49	0.39	1.18
Ukraine	92	25	27	95	55	18	0.63	2.76
United Arab Emirates	90	25	50	80			1.18	3.16
United Kingdom	35	89	66	35	51	69	4.37	1.24
Unites States	40	91	62	46	26	68	3.56	1.28
Uruguay	61	36	38	99	26	53	0.18	1.90
Venezuela	81	12	73	76	16	100	2.75	3.93
Vietnam	70	20	40	30	57	35	2.10	2.49
Zambia	60	35	40	50	30	42	0.98	1.67
<i>Variance</i>	437.90	474.64	317.59	450.05	545.20	543.24		

**Legend Table:**

PDI: Power Distance; IDV: Individualism vs. Collectivism; MAS: Masculinity vs. Femininity; UAI: Uncertainty Avoidance; LTO: Long Term Orientation vs. Short Term Normative; IND: Indulgence vs. Restraint