Fashion Joins the Digital Revolution
A study on the Impact of Digitalisation in the Swedish High-End Fashion Industry

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ABSTRACT

Digitalisation is one of the greatest transformations in modern times and has impacted organisations, industry structures and the society as a whole. It provides new opportunities for fashion firms to interact with different stakeholders and has altered the way firms operate in foreign markets. Based on in-depth interviews with managers of Swedish high-end fashion firms, the aim of the study was to explore what impact digitalisation has on managers’ perceived psychic distance in their international operations. In particular, how managers use digital technologies to obtain and interpret information about supply and demand conditions in foreign markets was examined. The empirical findings indicate that digital technologies are essential for firms today, as they have increased information availability, enhanced information usage and improved interactive communication. This, in turn, leads to a reduction of managers’ perceived psychic distance.

Keywords: Digitalisation, Digital technologies, Information availability, Information usage, Interactive communication, Swedish fashion industry, Psychic distance, Psychic distance paradox, Virtuality trap, International operations
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1. INTRODUCTION

“Yet never before have companies had such powerful technologies for interacting directly with customers, collecting and mining information about them, and tailoring their offerings accordingly” (Rust et al., 2010).

1.1 Background

A Third Industrial Revolution was set off by advances in information and communication technology in the late 20th century, which has promised to deliver an economic transformation in society as a whole (The Economist, 2014). This great wave of invention and economic disruption marked the beginning of the Information Era, and has been referred to as the Digital Revolution. From a firm's perspective, this has meant that new digital technology allows information to flow so freely that transaction costs that firms face in their international operations have been dramatically reduced (Gerbarg, 1999). Thus, the Digital Revolution is lowering traditional internationalisation barriers; bringing vast new opportunities for actors in their international operations (Dowed and Mui, cited in Gerbarg 1999, p. 250). Furthermore, based on the Digital Revolution, a Fourth Industrial Revolution is emerging, which is characterized by a fusion of technologies that is blurring the lines between the physical, digital and biological spheres (Schwab, 2015).

When discussing a firm’s international operations, scholars have traditionally highlighted two types of knowledge: objective knowledge and experiential knowledge. Objective knowledge is acquired through standardised methods, that is, market research, and can easily be transferred and replicated. In contrast, experiential knowledge is information about market conditions that firms acquire through incremental experience in their international operations. Johanson and Vahlne (1977) argue that persons working on the boundary between the firm and its market must be able to interpret information from inside the firm and from the market. The interpretation of one kind of information is possible only for one who has experience with the other part (ibid.). However, the traditional emphasis on experiential knowledge has recently been challenged. Petersen et al. (cited in Mathews and Healy 2007, p. 74) propose a revised framework of the
traditional theories of internationalisation, highlighting the significant enhancement to information availability and knowledge management due to the Internet, as the Internet has reversed conventional understandings that the process of gaining information about foreign markets is done incrementally.

It has been suggested that the Internet is the most significant driver of international trade in recent years (Mathews and Healy, 2007) and that it has revolutionized the way firms acquire information about market conditions. The emergence of the so-called "digitalisation" is one of the greatest transformations of contemporary society (Hagberg et al., 2015), and has played a pivotal role in altering information availability. Digitalisation allows firms to efficiently gather, manage and analyse information to a greater extent than ever before (Dauriz et al., 2013; Hagberg et al., 2015), through various cost-efficient integrated interactive digital technologies (Mathews and Healy, 2007; Nylén, 2015). In recent years, firms in various industries have explored digital technologies with the purpose to exploit its benefits. The exploitation and integration of digital technologies mainly impacts large parts of firms and even go beyond their borders (Matt et al., 2015). Digitalisation is and is predicted to continue impacting all industries (Nylén, 2015), and has made a significant contribution to the way firms operate in foreign markets (Axinn and Matthyssens, 2002; Ramonienė et al., 2015).

The on-going changes due to digitalisation are not least important in the fashion industry, which is undoubtedly being affected by the current developments (Hagberg et al., 2015). Digitalisation and the role of the Internet within the fashion industry has thus far primarily focused on e-commerce, but that the impact of digitalisation goes far beyond that (ibid.). More recently, discussions have also addressed the emergence of smart textiles and virtual reality (such as virtual fitting rooms and shopping centres). A rather overlooked area, however, is the effect of digitalisation on firms’ information components and how firms’ way of interacting with different stakeholders has changed (Dauriz et al., 2013; Matt et al., 2015).

Digitalisation is integrated in large parts of Swedish fashion firms (Hagberg et al., 2015), who play a significant role in the Swedish economy (Kreativ Sektor, 2015). After a prolonged period of constant negative growth, the Swedish fashion industry saw a
positive growth rate during 2015, with the growth rate in sales volume for 2015 being 2.0 per cent for clothes and 0.4 per cent for shoes (Sternø and Nielsén, 2015). Moreover, the Swedish textiles, clothing and footwear export increased to SEK 10.6 billion during the first half of 2015; an increase by SEK 1.1 billion from 2014, and a SEK 1.8 billion increase from 2013. Of this, clothes represent SEK 7 billion; an increase with SEK 700 million from 2014 (Teko, 2015). As an export-dependent industry (Svengren Holm and Tijburg, 2013), Swedish fashion firms rely, and are predicted to rely more, on digitalisation in the future, since firms seek to increase their understanding of foreign markets by accessing relevant information through advanced digital technologies, which was not as easily accessible before (Hagberg et al., 2015).

1.2 Problem Discussion

Digitalisation has been advocated to create new opportunities and change the way firms obtain information about foreign markets (Dauriz, et al., 2013; Hagberg et al., 2015). However, cross-border transactions is a complicated high-risk process that is filled with uncertainty (Yamin and Sinkovics, 2006). Although the Internet has brought many opportunities for firms and reduced barriers to trade, such as tariffs, there is no clear evidence that this has decreased or diminished the perceived difficulties among managers. Instead, managers still perceive a sensitivity when conducting international operations, which is predicted to increase over time. This increased sensitivity is associated with a shift in the composition of trade towards goods requiring more extensive information and personal interactions between a firm and its stakeholders (ibid.).

Another issue is related to a firm’s desired extent of digitalisation that a firm should achieve, since greater use of digital technologies may not always be suitable (Grover and Kohli, 2013). The use of digital technologies addresses a firm’s perception towards new technologies as well as its ability to exploit these technologies (Matt et al., 2015). In a survey presented at the World Economic Forum in Davos, Switzerland in January this year, the results showed that although the digital revolution brings vast opportunities for firms today, Swedish firms in particular are less knowledgeable and less engaged in digitalisation than their European counterparts (Ekelund, 2016). Furthermore, firms lack
financial resources and knowledge, which hinders development and digital investment in their international operations (Business Sweden, 2015; Sternö and Nielsén, 2015). In particular, the fashion industry in Sweden has scarce resources for investments in their international operations (Svengren Holm, 2013).

However, as digitalisation provides access to global marketplaces that in the past were virtually unreachable (Becker, 2002; Sinkovics et al., 2013) at a low cost, and communicate with stakeholders in a less-resource demanding way, many fashion firms devote more resources to their online presence (Business Sweden, 2015). As firms are more virtually present than ever before and rely on the virtual world as a direct channel, the traditional intermediaries such as foreign distributors or agents may be abandoned (Gabrielsson and Gabrielsson, 2011). Yamin and Sinkovics (2006) highlight risks of firms relying exclusively on online presence, arguing that they may fall into the trap of generalising the information they acquire about foreign markets from their online interactions, while underestimating complexities and benefits of traditional market research learning.

1.3 Purpose and Contribution

Digitalisation is taking a more central role in the fashion industry, but until now, the main focus in academia has primarily been on e-commerce (Grewal and Levy, 2007; Hagberg et al., 2015). As stated earlier, the impact of digitalisation goes far beyond the phenomena of e-commerce (Hagberg et al., 2015). The opportunities that digitalisation brings is thus until now in its primary stage of theoretical development (Liu et al., 2013), and the viability of the Internet as an enabler of a firm’s international operations has not yet been fully explored (Sinkovics et al., 2013). New digital technologies have indeed transformed the way in which firms obtain and process information (Mathews and Healy, 2007). However, little research has been conducted on whether managers gather information about a specific market the same way today as before (Mathews et al., 2012). Hence, this study will take a fresh look at how managers obtain and interpret information about demand and supply conditions in foreign markets with special regards to the effects of digitalisation. In terms of studying managers’ perceived psychic distance in their
international operation, it is highly relevant to study how an export-dependent industry, such as Swedish high-end fashion (Svengren Holm, 2013), is affected by digitalisation. In this study, ‘high-end fashion firms’ refers to brands that have enduring positive brand images deemed as being at the forefront of design, quality, status and fashion (Juggessur and Cohen, 2009). Managers of these firms generally perceive the Swedish market as very limited and therefore tend to seek to expand to foreign markets at a very early stage (Svengren Holm, 2013). Emphasizing a perceptual approach, the concept that will be highlighted in this study is psychic distance, as it has been posited to be one of the most important factors in a firm’s internationalisation process (Nordström and Vahlne, 1994). This paper will therefore examine the effects of digitalisation on the perceived psychic distance of managers in Swedish high-end fashion firms in relation to how they obtain and interpret information in their international operations. According to Yamin and Sinkovics (2006), when firms are encountered with new communication mediums, the capability of firms to learn and obtain information about foreign markets increases and results in a reduction of psychic distance (Yamin and Sinkovics, 2006). Therefore, it is relevant to study psychic distance from a perceptual perspective with special regards to changes that may occur with involvement in digitalisation. Taking a manager’s perspective, the research question is:

- How does digitalisation affect the perceived psychic distance of managers in Swedish high-end fashion firms in their international operations?

1.4 Delimitations

There is no clear and consistent definition of digitalisation in international business literature. In this study, the definition of digitalisation by Hagberg et al. (2015) is adopted, which they define as “the integration of digital technologies into retailing that in some way or another are connected to the Internet”. The term “digital technology” is defined as a general-purpose technology (Bresnahan Trajtenberg, cited in Nylén 2015, p. 5). The definition is, however, broad and ambiguous, and may be interpreted to include a range of different technologies, such as Customer Relationship Management (CRM) systems, Google Analytics, social networking sites (SNSs) and project-management
systems. Systems for payments logistics, delivery, support, electronic bulletin boards and knowledge directories are further examples of such technologies. With the use of digital technologies, any information can be presented in a digital format (Nylén, 2015). In this study, we explore and embrace this range and more, as each case company in the study expresses their interpretation of the phenomenon. Based on this, we particularly look at how digital technologies that are embraced by fashion firms are used to enhance information availability, information usage and interactive communication in regards to customers, retailers and other stakeholders in international operations.

In recent decades, the concept of psychic distance has gained increasing attention among scholars and numerous definitions have been proposed and vary depending on research problem and context (Dow and Karunaratna, 2006; Ambos and Håkanson, 2014). As this study focuses on managers’ perceived ease and difficulty of obtaining information when they operate in foreign markets, we adopt Håkanson and Dow’s (2012) definition as; “the perceived ease or difficulty of obtaining and interpreting information about demand and supply conditions in foreign markets”.
2. LITERATURE REVIEW

2.1 Psychic Distance

The initial concept of psychic distance was first introduced by Beckerman (1956), who explained the phenomenon as factors, such as geographical distance, transportation costs and tariffs that affect the intra-European trade, and Linnemann (1966), who described it as factors that influence geographical distances. Psychic distance has since at least the 1970s had a significant impact on international business literature (Håkanson and Ambos, 2010), and has been used to explain or predict the sequential pattern of internationalisation (Vahlne and Wiedersheim-Paul, 1973). Vahlne and Wiedersheim-Paul (1973) were early to recognise that not only economic and physical factors impact a firm's market entry, and stated that psychic distance is instead related to factors that prevent or disturb the flow of information between suppliers and buyers. The concept gained popularity with its central role in Johanson and Vahlne’s (1977) theory of internationalisation, where it was defined as “the sum of factors preventing the flow of information from and to the market”. In contrast, Nordström and Vahlne (1994) and O'Grady and Lane (1996) argued that when discussing a firm’s psychic distance, business factors, such as legal, industry structure and competitive environments, need to be included in addition to differences in culture. Nordström and Vahlne (1994) therefore redefined the concept as “the factors that prevent or disturb learning about and understanding of a foreign environment”. O'Grady and Lane (1996) defined psychic distance as “a firm's degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there”.

2.1.1 Perceived Psychic Distance

While the previous definitions and the more recent definitions of psychic distance have resulted in a deeper understanding of the concept, they do not fully cover the main ideas behind the two elements “psychic” and “distance” (Evans and Mavondo, 2002; Evans and Bridson, 2005). Firstly, the word “psychic” is derived from the term “ psyche”, which refers to the mind or soul (Piercy et al., 1998; Evans and Mavondo, 2002). This means
that not only external environmental factors determine the degree of psychic distance but rather the individual’s perception and understanding of cultural and business differences (Evans and Mavondo, 2002). This idea is consistent with the research conducted by O’Grady and Lane (1996), who argue that the concept of psychic distance should include both cultural and business differences, which is also supported by Nordström and Vahlne (1994) who explained the two concepts as a “different but overlapping phenomena”. Secondly, the word “distance” is related to either similarities or differences in terms of the degree of separation between the two points. Hence, the definition “psychic distance” refers to the perceived degree of similarities or differences between the home and foreign market (Evans et al., 2000).

According to Evans and Mavondo (2002), the individual’s perception is a critical part of the psychic distance concept. The importance of ‘perception’ of the psychic distance concept was further highlighted in Swift’s (1999) study and was explained as; “a consequence of a number of interrelated factors, of which, perception is a major determinant”. Sousa and Bradley (2005) also adopt an individualistic approach similar to Evans et al. (2002) by including the manager’s perception, and defines the concept as “individual’s perception of the differences between the home country and the foreign country”. Other scholars who have included an individual approach to the concept include Smith et al. (2011), who define the concept as the “perception a businessperson has of the level of difficulty they would encounter in a foreign market if they were to undertake business operations in that market”. Håkanson and Dow (2012) stress the importance of information and explain the concept as the “perceived ease or difficulty of obtaining and interpreting information about demand and supply conditions in foreign markets”. Yamin and Sinkovics (2006) argue in their paper that psychic distance is not only dependent on cultural and business differences, but also on the perception of communication or other barriers to learning about these differences. Furthermore, when firms are encountered with new communication mediums, this may lead to a reduction of psychic distance even if the perception of differences have not necessarily been affected. Thus, it is highly relevant to study how digitalisation impacts a manager’s perceived psychic distance when encountered with new technologies, in this case, digital technologies. As this study has a strong focus on digitalisation in special regards to information availability, information usage and interactive communication, the definition
of the concept psychic distance in this study follows Håkanson and Dow’s (2012). They stress the importance of information in a firm’s international trade and explain the concept as “the perceived ease or difficulty of obtaining and interpreting information about demand and supply conditions in foreign markets”.

2.1.2 Psychic Distance Paradox

For many years, the idea that firms begin the internationalisation process in physically closer countries before entering more distant ones (Johanson and Vahlne, 1990) because they are easier to learn about and understand (Johanson and Vahlne, 1977; Nordström and Vahlne, 1994) has been dominant in international business research (Mandrinos and Mahdi, 2016). However, O’Grady and Lane (1996) challenge this and presented the “psychic distance paradox”, which explains; “operations in psychically close countries are not necessarily easy to manage, because assumptions of similarity can prevent executives from learning about critical differences”. As firms tend to overestimate the similarities between neighbouring countries (O’Grady and Lane, 1996; Pedersen and Petersen, 2004), managers may adopt limited learning efforts (Evans et al., 2008) and resources to learning about physically close markets (Yamin and Sinkovics, 2006). The inappropriate preconceptions may lead to poor performance and possibly failure, which was shown in a study by O’Grady and Lane (1996) where only seven Canadian retail companies out of thirty-two were performing successfully in the United States. This contradicts the traditional view of psychic distance as being negatively related to internationalisation and performance.

The new positive relationship has gained popularity and is emphasised by many scholars like O’Grady and Lane (1996), Stöttinger and Schlegelmilch (1998) and Evans and Mavondo (2002), who explained the positive relationship between psychic distance and firms performance by relating it to the perception of uncertainty in psychically distant markets. As managers attempt to reduce uncertainty in foreign markets, they undertake a cautious approach and devote more research to learning and conducting market research, which eventually results in an improvement in their strategic decision making and performance (Evans et al., 2000; Evans and Mavondo, 2002).
2.2 Digitalisation

Information about market conditions is more accessible today due to digitalisation, which allows firms to efficiently gather, manage and analyse information to a greater extent than ever before (Dauriz et al., 2013; Hagberg et al., 2015). The influence of digitalisation on information aspects of a firm’s international operations is widespread, and digital technologies have a tremendous impact (Nylén, 2015). Traditionally, an asymmetry of information exists for SMEs in the internationalisation process (Mathews and Healy, 2007). However, the Internet provides access to an information-intensive environment (Prashantham, 2005), where the ease of accessing information is no longer a function of geographical proximity and firm size (Berry and Brock, 2004). The information asymmetry traditionally experienced in the internationalisation process has thus been diluted (Mathews and Healy, 2007), and it has thereby been postulated that the Internet has significantly enhanced the information components of a firm’s internationalisation (Mathews and Healy, 2007). As a result of this enhanced information capacity, firms’ internationalisation capabilities have been enhanced (Prashantham, 2005; Mathews and Healy, 2006, 2007), and significant information barriers to internationalisation have been reduced or even eliminated (Berry and Brock, 2004). Furthermore, the expenditure of resources to a firm’s internationalisation has also been reduced (Berry and Brock, 2004; Business Sweden, 2015). For example, Prasad et al. (2001) exemplify that searching for information does not require a huge expenditure of resources when using the Internet, and this has thus eased competitor orientation. It can, therefore, be inferred that as a result of the Internet and its related digital technologies, firms can today internationalise more rapidly (Petersen et al., 2002; Bell and Loane, 2010) and at a lower cost than they were previously able to (Business Sweden, 2015).

Mathews et al. (2012) studied the Internet’s effect on information availability, information usage and interactive communication. They found that a firm’s Internet intensity has a positive effect on these three components, which positively influences internationalisation. Expanding on this, the following sections will discuss digitalisation’s impact and contribution to these three central components.
2.2.1 Information Availability

Digital technologies have facilitated for firms to access information efficiently (Business Sweden, 2015), and firms extensively use the Internet to collect foreign market information (Nguyen and Barrett, 2006). The Internet is argued to have altered information availability in the international marketplace (Petersen et al., 2002) as it provides unprecedented access to a wide range of global information sources that can be leveraged to gather valuable market information (Prasad et al., 2001; Nguyen and Barrett, 2006; Mathews and Healy, 2007; Borges et al., 2009; Mathews et al., 2012) that is up-to-date (Borges et al., 2009) and easily obtained at a low cost (Nakata and Zhu, 2006; Borges et al., 2009). The Internet’s searching properties are thus immense (Petersen et al., 2002).

It has been postulated that the Internet and its related technologies not only has a positive influence but is, in fact, essential for acquiring information about environmental changes (Min et al. and Prasad et al., cited in Borges et al. 2009, p. 885). Mathews and Healy (2006), for example, argue that firms perceive the Internet’s influence on information to be vital for their internationalisation process. It is argued that the Internet’s impact on information is one of, if not the most important, element influencing a firm’s internationalisation process (Berry and Brock, 2004; Mathews and Healy, 2007).

The importance of digital technologies for a firm’s information components in international operations is thus highlighted. A wide scope of information is available, ranging from macro-data to information about individual firms (Jull Sørensen and Buatsi, 2002). This, in turn, impacts a firm in its international operations (Mathews and Healy, 2007), and there is now more extensive access to relevant information that can be acquired with ease about competitors, consumers, suppliers in the foreign market (Jull Sørensen and Buatsi, 2002; Min et al., 2002; Petersen et al., 2002) and speed across borders (Petersen et al., 2002).
2.2.2 Information Usage

With the emergence of digitalisation, a vast amount of high-quality market information that could be gathered is still rather unexplored and untapped (Business Sweden, 2015). However, with the increased use of digital technologies, information can be analysed to gain a better understanding of international customer behaviour and demand (Hagberg et al., 2015). The Internet can facilitate information usage (Petersen et al., 2002), and today there is a broad range of digital technologies that can be used for information analysis (Business Sweden, 2015; Hagberg et al., 2015).

The Internet’s information capabilities can be used for a range of purposes, such as market evaluation and knowledge transference (Warkentin et al., cited in Mathews et al. 2012, p. 736). In addition, the availability of vast amounts of information creates new ways to analyse and develop competitive offers to a global market (Business Sweden, 2015). Moreover, information retrieval and storage have been made easier by the use of the Internet (Mathews et al., 2012), and information can be easily analysed using IT tools (Borges et al., 2009). The ability to do this is argued to be unachievable without the use of the Internet (Mathews and Healy, 2006). The use of ICT tools, through its access to information and its efficiency in reducing entry costs, is thus argued to reduce entry barriers for SMEs (Moen et al., 2008).

However, implementing knowledge management technologies is associated with risk and subject to economic commitment, as they rely heavily on experience, training and capital (Koh and Maguire, 2004). Furthermore, firms must develop a competency to be able to judge which information is useful and relevant (Business Sweden, 2015).

2.2.3 Interactive Communication

It has been argued that digitalisation transforms communication (Hagberg et al., 2015). The Internet provides opportunities and technologies for firms to interact and share information (Min et al., 2002; Mathews and Healy, 2006), and as such communicate more efficiently and effectively (Bell and Loane, 2010). Hagberg et al. (2015) argue that digitalisation has transformed several forms of communication in the fashion industry.
Firstly, retailer to consumer communication by, for example providing product information and creating loyalty programs. Secondly, consumer to retailer, for instance in the form of digital footprints and product reviews. Thirdly, consumer to consumer communication, by, for example, discussing offers and pricing. Lastly, in the shape of third-party communication, such as online comparison sites.

Through Internet usage, firms have the ability to capture communications’ operational efficiencies (Mathews and Healy, 2007). They can engage and interact with international stakeholders (such as consumers, suppliers and other business partners) through multiple integrated interactive technologies (Mathews and Healy, 2006, 2007) without being constrained by physical geographical barriers (Min et al., 2002; Mathews et al., 2012) and at a low cost (Mathews and Healy, 2006, 2007). Firms can now have an active dialogue with stakeholders in their cross-border activities (Jull Sørensen and Buatsi, 2002). Greater depth and frequency of communication (Mathews and Healy, 2006) and higher engagement is also experienced (Bell and Loane, 2010; Sinkovics et al., 2013).

Furthermore, through rapid communication the Internet has influenced traditional ways in which firms access and process information (Mathews and Healy, 2006). Through the enhanced communication interaction, firms can generate valuable international market information (Mathews and Healy, 2007). For example, through digital newsletters, valued information about customer preferences and behaviour can be gathered, analysed and used further to develop effective marketing activities (Business Sweden, 2015). The enhanced visibility of firms also provides opportunities to acquire a greater amount of information through a wider access to network relationships (Prashantham and Young, 2004).

A variety of Internet technologies can also facilitate network relationships as firms are able to interact with stakeholders more widely and intimately (Prashantham and Berry, 2004). Information can be shared both internally on a corporate network (intranet) and externally between business partners (extranet) (Turban et al., cited in Min et al. 2002, p. 3). Intranets and extranets are important technologies for information exchange, as they allow firms to make closer connections with relational partners through information technology (Parasuraman and Zinkhan, 2002). For example, information can be
communicated through e-mail systems and intranets (Mathews and Healy, 2006). However, communication using technologies such as e-mail often occur between only two persons. With the increase of social interaction taking place on social networking sites (SNSs) such as Facebook, Instagram, Skype and Google Hangouts, information that is shared is accessible to many stakeholders (Steijn and Schouten, 2013). That is, a range of stakeholders, stretching from internal stakeholders (such as suppliers and retailers) to external ones (such as customers), can access the same information simultaneously. Moreover, through SNSs, valuable information about customer preferences and behaviour can be obtained. Furthermore, it is argued that information disclosed on SNSs may impact relationships in a different manner compared to more traditional interactions, such as face-to-face interaction (ibid.). Substitution of physical face-to-face interaction with virtual interactions is becoming increasingly more common and relevant for firms that conduct overseas operations (Weinman, 2015). Face-to-face meetings, which often require many hours of travel for firms with operations abroad, can now be held with a couple of mouse clicks (Weinman, 2015). Subsequently, firms can significantly reduce time and money by substituting face-to-face meetings with digital technologies (Weinman, 2015) and SNSs (Steijn and Schouten, 2013).

2.2.4 Virtuality Trap

Although the Internet serves as a new powerful communication medium that may contribute to the reduction of perceived psychic distance and firms’ learning about distant markets, it is not necessarily a perfect substitute for ‘real’ face-to-face interaction (Yamin and Sinkovics, 2006). Firms that rely heavily on virtual interaction and underutilise the traditional non-virtual and on-site sources of information carry the risk of what Yamin and Sinkovics (2006) define as the ‘virtuality trap’. By ‘virtuality trap’ the authors mean that learning generated through virtual interactions obviates the need for learning about the foreign market through non-virtual means. Virtuality trap implies similar perceptual processes as those that underlie the psychic distance paradox in familiar or physically close markets (O’Grady and Lane, 1996; Evans and Mavondo, 2002; Fenwick et al., 2003; Pedersen and Petersen, 2004). According to Sinkovics et al. (2013) firms that are retaining a physical and relational distance from the host markets, do not fully appreciate
the complexities that may lead to a poor performance in the targeted foreign market. Furthermore, Fernhaber and Prashantham (2015) argue that firms that have a minimal physical presence outside the home country are more susceptible on the virtuality trap as they tend to rely exclusively on data that has been gathered and processed in the virtual world.

2.3 Conceptual Framework

Based on the presented theories on psychic distance and digitalisation, a conceptual framework has been conducted to visualise the concept and connect the theories. As previously mentioned, Hagberg et al.’s (2015) definition of digitalisation has been adopted in this study, which they define as “the integration of digital technologies into retailing that in some way or another are connected to the Internet”. Based on this, we particularly look at how digital technologies that are embraced by fashion firms are utilised and what affect this has on a manager’s perception.

In this conceptual framework, it is predicted that digitalisation will, firstly, increase information availability. Through the use of the Internet, firms have the opportunity to access information through a range of new sources (Mathews et al., 2012) and thus have the ability to gain more information about foreign markets (Nguyen and Barrett, 2006). Secondly, it is predicted that digitalisation will improve information usage through utilising various digital technologies, allowing firms to analyse information and adapt their business strategies accordingly. Thirdly, digitalisation is predicted to enhance interactive communication, as digital technologies allow firms to efficiently dissimilate, share and communicate information (Prashantham, 2005; Mathews et al., 2012) without being constrained by physical barriers. However, with increased virtual interactivity, firms carry the risk to overestimate interactions through digital technologies and therefore underestimate face-to-face interactions that are important for firms to gain experiential knowledge in their international operations (Johanson and Vahlne, 1977). Thus, firms may fall into a ‘virtuality trap’.
Following this, through enhanced information availability, information usage and interactive communication, digitalisation is expected to lead to a reduction in managers’ perceived psychic distance. This means that the perceived difficulty of obtaining and interpreting information about demand and supply conditions in foreign markets will be decreased.

Based on the above-summarized theories, which explain how digitalisation may affect a manager’s perceived psychic distance, the following conceptual framework was created (Figure 1).

![Conceptual Framework](image)

**Figure 1. Conceptual Framework (Hijazi and Strannhage, 2016)**
3. METHODOLOGICAL APPROACH

3.1 Research Approach

The purpose of this study was to investigate how digitalisation affects manager’s perception of psychic distance in a firm’s international operations. As the aim was to increase the understanding of this relatively new and unexplored topic, an exploratory research approach was chosen (Saunders et al., 2012). Exploratory studies are flexible and adaptable to change (Ghauri and Grønhaug, 2010; Saunders et al., 2012), and allow for the opportunity to collect and observe information and to construct explanations (Ghauri and Grønhaug, 2010). For these reasons, an exploratory study was found to be advantageous when seeking to gain deeper insights into digitalisation’s effect on managers’ perceived psychic distance. The exploratory approach was also combined with a descriptive approach, as this enables one to portray a more accurate profile of the situation (Robson, 2002).

Furthermore, a qualitative study was conducted, composed primarily of in-depth, semi-structured interviews with managers within the high-end Swedish fashion industry. This approach was considered suitable as we sought to develop an understanding based on the insight these managers have into the subject matter. The nature of qualitative studies makes them particularly favourable when seeking to gain in-depth insights of a subject (Ghauri and Grønhaug, 2010; Saunders et al., 2012), and thus very useful for us. Moreover, as the field of digitalisation and its effect on fashion firms’ international operations is a relatively unexplored research area (Hagberg et al., 2015), a qualitative approach was opted for. This is because a qualitative approach enables flexibility, which is a particularly useful research characteristic when investigating a subject of which little is known (Marschan-Piekkari and Welch, 2004; Ghauri and Grønhaug, 2010).

3.1.1 Research Design

The conducted study is of a multiple case character. This was considered to be a suitable research design due to a number of reasons. Firstly, case studies are effective when conducting exploratory studies that aim to answer how questions (Ghauri and Grønhaug,
2010; Saunders et al., 2012), which is an attribute that characterises our study. Case studies also allow for empirical investigation of a current phenomenon (Ghauri and Grønhaug, 2010; Saunders et al., 2012), which is appropriate in our study as the research area is currently a highly relevant subject that is still relatively unexplored. As stated, we wished to gain an understanding and deep insight into how digitalisation affects managers’ perception of psychic distance in firms’ international operations. Conducting case studies is an efficient way of achieving this, as they allow one to gain deep insight into the context and processes of the research (Saunders et al., 2012), particularly when the research area is new (Eisenhardt, 1989). Moreover, case studies allow for the opportunity of direct interaction (Ghauri and Grønhaug, 2010), which is necessary for our qualitative research approach and focus on interviews. Multiple case studies also have the particular benefit of being able to provide a sound basis for developing theories and propositions, as they are based on varying empirical evidence (Eisenhardt and Graebner, 2007). This is an advantage because our research area is relatively new and unchartered, and the study would thus benefit from data collected from multiple different sources in order to develop an understanding and theorise on. Building on this, the ability to include secondary data was seen as an advantage. The access and use of, for example, organisational reports and journal articles, provides important and relevant information to complement primary source information and thus gain a better understanding of the situation examined.

3.2 Case Selection: Swedish High-End Fashion Firms

The primary criterion for the selection of case companies was that the firm offers apparel in the high-end segment and is based in Sweden. As this study aimed to explore the effects of digitalisation, which is still in its preliminary stage of theoretical development (Liu et al., 2013), it was ideal to include firms that have established business successfully internationally. This is because it provides access to in-house expertise that can provide in-depth information on the topic (Ghauri and Grønhaug, 2010). Therefore, we restricted our selection to those firms that operate in foreign markets and are present in the virtual world (for example e-commerce and social media) as this indicates that they may have implemented digital technologies that they use to obtain and interpret information.
The exploratory approach of the study suggests that “interviewing experts within the field” is the optimal choice to collect data (Eisenhardt and Graebner, 2007; Saunders et al., 2012). Therefore, the respondents from the Swedish high-end firms were mainly managers who specifically work with digitalisation; most of them with titles such as ‘Digital’ or ‘E-commerce Manager’. As Swedish high-end firms are characterised as being relatively small in size (Sternö and Nielsén, 2015), some of the selected firms did not have anyone solely responsible for digital or e-commerce activities. In such instances, interviews were conducted with Managing Directors, on the premise that they are most likely to be able to gain insights on digitalisation from which we could gain understanding.

We compiled a list of firms by using judgement sampling, drawn from the population of Swedish high-end firms that were members of the Association of Swedish Fashion Brands and firms who attended the Stockholm Fashion Week in spring and summer of 2015. With the purpose to facilitate our data collection process, this was combined with a convenience sampling based on our personal contacts. The number of case companies that participated in this study was not fixed. From a list of twenty-four firms, six companies agreed to partake in the research study (see Table 1). As this study had an exploratory approach, the number of case companies was considered appropriate. In addition, a level of saturation was reached as data was gathered until new respondents shared no additional relevant information.

The majority of the leading Swedish fashion brands are small and medium-sized firms (Svengren Holm, 2013), and 95 per cent of the Swedish high-end fashion firms have less than ten employees (Sternö and Nielsén, 2015). Two of the companies in this study have less than 250 employees but have reached a turnover exceeding EUR 50 million, and hence are considered by the European Commission definition of small and medium-sized (SME) as large firms (European Commission, 2008). Two firms in this study are considered medium-sized firms because they have a turnover not exceeding EUR 50 million and have more than 50 employees but less than 250 in total. The last two firms are considered to be micro firms, as they have a turnover that does not exceed EUR 2 million and have less than ten employees.
3.3 Data Collection

As previously mentioned, the data used in this study was derived from various sources. Focus was put on primary data, which was complemented with secondary data. Secondary data was systematically collected during the initial phase of the study, with sources including organizational reports, journal articles, various online websites and news articles. After collecting relevant secondary data, primary data was obtained through in-depth, semi-structured interviews.

Ghauri and Grønhaug (2010) state that constructing semi-structured interviews is a well-suited data collection method for exploratory research, and Saunders et al. (2012) argue that these interviews provide the greatest opportunity for in-depth discussions. For these reasons, semi-structured interviews were conducted in this study, as this enables a deeper understanding of how digitalisation affects the manager's perception in terms of obtaining and interpreting information. An advantage of in-depth interviews is that a more accurate and definite picture of a manager’s position or behaviour towards a subject can be revealed (Ghauri and Grønhaug, 2010). This is highly relevant as this study emphasises a perceptual nature of psychic distance in relation to the effects of digitalisation.

In this research study, interviews refer to face-to-face and telephone verbal exchanges (see Table 1). These interviews were based on the interview guide (see Appendix I) and included pre-determined open-ended questions that were designed to address the research question and cover the chosen theories on psychic distance and digitalisation. The interview guide, accompanied by an explanation of the subject and background of the research study, was sent to the case companies prior to conducting the interviews. This was done with the purpose to enhance credibility, which may help to promote validity and reliability as the case companies are given the opportunity to prepare for the interview (Saunders et al., 2012). As the interviews had a semi-structured approach with open-ended questions, considerable flexibility was enabled (Denscombe, 2016), as the managers were given the opportunity to speak freely according to their experience and thinking around digitalisation. In particular, this allowed respondents to confirm which technologies they use to obtain and understand information about foreign markets besides those examples that were stated in the interview guide.
<table>
<thead>
<tr>
<th>Respondent</th>
<th>Interview Type</th>
<th>Length</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whyred: CEO and Marketing/Webshop</td>
<td>Personal</td>
<td>30 min</td>
<td>March 11</td>
</tr>
<tr>
<td>House of Dagmar: Head of Digital</td>
<td>Telephone</td>
<td>30 min</td>
<td>March 11</td>
</tr>
<tr>
<td>and E-Commerce</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Filippa K: E-Commerce Manager</td>
<td>Personal</td>
<td>40 min</td>
<td>April 1</td>
</tr>
<tr>
<td>Eton: E-Commerce Manager</td>
<td>Telephone</td>
<td>30 min</td>
<td>April 8</td>
</tr>
<tr>
<td>Viktoria Chan: CEO</td>
<td>Telephone</td>
<td>30 min</td>
<td>April 11</td>
</tr>
<tr>
<td>Ahlvar Gallery: CEO</td>
<td>Telephone</td>
<td>40 min</td>
<td>April 22</td>
</tr>
</tbody>
</table>

**Table 1: Data Collection – Overview**

3.4 Operationalization

As the purpose of this research study was to examine how digitalisation affects managers’ psychic distance in their international operations, in-depth, semi-structured interviews were conducted that allowed a degree of flexibility as the phenomenon is rather complex and thus requires questions that are manageable. Therefore, the chosen method to operationalize the research questions was to first give each concept a theoretical definition. This was done to clarify which definitions were adopted in this research study, which in turn could facilitate the empirical testing process. Secondly, specific parameters were identified in the theoretical definitions that could translate the chosen definitions into investigative parameters. For psychic distance, this was perceived ease and perceived difficulty. This was also done in order to avoid theoretical explanations of psychic distance to the case companies, as they may not be familiar with the concept, and focus was instead on the parameters perceived ease and difficulty. This facilitated the construction of the questions in the interview guide but also the
understanding of the questions. For example, one question that aimed to gain an understanding of managers’ perceived psychic distance was; “Have these technologies made it easier or more difficult to obtain information about foreign markets?” (see Appendix I). This simplifies understanding of how digitalisation affects managers’ perceived psychic distance in a foreign market. Regarding the concept of digitalisation, the three investigative parameters that were selected in this study include information availability, information usage and interactive communication, which were based on the theoretical discussions in the study of Mathews et al. (2012). By identifying investigative parameters, a connection could be made between the theories considered in the conceptual framework and the empirical findings. Subsequently, the investigative parameters were used to formulate the interview questions, which could ensure that all parts of the constructed conceptual model were included and key information could be identified to answer the research question. Table 2 below demonstrates the operationalization process in this research study.
<table>
<thead>
<tr>
<th>Concept</th>
<th>Theoretical definition</th>
<th>Investigative parameters</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Psychic Distance</td>
<td>“The perceived ease or difficulty of obtaining and interpreting information about demand and supply conditions in foreign markets” (Håkanson and Dow, 2012)</td>
<td>Perceived ease</td>
<td>1c, 1d, 3a, 3b, 3c, 3e</td>
</tr>
<tr>
<td>Psychic Distance Paradox</td>
<td>“Operations in psychically close countries are not necessarily easy to manage, because assumptions of similarity can prevent executives from learning about critical differences” (O’Grady and Lane, 1996)</td>
<td>Difference in information gathering process</td>
<td>3d</td>
</tr>
<tr>
<td>Digitalisation</td>
<td>“The integration of digital technologies into retailing that in some way or another are connected to the Internet” (Hagberg et al., 2015)</td>
<td>Information Availability</td>
<td>2a, 3b, 3d</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Information Usage</td>
<td>2b, 2c, 2d</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Interactive Communication</td>
<td>3c</td>
</tr>
<tr>
<td>Virtuality Trap</td>
<td>“A perception by the internationalising firm that the learning generated through virtual interactions obviates the need for learning about the target markets through non-virtual means” (Yamin and Sinkovics, 2006)</td>
<td>Virtual interactions vs. Non-virtual interactions</td>
<td>2e</td>
</tr>
</tbody>
</table>

Table 2. Operationalization process in this research study
3.5 Analysis Method

In an effort to minimize inaccuracies, the interviews were recorded with permission from the respondents. Before commencing the data analysis, the data was transcribed. As some managers wished to remain anonymous, the decision was made not to include any names, and only refer to each firm by letters in the empirical chapter (for example, Company A). The collected data was coded, meaning that the data was categorised into four concepts; psychic distance, psychic distance paradox, digitalisation and virtuality trap. These codes were based on the operationalization of the conceptual framework. Subsequently, once the codes were created, various data was distributed to the codes, whilst irrelevant information could be discarded (Saunders et al., 2012), resulting in a more comprehensive interpretation that could respond to the formulated research question.

3.6 Quality of Research and Research Limitations

Several limitations are identified in this research study. Firstly, an issue that is often raised in qualitative research interviews is related to the generalization of the findings, as the research is usually based on a small sample (Saunders et al., 2012). The purpose of this study was not to generalize a population, but rather explore how digitalisation affects managers' perceptions in terms of obtaining and interpreting information. As mentioned, this study takes a semi-structured approach; therefore, when using semi-structured interviews, it is not of significant importance to provide generalizability of empirical results but to seek to understand a complex phenomenon (Saunders et al., 2012).

Another limitation of this research study is related to the choice of conducting interviews through telephone. As this research study has a perceptual approach to the concept of psychic distance, exclusively conducting face-to-face interviews would have been preferred. Saunders et al. (2012) argue that when conducting telephone interviews, the opportunity to take part of the non-verbal behaviour of the respondent will be lost. Furthermore, we believe that more relevant information could have been extracted from interviews with face-to-face interaction, as it is easier, as mentioned before, to establish trust when discussing a complex phenomenon and engage the respondent more in an exploratory discussion (Saunders et al., 2012). However, due to the managers’
geographical locations, it was considered acceptable also to conduct some telephone interviews. For all interviews, the questions were sent out in advance, which gave case companies the opportunity to review the material, choose whether or not they wanted to participate in the research, and prepare for the interview. Therefore, some level of trust could be established and respondents would be more willing to contribute to in-depth discussions.

Lastly, a clear limitation relates to the perceived definition of the concept of digitalisation, which is rather vague and ambiguous. In order to minimise misunderstandings, the definition that was adopted in this research study was defined in the email that was sent to the participating case companies. As a reminder, a background explanation to clarify the concept was given before commencing the interview.
4. CASE FINDINGS

4.1 Case Company Description

This section presents a short review and basic information about the Swedish high-end fashion brands that have participated in the interviews of this study. The information is mainly composed of primary data, which is complemented with secondary data, such as company reports and information from public websites.

4.1.1 Whyred

Established in 1999 by Roland Hjort, Jonas Clason and Lena Patriksson, Whyred is a Swedish high-end fashion brand based in Stockholm. The brand offers a full range of men and women’s fashion apparel that is characterised by wearable pieces with a modern touch (Whyred, 2016). The brand takes inspiration from its heritage and contrasts, and puts emphasis on art, music and tailoring (Whyred, 2016).

Whyred is today represented in 135 physical sale points in Sweden, Denmark, France, Finland, England, Germany, Switzerland and South Korea; seven of which are its own Whyred stores (located in Sweden and Denmark). The brand is also represented in online stores and runs its own e-commerce business. Furthermore, the brand has 18 employees.

4.1.2 House of Dagmar

The three sisters Karin Söderlind, Kristina Tjäder, and Sofia Wallenstam launched House of Dagmar in 2005. Since its establishment, the brand has been presented with several prestigious awards for its unconventional and sophisticated designs and has received much attention from various actors in the fashion industry and international press (House of Dagmar, 2016). House of Dagmar offers women’s fashion garments and accessories. The brand is represented in Sweden, Norway, United Kingdom, Belgium, Luxembourg, and The Netherlands, as well as online stores and its own global e-commerce business. It has 16 employees.
4.1.3 Filippa K

Filippa K is a Swedish high-end fashion brand founded in 1993 by Filippa Knutsson and Patrik Kihlborg. The brand grew quickly and today, still growing steadily, it is one of the fastest growing companies in Scandinavia (Filippa K, 2014). The brand offers a full range of fashion garments including shoes, bags and accessories, to both women and men. Filippa K’s strategy is to make clothes that can last a long time both in style and quality (Filippa K, 2016).

Based in Stockholm, Filippa K is today represented globally in 20 markets through 50 brand stores, its own e-commerce business, physical stores in Sweden, Finland, Denmark, Norway, Belgium, Germany and the Netherland, and by more than 600 retailers. Additionally, Filippa K has approximately 350 employees worldwide.

4.1.4 Eton

Founded in 1928 by Annie and David Petterson, Eton is a Swedish high-end fashion brand that offers men's shirts and directly related accessories. Eton is an export-driven company where 85 per cent of the goods sold are exported (Teko, 2015). Today, Eton is present in more than 1,300 points of sales in 42 countries and has implemented a wholesale-based route-to-market strategy complemented with five own physical stores and its own e-commerce business. Eton is headquartered in Gånghester, Sweden and has 155 employees worldwide (Eton, 2016; EQT, 2016).

4.1.5 VIKTORIA CHAN

VIKTORIA CHAN is a Swedish fashion brand in the high-end segment. Established in October 2013, the designer Viktoria Chan strives to provide designs with modern sophistication in high-quality materials. VIKTORIA CHAN offers a range of fashion pieces for different occasions such as work wear, casual wear and eveningwear, to women only. Today, the brand is represented globally through its own e-business and by retailers in China and Sweden.
4.1.6 Ahlvar Gallery

Established in 2011, Ahlvar Gallery, mostly known as Ahlvar, is a high-end fashion brand by the Swedish designer Frida Ahlvarsson. The brand offers women high-quality feminine attire, with a focus on designing silk blouses.

Based in Stockholm, Ahlvar Gallery is today represented globally by its own e-commerce business, and by more than 30 retailers in Sweden and a few in Denmark, Norway, Finland, Germany and Great Britain (Ahlvar Gallery, 2016). In addition, Ahlvar Gallery is represented in Sweden and Denmark by sales agents. The headquarter is located in Stockholm.

4.2 Case Company Findings

The following section presents the data collected thorough the interviews conducted with the aforementioned companies.

4.2.1 Company A

Company A has used digital technologies to gather information for two years, and perceive it to have eased the information acquisition. The manager states that digital technologies have allowed them to “learn a lot about customers that was previously unknown”. The company has connected Google Analytics to their e-commerce platform, however, the company benefit more from reports produced by Klarna, as these “contain more structured and detailed information that is easier to manage and interpret than Google Analytics”. The company recently implemented a new e-commerce platform, and there are upcoming plans to implement more advanced digital technologies to connect the e-commerce site with the sales generated through retail activity.

In regards to the firm’s information acquisition, the manager stated that it is easier to obtain information regarding closer markets compared to distant markets. More resources are devoted to and more focus is centred on gathering information about Scandinavian
markets, which are the geographically closest markets. In regards to collecting information about distant markets, local representatives represent the only source of information; “it is difficult to control a market when it is so far away”. Local representatives also manage the regulations on that particular market, and the manager explains the benefits; “we choose local representatives that can deal with regulatory issues and who are familiar with the market conditions”. In Norway, for example, the firm has experienced issues with tariffs and have solved this by opening a local branch.

Moreover, digital technologies have eased the communication with stakeholders. The manager explained that one can reach customers in a new way with the use of SNSs, which also has an effect on sales. For instance, the company has seen that when content is published on Instagram and Facebook, the products presented sell very well. Moreover, to communicate effectively with production factories, the firm has installed an online communication system. Such digital technologies are very important for this type of communication, because “everything here must be documented”. However, the manager also stresses the vital importance of physical contact with stakeholders. The interaction with retailers, for example, is “very traditional” and consists primarily of physical face-to-face meetings, which are complemented with email. The manager further highlights that in the fashion industry, “everything is about personal contact”.

4.2.2 Company B

Company B has used digital technologies for the past two years. The manager perceived the process of gathering information has been made much easier as a result of digitalisation, with information being much more readily available; “everything is more easily accessible, cost efficient, time efficient and less resource demanding”. The manager has furthermore perceived benefits of using digital technologies in its international operations; “with these technologies, it is not only easier to reach new markets and target new customers and suppliers with the pool of information available today, but you can do it in a much faster way than before”.

SNSs was said to have transformed communication with customers, and a range of technologies, such as Google Hangouts, Skype, WeChat, DropBox and Google Docs was
used to communicate in-house. The advantage of the communication being documented when using such technologies was highlighted; “it is important that we document everything that is of interest for the company, and in order to do so and spread it to our stakeholders we must ensure that we use efficient digital technologies that enhance communication”.

However, the manager explained that the fashion industry is lagging behind in the development of digitalisation, with the company “being very late” in implementing digital technologies. The firm is now eager to increase its investment in such technologies, and extensive plans are in place. The manager explained that there are many different technologies to choose from. Foremost, the focus has been put on implementing a CRM system, which is more advanced than any of the technologies currently employed by the firm. The manager explained that this system “is critical for large global players like us”, and that it has “the most potential to increase sales /.../ and create a synergy between e-commerce and retailers”, highlighting its benefit in creating omnichannel experiences. It also allows for greater customer segmentation and customer understanding. Additional technologies that are planned to be implemented include live chat software solutions and other technologies that enhance customer understanding. While digital technologies have resulted in time and cost savings in many aspects, the implementation of more advanced technologies is “a matter of resource capabilities”.

Regulatory frameworks were highlighted as another critical barrier to international operations. For example, tariffs stood out as a principal challenge, particularly in Norway, as well as regulations concerning price reductions in, for instance, Spain, France and Belgium. Moreover, there are strict regulations regarding advertising in the nearby markets. Company B stresses the importance of understanding that countries in the European Union have internal regulations that one must be aware of when conducting business in such nearby markets.

4.2.3 Company C

Company C has used digital technologies to acquire information for the past two years. The manager perceived these technologies to facilitate information gathering, as its use
has opened up for the firm to obtain more information than what was previously possible; “there is a lot more information available, and this information has become a lot more important”. In addition, this information has been made much more accessible to firms; “it is indeed easier to access information that was not as easily accessible before”. The manager continued to explain; “we need to be constantly updated and make sure that we gather as much information as possible regardless of the market’s location”.

The manager explained that customers leave digital footprints, which can be analysed through the use of digital technologies. For example, Google Analytics is used to analyse customer traffic (for example, from where do users access the website, how effective are newsletters, which bloggers are important to drive traffic to the site). This can also indicate if there is a growing demand from a particular market. However, the manager also pointed out difficulties with using digital technologies; “last year we had problems with synchronising Google Analytics to our e-commerce platform Magento, which meant that everything that has been sold during that period will not be registered”. Still, the manager considers this technology in combination with SNSs as the most beneficial ones when processing information about supply and demand conditions. Instagram, which was the most commonly used SNSs, was frequently used to examine demand conditions and customer behaviour. For example, one can examine how well a particular item is liked or how well the public receives a fashion show by analysing how many ‘likes’ are received when posting pictures on Instagram.

Digital technologies were also accounted to have improved communication with stakeholders, and Instagram was described to play a central role in regards to this. When communicating with customers, Instagram provides a “continuously on-going interaction or sometimes a dialogue”, as content is posted and responded to by both the firm and its stakeholders. Moreover, the firm has recently created private Instagram accounts for each key account manager for their retailers. This provides an additional point of contact and has already had positive results, where additional sales have been made through this channel. The company has plans to invest further in digital technologies and is particularly seeking to implement a CRM system in the near future.
4.2.4 Company D

Company D has used digital technologies to obtain information for the past three years. The manager stated; “due to digitalisation, you can know so much more now compared to before”. Expanding on this, the manager explained; “when entering a new country, you can get very far by gathering information by yourself from the Internet; a possibility that was not present before”. When gathering information about potential market entries, Google Analytics and a CRM system are primarily used. However, the manager also emphasised the importance of having a physical presence in markets, stating; “you need to have a physical presence to be able to know how people think and feel /…/ some things you can only know through having a physical presence”. Having said this, the manager also explained that it is important to have both a physical and virtual presence.

The manager of Company D discussed the ease of tracking customers from foreign markets by using Google Analytics that is linked to the Magento e-commerce platform, where a vast amount of data can be collected about customers and their behaviour on the e-commerce site. SNSs are also relevant when looking at how customers behave in the virtual environment. However, ‘information overload’ was a problem that was experienced. The managers explained that while a much greater amount of information is more easily accessible, it has “become trickier to find relevant information – it’s a big jungle”.

Communication with various stakeholders has been facilitated due to the use of efficient digital technologies. Through the use of digital technologies, one can provide more relevant information and increase the interest of end-consumers. The communication between the e-commerce department and suppliers, for example, primarily consists of virtual communication, with very few physical meetings. However, the manager stated that face-to-face interaction is still important when interacting with some stakeholders. For key account managers, the interaction is “quite traditional”, where managers have frequent physical meetings, complemented with telephone and email usage.

The firm plans to invest more time and money in digital technologies, particularly in their already established CRM system. The manager explained that this is the area they believe
has the most potential to increase sales and to create a synergy between e-commerce, end customers and retailers. However, identifying appropriate and suitable technologies was expressed to be a big challenge; “there are so many different systems and it is difficult to know which one to use”. Furthermore, once a system is chosen, the challenge becomes to use it; “somebody has to work with the system on a daily basis - it doesn’t maintain itself /.../ it requires a lot of time and engagement”. Another challenge that the firm faces is related to regulations in the foreign market, such as value added tax (VAT) and tariffs. The manager perceives difficulties in understanding regulatory frameworks and had issues related to VAT in Finland, and problems with tariffs in Norway and the United States.

4.2.5 Company E

Company E has used digital technologies to gather information since its establishment. The manager stated that digital technologies have made information about foreign markets more accessible. The manager explained that one could easily conduct an online research that provides valuable information regarding, for example, competitors and market gaps. Furthermore, through accessing retailers’ SNS accounts (particularly Instagram and Facebook), one can gain an understanding of how appropriate a particular retailer would be to sell your brand. Google Analytics also provides valuable information. For example, by analysing where traffic is coming from, one can identify potential markets for future entry. However, whereas digital technologies are used to acquire information about new markets, the manager highly values the information the firm can gain from speaking with actors whom have first-hand market knowledge, rather than using Google Analytics. Moreover, the manager explained that there is no difference in the way the firm gathers information about physically distant markets and closer markets. However, it is “significantly easier” to interpret the information about factors affecting demand and supply conditions of closer markets. In particular, understanding customer behaviour in different countries was challenging.

The manager stated that the use of digital technologies has made communication “much easier /.../ you can reach customers in a way that you were previously unable to”. SNS
was highlighted as an important digital technology, and was the primary point of contact with end consumers. At the moment, psychical meetings only take place with buyers, but in the future the manager would be willing to have “almost only digital contact” with all stakeholders.

The firm has plans to invest more time and focus on digital technologies. However, the manager pointed out that lack of know-how relating to digital technologies was the main obstacles at the moment. For this reason, the manager was seeking to employ an agency that could manage this for the firm. Another challenge that is related to the firm’s international operations concerns tariffs in Norway.

4.2.6 Company F

Company F has since its establishment relied on SNSs to obtain information about supply and demand conditions in foreign markets. Currently, no advanced digital technologies have been implemented and only free-of-charge technologies are utilised. However, the manager stressed that the firm is aware of the benefits of using digital technologies; “I am well aware of the importance of analysing information from such technologies and want to invest in these in the future /.../ now it feels like a piece is missing in the information gathering process”. The reason digital technologies are not currently used to a greater extent is that the firm has a lack of financial capabilities and know-how. The manager is, however, “looking for someone who knows how to use advanced digital technologies”.

To identify which SNSs to use in foreign markets was described to be a fundamental challenge for this firm’s international operations; “to find the right technologies that are utilised in the overseas markets market is very difficult”. Furthermore, the manager explained that it was particularly difficult to understand how to use SNSs in foreign markets, as the digital channels vary in different markets. In China, for example, many of the commonly used SNSs are banned due to censorship, and identifying substitutes can be demanding. Another challenge that is related to the Chinese market is identifying retailers. The manager explained that, in Sweden, it is easy to use the Internet to search for potential retailers, whereas in China you rely on word-of-mouth recommendations from contacts. The manager thus explained that one should not underestimate the
physical presence in the distant market as you can lose valuable information and understanding about a specific culture; “in China, it is more important to be physically present than in Sweden in order to find retailers and establish long-lasting relationships”. The manager further stressed the importance of face-to-face interactions when conducting business in China. Face-to-face communication was therefore very important, but complemented with the online application WeChat. WeChat was particularly underlined as an important communication technology here, as it provides a more informal way of communicating than for example email. This was explained to be important for building and maintaining a close relationship with retailers in China, as this culture is strongly relationship-based.
5. ANALYSIS

5.1 Psychic Distance

5.1.1 Perceived Ease

From the empirical research several facets of digitalisation have been identified to impact a manager’s perceived ease in their international operations. The empirical results revealed that all participating managers, regardless of firm size, perceive an ease when obtaining and interpreting information about demand and supply conditions in foreign markets due to the emergence of digitalisation. Digitalisation has increased information availability, and with digital technologies, one can access a vast amount of information. As a result, firms perceive it to be easier to reach new markets and target customers and suppliers, and their perceived psychic distance is reduced. This corresponds to the conceptual model, which explains how digitalisation decreases a manager’s perceived psychic distance in a firm’s international operation. Yamin and Sinkovics (2006) argue that psychic distance is also dependent on an individual’s perception of communication. In the empirical findings, all managers of the participating case companies agreed that the usage of digital technologies has eased the communication with current and potential stakeholders. This too leads to a reduction in manager’s perceived psychic distance. This supports previous research that states that when firms encounter new communication mediums, the capability of firms to obtain information increases and as a result, the manager’s perceived psychic distance will decrease (ibid.).

5.1.2 Perceived Difficulty

The empirical results show that managers perceive several difficulties with their international operations. Many managers experienced perceived cultural difficulties in regards to understanding differences in consumer behaviour in distant markets. This has driven managers of Swedish fashion firms to study foreign markets more carefully before entering. Some firms, therefore, chose to hire local sales agents who better understand the cultural environment of a particular market, and give them the responsibility to gather and analyse information about supply and demand conditions. However, hiring local
sales agents was only common in distant markets. This can be interpreted as managers taking a more cautious approach towards distant markets when hiring local agents. The approach is in line with previous research that states that when managers attempt to reduce uncertainty in foreign markets, they undertake a more cautious approach (O’Grady and Lane 1996; Yamin and Sinkovics, 2006). Another perceived difficulty is related to business difficulties, particularly government-induced restrictions such as tariffs and regulations, which are fixed barriers that managers of all firm sizes encountered in their international operations, both in close and distant foreign markets. These findings correspond with previous research that states that not only external environmental factors determine the degree of psychic distance, but also the individual’s perception (Evans and Mavondo, 2002) and understanding of cultural and business differences (Nordström and Vahlne 1994; O’Grady and Lane, 1996).

As some cultural and business difficulties are still present, the emergence of digitalisation has not decreased these aspects of perceived psychic distance for managers in international operations. This supports Håkanson and Dow (2012), who argue that although the opportunities with the Internet has led to some reductions and removal of trade barriers, there is no clear evidence that this has diminished managers’ perceived psychic distance in their international operations. Rather, over time, it has increased the sensitivity of international trade.

5.1.3 Psychic Distance Paradox

The empirical result revealed that common for all managers is that they perceive an ease when obtaining information about foreign markets with the help of digital technologies. However, some managers still devote more resources to gathering information about psychically closer markets. This is explained to be due to managers being able to understand physically close markets better, whose culture is more similar to the home market than distant ones. The empirical findings also proved that most of the managers are well aware of the business difficulties in the closer markets, which are primarily related to regulations concerning sales and government induced restrictions, such as tariffs in Norway and VAT in Finland. This contradicts the original concept of psychic
distance paradox, which explains that firms tend to overestimate the similarities between neighbouring countries (O’Grady and Lane, 1996; Pedersen and Petersen, 2004), and thus allocate limited learning efforts (Evans et al., 2008) and resources to learning about physically close markets (Yamin and Sinkovics, 2006).

Overall, managers stressed the ease of accessing information today with the help of different digital technologies. Therefore, the majority of the managers utilise the opportunities with digitalisation and strive to gather as much information as possible and to collect an equal amount of information about all markets, regardless of geographical location.

5.2 Digitalisation

5.2.1 Information Availability

The empirical research indicates that, as predicted by the conceptual framework, digitalisation has increased information availability. As previously stated, digitalisation has made information much more readily available, with digital technologies providing new ways of acquiring information. A wide range of information can be gathered, and all managers reported to use some form of digital technology to obtain information. Micro firms primarily rely on free-of-charge technologies. Medium and large-sized firms also extensively use such technologies, but these firms also use or are in a phase where they are implementing more advanced technologies. These empirical results support findings by previous research, where it has been found that firms now have the ability to gain more information about foreign markets (Nguyen and Barrett, 2006) as they have access to a range of new sources (Mathews et al., 2012). Additionally, the empirical findings indicate that with the use of digital technologies, firms can access and gather information more efficiently and cost-effectively. This supports previous research that shows that information is now easily obtained (Nakata and Zhu, 2006; Borges et al., 2009).
Furthermore, findings also reveal that managers’ use of the Internet and digital technologies to acquire foreign market information is extensive for many firms, and is a primary source of information acquisition for most firms. This also suggests that the Internet and its related digital technologies are essential to a firm’s information gathering process, which supports previous research by, for example, Mathews and Healy (2006), who found that firms view the Internet as vital for information processes.

5.2.2 Information Usage

The empirical findings confirm the prediction in the conceptual framework that digitalisation enhances information usage to some extent. Google Analytics was the most commonly used digital technology between the medium and large-sized firms, where a vast amount of data about customers and their shopping behaviour can be analysed. This supports previous research, where it was found that digital technologies can be used for analysing information (Mathews and Healy, 2006; Borges et al., 2009; Business Sweden, 2015) to gain a better understanding of customer behaviour and demand conditions (Business Sweden, 2015).

However, with the increased access to information and the vast amount of data gathered, managers may find it difficult to identify and sort relevant and accurate information. Some managers thus experienced an ‘information overload’. This supports Business Sweden’s (2015) statement that firms must develop competency to judge what information is relevant and useful. However, only the large and medium-sized firms that have implemented more advanced technologies, such as CRM systems, experienced this issue. Micro firms that have limited use of technologies are not experiencing this problem. This could be explained by that micro firms actively and manually search for the information they are looking for through primarily free-of-charge technologies, and as such do not generate as much data as the advanced resource-intensive technologies employed by medium and large-sized firms.

Another challenge related to information usage commonly experienced by managers of varying firm sizes was to identify the most appropriate technology to use, as there is a
vast number of digital technologies to choose between. These findings correspond with Matt et al. (2015), who argue that the use of digital technologies is reflected in its perception towards these technologies and its ability to use them. A common difficulty experienced by firms is the capability and willingness to manage and operate them, which can be explained by that a greater use of digital technologies may not always be suitable (Grover and Kohli, 2013). However, firms of all sizes have plans to invest further in their use of digital technologies.

5.2.3 Interactive Communication

Interactive communication was found to be enhanced by digitalisation, as the conceptual framework predicts. All managers agreed that digitalisation has made communication with various stakeholders much more efficient, as they can share and disseminate information in an efficient manner. This supports previous research, which argues that the Internet allows for more efficient and effective communication (Bell and Loane, 2010) without being constrained by physical geographical barriers (Min et al., 2002; Mathews et al., 2012). Digital technologies make it possible to interact actively and hold a dialogue with stakeholders regardless of their location, which also corresponds with Jull Sørensen and Buatsi’s (2002) statement that firms can now have an active dialogue with stakeholders. Moreover, many managers of all firm sizes outlined SNSs as an important communications medium, as it offers a direct and interactive channel to share information. This too supports previous research, where SNSs are argued to provide new opportunities to communicate directly with stakeholders (Steijn and Schouten, 2013; Hagberg et al., 2015).

The extent to which digitalisation has affected and eased external communication with stakeholders, such as suppliers and local representatives, in the foreign markets appears to be relatively equal for micro, medium-sized and large firms alike. Internal communication, however, shows evidence of affecting and easing medium-sized and large firms to a greater extent than that of micro firms. This can be explained to be due to that these firms, as mentioned earlier, use digital technologies to a greater extent than micro firms. Additionally, larger firms have more complex organisational structures that
require more investments in technologies that facilitate the communication internally as well. For example, some managers particularly highlighted the value of this type of communication being documented. One of the managers also stressed that further investments will be made in the current CRM-system that will integrate relevant stakeholders which will yield a synergy effect between e-commerce and retailers.

5.2.4 Virtuality Trap

The empirical findings of this study confirm the vast importance of digital technologies in obtaining and interpreting information about supply and demand conditions in a firm’s international operations. However, it is evident from the findings that physical face-to-face interaction is still considered relevant, suggesting that there is an optimal extent of digitalisation in a firm's international operations. The findings support previous research by Yamin and Sinkovics (2006), who advocate that virtual interaction is not a perfect substitute for face-to-face interaction. It has been argued that the virtuality trap puts firms in a situation where learning through virtual interactions obviates the need for learning about foreign markets through non-virtual means (Yamin and Sinkovics, 2006), and thus leads firms to underestimate or neglect the importance of physical meetings. However, the results of this study indicate that managers are well aware of the importance of physical face-to-face contact, and by no means neglect its significance in their international operations. Rather, managers of all firm sizes, specifically highlight the importance of acquiring information through non-virtual means. This indicates that there are limitations to the use of digital technologies and that some information cannot be obtained through digital means, as firms do not merely rely on virtual mediums in their information gathering process. Rather, managers of Swedish high-end fashion firms perceive both virtual and non-virtual means of acquiring information and learning as essential to their international operations. This implies that experiential knowledge is still necessary for a firm’s international operations as not all desired information about supply and demand conditions can be captured through digital technologies.
5.3 Discussion

The empirical results show that digitalisation has reduced managers’ perceived psychic distance to some extent, due to its effects on the three information components of this research study. Although digitalisation has had a positive impact on all three components, its greatest effect has been on information availability and interactive communication. Information usage does not appear to have been as affected by digitalisation. Some managers, for example, experienced difficulties with ‘information overload’, indicating that they are unable to distinguish relevant information and efficiently use the information they have obtained. The proposition that more advanced technologies are required to use information more efficiently can explain this. Previous research has showed that there is a broad span of digital technologies that can be used to analyse information (Hagberg et al., 2015; Business Sweden, 2015). Borges et al. (2009), for example, argue that information can be easily analysed using IT technologies, and Mathews and Healy (2006) argue that through information usage firms can analyse vast amounts of information. However, as Swedish high-end fashion firms are still in the beginning stages of using digital technologies, and all case companies have a rather limited use of digital technologies, these firms are unable to take full advantage of information usage possibilities. This implies that more advanced technologies specifically focused on analysing information are required, such as big data analytics tools, which can be used to sort and analyse great amounts of detailed data into relevant information.

Furthermore, as many of the digital technologies used by firms are free of charge, although allowing firms to gather information with very little resource input, these technologies only provide relatively basic and general information. To gain more depth and accuracy of information, as well more specific information, more advanced technologies are necessary. However, these advanced technologies are resources intense. They require a greater commitment of financial resources, as well as in time and knowledge competency (time must be spent on maintaining technologies and a knowledge competency must be developed to use them and wreak their benefits). Therefore, resource deficiencies, particularly in financial capability, knowledge capability and time, represent the principal barrier to implementing digital technologies for firms of all sizes, as the fashion industry as a whole is characterised and hindered by
resource scarcity (Svengren Holm, 2013). However, medium and large-sized firms have greater financial capability to invest in digital technologies compared to micro firms and thus have a greater ability than micro firms to acquire and process information with more depth and accuracy.

Moreover, the findings verify that physical face-to-face interaction is still an essential part of many firms’ international operations, which indicates that there are limitations to the use of digital technologies. It appears that neither all information can be obtained nor all interaction can be conducted through virtual means. In particular, retaining good relationships with retailers is highly important in the fashion industry, and as this study shows, establishing relationships through face-to-face meetings is still considered to be very important. This, in turn, suggests that experiential knowledge is still a significant aspect of a firm’s international operations, and that managers working on the boundary between the firm and its market must have experience in order to interpret information from inside the firm and from the market, and thus cannot be replaced by digital technologies.
6. CONCLUSION

The purpose of this study was to examine the effects of digitalisation on the perceived psychic distance of managers of Swedish high-end fashion firms in relation to how they obtain and interpret information in their international operation. The study has found that digitalisation has a profound effect on firms in this industry and that managers’ perception of psychic distance has been reduced to some extent as a result of it. Below, key findings are presented.

Due to digitalisation, there has been an increase in information availability. With the use of digital technologies, firms have the ability to access more relevant and accurate information about supply and demand conditions in foreign markets than what was previously possible. Thus, managers of Swedish high-end fashion firms now perceive an ease when obtaining information that is necessary for firms’ international operations. Firms now strive to gather as much information as possible, and collect an equal amount of information about all markets, regardless of geographical distance. In addition, information usage has been increased to some extent. With digitalisation, a range of digital technologies has emerged that allow firms to analyse information in a way that was not previously possible. By analysing information gathered about foreign markets, firms gain a better understanding of customer behaviour and demand conditions in these foreign markets. However, due to resource deficiencies, the use of digital technologies to analyse information has yet not been used to its full potential among Swedish fashion firms, and thus the extent of this component is limited in its impact on managers’ perceived psychic distance. Moreover, interactive communication has been enhanced as digital technologies offer a direct and efficient channel to share information at a low cost. Firms can now actively interact with various stakeholder regardless of their geographical distance. Taken together, these three components of digitalisation (increased information availability, improved information usage, and enhanced interactive communication), translates into a reduction in a manager’s overall perceived psychic distance.

However, physical ‘face-to-face’ interaction remains important for firms to obtain information about supply and demand conditions in their international operations. This suggests that digital technologies cannot yet fully replace non-virtual means of
information acquisition and interaction, and consequently implies that there is still a need for experiential knowledge.

6.1 Contribution

The study provides an understanding of how managers of Swedish high-end fashion firms are affected by digitalisation. From an academic perspective, the study contributes to existing literature on psychic distance, in particular in regards to how digitalisation affects managers perceived ease and difficulties in obtaining and interpreting information. As stated in the introduction, literature on this phenomenon is rather limited and the focus of digitalisation has mainly been on e-commerce. By focusing on the effect of digitalisation on a firm’s information components, this study shows that the impact of digitalisation goes far beyond that of e-commerce. Digitalisation has led to an increased use of digital technologies, which our study verifies is a central part of firms’ information components, as it provides improved access to information, enhanced information usage, and new opportunities for interactive communication. Moreover, in previous research, the fashion industry as a whole has generally been studied, whereas this research study has focused on the Swedish high-end segment. This is particularly relevant as managers of these firms generally perceive the Swedish market as very limited and therefore tend to seek to expand to foreign markets at a very early stage.

From a practical perspective, the study provides managers of Swedish high-end firms with an understanding of the opportunities and challenges that accompany digitalisation. It highlights that investing in digital technologies can improve managers’ understanding of demand and supply conditions in foreign markets, which is highly valuable when conducting international operations.

6.2 Limitations and Suggestions for Further Research

Although this study shows that digitalisation creates new opportunities for firms in their internationalisation and reduces a manager’s perceived psychic distance to some extent, there are several limitations of the study that must be taken into consideration in future
research. Firstly, this study does not reveal to what degree the use of digital technologies has increased information availability, information usage and interactive communication, and to what extent it has decreased a manager’s perceived psychic distance in foreign operations. To measure this, a quantitative research approach is required. Secondly, cultural differences and business difficulties were revealed as key barriers to a firm’s international operations. Therefore, one limitation is that cultural and business differences were not measured in this study. In future research, using cultural dimension measurements in combination with measurements of business differences would be desirable.

Furthermore, some of the case companies experienced an ‘information overload’, meaning that they perceive difficulties in sorting out relevant and correct information. As firms have a limited use of advanced digital technologies, but showed a willingness to invest in more advanced technologies in the future, further research in this area would be desirable. Specifically, to study how advanced digital technologies, such as big data analytics tools, are used to sort and analyse greater amounts of detailed data into information about supply and demand conditions in the foreign market. Furthermore, it is of interest to study how digital technologies are used to increase the interactive communication with stakeholders in distant foreign markets and what impact this has on a manager’s perceived psychic distance. The willingness of managers to increase the virtual interactivity to obtain information about distant foreign markets makes it appealing to study the role of experiential knowledge in the future and how this impacts a manager’s psychic distance. Overall, this study calls for further research in the field of digitalisation’s impact on firms’ information components.
REFERENCES


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APPENDIX I

INTERVIEW GUIDE

1. Initial questions
   a. In what ways are you present in foreign markets? E.g. e-commerce, physical store, host country agents, PR agencies.
   b. Do you currently have plans to expand to other foreign markets?
   c. What do you believe are the main difficulties today when entering a new market?
   d. Do you believe that there are difficulties regarding trade unions such as EU and NAFTA when entering foreign markets?

2. Digitalisation
   a. Do you use digital technologies to obtain information about foreign markets? E.g. CRM, Google Analytics, knowledge-management systems, project management systems, social media, etc.
   b. For how long has the firm been using these digital technologies?
   c. How has your usage of these technologies differed from previous years and expansions?
   d. Are you in a phase where you are going to invest further in these technologies?
   e. How much of your interaction with stakeholders (such as suppliers, customers, distributors, etc.) takes place in a virtual vs. traditional environment?

3. Perceived ease and difficulties
   a. To what extent has digital technologies been beneficial or challenging when implemented?
   b. Have these technologies made it easier or more difficult to obtain information about foreign markets?
   c. Has the usage of digital technologies eased or made it more difficult to communicate with stakeholders?
   d. To what extent has the information gathering process differed when it’s a physically distant market vs. a closer market?
   e. Do you believe it is easier or more difficult to obtain and interpret information today about physically distant markets in comparison to closer markets due to digitalisation?

4. General questions
   a. Is there anything else you wish to share?
   b. What are your thoughts on digitalisation in the future?