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Impact of Cultural Distance on Lithuanian Firms Export

Final Degree Project

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DECLARATION OF ACADEMIC INTEGRITY

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SUMMARY

As Lithuania's GDP strongly depends on exports to the foreign markets and competition in the EU is high, Lithuanian exporting companies are desperately looking for export opportunities in more distant markets. However, businesspeople face the cultural distance, which is defined as a degree how cultural norms are different across countries. Therefore, companies are challenged by a great number of problems, such as language barrier, different mentalities and other cultural differences, which hinder successful entering and export activities in foreign markets.

The results of previous studies that had analysed cultural distance and export performance relation are rather contradictory, meaning that this topic requires deeper analysis. Under these circumstances there is a growing need to understand the significance and impact of cultural distance on firms' results of export activities and particularly in Lithuania's context.

The object of this master thesis is the impact of cultural distance on Lithuanian firms' export. The aim is to investigate and clarify the influence of cultural distance on Lithuanian firms' results of export activities. The objectives needed to achieve the purpose of this study are as follows:

1. *On the basis of problem analysis, to reveal the importance of cultural distance on organizational performance;*
2. *To reveal the theoretical assumptions of the links between cultural distance and the firms' export performance;*
3. *To substantiate the methodology used to perform the research of Lithuanian exporting firms and provide measurements for the cultural and other distances estimation;*
4. *To conduct an empirical research in order to investigate how the results of export performance are affected by cultural distance and provide recommendations for export development.*

The analysis of the empirical research has been done by the logistic regression model using data of 253 export ventures of 87 Lithuanian exporting companies into 49 international markets. The results have indicated that under control of other effects, objective cultural distance (estimated by Kogut and Singh's cultural distance index formula based on Hofstede's cultural dimensions theory) has significance only on two export performance indicators: export adaptiveness and export efficiency; however, shows positive impact on all chosen indicators of export performance. This study had proved that cultural distance paradox exists and Lithuanian firms' outcomes of exports are more successful in culturally distant markets than in close ones. It was concluded that cultural distance motivates managers to access new knowledge, resources, and pursues continuously learning which leads to better adaptation as well as refunds the inputs needed to achieve desired outputs.

Additionally, it was found that internal factors of the company, such as core competencies (mostly innovations and capital), international experience, and movement of costs are important determinants of Lithuanian firms' export success as with a help of these capabilities firms are able to compete with or even beat competitors in the international markets.

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SANTRAUKA

Kadangi Lietuvos BVP didžiąja dalimi priklauso nuo eksporto į užsienio rinkas, o konkurencija Europos Sąjungoje yra labai didelė, eksportuojančios Lietuvos įmonės desperatiškai ieško eksporto galimybių tolesnėse pasaulio rinkose. Tačiau verslininkai susiduria su kultūriniu atstumu, kuris apibrėžiamas kaip laipsnis, kuris parodo, kaip skiriasi kultūrinės vertybės tarp šalių. Dėl to, įmonėms iškyla daug problemų, susijusių su kalbos barjeru, skirtingais mentalitetais ir kitais kultūriniais skirtumais, kurie trukdo sėkmingai eksportuoti į užsienio rinkas.

Ankstesnių tyrimų, analizavusių kultūrinio atstumo ir eksporto veiklos santykį, rezultatai yra gana prieštaringi, o tai reiškia, kad ši tema reikalauja gilesnės analizės. Esant tokioms aplinkybėms, auga poreikis suprasti kultūrinio atstumo reikšmę ir poveikį eksporto veiklos rezultatams, o ypač Lietuvos kontekste.

Šio magistro darbo objektas yra kultūrinio atstumo įtaka Lietuvos įmonių eksportui. Tikslas – ištirti ir paaiškinti, koks yra kultūrinio atstumo poveikis Lietuvos įmonių eksporto veiklos rezultatams. Tam, kad būtų pasiektas tikslas, išsikelti šie uždaviniai:

1. *Remiantis problemos analize, atskleisti kultūrinio atstumo svarbą organizacinei veiklai;*
2. *Atskleisti kultūrinio atstumo ir įmonių eksporto rezultatų ryšio teorines prielaidas;*
3. *Pagrįsti metodiką, naudojamą Lietuvos eksportuojančių įmonių tyrimui atlikti ir pateikti matavimus kultūrinio atstumo bei kitų atstumo dimensijų įvertinimui;*
4. *Atlikti empirinį tyrimą, kurio tikslas ištirti, kaip kultūrinis atstumas įtakoja įmonių eksporto rezultatus bei pateikti rekomendacijas eksporto plėtrai.*

Empirinio tyrimo analizė atlikta pasitelkus dvilypį logistinės regresijos modelį, naudojant 87 Lietuvos eksportuojančių įmonių duomenis apie jų 253 eksporto rezultatus į 49 tarptautines rinkas. Rezultatai parodė, kad kontroliuojant kitus poveikius, objektyvus kultūrinis atstumas (apskaičiuotas pagal Kogut ir Singh kultūrinio atstumo indekso formulę, paremtą Hofstede kultūros dimensijų teorija) turi reikšmės tik dviem eksporto veiklos rodikliams: eksporto prisitaikymui ir eksporto efektyvumui, tačiau rodo teigiamą poveikį visiems pasirinktiems eksporto veiklos rodikliams. Šis tyrimas parodė, kad kultūros atstumo paradoksas iš tikrųjų egzistuoja, o Lietuvos įmonių eksporto rezultatai yra sėkmingesni kultūriškai tolimesnėse rinkose nei artimesnėse. Tai galima paaiškinti tuo, kad kultūrinis atstumas skatina vadybininkus plėsti savo žinias apie tolimesnes kultūras, ieškoti ir naudotis naujais

ištekliais bei nuolatos mokintis, kas lemia geresnį prisitaikymą naujoje eksporto rinkoje, o taip pat ir atperka pastangas, įdėtas pasiekti norimus rezultatus.

Be to, buvo nustatyta, kad įmonių vidiniai veiksniai, tokie kaip, kompetencijos (daugiausia inovacijos ir kapitalas), tarptautinė patirtis ir kaštų paskirstymas, yra svarbūs veiksniai, įtakojantys Lietuvos įmonių eksporto rezultatus, nes jie padeda įgyti konkurencinį pranašumą tarptautinėse rinkose.

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Introduction

Nowadays, when globalization is pushing cross border international trades, more and more firms are seeking to find export opportunities in the international markets. The problem is that export activities in other countries, especially distant ones are risky because of uncertainty and unfamiliarity. Under these circumstances understanding differences and being able to adapt with them could lead to more successful performance while exporting to the foreign markets.

Therefore, being located in smaller country such as Lithuania and considering the fact that European market is fully filled and competition is high, Lithuanian exporting companies are desperately looking for opportunities in more distant markets. However, businesspeople face a great number of challenges which could negatively affect export activities, such as different languages, mentalities and other cultural differences which not only shape business relationship but consumer behaviour as well. All these differences are creating cultural distance which is seen as an important predictor of export performance in the international context.

The relevance of selected topic. Cultural distance has been the most widely applied type of distance in international business study field (Beugelsdijk, Kostova, Kunst, Spadafora and Essen, 2017) and is considered as an important determinant of organizational performance (Azar and Drogendijk, 2016). Some of the previous studies (Beugelsdijk, Kostova, Kunst, Spadafora and Essen, 2017; Colakoglu and Caligiuri, 2008) indicated negative effect of cultural distance on export performance while other (Morosini, Shane and Singh, 1998; Park, Han and Yoon, 2018; Evans and Mavondo, 2002; Azar and Drogendijk, 2016; Dikova and Sahib, 2013) found favourable impact as cultural distance motivates companies to share knowledge and learn from each other (Park, Han and Yoon, 2018). The results of Azar and Drogendijk (2016) research paper, which is closely related with analysed topic, showed that cultural distance and other environmental factors of the export country motivate firms to innovate and integrate with different markets in order to improve their export performance. However, deficiency of the empirical research required to examine the impact of cultural distance on export performance following by contradictory results of the previous studies examining the relationship between cultural distance and organizational performance shows the relevance of the selected topic and the need for further research into it.

The **novelty** of this master's thesis is based on absence of such studies examining cultural distance impact on firm's export performance in Lithuanian context. The data for this research was collected from CEOs, sales managers, commercial directors, and other management level executives working in different Lithuanian companies that are exporting abroad and operating in different industries. Additinionally, this research paper gives a broader understanding of how cultural differences affect firm's export performance. Moreover, the results and conclusions of this master thesis could motivate Lithuanian companies to focus more on cultural adaptation in order to improve their export activities in culturally distant markets. Finally, the present study intends to fill in a **research gap** in the literature by offering relevant recomendations for export development.

Research problem. As Lithuanian companies seek to find new export opportunities in distant markets and cultural differences tend to increase a degree of uncertainty, there is a growing need to investigate the importance of cultural distance factor on export performance in Lithuanian context.

The **object** of this master thesis is cultural distance impact on firms' export. The **aim** is to estimate the impact of cultural distance on Lithuanian firms' export performance. The **objectives** needed to achieve the purpose of this study are as follows:

1. On the basis of problem analysis, to reveal the importance of cultural distance on organizational performance;
2. To reveal the theoretical assumptions of the links between cultural distance and the firms' export performance;
3. To substantiate the methodology used to perform the research of Lithuanian exporting firms and provide measurements for the cultural and other distances estimation;
4. To conduct an empirical research in order to investigate how the results of export performance are affected by cultural distance and provide recommendations for export development.

Methods of the research. The theoretical part of this study was built on scientific literature analysis. Cultural dimensions model proposed by Hofstede (1980, 2001) was adapted to estimate cultural differences between countries. The cultural distance between Lithuania and foreign countries was calculated according to Kogut and Singh's (1988) cultural distance index formula. Quantitative data regarding Lithuanian firms' internal characteristics and export performance was collected by the means of the questionnaire and together with additional data obtained from statistical data analysis analysed by the binary logistic regression model.

The structure. This master thesis starts with problem analysis in order to reveal the importance of cultural distance on organizational performance. Secondly, theoretical background for this research is proposed covering cultural distance concept, theoretical frameworks explaining cultural differences, other influential distance factors, concept of export performance, export performance measures as well as the explanation of the links between cultural distance and export performance. Thirdly, the research design, method, and measurements are proposed in order to reveal how data was collected and analysed. Finally, the research results are proposed followed by discussion and recommendations for export development. This master thesis has four parts, 67 pages, 31 tables, 4 figures, 2 annexes, 57 references and five information sources.

1. Problem analysis

Many previous studies have examined cultural distance and its importance on firm's internationalization process, mostly its impact on firm's choice on entry mode (Kogut and Singh, 1988; Lo´pez-Duarte and Vidal-Sua´rez, 2010; Chang, Kao, Kuo and Chiu, 2012; Tihanyi, Griffith and Russel, 2005; Beugelsdijk, Kostova, Kunst, Spadafora and Essen, 2017), managers decisions and trade flows (Almodovar, 2009; Söderström, 2008), foreign market selection (Tang, 2012; Ojala and Tyrväinen, 2007) and overall organizational performance (Evans and Mavondo, 2000; Christoffersen, Globerman and Nielsen, 2013; Dikova and Sahib, 2013; Majocchi, Valle and D'Angelo, 2013; Morosini, Shane and Singh, 1998; Azar and Drogendijk 2016; Colakoglu and Caligiuri, 2008).

After analysis of the previous researches it was confirmed that there is no unified answer about the the impact of cultural distance on organizational performance. Some scholars claim that cultural distance is not a significant determinant while others say that it is important. Additionally, some suggest that it has a positive influence while others say that influences negatively. To sum up, the findings are rather contradictory.

Ojala and Tyrväinen (2007) examined the impact of three factors: market size, geographical and cultural distance on the target country selection in their research paper. The study applied Kogut and Singh's cultural distance index formula based on Hofstede cultural dimensions theory to measure cultural distance. The relationship between external factors and selection of the target country was analysed by the means of the bivariate correlation and linear stepwise multivariable regression. The results showed that market size and geographical distance are much more significant determinants than cultural distance alone on a target country selection. This study revealed that cultural differences are not important while selecting market to enter.

Chang, Kao, Kuo and Chiu (2012) in their research paper examined whether cultural distance has an impact on entry mode choice. It was revealed that governance quality is an important determinant in the foreign market. It means that when the company is doing business with culturally distant countries, but the governance is not strict and quality is low, it increases opportunity for the company to have successful business in the export country. Companies prefer wholly owned subsidiary under these conditions. Controversially, when company is entering market with a high-quality governance, the opportunity to establish business relations decrease, so companies prefer joint venture entry mode to mitigate the risk. Authors made a conclusion that political factor is stronger determinant than cultural distance while considering entry mode choice.

Christoffersen and Globerman (2013) aimed to investigate the connection between cultural distance and performance of the international joint ventures in their research article. They reviewed studies in the period 1993 till 2008 that analysed this topic. It was concluded that cultural distance does not have significance on the performance of foreign joint ventures and that previous studies did not provide reliable arguments to prove the validity of the results they got in their researches. Additionally, the study showed that cultural distance affects only a few outcomes of performance, mostly financial results. Finally, authors suggest that future researchers should consider other external factors, such as macroeconomic condition, legal infrastructure and improve regression models for the analysis of relationship between cultural distance and organization performance.

Tihanyi, Griffith and Russell (2005) researched the effect of cultural distance on entry mode choice, international diversification, and performance of the firm in their academic work. Cultural distance between countries was measured by Euclidian distance measure based on Hofstede's theory. The chosen measures to determine export performance, such as return on equity, investments, assets, and measures of performance were included in the survey. The data analysed by the method of meta-analysis showed that cultural distance does not have significance on entry mode choice, firm performance, and international diversification. At the same time, adapted regression analysis showed that there is a strong negative relation between cultural distance and firm's entry mode choice for medium sized US firms.

Majocchi, Valle and D'Angelo (2013) investigated the cultural distance and other influential factors impact on SMEs financial performance in their article. Study revealed that smaller firms' financial performance depends not only on firms' internal situation but also on host country's environmental situation (economic and political factors). Additionally, within the help of regression model, it showed that cultural differences have no impact on small and medium sized firms and that other influential factors, such as political and economic environments, are those factors which matter and must be considered before entering new geographic markets. They suggest that strong management and properly implemented process of selecting and entering country are more important determinants than the degree of multinationality.

Söderström (2008) was trying to investigate if and how strongly cultural distance affects international trade flows in her master thesis. Gravity model was used to determine trade flows and the Pythagorean Theorem to measure cultural distance between countries. GDP, geographical, institutional distances, and other variables were taken in account to estimate the significance of cultural distance on trade flows. Finally, regression analysis showed that it is important for the countries to share similar cultures in order to have smooth trade flows between each other. It is claimed that cultural similarities allow companies to understand each other better by the means of national values and communication styles.

Duarte and Sua´rez (2010) examined the effect of uncertainty of external factors (cultural and political distances, different languages) on entry mode choice in the foreign countries. Cultural distance was measured by Kogut and Singh's index formula based on Hofstede's cultural dimensions theory. The authors applied logistic regression model in order to investigate the impact of mentioned factors on entry mode choice. Results showed that CD and PR have an effect. Additionally, they point out that firms are choosing joint ventures over the wholly owned subsidiaries when there is a big difference between countries regarding political and cultural environments. It is observed that these factors tend to have influence only when there is no difference regarding the languages between countries. They propose that managers should concentrate more on the different languages as it is one of the most significant factors on the entry mode choice. It is that the common language between two countries helps to minimize external uncertainty factors.

The purpose of Almodovar (2009) research paper was to examine the importance of cultural distance and what influence does it have on managers' decisions. The author did not choose Hofstede's cultural distance dimensions theory or any other widely applied cultural theory because they lack data for some of the countries included in the research. Instead, the study used economic and linguistic criteria to measure cultural distance. The analysis was done by the means of Tobit method. The conclusions show that cultural distance is an important factor on managers' business decisions. Moreover, the

research revealed that there is a higher possibility that managers will change their decisions when they weigh the culturally distant country risk. In fact, authors concluded that cultural distance should be considered together with other country's environmental factors before taking the final decision about the ownership level.

Kogut and Singh (1988) in their research paper used multinomial logit model and together with control of other affecting factors found that cultural distance influence firm's entry mode choice. Authors used Hofstede's cultural dimensions theory to estimate cultural differences and developed cultural distance index to measure the distance between countries. The results showed that entry mode choice is affected by the cultural factor. Despite the effect of industry and firm internal situation, the relation between cultural distance and entry mode choice is very strong. Moreover, it was found that firms are more willing to choose culturally distant markets with joint venture than acquisition as it helps to mitigate the risk.

Dikova and Sahib (2013) in their research paper tried to answer the question whether the cultural distance affect international acquisition performance positively or negatively. Authors used Singh's formula based on GLOBE project theory to measure cultural distance. Finally, they tried to estimate how cultural distance correlates with acquisition performance by the means of linear regression model. Authors claim that effect of cultural distance depends on the level of acquisition experience an acquirer has. Moreover, it was revealed that companies, which have more experience in international trades, are more informed about cross-border acquisition challenges and are better prepared to resolve acquisition related problems. Knowledge and skills that managers get through their personal international trades experience allows firms to use beneficially cultural differences that further creates better acquisition performance. Controversially, acquirers having lower degree of experience do not have knowledge how to resolve conflicts based on cultural differences.

Morosini, Shane and Singh (1998) indicated that cultural distance have a significant effect on international acquisition performance in their article. In this article national cultural distance was measured by the Kogut and Singh's cultural distance index formula, which is built on Hofstede's cultural dimensions theory, while acquisition performance was measured with a help of sales growth measures. On the basis of ordinary least squares regression analysis, it was revealed that cultural differences enhance cross board acquisition performance. The study suggests that companies making acquisitions should follow the routines of the company they are making acquisition with in the target market to successfully operate there. This is a great advantage for the parent company to have better performance by getting an access to the knowledge about the distant market.

Park, Han and Yoon (2018) aimed to investigate how cultural distance between Korea and the investor countries affect financial performance of the subsidiary in their study. The study used return on assets measure to estimate export performance. Cultural distance was measured by the means of Kogut and Singh's cultural distance index based on Hofstede's cultural dimensions theory. Regression analysis showed that cultural distance has positive effect on performance of foreign subsidiaries. The authors support this outcome by a few arguments. First of all, nowadays, when globalization is affecting businesses, businesses in different countries are exchanging knowledge and willing to learn from each other. Secondly, managers are preparing and putting a great amount of efforts to learn as much as possible about culture in the distant country they are planning to enter in. Managers are making plans, conducting analysis and researches that help to mitigate the risk and take advantage of cultural

differences. Authors claim that the activities and innovations needed to adapt in different cultures stimulate organizational learning that positively impact performance of the company.

Evans and Mavondo (2002) examined connection between psychic distance and organizational performance in their research paper. Cultural distance was measured by the Hofstede theory of cultural dimensions and cultural distance index formula by Kogut and Singh. By the means of multiple regression analysis, it was revealed that psychic distance explains export performance in distant markets but not in close ones. The results indicated that psychic paradox truly exists. Moreover, authors suggest that even if managers identify market as physically close one, it is important to analyze other environmental factors because they could affect organizational performance negatively in those markets.

Beugelsdijk, Kostova, Kunst, Spadafora and Essen (2017) investigated the impact of cultural distance on a choice of location, entry mode, and organizational performance. Cultural distance measures were based on the theory of Hofstede, Globe Project and it was measured by the Kogut and Singh's cultural distance index formula and perceptual measures of the managers. Export performance was measured by the different types of performances: innovation, accounting, market. Authors found that companies are less willing to expand their business in culturally distant markets. However, if they do so, they prefer integrate subsidiaries and greenfield investments. Moreover, by the means of meta-analytic procedure it was found that cultural distance is significantly important determinant and has unfavourable influence on foreign subsidiary performance.

Colakoglu and Caligiuri (2008) studied the relationship between cultural distance, expatriate staffing and subsidiary performance in their research work. They applied Kogut and Singh's cultural distance index formula, based on Hofstede's cultural dimensions theory, to estimate cultural distance. Subsidiary performance was measured by the sales volume, profitability, and market share as well as expectations of parent company on subsidiary performance. The analysis which was done by the ordinary least square regression model showed that cultural distance has negative influence on relationship between expatriates and subsidiary performance. It is explained that greater cultural distance makes it difficult for the parent company to transfer information and knowledge to the employees in the host country. Moreover, authors suggest that cultural differences could influence local staff opinion about the subsidiary of the parent company expatriates and that could lead to unsuccessful performance.

Azar and Drogendijk (2016) analysed the relationship between cultural distance, innovation and firm export performance in their research paper. The measures for the dimensions of subjective cultural distance were adapted from Evans and Mavondo (2002), which are based on Hofstede's cultural dimensions theory. Respondents were asked to identify how foreign market is different from home market in regard to those cultural dimensions in order to know their perceptions of certain markets. Finally, they used Kogut and Singh's cultural distance formula in order to calculate objective cultural distance and compared it with subjective cultural distance. Export performance was measured by the means of two dimensions: financial performance and strategic effectiveness. Innovation was measured by the intensity of different types of innovation. The hypothesis was tested by the structural equation model and together with control of other influential factors showed that cultural distance and environmental uncertainty motivate firms to innovate and integrate in different markets in order to improve their export performance.

From the overview of the studies it is rather clear that cultural distance as a phenomenon has been widely examined. Many scholars have tried to analyse the importance of cultural distance as a determinant on organizational performance. Analysis of the previous studies showed that it is still complicated to decide what is the impact of this factor and how significant it is compared with other determinants of the results of organizational activities. In fact, previous results showed that cultural distance could have a significance as well as could not be a strong predictor. Additionally, it can influence firm's performance both positively and negatively. Based on these findings, it is interesting to conduct a research and test whether the concept of cultural distance is a critical variable in explaining the performance of the companies.

However, some scholars (Evans and Mavondo, 2002; Majocchi, Valle and D'Angelo, 2013) found that environmental factors, such as economic, political, and geographical distances play more important role than cultural differences. Additionally, according to the some authors (Azar and Drogendijk, 2016; Park, Han and Yoon, 2018), internal factors of the company are also important determinants because in some cases even if there is a high cultural distance and environmental factors of the host country are unfavourable, having right resources, capabilities, knowledge and international experience could help companies take an advantage of cultural distance and successfully operate in culturally distant countries. Knowing that these factors have a strong effect on organizational performance, it is crucially important to evaluate them in order to investigate the impact of cultural distance on export performance.

Finally, in Lithuanian context it is a relevant problem that requires deeper analysis. Therefore, Lithuania is a perfect choice for research because it is a smaller country having small domestic market, and, its GDP strongly depends on exports to the foreign markets. According to the recent data, Lithuania's exported goods and services represent 81.6% of total Lithuanian GDP (Workman, 2019). Considering the fact that there is a rather high competition in Europe, Lithuanian companies are desperately looking for export opportunities in distant markets where number of consumers and purchasing power are high. However, companies are challenged by cultural distance which impedes successful entering and operations in distant market. In conclusion, as cultural distance is seen as an important predictor of export performance in the international context, there is a growing need to investigate the impact of this factor on firms' export performance in Lithuanian context.

2. Theoretical part

In this chapter theoretical background for this research will be proposed, covering cultural distance concept, theoretical frameworks that analyse cultural differences, other influential distance factors, concept and measures of export performance as well as the links between cultural distance and export performance.

2.1. Concept of cultural distance

Cultural distance refers to the degree how national values are different across cultures (Sousa & Bradley, 2010). According to Ghemavat (2001), cultural distance describes differences in social norms, ways of communication and religious beliefs. Thus, it can be said that different cultures shape peoples' attitude and view towards various things differently and that is how cultural distance emerges.

Cultural distance concept is divided into objective and subjective cultural distance (Azar and Drogendijk, 2016). Some academics (Sousa & Bradley, 2006; Evans and Mavondo, 2000) have analysed objective and subjective cultural distance concepts, and shared different opinions about them. Recent studies have showed some scholars use these two concepts of cultural distance interchangeably, what means that there is no unified theory of how do they differ from each other (Sousa & Bradley, 2010).

To understanding these two concepts better, it is important to reveal how objective cultural distance differs from the subjective cultural distance. The main difference here is that objective cultural distance concept applies to the country level while subjective cultural distance refers to the individual level (Sousa & Bradley, 2010).

Many scholars, such as Hofstede, Kluckhohn and Strodtbeck, Trompenaars and others proposed different theoretical frameworks to understand and measure cultural differences in a national level. Later on, scholars used their theories in practise and conducted various researches, such as to investigate validation of them. The most popular theory of national cultures is proposed by Hofstede which identifies dimensions that could distinguish cultures. Additionally, the most popular measure to estimate cultural distance between countries is Kogut and Singh's index, which is based on Hofstede's cultural dimensions theory. This type of method to estimate national cultural differences is called *objective* and should be applied at the national level since it handles cultural values between nations instead of the individual's perception of differences.

Subjective cultural distance refers to a company's unfamiliarity with culture of new international market and needs to be accounted for in order to successfully operate in the new market (Evans Mavondo, 2000). Subjective cultural distance is not a phenomenon that influences every person in a same way and it should be applied individually, as it deals with subjective managers perceptions which may be formed based on their knowledge or opinion about foreign country and past experience dealing with people from that culture (Sousa & Bradley, 2010). Subjective cultural distance, also known as perceived cultural distance, is one of the components of the concept of psychic distance, defined as perceived differences between two objectives (Dow and Karunaratna, 2006). Many different academics (Evans and Mavondo. 2002; Azar and Drogendijk, 2016) analysed perception of cultural distance as a part of psychic distance and impact it does to have on firm's performance. With

the purpose to estimate the managerial perceptions of cultural distance, scholars developed various surveys and asked managers to share their own opinion about different cultures. Respondents were asked to evaluate to what extent one country is culturally distant from another based on objective cultural theories' dimensions. In some cases, later on, results were compared with objective culture results to test validation. In general, the managerial perceptions should be developed from the analysis of individuals' opinion about the countries' cultures.

The table 1 below provides a comprehensive analysis of previous research papers that analysed cultural distance impact on firm performance and provides notes of cultural distance concept and indicators that were used to measure CD by different authors.

Table 1. Comparative analysis of cultural distance

Author	**Description**	**Indicators**
Majocchi, Valle and D'Angelo (2013)	Cultural differences between countries	Cultural distance measured by Kogut and Singh's cultural distance index formula which is built on Hofstede's cultural dimensions theory
Dikova and Sahib (2013)	Differences in the norms, routines of the organization management and other aspects that are found in the home and host market	Cultural distance measured by Kogut and Singh's cultural distance index formula based on GLOBE project cultural dimensions theory
Morosini, Shane and Singh (1998)	It shows a degree how cultural norms are different across countries	Cultural distance measured by Kogut and Singh's cultural distance index formula which is built on Hofstede's cultural dimensions theory
Evans and Mavondo (2002)	A firm's degree of uncertainty about a export market caused by cultural differences	Cultural distance measured by Kogut and Singh's cultural distance index formula and perceptions of managers
Azar and Drogendijk (2016)	The norms and values that distinguish group of people from other groups	Objective cultural distance measured by Kogut and Singh's cultural distance index formula and perceived cultural distance measured by Hofstede's cultural dimensions

To sum up, subjective cultural distance must be evaluated on how much a person feels distant from the particular culture, based on his own perceptions, while objective cultural distance as, how one culture is different from others in general, based on developed cultural theories and measures (Kjærhede, 2015).

2.2. Theoretical frameworks of cultural dimensions

Until nowadays many scholars proposed various theories of universal values. Some of the frameworks have been widely used to measure how cultures differ from each other (Hofstede's cultural dimensions model, Kluckhohn and Strodtbeck's Values Orientation Theory, Trompenaar's model of national culture differences, Schwartz's theory of basic human values, Globe Project's cultural dimensions). These cross-cultural frameworks asset to measure cultural differences will be explained in detail in this section.

2.2.1. Hofstede's cultural dimensions model

One of the most famous theoretical models proposed to measure similarities and differences between cultures is Hofstede's cultural dimensions framework. It has been broadly used in the international business field and is known as the most universal framework of national cultures' values (Baumüller, 2007).

There are six dimensions of cultures and Hofstede (1980, 2001) explained these dimensions as follows:

Power Distance shows how strongly cultures accept unequally distributed power. Higher power distance in the culture shows that hierarchy is normally accepted in the culture, while a lower degree of power distance in the societies indicates that people are against hierarchy and are willing to distribute power equally. An example of low power distance country is United Kingdom while high power distant country is China.

Individualism versus Collectivism index shows relationship between individuals in the group. In individualistic cultures people are more independent and care more about themselves. In collectivistic countries every person is a part of strong inner group and should take care of others and be loyal to them. For example, individualistic country is Germany, while collectivistic is Japan.

Masculinity versus Femininity index expresses how values are distributed between social genders. In feminine societies women are equal to men and the main value is to take care the others while in masculine societies men have higher status than women and the main values are success and money. Japan has high masculinity level while example of feminine country is Norway.

Uncertainty Avoidance expresses how much people feel safe in uncertain situations. Cultures that avoid uncertainty try to avoid ambiguity and always follow rules while cultures having a lower degree of uncertainty avoidance show more acceptance of unstructured situations. Example of high uncertainty avoidance country is Germany while low uncertainty country – Sweden.

Long Term versus Short Term Orientation refers to the focus of the society on the past, present or future. In a long-time oriented culture people believe that as long as world is dynamic, you have to be ready for the unknown future. In a short-time oriented culture steadiness is the biggest value and to stick with the past is needed. The example of the long-term oriented country is China while short-term oriented country is United Kingdom.

Indulgence versus Restraint shows how society is free to do what it want. Indulgent societes allow people to have freedom and freely satisfy their natural human desires while enjoying their lifes. In restraint societies strict rules are created to control level of peoples' satisfaction. Example of restrained culture is Russian while Indulgent country is Australia.

To sum up, Hofstede's cultural dimensions model helps to understand how nations differ between each other. If the score of the country of one dimension is totally different than the score for another country then it means that there is a bigger cultural distance between them and vice versa.

2.2.2. Kluckhohn and Strodtbeck's values orientations theory

Value Orientations theory is another theoretical framework which helps to get better understanding on how one culture differs from another. This theoretical framework was developed by Kluckhohn and Strodtbeck (1961). Authors of the theory explained value orientations as follows:

Time orientation has three dimensions: past, present and future. Past orientation says that people should be as traditional as possible and focus mostly on the past. Pesent orientation focuses only on present situations and life on today while future orientation refers to the future and continuous planning ahead.

Activity orientation dimensions are: doing, becoming and being. Doing orientation emphasizes activity during which one is always doing something and continuously moving forward. Becoming orientation refers to motivation to develop and grow in terms of abilities. Being orientation means being present at the moment.

Person and nature orientation is constructed from three dimensions: humans dominant, harmony with nature and nature dominant. It shows people relationship with environment. Humans dominant orientation means that we are in control over the forces of nature while nature dominant means that we cannot control the power of nature because it is too powerful. Harmonious orientation is defined as living in harmony with nature.

There are three dimensions of *Relations orientation*: hierarchical, collateral and individualistic. Hierarchical orientation shows high acceptance of hierarchy and authority. Collateral orientation says that everyone is equal in a group and everyone should take care of each other while in individualistic cultures people focus mostly on themselves and their independence.

Human nature orientation has three dimensions: good, mixed and evil. It shows the true character of human. Put it differently, it expresses whether nature of mankind is good, evil or both within the same person.

This theory helps to understand different cultures better and how to negotiate with people from all around the world (Hills, 2002). This framework has been used in higher education, management and healthcare study fields (Gallagher, 2001).

2.2.3. Trompenaars' model of national culture differences

Fons Trompenaars and Charles Hampden-Turner (1997) developed a new theoretical framework of cultural differences. This model has seven dimensions and the authors described them as follows:

Universalism vs. Particularism. Universalism says that beliefs and ideas are universal, applicable everywhere and there is no need to change them while particularism beliefs and ideas are applied according to circumstances. United States is one of the examples of universal countries, while China is a particularistic country.

Individualism vs. Communitarianism. Individualism means that a person is identifying theirself as an individual while communitarianism is when a person identifies theirself as a part of a group. United States is a country with high individualism and China is a country with strong communitarianism.

Neutral vs. Emotional. These two dimensions cover emotions and feelings and how people show them in public. In emotional culture emotions are easily expressed towards everyone and no one is scared to show them while in neutral cultures people feel uncomfortable showing their feelings and keep them inside. Japanese culture is neutral while Spanish culture is emotional.

Specific vs. Diffuse. These two dimensions show how people separate their private and public lives. Specific cultures are always trying to separate their private life from the public one while diffuse cultures carefully guard their public space. Specific culture is the USA while diffuse culture is German.

Achievement vs. Ascription. People of achievement cultures get status according to their achievements and in ascription cultures people are treated accordingly based on who and what they are. Achievement culture is the USA, ascription culture is China.

Sequential vs. Synchronic. In sequential cultures time is a treasure, so punctuality is very important. In synchronic cultures people are more flexible with time and it is normal to work on a few things at the same time. Sequential culture is Germany while synchronic is Brazil.

Internal vs. External control. These dimensions are different in a belief that either the environment is controlled by us or the people are not all-powerful and must respond to external circumstances. In internal control cultures, such us in US people think they are controlling everything around them. In external control cultures, such as Japan, people believe that they are under control of nature.

To sum up, this cultural theory explains how people interact with each other, nature and environment and has been used in the studies of international business and management fields (Reichenbach, 2015).

2.2.4. Schwartz theory of basic human values

Another cross-cultural research theory titled *The Theory of Basic Human Values* was proposed by Shalom H. Schwartz. This new cultural framework has been widely used in academic world studies of individual values as well as in economic researches, international marketing and advertising (Beatty, 2005). The Theory of Basic Human Values identifies and explains ten universal values that are accepted across different cultures. Schwartz (1992) defines each of the ten values as follows:

Self-Direction is defined as an independent right to create your own life. It means that people are individuals rather than collective personalities willing for independence and choosing their own goals of life. They do not like to be controlled by others and prefer freedom.

Stimulation value comes from excitement and challenge in life. In other words, people need stimulation for positive activation and get a thrill in routine. This makes them feel that their existence is meaningful and that their life is full of joy.

Hedonism is defined as pleasure and enjoyment for oneself. Hedonism values explain people satisfaction with themselves as well as their needs and natural desires. According to this pleasure is above everything else.

Achievement is defined as a personal ability, being ambitious by setting goals and achieving them. Most important is to demonstrate successful performance in order to get recognition and survive in groups.

Power is defined as social status in order to control everything, including people or resources. It means that people want to dominate others and have authority and social recognition in a society. That makes them feel powerful and gives them prestige.

Security is defined as safety and harmony everywhere: with oneself, in families, inner groups, and a whole society. People who value security are more concerned about their health and quality of life.

Conformity is defined as limitation of actions or words that could hurt other people and disagree with social norms and expectations. It means that people tend to be loyal, polite and responsible in order to have smooth interaction. The person who values conformity tries to act under strict and clear rules.

Tradition is defined as respect to ancestors and acceptance of the customs and ideas which come from ones' culture. People respect and develop their traditions because they respresent their national identity. They do not like any changes and are very conservative.

Benevolence means to create welfare to those you care about. It means that relations with family and other close groups are important, and being helpful, honest, friendly and concerned for others' is needed. Those who value benevolence are very honest, helpful, and provide general welfare to everyone around.

Universalism is defined as understanding and tolerance towards everyone and protection of others and nature. Universalism says that people need to live in harmony with others and nature. People have to tolerate those who are different as well as fight for a justice and equality in the world.

The theory also explains connections of these values and how they influence each other (Schwartz, 2012, p. 8).

2.2.5. GLOBE project of cultural dimensions

Hofstede's cultural dimensions theory was published rather many years ago and partly inspired GLOBE project of cultural dimensions (Minkov and Hofstede, 2011). This research project was based on the researchers of Hofstede, Schwartz and other authors as an improvement of previous cultural theories (in House, et al., 2004). The GLOBE Project provided both "as is" scores for cultural dimensions as well as "should be", meaning that this project is both including values, what they truly are, and also, what they should be according to the citizens in different countries (in House, et al., 2004).

GLOBE Project (in House, et al., 2004) defines those cultural dimensions as follows:

Power distance shows how power is distributed between members in the group. In other words, this dimension shows how easily people accept authority, that power is spread unequally, and that differences of power come from different social status.

Uncertainty Avoidance shows how strongly society is willing to avoid unpredictable situations by creating and following the rules. It means that some societies are trying to avoid uncertainty and feel uncomfortable if they do not know the truth while others tolerate unstructured situations.

Humane Orientation is defined by how society individuals care about others and are willing to be kind, honest, and friendly to them. In cultures of high human orientation people are responsible and

care more about others and tolerate differences while in low one people care more about themselves and their well-being.

In-group collectivism people are willing to show loyalty and kindness to others in the group. They prefer to be a part of the inner group rather than to be out of the group as individual. *Institutional collectivism* expresses the degree of how institutions and organizations encourage and reward collective action. Put differently, it shows how strongly society encourages people to connect and integrate in the groups and various organizations.

Assertiveness shows how individuals are able to stand up for others but also know when they should calm down without being aggressive. This is very important skill used in relationship development. People from assertive cultures are able to say or do what they want without hurting others.

Gender egalitarianism refers to the degree of power distribution and equality between women and men. It shows whether men have more rights to attend higher education, make decisions, seek for professional development activities or hold a high position in office.

Future Orientation shows a degree of how much society is oriented in the future and involved in planning everything. This dimension shows whether society is willing to plan the future or prefer to solve problems at the current time. High future orientation cultures predict future and plan everything according to it while low future orientation cultures rely on history and traditions and everything is planned based on the past.

Performance Orientation expresses a degree of how much improved performance and excellence is encouraged in the community. Moreover, it shows how strongly people are rewarded for continuously improved performance. High performance orientation countries value training, improvement and feedback here is always needed. In low performance orientation countries, the biggest value is harmony with environment and relationship with family.

To sum up, after the review of the most famous cultural theories few conclusions have been drawn. In regard to Kluckhohn and Strodtbeck's values orientation theory, the biggest weakness is that it does not propose measures for provided orientations what makes it difficult to apply in other researches. Regarding Trompenaars' model of national culture differences, it is argued that this theory written in the book is not based on any practise. The reason for that is because there is a lack of empirical support which means that theory validation is still questionable. Schwartz theory of basic human values does not provide aggregated scores for each dimensions and countries represented, also, values are rather unclear so it is difficult to make a comparison. Additionally, the large number of values makes the process of tests very long and confusing.

After reviews of mentioned cultural theories, it was decided to choose some supporting theory for this research from Hofstede’s cultural dimensions theory and Globe Project of cultural dimensions. Speaking about Globe Project of cultural dimensions, it is obvious that compared with Hofstede’s cultural dimensions model it is a newer theory and provides more dimensions. Globe Project adapted elements from previous theories and improved it by expanding it from five dimensions to nine. Moreover, the project provides more recent data compared with other theories. On the other hand, Hofstede’s cultural dimensions theory is considered the most universal theory of values of different nations and has been widely applied in various research areas.

It is necessary to note that Hofstede's cultural theory has been broadly criticised by different scholars. Firstly, it is claimed that five dimensions are not enough to measure and get reliable data from differences across cultures. Secondly, Hofstede's theory was developed many years ago and many researchers think that it is outdated. As long as the world is continuously changing, Hofstede's collected information about different cultures cannot be applied to recent situations. Thirdly, it is argued that a survey is not the most appropriate way to measure cultural differences and to make reliable conclusions. Next, scholars argue that research of only one company (in this case IBM) is not enough to measure the culture of the whole country. Finally, it is claimed that nations are not the best units to determine cultural differences (Jones, 2007; McSweeney, 2002).

Regarding this criticism Hofstede says that, of course, there could be more cultural dimensions and academics are welcome to develop them, but they have to be tested and validated to be reliable. Regarding the outdated data, Hofstede claims that five dimensions come from cultural values that have old roots and maintain stability over the years. That is the reason why his developed dimensions show strong validity over the time. Speaking about opinions, that survey is not the best tool to measure cultural differences, Hofstede replies, saying that this tool is not the only one and there are many more tools ready to be applied. Next, Hofstede says that analysing such a company like IBM was a good decision, because there are many employees from a large number of countries and different cultures and that is why it is a perfect sample for the research. Finally, Hofstede replies to the claims that nations are not appropriate units to identify cultural differences, that they are the only kind of units available for comparison (Hofstede, 2002).

Finally, it was decided to apply Hofstede's cultural dimensions theory within this research as it is claimed that Hofstede's scores of dimensions have strong convergent validity (Magnusson, 2008). Moreover, Hofstede's cultural dimensions framework will be used, since other theoretical frameworks lack data for the score of home market (Lithuania).

2.3. Other distance factors

If the company is starting to establish exports in a distant country, it is crucial to analyse the chosen market environment in detail to mitigate the risk. Usually companies face a high level of risk when doing exports in a distant country‘s market. Generally speaking, as long as distance is an important influential factor, companies should assess the probable impact of distance before starting exports in unfamiliar markets. In order to reduce this risk companies have to continuously improve their knowledge of foreign distant markets what would lead to more successful overall organizational performance (Evans and Mavondo, 2002).

Pankaj Ghemawat is a scholar who proposes one of the most famous distance frameworks named *Cage Distance framework* (2001) which introduces those distance factors. The author identifies four main dimensions of distance which must be considered if the company wants to have a successful business in foreign countries. All four distance dimensions are explained in the table 4.

Apart Ghemawat framework which helps to highlight the effects of cultural, administrative, geographical, and economic distance among countries, there are more suggestions on how to identify those differences between countries. According to Ronen and Shenkar (1986) there are many additional dimensions which distinguish countries from one another and at the same time show how countries could be clustered, including language, religion, educational, and political factors. Religion is related to specific values and norms and shapes people's attitude and the way they work. Therefore,

countries sharing the same language or belonging to the same language cluster have the same meanings and values of the words which makes communication between them easier.

Table 2. Distance dimensions (Ghemavat, 2001)

	Cultural Distance	**Administrative Distance**	**Geographical Distance**	**Economic Distance**
Explanation	Different religions, languages, social norms, communication styles, etc.	Absence of colonial ties, membership in same organization, shared political association, trading arrangements; Political hostility; Different government policies, laws etc.	Absence of common border or river access; Different climates; Inconvenient transportation or communication links; Great distance in kilometres, etc.	Differences in costs, resources, consumer incomes, infrastructure, etc.

Anyway, CAGE distance framework has been chosen in this study as it helps to identify other distances and evaluates how markets differ amongst each other based on those distance dimensions. This tool is very useful to identify and determine which distances are the most relevant and how to manage them and to be competitive in one or another country‘s market. Moreover, the author provides indicators on how those distances are usually measured and what the impact of those distances on international trades is. Each of distance dimensions will be explained in detail in the subsection below.

2.3.1. Administrative distance

Administrative distance describes differences between two countries regarding governmental policies and laws as well as it specifies international relationships between them (Ghemavat, 2001). It means that the positive and close political relationship can minimize political distance between two countries and that is why a membership in the same regional trading block and being part of the same organization, having common currency, historic colonial ties, trading agreements, common laws and rules can make cross-border trades easier between them. In short, international relationships are created to make bridges between countries and to support their friendship. Conversely, it is much more difficult to have smooth trade relations with countries which are separated by a greater administrative distance. For example, different institutional infrastructure driven by the high level of corruption, low political stability and regulatory quality could negatively affect economic activity in the chosen market. High political distance between countries is leading to higher tax rates, more difficult customs clearance procedures, a need to issue many additional documents and sign many extra agreements that make international trades difficult to manage in terms of costs and time.

Speaking about the measures various scholars use in order to estimate administrative distance, some studies take in account various agreements of trades, taxation rates collected from various publications or data sources. Others used price and sales conditions for measurement, quality and packaging requirements of the products (Tang, 2012). One of the most popular measures in order to determine political risk is political constrained index (POLCON). This index was developed to

measure how strongly policy is controlled by institutional and political factors. Such scholars like Majocchi, Valle and D'Angelo (2013) and Tang (2012) used this measure in their researches in order to calculate political risk. Another widely applied measure to estimate administrative distance is named *governance quality index*. The index is based on the research and accessible in Worlbank database. This political distance measure was used by such scholars like Chang, Kao, Kuo and Chiu (2012).

2.3.2. Economic distance

Economic distance defines differences in economic activities that affect cross-border relationships (Ghemavat, 2001). As greater economic distance refers to differences in consumer incomes, infrastructure, costs, resources and more, the exports and imports between two economically distant countries are likely to go down while countries sharing quite similar per-capita incomes, costs and resources tend to increase their trade flow (Thai-Ha Le, 2017). Therefore, countries with lower GDP per capita are trading less and are less attractive for foreign companies to export in. Controversially, countries with higher GDP per capita are easier for companies to enter, because it means that people living there are rich and the economy itself is more advanced.

Speaking about the measurement of economic distance, scholars adapted various indicators to estimate economic distance, such as a degree of government control over economic activity, economic stability, and currency fluctuations (Ghemawat, 2001). Others used additional indicators, such as the costs of labour, stage of economic development and consumer purchasing power. Nevertheless, economic environment is commonly measured by country GDP per capita because it shows the level of the country's economic development. The data is available in Worldbank database and helps to compare GDP per capita of different countries. Such scholars like Majocchi, Valle and D'Angelo (2013) and Chang, Kao, Kuo and Chiu (2012) included GDP per capita at PPP to estimate the effect of this factor on organizational performance.

2.3.3. Geographical distance

Geographical distance is defined as geographical differences between countries which mostly rise up from natural phenomena activity between countries that can affect cross-border relationships (Ghemavat, 2001). Geographical distance is the physical separation between two countries. It means that the greater geographical distance between home market and host market, the more time and other costs are spent what creates the market much more difficult to get in (Ojala, A. & Tyrväinen, 2007). Other geographical aspects, such as a lack of a common border, waterway access, weak transportation and differences in climate between two countries make the geographical distance higher as well. Geographical distance creates big time gaps and negatively affects communication between two parties in different countries what makes the process of trades much longer. Even differences in information and communication infrastructure (networks, systems, and processes) can negatively influence economic activities between countries.

Speaking about the most widely applied measurements of geographical distance, most scholars use distance in kilometres between the capital cities of two countries. Many scholars apply this indicator as the greater distance in kilometres means longer money transaction, delivery and customs clearance time.

To sum up, before entering new markets companies have to prepare well and analyse in detail the export market environment. Pankaj Ghemawat proposed a great tool which helps to identify those differences between countries and the indicators of those distances. Therefore, differences in geography, economy, politics and culture could negatively affect firm's results of exports in international markets and that is why environmental analysis is needed.

2.4. Export performance

Export performance is a topic which has been broadly examined among scholars in literature of international businesses field. Many different authors examined this topic, mostly regarding determinants of exporting activity (Zou and Stan, 1998; Leonidou, Katsikeas and Samiee, 2002; Beleska-Spasova, 2014; Sousa, Martínez-López and Coelho, 2008), as well as its measures (Carneiro, Farias, Rocha and Silva, 2016; Sousa, 2004; Hammami and Zghal, 2016; Diamantopoulos, 1999). Speaking about overall export performance the main goal of the company is to achieve successful performance internationally. Successful export performance demonstrates that the company is able to accomplish its' objectives and to reach its' export goals. In this section concept of export performance and the most widely used export performance measures will be reviewed.

2.4.1. Concept of export performance

The concept of export performance has been discussed by many scholars. They all agree that export performance represents firm's ability to develop exports in foreign countries. A few definitions of the concept by different authors are given in the table 3.

Table 3. Academics view of export performance concept

Source	Definition
Baile and Djambou (2008)	The capability of the company to operate in the international markets
Diamantopoulos (1999)	It demonstrates the results achieved by the company from international operations performed under different internal and external conditions
Beleska-Spasova (2014)	It represents how company is able to use its capabilities and resources internationally
Shoham (1998)	A complexed result of a company's sales to the foreign markets
Cavusgil and Zou (1994)	An ability of the company to accomplish its' economic and strategic objectives by exporting its'products to international markets

To sum up, the definitions explain that export performance is the overall result of the sales operations showing how successful or unsuccessful company's export in foreign markets is. The performance depends on many various factors as well as on internal situation of the company. For instance, if the firm has a broad range of competitive capabilities and various resources, adding that external environment in a foreign country is favourable, it will probably create successful export performance. Controversially, lack of competencies of a company, cultural differences and unfavourable environmental factors could lead to unsuccessful export performance results. Moreover, export performance shows if the company is able to plan, pursue and reach its export goals in foreign markets. To sum up, export performance describes how a company is able to perform in international markets by using its' competencies and resources and managing external environmental risks in the host country.

2.4.2. Export performance measures

Measures of export performance help to determine whether company is having successful exports or not (Roxo, 2014). Different authors in their studies suggest various ways on how to measure an export performance in order to know the results of an organizations' exports. Usually, academics divide export measures into two groups: economic and non-economic measures (Beleska-Spasova, 2014). The biggest issue here is deciding what measures are the most suitable to evaluate firm's export performance. A list of the most popular measures of export performance are given in the table 4.

Table 4. Export performance indicators

Export performance measures	**Authors**
Economic measures:	
• Export intensity	Leonidou, Katsikeas and Samiee (2002), Beleska-Spasova (2014)
• Export sales volume growth	Leonidou, Katsikeas and Samiee (2002), Beleska-Spasova (2014)
• Export profitability growth	Zou and Stan (1998), Leonidou, Katsikeas and Samiee (2002)
Non-economic measures:	
• Perceived export success	Zou and Stan (1998), Diamantopoulos (1999)
• Satisfaction with overall export performance	Zou and Stan (1998), Diamantopoulos (1999)
• Strategic goals achievement	Zou and Stan (1998), Diamantopoulos (1999)
Export dimensions:	
• Export adaptiveness	Al-Khalifa and Morgan (1995), Katsikeas, C., Leonidou, L., & Morgan, N. (2000)
• Export effectiveness	Al-Khalifa and Morgan (1995), Katsikeas, C., Leonidou, L., & Morgan, N. (2000)
• Export efficiency	Al-Khalifa and Morgan (1995), Katsikeas, C., Leonidou, L., & Morgan, N. (2000)

The most widely used financial/economic measures to determine export performance are export intensity which means the percentage of total sales in revenue; export sales volume which shows the average sales volume of the products or services company has exported; and export profitability which shows the amount of revenues remaining after deduction of sales costs (Carneiro, Farias, Rocha and Silva, 2016). Sometimes economic export performance measures are called *objective measures* as they are based on fact and it is possible to give them an exact value.

As it is always difficult to get financial data from companies, because it is internal and confidential information, some academics propose non-financial measures of export performance. With the help of these measures, managers are able to share their own opinion about the export performance in one or another market. The most widely used non-economic measures are: managers satisfaction with overall export performance, which shows the extent of how managers are satisfied with export performance in a particular market; perceived export success is defined as the expectations of managers; and achievement of export objectives expresses the company's ability to achieve its export goals (Katsikeas, Leonidou & Morgan, 2000). One can say that by sharing thoughts about non-financial export indicators, managers are sharing their subjective opinion and attitude towards export performance of the company. Moreover, it has commonly been assumed that subjective export performance indicators convince more managers to respond to the questions of the firm's export performance because it is easier to answer them and they do not need to provide any financial data that could push them away from willing to answer.

It is claimed that export efficiency, effectiveness and adaptiveness are three dimensions which perfectly expose export performance. Export effectiveness refers to the company's ability to achieve its export objectives and goals. Export efficiency shows what is the ratio between company's export performance outcomes and efforts company needs to put in order to achieve them. Finally, export adaptiveness describes company's ability to respond and adapt to the changes in the new market. Many previous studies used these dimensions as export performance indicators in their researches (Katsikeas, Leonidou & Morgan, 2000; Al-Khalifa and Morgan, 1995).

To sum up, from the broad range of proposed export performance measures, only a few of them were used more often, such as export intensity, export sales growth, export profitability and satisfaction with overall export performance. Other measures, such as return on investment, quality of distributor relationship, customer satisfaction were used less and were analysed in only a few studies as they do not strongly describe export performance (Sousa, 2004). In the next section the relation between cultural distance and outcomes of export activity will be enclosed.

2.5. The link between cultural distance and export performance

Previous studies (Morosini, Shane and Singh, 1998; Park, Han and Yoon, 2018; Beugelsdijk, Kostova, Kunst, Spadafora and Essen, 2017; Colakoglu and Caligiuri, 2008; Azar and Drogendijk, 2016; Evans and Mavondo, 2002) show that cultural distance is an important factor which influences the results of export performance of a company. Cultural distance is seen as an important source of uncertainty for firms while they are entering distant markets. However, the results of the relation of these two analysed variables are contradictory.

One of the most wide spread opinions is that the higher cultural distance between two countries the more difficult is to enter foreign market because of a number of problems coming from communication and mentality misunderstandings. It is claimed that greater cultural distance between two countries leads to more unsuccessful export performances (Beugelsdijk, Kostova, Kunst, Spadafora and Essen, 2017; Colakoglu and Caligiuri, 2008). This relationship here is explained by the bigger challenges faced by businesses in foreign countries. Cultural distance refers to differences in ideas, values, norms, routines, ways of working, doing business, and seeing the world in general. Therefore, these differences between countries create barriers for a smooth information exchanging and understanding which does not let companies to have successful export results in foreign markets. Generally speaking, the greater the distance between home and a host country, the more difficult it is to enter a foreign market.

Recently, a few studies have revealed a favourable impact of cultural distance on firm's export activities (Morosini, Shane and Singh, 1998; Park, Han and Yoon, 2018; Evans and Mavondo, 2002; Azar and Drogendijk, 2016; Dikova and Sahib, 2013). Therefore, under these findings cultural distance paradox arises saying that export activities in close countries do not always mean successful export performance. The reason for that is that managers are having wrong opinion thinking that exports in culturally close markets does not require any additional efforts. Cultural distance could have a favourable impact as managers focus more on differences and are trying to adapt with disparity in distant markets. Doing business in culturally distant countries allows and motivates companies to learn new things about different cultures, get an access to different resources, knowledge and capabilities, and most importantly, motivates managers to put more effort in preparation and development of great strategies for the entering of culturally distant markets.

Some scholars not only try to investigate the impact of cultural distance on firm's export performance, but also try to find the reason why it is so. Dikova and Sahib (2013) revealed that the impact of cultural distance on export performance depends on international experience the company has. The longer a company is involved in international trades the better it is informed, skilled on how to solve cultural distance related issues and to achieve better export results. Azar and Drogendijk (2016) found that cultural distance could have a positive effect on export activities results and the explanation of this outcome comes from innovation. Innovative companies are improving their competitive advantage by continuous innovativeness which helps to mitigate cultural distance and improves their export performance.

To sum up, based on these contradictory findings regarding the cultural distance impact on export performance, it is important to reveal what the situation is in Lithuania's context.

3. Methodology

Research design, research method as well as measurements (dependent and independent variables) are proposed in this chapter in order to reveal how data was collected and analysed.

3.1. The research design

This research aims to investigate the impact of cultural distance on firm's export performance. The empirical research is divided into two blocks. The first block is dedicated to research of Lithuanian exporting firms, based on quantitative data analysis and aims to reveal Lithuanian firms' export performance in culturally close and distant foreign markets. The second research block refers to objective cultural and other distances that could have an effect on export performance of company. Those distances are estimated by existing measurements. Next, the collected data from both research blocks is combined and analysed by the chosen analysis model in order to examine the correlation between cultural distance and export performance of firms.

The aim of the empirical research is to investigate cultural distance impact on Lithuanian companies export performance.

The objectives of the empirical research are as follows:

1. To conduct an empirical research for the purpose to examine the impact of cultural distance on Lithuanian firms export performance;
2. To provide recommendations of export development for Lithuanian exporting companies.

The process of the empirical research:

- On the basis of analysed theory, preparation for the empirical research;
- Formation of the questionnaire;
- Selection of the representative companies;
- Uploading the survey on a website;
- Sending emails to selected companies with request to participate in the research;
- Survey data collection;
- Selection of cultural distance and other distances measurements;
- Analysis of the collected data;
- Provision of recommendations.

The information about Lithuanian exporting companies and their key contacts was downloaded from the „Versli Lietuva" exporting firms' database. The survey was uploaded on „Mano Anketa" webpage and has been sent to the 1400 companies which allowed to publish their internal data on „Versli Lietuva" exporting companies database. The representatives of the companies were asked to participate in empirical research and were promised to have the final research findings shared with them. The data collection started on 03.03.2019 and ended on 02.04.2019. The data needed for this empirical research was collected from CEOs, sales managers, commercial directors and other management level executives working in different Lithuanian companies which are exporting abroad and operating in different industries. The chosen companies had to satisfy the following criteria:

- The company is Lithuania based;
- The company exports to at least two foreign countries;

- It is possible to find the following information about the company on the Lithuanian exporting firms database: company name, contact information of the company's representative (name, surname, email address).

98 respondents from the different firms filled the survey. Unfortunately, 11 respondents were eliminated as they did not identify any of their markets. In the final version, 87 companies filled the questionnaire correctly, resulting a response rate of 6%. 34% of the respondents were sales managers, 30% were CEOs of the companies, 22% were commercial directors and 14% were other management level executives. It shows that the majority of the companies' representatives who filled the survey are very closely related and aware of the situation of their company exports. It is important to emphasize that in this research the sample is the number of markets identified by the respondents. Taking into account that almost half of the respondents identified and evaluated their export performance in more than two foreign markets, the potential 253 export ventures were acquired for later testing. Each export venture is equal to one testing in this research. 146 export ventures were nominated as culturally close markets to Lithuania by the respondents and 109 as culturally distant markets. Poland and Latvia were two countries, which were most frequently nominated as culturally close countries, while China and Japan as culturally distant ones.

The first block of the empirical research will provide results of quantitative data about Lithuanian exporting firms export performance in culturally close and distant foreign markets as well as the internal information about companies' characteristics. The whole questionnaire was divided into three parts: profile of the company, internal characteristics of the company and export performance results of the company. The detailed information about the first block of empirical research and questions, given in the questionnaire, is presented in the table below 5.

Table 5. Parts of the empirical research of the first block

Name of the part	**Indicators**	**Questions**
Profile of the company	The characteristics of the company which could have an affect on export performance: Industry type, type of the company, company size, age of the company	What is the industry type your company is operating in? What is the type of your company you are working in? How many employees does your company have? Which year your company was established? [*Choice from given answers*]
Internal factors of the company	Innovations introduced by the company which could affect export performance	During the last two years, has your company introduced any new: Products or services, organizational structures or management practises, methods of manufacturing, marketing, logistics, delivery, distribution, new processes? [*Choice between two answers: Yes/No*]
	Costs movements of the company which could have an affect on export performance	During the last two years, how the costs of your company had changed regarding each of the following: Labor, R'n'd, Production, Equipment, Marketing, Electricity, Fuel.

		[*Likert scale: Increased/Remained the same/Decreased*]
	Core competencies of the company which could have an affect on export performance	What are the core competencies of your company: Skillful human resources, new technologies, strong brand, capital, know-how, innovation. [*Possibility to choose many answers*]
	Export features of the company which could affect export performance: Exporting years, number of export markets, part of total sales exported to foreign countries, number of export managers, number of foreign languages sales team speaks, presence of foreign subsidiaries	How many years your company is exporting? How many export markets does your company have? What is the percentage of total sales your company is exporting to the foreign markets? How many export managers does your company have? How many foreign languages does your sales team speak? Does your company have foreign owned subsidiaries? [*Choice from given answers*]
Export performance results	Export sales volume growth Export sales profitability growth	Please evaluate how the following export indicators of your company had changed in your nominated export market during the last two years. [*Likert scale: Increased/Decreased/Remained the same*]
	Export adaptiveness	Please evaluate how successful was export of your company in the nominated market in the past two years regarding each of the following. *[Likert scale: Successful/Neither successful nor unsuccessful/Unsuccessful]*
	Export effectiveness	
	Export efficiency	

Profile of the company. Previous studies (Sousa, C.M.P., Martínez-López, F.J. and Coelho, F., 2008; Marosini, Shane and Singh, 1998; Majocchi, Valle and D'Angelo, 2013; Tihanyi, Griffit and Russel, 2005) indicated that firm's size is one of the most important determinants of export performance. It was revealed that larger firms tend to have better export performance in foreign markets. According to the scholars, bigger companies have larger capital, bigger manufacturing capacity, and larger number of export markets that create bigger opportunities to mitigate distances and overcome risks. In general, larger firms have better access to exclusive knowledge and resources that gives a chance to compete with competitors in the foreign markets (Tihanyi, Griffit and Russel, 2005). Marosini, Shane and Singh (1998) found that industry type might have an effect on export performance as some industries tend to have better results compared with others (e.g. information technologies sector). Same results were revealed about age factor. Companies that have longer operation years tend to have

better export performance in export markets (Majocchi, Valle and D'Angelo, 2013). As all these factors are enhancing export performance, they were included in the variables of the research list.

Internal factors of the company. According to Cavusgil and Zou (1994) a set of company internal factors, such as capabilities, resources and knowledge could help a company to gain competitive advantage and higher value internationally. Following these results the respondents of this research were asked to share information about their companies' internal factors, such as core competencies, distribution of costs, international experience, and most importantly, what innovations were introduced. According to Azar and Drogendijk (2016) innovations help to bring competitive advantage to the firm, mitigate the uncertainty, and adapt with the changes in the new environment. Additionally, recent studies showed that international experience is one of the most important determinants of export performance (Virvilaitė and Šeinauskienė, 2015; Love, Roper and Zhou, 2016). It was found that international experience minimizes the distance between countries and that the export performance depends on the level of international experience (Dikova and Sahib, 2013). Internationally inexperienced companies lack knowledge of how to operate in foreign markets and that leads to unfavourable export performance results. Controversially, companies having large number of export markets, long years of exporting, established subsidiaries and internationally skillful human resources tend to achieve better results. Following these findings, mentioned internal factors of the company were included in the list of variables as well.

Export performance. The measurement for export performance in this study was based on existing and most widely applied measures proposed by different scholars. Respecting Beleska-Spasova (2014) export performance measurement was divided into two groups: financial and non-financial indicators. Following Colakoglu and Caligiuri (2008), financial export performance was measured by sales volume and profitability growth. Respondents were asked to evaluate to what extent these indicators had changed over the past two years: increased, remained the same or decreased. Following Al-Khalifa and Morgan (1995), Katsikeas, C., Leonidou, L., & Morgan, N. (2000) non-financial export performance was measured by three export performance dimensions: efficiency, effectiveness, and adaptiveness. Respondents were requested to evaluate how successful these measures of export were during last two years: successful, neither successful nor unsuccessful; unsuccessful. Two years period was chosen as it is enough for the company to have changes in the results and to show the progress.

The second block of the empirical research is dedicated to estimate cultural distance and other types of distances between home and host countries that were nominated by the respondents in the survey.

Cultural distance. Following the previous scholars, Hofstede's cultural dimensions theory was adapted regarding the cultural differences between countries. Kogut and Singh cultural distance formula, based on Hofstede's dimensions scores, is used since it is among the most popular methods of calculating cultural differences between countries (Morosini, Shane and Singh, 1998; Kogut and Singh, 1988; Park, Han and Yoon, 2018; Evans and Mavondo, 2002) and shows evidence of its validity and reliability. Data regarding the scores of cultural dimensions of each country was collected from the website Hofstede Insights.

Other distance factors. There are many types of distances introduced by different authors but it was decided to focus on the most commonly applied distances dimensions (geographical, economic and administrative). Many previous scholars measured these distances in their researches examining cultural distance impact on firm's performance (Evans and Mavondo, 2002; Azar and Drogenjiks,

2015, Majocchi, Valle and D'Angelo, 2013). Moreover, their results showed that these additional factors, related with environment of export country, are strong determinants of firm's performance, as the greater distance creates higher uncertainty in the foreign market. Entering markets with greater political, economic, and geographical distances may create higher uncertainty in the market and negatively affect firm's export performance.

Taking into account that most of the scholars calculated geographical distance by the distance in kilometres between two capitals of countries, the same measure was adapted within this research. Data was gathered from the website distancecalculator.globefeed.com to estimate how geographically close or distant export markets are from Lithuania. Following Chang, Kao, Kuo and Chiu (2012), the administrative distance was estimated based on Worldwide Governance Indicators (WGI). The research provided indicators based on six dimensions by which countries were evaluated. Those six dimensions of the governance *are Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption*. This measure was adapted as it perfectly describes how the authority in the country is operating. Indicators are based on reliable sources and WGI project is a useful tool to compare countries in terms of governance (Worldbank.org). Economic environment is commonly measured by the difference in GDP per capita at PPP of export and home countries. Following Majocchi, Valle and D'Angelo (2013), Chang, Kao, Kuo and Chiu (2012) studies that applied this measure, economic distance was calculated based on Worldbank GDP per capita at PPP data source.

3.2. The method of the research

To validate the significance of cultural distance on export performance binary logistic regression analysis was used. This regression analysis was adapted since there is a need to predict an export performance (dependent variable) success or unsuccess based on a set of independent variables. Independent variable fitting procedure:

1. Fitting model with distance factors and principal components.
2. Dropping off insignificant principal components.
3. Adding other measure with statistical significance at 95 % confidence level.

Regression analysis was done with a help of Excel and annex addin real stats which provide functions for various regression models as well as additional features. Chi square test was used to perform model diagnostics and to see whether the model has explanatory power of export performance. Wald test was performed on independent variables to find whether they have significant statistical relationship with dependent variable. All tests done at 95% confidence interval. Further, model validation was made on the basis of classification table. The classification table shows how accurately models predict both positive and negative export performance.

3.3. Measures

This section presents the chosen measurements for dependent and independent variables of the research and shows how they were calculated.

3.3.1. Dependent variables

Export performance. Because of the reason that only 8% of the respondents evaluated their export performance financial indicators as "decreased" ones, they were combined with "remained the same" answers, resulting almost equal percentage of *increased* and *remained the same+decreased* export performance answers for later comparison. The same was done with non-financial export performance indicators. Only 6% of respondents evaluated these indicators as "unsuccessful" and because of that they were combined with "neither successful nor unsuccessful" answers. Export performance variables were encoded as binary zero one values. In case of positive export performance (successful, increased) value becomes 1, otherwise, when company evaluated that export performance "decreased", "remained the same" or "neither successful nor unsuccessful", "unsuccessful" value of 0. In the table 6 one can see encoding for dependent variables in five different models. Each model is dedicated to each export performance indicator.

Table 6. Encoding of dependent variables

Dependent variable	**Value 1**	**Value 0**
Export effectiveness	Successful	Neither successful nor unsuccessful + Unsuccesful
Export adaptiveness	Successful	Neither successful nor unsuccessful + Unsuccesful
Export efficiency	Successful	Neither successful nor unsuccessful + Unsuccesful
Export sales volume growth	Increased	Remained the same + Decreased
Export sales profitability growth	Increased	Remained the same + Decreased

One-in-ten rule was used in order to find appropriate numbers of independent variables for each model.

Table 7. Number of independent variables

Model by independent variable	**Count of lower obs**	**% of Total obs**	**Recommended no of independent variables**
Export sales volume growth	110	43,48%	11
Export sales profitability growth	95	37,55%	10
Export effectiveness	120	47,43%	12
Export adaptiveness	110	43,48%	11
Export efficiency	94	37,15%	9

3.3.2. Independent variables

Objective cultural distance. In order to estimate the cultural distance, Kogut and Singh's cultural distance index was used, which is based on the results of Hofstede's cultural dimensions scores.

Following Kogut and Singh, four cultural dimensions according to Hofstede were adapted, denoted as **i** which stands for power distance, uncertainty avoidance, masculinity/femininity and individualism/collectivism. Long/short term and Indulgence versus Restraint orientations were

omitted, since data is available for half of the countries compared to previously mentioned cultural dimensions. The cultural distance index for **j** export market is therefore given by:

$$CD_j = \sum_{i=0}^{4} \left\{ \frac{(I_{ij} - I_{ih})^2}{Var(I_i)} \right\} / 4$$

Where (**ij)** stands for i'th cultural dimension of export market **j** and (**ih**) is i'th cultural dimension of home market. Furthermore, scaling method weighing each cultural deviation by variance of i'th cultural dimension was used. This will help to reduce multicollinearity with other dependant variables and prevent from inflating statistical significance. The following estimates of variance were used:

Table 8. Variance of i'th cultural dimension

Cultural distance dimension	**Variance**
Power Distance	453
Uncertainty Avoidance	580
Individualism (vs. Collectivism)	609
Masculinity (vs. Femininity)	348

A concrete example estimating cultural distance index for one close market (Estonia) and one distant market (Japan) is given below:

Table 9. Estimated cultural distance between Lithuania and Estonia, and Lithuania and Japan

Cultural distance dimension	**Lithuania**	**Estonia**	**Japan**
Power Distance	42	40	54
Uncertainty Avoidance	65	60	92
Individualism (vs. Collectivism)	60	60	46
Masculinity (vs. Femininity)	19	30	95

By using Kogut and Singh formula it is obtained:

Table 10. Estimated cultural distance between Lithuania and Estonia, and Lithuania and Japan

Home country and export market	**Index value**
Lithuania : Estonia	0,10
Lithuania : Japan	4,62

Administrative distance. The worldwide governance indicators (WGI) were used to measure administrative distance. Since it is predicted that the sample size will be limited, meaning need to use limited number of independent variables in regression model, there is a need to rely on dimensionality reduction techniques. For this goal, principle component analysis (**PCA**) was employed for constructing administrative distance index from six dimensions mentioned in the table 12. Since all six administrative indicators feature same bounds **(-2,5; 2,5)** (higher values mean better governance) and similar means (**equal to 0**), scaling was not used. After performing PCA on six dimensions (six worldwide governance indicators) it was found out that **84,1%** of variance in six

indicators is accounted in the first principal component (Table 11). Therefore, administrative index was constructed as linear relationship of six indicators, using weights of first principal component PC1, without much loss of information (Table 12).

Table 11. Percentage of variance in six administrative indicators accounted in each component

Principal component	**% of Variance**	**% Cumulative**
PC1	84%	84%
PC2	7%	91%
PC3	5%	96%
PC4	2%	98%
PC5	1%	99%
PC6	1%	100%

Table 12. Weights of the first principal component PC1

WGI	**Description**	**Weight**
WGI1	Voice and Accountability	0,38
WGI2	Political Stability and Absence of Violence/Terrorism	0,37
WGI3	Government Effectiveness	0,42
WGI4	Regulatory Quality	0,42
WGI5	Rule of Law	0,44
WGI6	Control of Corruption	0,42

Administrative index for country (export market) j is thus constructed as:

$$\mathrm{PI_j} = 0{,}38 * WGI_1 + 0.37 * WGI_2 + 0.42 * WGI_3 + 0.42 * WGI_4 + 0.44 * WGI_5 + 0.42 * WGI_6$$

From this it is obvious that administrative index takes higher values if administrative indicators are value > 0 and otherwise for negative valuations. Thus, administrative distance index with country **j** can be calculated as:

$$\mathrm{PDI_j} = \mathrm{PI_j} - \mathrm{PI_{Lithuania}}$$

Accordingly, if PDI for country **j** will be positive it will mean that country scored higher than Lithuania.

Geographic distance. Geographic distance was measured by the distance in kilometres between two capitals of countries. Natural logarithm was taken to scale data. Distance takes only positive values. Data was collected from the website distancecalculator.globefeed.com to estimate how geographically close or distant is Lithuania from analysed foreign countries. Geographic distance was calculated as below:

$$\mathrm{GDI_j} = \ln(Distance\ of\ capital\ from\ Vilnius_{\ j})$$

Economic distance. Economic distance was measured by the difference in GDP per capita at PPP of export and home countries. Natural logarithm for each measure was used to scale data. Distance can be negative, in case when GDP at PPP of export country is lower than that of Lithuania and positive when otherwise. Absolute distance was not used since it is believed that there cannot be similar distance measure to export countries who have same distance to lower and higher side. The data was collected from Worldbank data source. Economic distance index with country j is then given by:

$$EDI_{\mathrm{j}} = \ln\left(GDP_{j}^{PPP}\right) - \ln(GDP_{Lithuania}^{PPP})$$

Costs index. Respondent firms were asked to evaluate their costs movements in last two years. Labor, R'n'd, Production, Equipment, Marketing, Electricity and Fuel costs were outlined on 3-point Likert scale (Increased, Remained the same, Decreased). PCA was performed to construct costs index and reduce the number of costs dimensions for exploration. (1;0;-1) encodings were used for this purpose. Likert scale variables are treated as continuous and use standardization according to means and standard deviations of costs indicators. PCA yielded the following results:

Table 13. Percentage of variance in seven costs indicators accounted in each principal component

Principal component	**% of variance in seven indicators**	**% Cumulative**
PC1	37,01%	37,01%
PC2	18,66%	55,68%
PC3	12,21%	67,88%
PC4	11,85%	79,73%
PC5	10,32%	90,05%
PC6	5,91%	95,96%
PC7	4,04%	100,00%

It was decided to retain four principal components (PC1-PC4) which account for **79,73**% of variance in original seven indicators (Table 13). Therefore, one set of four equations is obtained and constitutes costs indexes. In regression analysis component terms of no statistical significance will be dropped off from the models.

Table 14. Weights of principal components PC1-PC4

	Weights			
Costs indicator	PC1	PC2	PC3	PC4
Labor	0,43	-0,31	-0,46	-0,07
R'n'd	0,37	0,28	-0,61	0,29
Production	0,34	0,35	-0,02	-0,48
Equipment	0,31	0,46	0,26	-0,43
Marketing	0,25	0,44	0,31	0,70
Electricity	0,46	-0,44	0,13	0,04
Fuel	0,44	-0,33	0,48	0,06

Innovation index. Respondent firms were also asked to evaluate their innovation activities in the last two years. Yes/ No answers were given on the whether any of the following were introduced (Table 15).

Table 15. Innovation introduced

No	Description	Yes	No
1	Products or services	88%	12%
2	Methods of manufacturing	57%	43%
3	Methods of marketing	54%	46%
4	Methods of logistics	26%	74%
5	Methods of delivery	28%	72%
6	Methods of distribution	44%	56%
7	Processes	70%	30%
8	Organizational structures or management practices	59%	41%

PCA was performed to reduce the number of dimensions and construct innovation index.

Table 16. Percentage of variance in eight innovation indicators accounted in each PC

Principal component	% of variance in eight indicators	% Cumulative
PC1	41,83%	41,83%
PC2	17,96%	59,79%
PC3	13,24%	73,03%
PC4	7,26%	80,29%
PC5	7,07%	87,35%
PC6	5,34%	92,69%
PC7	4,05%	96,74%
PC8	3,26%	100,00%

Since data is binary, standardization was not used and covariance matrix was employed to perform PCA. Four principal components were retained in this case (PC1-PC4) which account for **80,29**% of variance in original eight indicators (Table 16). One set of four equations is obtained and constitutes innovation indexes.

Table 17. Weights of principal components PC1-PC4

.	Weights			
Innovation indicator	PC1	PC2	PC3	PC4
Products or services	0,17	-0,10	-0,14	0,38
Methods of manufacturing	0,25	-0,04	-0,92	0,09
Methods of marketing	0,46	-0,28	0,12	-0,18
Methods of logistics	0,34	0,41	-0,04	-0,47
Methods of delivery	0,30	0,60	0,02	-0,19
Methods of distribution	0,42	0,32	0,26	0,70
Processes	0,36	-0,34	0,04	0,08
Organizational structures or management practices	0,43	-0,41	0,20	-0,25

Other measures. Remaining factors, which importance will be examined in regression analysis, are given in the table below:

Table 18. Summary of other measures

Variable	Type	Description
JSC	Binary	Takes value 1 if Joint stock company 0 if PLC or individual enterprise
Company Size	Binary	Takes value 1 if company is large >= 250 employes, 0 otherwise
Export managers	Categorical	How many export managers company has. Takes value 1 if company has 1 export manager; 1 if company has 2-5 export managers; 2 if company has 6-9 export managers; 3 if company has 10 export managers
Export%	Continuous	Export sales % of total sales
Languages	Categorical	How many languages sales team speak. Takes value 1 if speaks 1 foreign language; Takes value 2 if speaks 2 foreign languages; Takes value 3 if speaks 3 foreign languages; Takes value 4 if speaks 4 foreign languages; Takes value 5 if speaks 5 foreign languages;
YearsExp	Categorical	How many years company exports. Takes value 1 if company is exporting ≤5 years; Takes value 2 if company is exporting 6-10 years; Takes value 3 if company is exporting 11-15 years; Takes value 4 if company is exporting 16-19 years; Takes value 5 if company is exporting ≥20 years;
ExportMark	Categorical	How many export markets company has. Takes value 1 if company has ≤5 markets; Takes value 2 if company has 6-9 markets; Takes value 3 if company has 10-15 markets; Takes value 4 if company has ≥15 markets;
Foreign	Binary	Takes value 1 if company has foreign owned subsidiaries and 0 otherwise
Skillful human resources	Binary	Core competence, takes value 1 if exists, 0 otherwise
New technologies	Binary	Core competence, takes value 1 if exists, 0 otherwise
Strong brand	Binary	Core competence, takes value 1 if exists, 0 otherwise
Capital	Binary	Core competence, takes value 1 if exists, 0 otherwise
Know-how	Binary	Core competence, takes value 1 if exists, 0 otherwise
Innovation	Binary	Core competence, takes value 1 if exists, 0 otherwise
Competition	Binary	Takes value 1 if High, 0 otherwise.
Industry type	Binary	Set of dummy variables, takes value 1 for particular industry

Limitations of the research. Even if the survey was sent to 1400 companies, it was assumed that response rate will be low because of the length and difficulty of the questionnaire and the lack of willingness of the firms' employees to share internal information of the company. Moreover, only 1400 companies agreed to share their internal information on „Versli Lietuva" database, assuming that there could be a bigger number of Lithuanian exporting companies (including those which are not willing to be opened to the public access), and this could lead to the results of the research which will not be enough representative for the whole Lithuania population. Additionally, it is assumed that there will be bias in data analysis as well. For example, there is a possibility that representatives of the companies will nominate more culturally close markets than distant markets and that would lead to unequal response division as well as will provide not sincere answers what would have negative impact on the final results.

4. Results

In this chapter the findings of the research will be provided followed by the discussion and recommendations for the future export development.

4.1. Research findings

The research findings will be divided into three parts. In the first one the summary of characteristics and internal factors of the companies will be presented. In the second part the results of objective cultural distance and other distances between Lithuania and nominated foreign markets will be provided. The final part is dedicated to the results regarding the impact of cultural distance and other influential factors on five export performance indicators.

Profile of the company. 19 industries given in the questionnaire were later collapsed into eight industries given in the table 19. The highest percentage of representative companies was from Metal and plastic processing, machinery and equipment manufacturing industry while the lowest - from Transport and logistics industry.

Table 19. Percentage of respondent companies operating in various industries

Industry type	**%**
Metal and plastic processing, machinery and equipment manufacturing industry	26%
Wood and wood product manufacturing industry	20%
Information and communication technology and electronics industry	16%
Food and feed industry	13%
Biotech, biochemical, and pharmaceutical industry	9%
Creative industries	9%
Apparel and textile and leather industry	5%
Transport and logistics	2%

41% of respondents work in medium sized companies, 28% in small sized company, 22% belong to micro sized companies and 9% work in the large ones. Company's age is also important characteristic and shows that 59% of the companies' respondents work in companies which are operating less than 20 years and 41% work in companies which exist more than 20 years. 50% of the companies are private limited liability companies, 43% joint stock companies, 5% individual enterprises, 1% small partnerships, and 1% agriculture cooperatives.

Internal factors of the company. One of the most important indicators of internal factors are innovations introduced by the company because it could strongly affect export performance in foreign markets as it helps to gain a competitive advantage. The results show that within the period of two years companies mostly innovated new products and services as well as processes. Least innovated areas were methods of delivery and logistics. Analysis of the costs' change in two years show that the majority of the companies have increased their costs for labor and production areas. The third question, regarding the internal situation of the companies, was related to the core competencies. As it is given in the figure below, the majority of the companies identified skillful human resources and know-how as the main core competencies of their companies. The least popular core competence of the companies was capital.

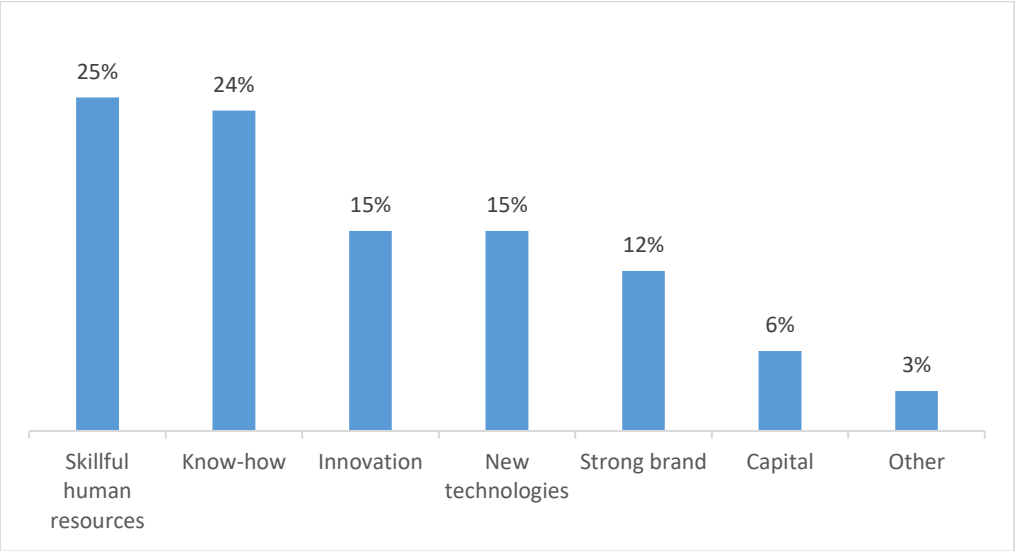

Figure 1. Core competencies

The data collected regarding the exports experience of the companies is also crucial and show that 57% of the companies are exporting less than 10 years and 43% more than 10 years. 52% of the companies have less than 10 export markets and 48% more than 10. Finally, respondents were asked about the part of total sales they are exporting to foreign countries and it was revealed that 31% of the companies are exporting less than 50% of total sales and 69% of the companies are exporting more than 50% to foreign countries. 75% of the firms have foreign owned subsidiaries and 25% do not have any. The majority of the companies were identified to have two-five export managers while only 4% have ten or more export managers (Figure 2).

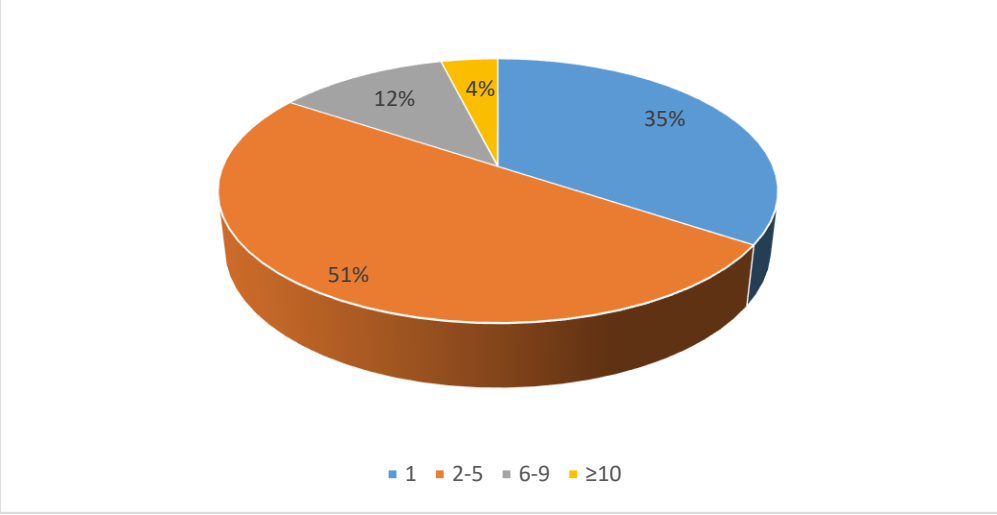

Figure 2. Number of export managers

The findings of empirical research demonstrate that the majority of the companies' sales teams speak two or three foreign languages. Only 5% of the respondents revealed that their sales team speaks five or more foreign languages (Figure 3).

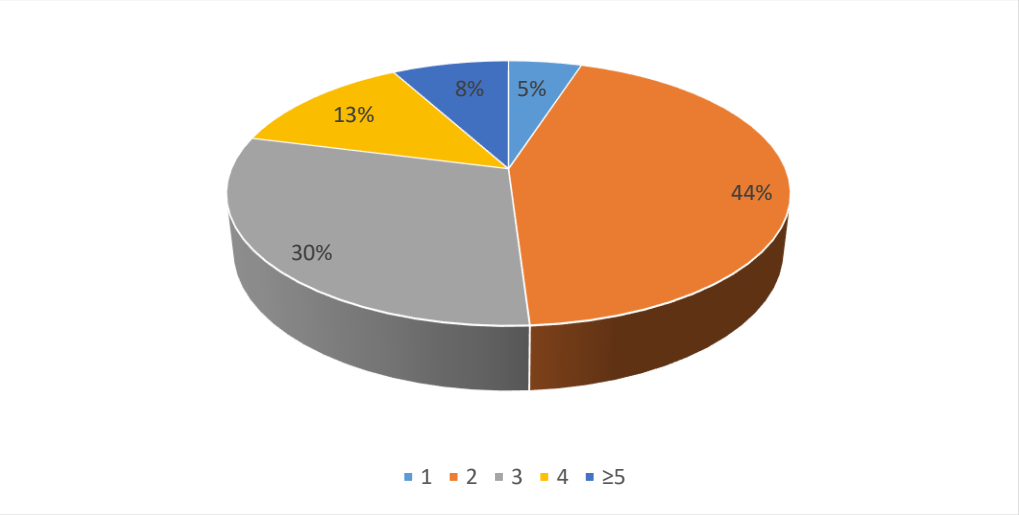

Figure 3. Number of foreign languages sales team speaks

Distances. Analysis of the first block of the research show that there are 49 different countries indicated by the respondents for the further analysis. The whole list of the countries is given in the table below together with calculated indexes of distances between those foreign countries and Lithuania. For instance, if China and Latvia are taken as an example and are compared with Lithuania, one can see that China is strongly culturally distant from Lithuania and Latvia is culturally close to Lithuania. Economic, geographical and administrative distances follow the same logic and show that China is distant to Lithuania while Latvia is close (Table 20).

Table 20. Calculated distances indexes between Lithuania and nominated foreign countries

Country	**CD**	**ED**	**GD**	**PD**
Australia	1,93	0,38	9,63	1,58
Belarus	2,43	-0,56	6,67	-3,65
Belgium	1,80	0,37	7,29	0,69
Chile	1,29	-0,29	9,50	0,09
China	4,01	-0,67	8,79	-2,99
Columbia	3,18	-0,82	9,23	-2,67
Czech Republic	1,26	0,10	6,80	0,19
Denmark	1,41	0,44	6,70	1,84
Egypt	1,73	-1,05	7,93	-4,30
Estonia	0,11	-0,04	6,27	0,72
Finland	0,11	0,31	6,41	2,16
France	1,12	0,26	7,44	0,50
Germany	1,71	0,43	6,71	1,47
Hong Kong	2,84	0,62	8,98	1,39
Hungary	3,96	-0,16	6,81	-1,03
India	2,15	-1,54	8,52	-2,55
Indonesia	2,58	-0,99	9,21	-2,65
Iraq	4,25	-0,67	7,94	-5,81
Ireland	2,46	0,83	7,62	1,13
Israel	1,23	0,15	7,87	-0,37
Italy	2,18	0,18	7,44	-1,01

Ghana	2,24	-1,99	8,69	-2,11
Japan	4,92	0,27	9,01	1,15
Kuwait	2,42	0,78	8,12	-2,66
Latvia	0,13	-0,16	5,57	-0,25
Mexico	3,38	-0,59	9,24	-3,06
New Zealand	1,70	0,22	9,76	2,36
Norway	0,33	0,62	6,95	2,26
Poland	2,34	-0,12	5,97	-0,59
Republic Of South Africa	1,63	-0,89	9,20	-1,87
Romania	2,54	-0,21	7,04	-1,72
Russia	2,43	-0,26	6,67	-3,84
Saudi Arabia	3,64	0,49	8,23	-2,78
Scotland	2,63	0,27	7,52	1,20
Qatar	3,23	1,36	8,27	-1,35
Slovenia	1,35	0,06	7,11	0,01
South Korea	1,65	0,15	8,90	-0,21
Spain	0,81	0,14	7,89	-0,26
Sweden	0,99	0,42	6,52	2,01
Switzerland	2,05	0,67	7,32	2,15
Taiwan	1,65	0,47	9,01	0,50
The Netherlands	0,32	0,46	7,22	1,93
Turkey	1,34	-0,22	7,33	-3,30
Croatia	1,39	-0,23	6,83	-1,11
Iran	0,69	-0,46	8,96	-4,28
UAE	2,81	0,81	8,32	-0,56
UK	2,63	0,27	7,45	1,20
Ukraine	2,62	-1,34	6,38	-3,88
USA	2,10	0,59	8,85	0,92

Export performance results. In this part the results of binary logistic regression model will show what is the significance and impact of cultural distance and other influential factors on five export performance indicators.

Export volume. Model evaluation show that fitted model has an explanatory power. Pearson Chi Square statistic equals 45 with 10 degrees of freedom, p value 1,89381E-06 (<0,05). Model output is shown in table below:

Table 21. Binary regression output for Export Volume

	coeff	s.e.	Wald	p-value	exp(b)	lower	upper
Intercept	0,4	1,15	0,14	0,71	1,54		
Cultural distance	0,2	0,15	1,68	0,19	1,22	0,90	1,66
Economic distance	-0,4	0,48	0,80	0,37	0,65	0,26	1,66
Geographic distance	-0,2	0,16	1,26	0,26	0,83	0,61	1,14
Administrative distance	0,3	0,13	5,50	0,02	1,36	1,05	1,76

Costs Index (PC1)	-0,2	0,16	2,28	0,13	0,79	0,57	1,07
Innovation Index (PC4)	0,7	0,41	2,55	0,11	1,93	0,86	4,33
Exp Markets	0,5	0,14	12,99	0,00	1,64	1,25	2,14
Domestic vs export	-1,6	0,55	8,69	0,00	0,20	0,07	0,58
Capital	2,4	0,70	12,17	0,00	11,55	2,92	45,69
Know-how	1,0	0,32	8,80	0,00	2,62	1,39	4,95

In the case of export volume, we can see that cultural distance does not have significance on export volume measure compared with other influential factors (p value>0,05); however, p value is near that and the coefficient is positive (meaning that export volume in culturally distant countries is bigger than in closer ones).

Administrative distance is the only distance factor which shows significance on export volume (p value<0,05) and has positive impact on this particular export performance measure. It means that to export in less politically developed countries there is a 30% lower chance for export volumes increasing (e.g. Indonesia). Controversially, there is 18% higher chance to increase export volume in more politically developed countries (e.g. New Zealand). Unfortunately, analysis failed to statistically validate significance of other distances.

Regarding other factors of importance, capital and know-how as core competencies of the companies are outlined. Capital as a core competence rises chance to increase export volume by 50% while know-how competence by 24%. Moreover, companies exporting to more than 15 markets tend to have 11% higher chance to increase their export volume. In general, it shows that companies which are already exporting to many foreign markets and have big capital and know-how competencies are gaining a competitive advantage in the foreign markets, what results bigger export volume. It is important to note that a part of total sales exported to foreign countries shows a high significance on analysed export performance measure; however, it also shows negative effect on change in export volumes. Companies who are not fully oriented to exports have up to 25% higher chance to increase their export volume in foreign countries than those companies which are exporting almost 100% of total sales. It means that less exporting companies might be more motivated to enter new markets and increase their export volumes. Companies that are already exporting a big part of totals sales slowly open new markets while less exporting companies are able to easily maneuver in order to be more competitive.

Costs index (PC1) did not show high significance on export volume; however, p value is near that and analysis shows that the companies, which decreased costs in all areas, have 15% possibility to increase export volume compared with those which costs remained the same. The companies, where costs in all areas increased, have 14% lower chance to increase export volume. Additionally, companies who leveraged innovations in Products, Manufacturing, Distribution, and Processes areas had 13% higher chance of increase export volume. On the contrary, companies which engaged in marketing, logistic, delivery, and management innovations were 10% less likely to increase volumes in their export markets.

Export volume model has a highest predictive power compared with other models of export performance indicators. Total sample forecast performance is 70% (108 out of 143 cases of successful and 68 out of 110 cases unsuccessful export performances are predicted correctly).

Table 22. Classification table for Export Volume model

	Volume Increased	Volume Remained / Decreased
Suc-Pred	108	42
Fail-Pred	35	68
Total obs.	143	110
Accuracy	75,52%	61,82%

Export profitability. Model evaluation show that fitted model has a weak, although significant, explanatory power. Pearson Chi Square statistic equals 29 with 11 degrees of freedom, p value 0,00263 (<0,05). Model output is shown in table below:

Table 23. Binary regression output for Export Profitability

	coeff	s.e.	Wald	p-value	exp(b)	lower	upper
intercept	-0,5	1,03	0,24	0,62	0,60		
Cultural distance	0,3	0,15	3,07	0,08	1,30	0,97	1,75
Economic distance	-0,2	0,46	0,11	0,74	0,86	0,35	2,12
Geographic distance	-0,2	0,16	1,70	0,19	0,81	0,59	1,11
Political distance	0,2	0,13	1,62	0,20	1,18	0,92	1,51
YearsExp	-0,2	0,12	2,13	0,14	0,85	0,67	1,06
Capital	1,0	0,49	4,47	0,03	2,82	1,08	7,39
Innovation	0,5	0,29	2,87	0,09	1,62	0,93	2,84
Sector. Food and feed industry	0,9	0,42	4,35	0,04	2,39	1,05	5,43
Sector. Information and communication technology and electronics industry	1,1	0,42	7,42	0,01	3,11	1,37	7,03
Sector. Creative industries	1,2	0,44	7,83	0,01	3,44	1,45	8,19
ExportMark	0,3	0,15	2,83	0,09	1,30	0,96	1,76

Wald test on cultural distance variable, show that it is not statistically significant factor (p value>0,05); however, p value is near that and coefficient is positive (meaning that export profitability in culturally distant countries is bigger than in closer countries).

Regarding other factors of importance, capital is rather crucial core competence to successfully operate in foreign markets and gain bigger profits. Innovation as a core competence shows p value near <0,05 meaning that this competence helps to increase profitability. The number of export markets shows that p value is near <0,05 meaning that the greater number of export markets company has, the higher is the probability to increase profits. Additionally, one sees that mainly sector effects persist. Thus, model can explain difference between some sectors but not the causes. For example, Food and Feed, Information and communication and electronics, Creative industries have higher probability to increase their profits in foreign markets than other industries. To sum up, the analysis failed to detect significant factors on export profitability measure. The reason for this could be the existence of other influential components that were not included in the research.

Export profitability model has a quite lower predictive power compared with other cases. Total sample forecast performance is 64% (95 out of 35 cases of successful and 158 out of 131 cases of unsuccessful export performance are predicted correctly).

Table 24. Classification table for Export Profitability model

	Profitability Increased	Profitability Remained / Decreased
Suc-Pred	35	27
Fail-Pred	60	131
Total obs.	95	158
Accuracy	36,84%	82,91%

Export adaptiveness. Model evaluation shows that fitted model has explanatory power. Pearson Chi Square statistic equals 32 with eight degrees of freedom, p value 9,51E-05 (<0,05). Model output is shown in table below:

Table 25. Binary regression output for Export Adaptiveness

	coeff	s.e.	Wald	p-value	exp(b)	lower	upper
Intercept	0,01	0,96	0,00	0,991	1,01		
Cultural Distance	0,29	0,15	3,90	0,048	1,34	1,00	1,78
Geographic Distance	-0,20	0,16	1,59	0,207	0,82	0,60	1,12
Economic Distance	-0,33	0,45	0,54	0,464	0,72	0,30	1,73
Political Distance	0,19	0,12	2,34	0,126	1,21	0,95	1,54
Costs Index(PC2)	0,65	0,23	7,78	0,005	1,91	1,21	3,01
Innovation Index(PC3)	-0,56	0,29	3,60	0,058	0,57	0,32	1,02
Innovation	0,72	0,28	6,44	0,011	2,05	1,18	3,56
Company Size (Large)	1,23	0,49	6,39	0,012	3,43	1,32	8,92

Wald test on cultural distance variable, show that it is statistically significant at 95% confidence level (p value < 0,05); however, the coefficient sign is positive (meaning that export adaptiveness in culturally distant countries is more successful than in closer countries). Figure 4 shows effect of cultural distance on Export adaptiveness and it is clear that with more distant countries probability of successful adaptation can increase to 21,44%.

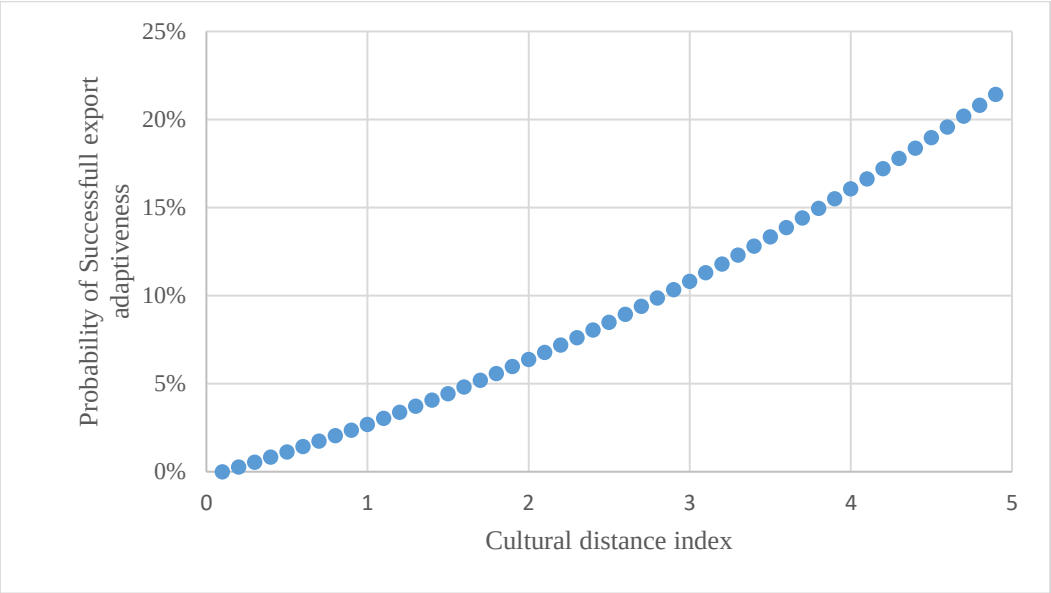

Figure 4. Marginal effect of cultural distance. Export Adaptiveness model

Other distance factors failed to yield statistical importance on this export performance measure (p value<0,05). Analysis shows that other factors of importance are costs, innovation as core competence of a company and company size.

Costs index (PC2) shows that companies in which costs decreased in labour, fuel and electricity and increased in r'n'd, production, marketing, equipment had 38,55% percent higher chance to achieve successful export performance adaptiveness. Innovation principal component (PC3) is near the significance at 95% of confidence level. It would increase in significance if several insignificant distance factors were removed. Thus, interpretation of marginal effects of innovation activities on export adaptiveness is still provided. Companies who had engaged in production, manufacturing and logistics innovations activities had a chance to improve their export adaptiveness 10% more than those who had no innovations in the last couple of years. However, companies who innovated in marketing, delivery, distribution, processes and management only, had 2% less chance in export adaptiveness than doing nothing. Lastly, companies which named innovation as their core competence had 17% higher chance to adapt in their nominated markets. Additionally, only large companies showed meaningful difference in regard to export adaptiveness, meaning that size increased their chances by 24% for more successful adaptiveness.

Industry sector effects were also considered, even though failing to detect meaningful differences among sectors, textile and leather sector were distinguished as having near statistical significance (p = 0,075) and negative coefficient (meaning that companies of this sector were likely to have poorer export adaptiveness).

Classification table shows, however, that model has quite low predictive power. Total sample forecast performance is 64% (60 out of 114 cases of successful and 102 out of 139 cases unsuccessful export performances are predicted correctly).

Table 26. Classification table for Export Adaptiveness model

	Successful Export Adaptiveness	Unsuccessful or Neither successful nor unsuccessful Export Adaptiveness
Suc-Pred	60	37
Fail-Pred	54	102
Total obs	114	139
Accuracy	52,63%	73,381%

Export effectiveness. Model evaluation shows that fitted model has weak, although significant, explanatory power. Pearson Chi Square statistic equals 30 with 11 degrees of freedom, p value 0,00158 (<0,05). Model output is shown in table below:

Table 27. Binary regression output for Export Effectiveness

	coeff	s.e.	Wald	p-value	exp(b)	lower	upper
intercept	0,1	0,97	0,02	0,88	1,15		
Cultural distance	0,2	0,15	1,17	0,28	1,17	0,88	1,56
Economic distance	0,2	0,47	0,28	0,60	1,28	0,51	3,21
Geographic distanc	-0,2	0,16	1,30	0,25	0,84	0,62	1,14
Political distance	0,1	0,13	1,26	0,26	1,16	0,90	1,49
Inovation index (PC4)	0,4	0,25	2,33	0,13	1,46	0,90	2,39
Costs index (PC3)	-0,4	0,28	1,68	0,19	0,70	0,40	1,20
Innovation	0,5	0,29	2,86	0,09	1,64	0,92	2,90
Sector (Wood)	0,7	0,41	2,93	0,09	2,00	0,90	4,45
Foreign	0,8	0,36	5,10	0,02	2,27	1,11	4,62
Sector(Food)	0,9	0,40	4,76	0,03	2,40	1,09	5,25
Capital	1,1	0,51	4,34	0,04	2,92	1,07	8,00

In the case of export effectiveness one can see that cultural distance does not have significance on this measure (p value>0,05); however, coefficient is positive (meaning that export effectiveness in culturally distant countries is bigger than in closer countries).

Regarding other factors of importance one can outline capital as a core competence and existence of company's subsidiaries as it helps companies to control activities in foreign markets and more easily achieve exporting goals. Innovation as a core competence shows p value near <0,05, meaning that this competence helps to lead to more successful export effectiveness. Additionally, one sees that mainly sector effects persist. For example, Food and Feed industry have higher probability to have better export effectiveness in foreign markets than other industries, Wood sector is also near that.

To conclude, the analysis of this model failed to detect significant factors on export effectiveness. The reason for this could be the existence of other alternative determinants that were not added in the research.

Export effectiveness model has a quite low predictance. Total sample forecast performance is 65% (71 out of 120 cases of successful and 94 out of 133 cases unsuccessful export performance are predicted correctly).

Table 28. Classification table for Export Effectiveness model

	Successful Export Effectiveness	Unsuccessful or Neither successful nor unsuccessful Export Adaptiveness
Suc-Pred	71	39
Fail-Pred	49	94
Total obs.	120	133
Accuracy	59,17%	70,68%

Export efficiency. Model evaluation shows that fitted model has explanatory power. Pearson Chi Square statistic equals 38 with 10 degrees of freedom, p value 3,98045E-05 (<0,05). Model output is shown in table below:

Table 29. Binary regression output for Export Efficiency

	coeff	s.e.	Wald	p-value	exp(b)	lower	upper
Intercept	1,1	1,05	1,07	0,300	2,96		
Cultural Distance	0,3	0,15	4,11	0,043	1,35	1,01	1,80
Economic Distance	0,4	0,48	0,69	0,405	1,49	0,58	3,83
Geographic Distance	-0,4	0,17	5,05	0,025	0,69	0,50	0,95
Political Distance	0,0	0,13	0,01	0,914	1,01	0,79	1,30
Costs Index (PC2)	0,5	0,24	3,73	0,053	1,58	0,99	2,50
Innovation Index(PC4)	0,8	0,40	3,63	0,057	2,13	0,98	4,62
Innovation	0,9	0,31	9,09	0,003	2,52	1,38	4,61
Company size (Medium)	-0,6	0,30	4,12	0,042	0,54	0,30	0,98
Foreign	0,9	0,35	6,89	0,009	2,52	1,26	5,02
IT sector	-1,1	0,49	5,21	0,02	0,33	0,13	0,85

As in the case with Export efficiency, here too one can notice that cultural distance has positive and significant effect on export efficiency. The effect is not that different in magnitude being 0,3; thus, marginal effect will yield up to ~22% chance of performing more efficiently in distant markets.

Geographic distance is significant at 95% confidence level, with a negative sign -0,4 showing that export efficiency in more geographically distant markets was less successful than in close ones. For example, exports to Latvia (closest country in sample) had 26% higher chance of being more efficient than those to New Zealand (farthest country in sample). As in previous case, it was failed to detect statistical significance of economic and administrative distances.

Regarding other factors of importance, one can outline innovation as companies' core competence and whether it has any foreign subsidiaries significant and positive effect on export efficiency. The size of the company is also marked as important feature as it shows that medium sized companies tend to have lower efficiency in foreign markets. Considering industry sector effects, IT sector

companies stood out among others, being 7% less likely to achieve export efficiency compared to other sectors.

The analysis failed to statistically validate particular components of costs and innovation principal at 95% confidence level. However, Costs Index (PC2) and Innovation Index (PC4) are near that. Costs index (PC2) shows that companies who had decreased of costs in labour, fuel and electricity and increased in r'n'd, production, marketing, equipment had 38,55% percent higher chance to achieve successful export performance adaptiveness. Additionally, Index (PC4) shows that companies who leveraged innovations in Products, Manufacturing, Distribution, Processes areas had 13% higher chance to be more successful in export efficiency. Contrary, companies which engaged in marketing, logistic, delivery and management innovations were 6% less likely to be efficient in their export markets.

Export efficiency model has a slightly higher predictive power compared to previous cases. Total sample forecast performance is 68% (47 out of 99 cases of successful and 125 out of 154 cases of unsuccessful export performances are predicted correctly).

Table 30. Classification table for Export Efficiency model

	Successful Export Efficiency	Unsuccessful or Neither successful nor unsuccessful Export Efficiency
Suc-Pred	47	29
Fail-Pred	52	125
Total obs	99	154
Accuracy	47,47%	81,17%

To sum up, one can see that chosen influential factors in the research show significance only on three indicators of export performance (export adaptiveness, export volume, export efficiency) from five analysed ones. The analysis failed to detect significant factors on other two export indicators (export effectiveness and export profitability). As it was mentioned before, the cause of that could be ignorance of some additional influential factors which could show higher significance than the chosen ones.

Cultural distance showed significance (p value < 0,05) on two export performance measures (Export Adaptiveness and Export Efficiency). Additionally, it was indicated that cultural distance shows positive impact on all five export performance measures meaning that higher cultural distance leads to more successful export performance.

Table below shows how the probability of export performance success or growth in different export categories, depends on the level of cultural distance. As presented in the sample, the boundaries of cultural distance index vary from 1 to 5. Thus, it can be seen that higher cultural distance index increases probability for more successful export performance (Table 31).

Table 31. Cultural distance impact on export performance

	Cultural distance score				
Probability of increasing Export performance:	1	2	3	4	5
Adaptiveness	2,97%	6,64%	11,09%	16,34%	22,34%
Efficiency	2,17%	4,95%	8,45%	12,75%	17,90%
Effectiveness	3,75%	7,60%	11,52%	15,45%	19,35%

Volume	4,95%	9,96%	14,93%	19,77%	24,40%
Profitability	2,79%	6,17%	10,20%	14,89%	20,23%

4.2. Discussion and recommendations

Discussion. In the line with some of previous studies, this master's thesis showed that cultural distance has a positive impact on export performance, and following Morosini, Shane and Singh (1998) and Evans and Mavondo (2002) proved an existence of cultural distance paradox by showing that export activities in culturally close countries not necessarily lead to success. There is a widespread opinion that to enter culturally similar markets is easier and that does not require a lot of additional efforts what makes culturally close markets more attractive to enter. Cultural distance paradox could be interpreted by companies' motivation to deal with cultural uncertainty, for example, initiating additional research, planning and continuously learning in order to use cultural distance beneficially and achieve better results of export performance.

From the chosen additional distances only geographical and administrative distances showed significance on a few export performance indicators. Geographical distance has significant and negative impact on export efficiency, meaning that export performance outputs are less satisfactory than the amount of transportation costs. Administrative distance showed significant and positive effect on export volume, meaning that there is a higher chance to increase export volume by exporting to more politically developed countries that to the less developed ones. Economic distance did not show significance on any of export performance measures.

In the final, it is suggested that future researchers should consider other determinants that could have a significance on export results as well as to apply different measurements for estimation of independent variables. Additionally, it is recommended to expend the research by trying to investigate not only the impact of CD but also to discover causes of such results. Finally, following (Evans and Mavondo, 2002) future researchers are suggested to add perceptions of the managers about cultural distances as this information could provide additional insights that would help to make more reliable conclusions.

Recommendations. In this part practical suggestions will be provided for Lithuanian exporting companies based on results from the research.

Cultural distance. In this research cultural distance paradox was indicated, it means that export performance tend to be more successful in culturally distant markets than in close ones. It can be argued that managers have an opinion that entering to culturally close countries is easier and therefore does not require additional analysis of the market and extra effort to prepare for the risks they could face in culturally close countries. The positive impact of cultural distance on export performance could be explained by higher motivation of entering culturally distant markets. Therefore, higher motivation leads to continuously learning and gaining knowledge about cultural differences which result more successful export performance outputs. Cultural distance factor showed the significance on export adaptiveness and efficiency, meaning that cultural distance motivates and gives companies an opportunity to analyse, improve knowledge about cultural differences, innovate and develop competitive advantages in order to easier integrate in distant markets and refunds the inputs needed to achieve outputs. However, even if cultural distance factor shows positive effect on export

performance indicators, companies should not ignore cultural differences as it could lead to negative results.

Additionally, the results of the research show that internal characteristics of the firms' are important factors of export performance success in foreign markets.

Core competencies. Companies are suggested to focus on their core competencies as it is one of the main determining factor of successful export performance. Particularly in this research results indicated that innovation, capital and know-how are those competencies which show significance on positive results of export activities and companies should continuously develop them. It was found that it is possible to achieve better adaptation and efficiency with the help of innovations. Capital and know-how competencies help to increase export volumes for the reason that companies having these competencies are able to access needed resources and exclusive knowledge as well as have various techniques that are difficult to copy and that help to get competitive advantage over the competitors. Additionally, bigger capital allows companies to achieve higher profitability and easier achieve their objectives of exports.

Innovations. The study shows that innovations are an important predictor in the result of export performance. It is significant to emphasize that particular innovations tend to bring higher success of export activities than others. Companies are suggested to invest in the new products, manufacturing and distribution methods as well as new processes, as these areas are creating the biggest competitive advantage. Controversially, the results show that companies which innovate in marketing, logistics, or management practises did not achieve such successful results of exports.

*Costs distribution***.** The costs reduction or increase as well as its efficient distribution shows significance on export performance. As results of the research indicated, in order to gain competitive advantage companies are suggested to increase costs in r'n'd, production, marketing, and equipment as these areas are directly related with gain of competitive advantage. Additionally, companies should think more on how to decrease costs in labour, fuel, and electricity as the highest amount of money is spent on these areas.

International experience. As the results of the research indicated, the higher number of export markets leads to better export performance. Companies should continuously search for the new markets to enter as that would help to mitigate the upcoming risks. Additionally, foreign subsidiaries are highly recommended as it helps to have better control of export activities in the export markets. In sum up, the results findings enclosed that international experience in a host country tends to facilitate an export performance.

Conclusions

1. Previous studies showed that it is still complicated to decide the significance of cultural distance on organizational performance. The results of the previous researches indicated that cultural distance could have a significance as well as could not be a strong predictor. It is critical to note that even there is a big number of previous studies that indicated that cultural distance is an important factor in determining the organizational performance internationally, it is still not clear how significant it is compared with additional factors. Here it was revealed that environment of the the host country, such as political, geographical and economic distances are more important determinants than cultural distance alone. Additionally, recent findings indicated that such influential factors like international experience, other internal capabilities of the companies or common languages have greater significance on successful organizational performance compared with CD.

2. The review of previous studies shows rather contradicting opinions regarding the relationship between cultural distance and firms' export. Some scholars claim that cultural distance have unfavourable effect as it increases firm's degree of uncertainty in the foreign market, what leads to number of misunderstandings and difficulties. While other found that cultural distance enhances export performance as companies are motivated to exchange knowledge, communicate and learn new things about cultural differences from the partners in the culturally distant markets. Finally, some scholars proved the existence of cultural distance as a paradox, showing that export activities in culturally close countries does not always mean successful export performance. There is a widespread opinion that export activities in culturally close markets does not require any additional efforts what makes achievement of export results easier. Based on these contradicting findings, it was interesting to conduct a research and investigate the impact of CD on export in Lithuanian context. Lithuania is a perfect choice for analysis as the country is heavily relying on exports and businesspeople are showing great interest in opening new export markets.

3. Following previous studies investigating the effect of CD on chosen dependent variable, cultural distance was estimated by the Kogut and Singh's cultural distance index formula based on Hofstede's cultural dimensions theory. The relation between cultural distance and export performance was supported by the analysis of the data from 87 Lithuanian exporting companies and 253 export ventures into 49 international markets. Each respondent was asked to share information about the internal characteristics of his/her company and provide evaluation of export performance in one culturally close and one culturally distant export market. Cage Distance framework helped to identify additional distances (economic, administrative, and geographical) which were included in the research as control variables. Geographical distance was measured by the distance in kilometres between capitals of countries, administrative distance by the index of Worldwide Governance Indicators (WGI), and economic distance by GDP per capita at PPP. Following the findings of previous studies that company's characteristics and internal factors, such as capabilities, innovations, and international experience could help the company to achieve better results, these determinants were included in the research as well. The analysis of collected data has been done by binary logistic regression model since there was a need to predict chosen export performance indicators (export sales volume growth, export profitability growth, export effectiveness, export efficiency, export adaptiveness) success or unsuccess based on a set of independent variables.

4. In the line with some of previous studies, this study proved that cultural distance has a positive impact on export performance. However, controlling for other distances and additional factors, objective cultural distance showed significance only on two outcomes of export performance: export adaptiveness and export efficiency. Thus, it may be said that cultural distance motivates and gives an opportunity to the companies to analyse, improve knowledge about cultural differences, innovate and develop competitive advantages in order to integrate easier in distant markets as well as refunds the inputs needed to achieve desired results. Additionally, this research supported the opinion that cultural distance paradox truly exists and export activities in culturally close countries not necessarily lead to success. Cultural distance paradox could be explained by companies' motivation to deal with cultural uncertainty, for example, initiating additional research, planning and continuously learning in order to use cultural distance beneficially and achieve better results of export performance. The findings are expected to be beneficial to internationally oriented Lithuanian companies that are considering export activities in the new markets. Lastly, results are followed by the recommendations to Lithuanian exporting companies for export development. It was found that internal factors of the company, such as core competencies and international experience are important determinants of Lithuanian firms' export success as they help to gain a competitive advantage in the international markets. Companies are suggested to innovate in the new products, manufacturing and distribution methods as well as in new processes. Additionally, in order to have better export performance, companies are proposed to increase the costs in r'n'd, production, marketing and equipment and decrease in labour, fuel and electricity.

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Appendices

Appendix 1. The questionnaire

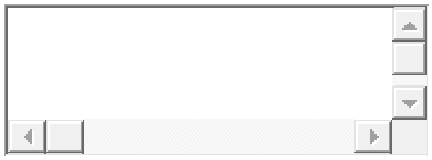
1. What is the industry type your company is operating in?

- ☐ Wood and wood product manufacturing industry
- ☐ Furniture industry
- ☐ Metal and plastic processing, machinery and equipment manufacturing industry
- ☐ Construction industry
- ☐ Apparel and textile and leather industry
- ☐ Transport and logistics
- ☐ Information and communication technology industry
- ☐ Graphic arts, publishing, and advertising industry
- ☐ Paper, paper product manufacturing, and packaging industry
- ☐ Chemical industry
- ☐ Biotech, biochemical, and pharmaceutical industry
- ☐ Medical services and equipment
- ☐ Academic and educational services
- ☐ Creative industries
- ☐ Food industry
- ☐ Tourism
- ☐ Manufacture of raw materials
- ☐ Aviation
- ☐ Startup
- ☐ Other

2. What is the type of your company you are working in?

- ☐ Private limited liability company
- ☐ Joint stock company
- ☐ Individual enterprise
- ☐ Small partnership
- ☐ Other

3. Which year your company was established?



4. How many employees does your company have?

- ☐ 1-9
- ☐ 10-49
- ☐ 50-99
- ☐ 100-149
- ☐ 150-249
- ☐ 250-499
- ☐ 500-1000
- ☐ >1000

5. How many export managers does your company have?

- ☐ 1
- ☐ 2-5
- ☐ 6-9
- ☐ ≥10

6. How many languages does your sales team speak (without your mother language)?

- ☐ 1
- ☐ 2
- ☐ 3
- ☐ 4
- ☐ ≥5

7. How many years your company is exporting?

- ☐ ≤5
- ☐ 6-10
- ☐ 11-15
- ☐ 16-19
- ☐ ≥20

8. How many export markets does your company have?

- ☐ ≤5
- ☐ 6-9
- ☐ 10-15
- ☐ ≥15

9. What is the percentage of total sales your company is exporting to the foreign markets?

10. Does your company have foreign owned subsidiaries?

☐ Yes

☐ No

11. During the last 2 years, has your company introduced any new:

	Yes	No
Products or services	☐	☐
Methods of manufacturing	☐	☐
Methods of marketing	☐	☐
Methods of logistics	☐	☐
Methods of delivery	☐	☐
Methods of distribution	☐	☐
Processes	☐	☐
Organizational structures or management practices	☐	☐

12. During the last two years, how the costs of your company had changed regarding each of the following:

	Increased	Remained the same	Decreased
Labor costs	☐	☐	☐
R&D cots	☐	☐	☐
Production costs	☐	☐	☐
Equipment costs	☐	☐	☐
Marketing costs	☐	☐	☐
Electricity costs	☐	☐	☐
Fuel costs	☐	☐	☐

13. What are the core competencies of your company: (many answers possible)

☐ Skillful human resources

☐ New technologies

☐ Strong brand

☐ Capital

☐ Know-how

☐ Innovation

☐ Other

14. Please identify one of your markets which could be considered as culturally close market to Lithuania:

15. What is the level of competition in your nominated market?

- ☐ Low
- ☐ Medium
- ☐ High

16. Please evaluate how the following export indicators of your company had changed in your nominated export market during the last 2 years:

	Decreased	Remained the same	Increased
Export sales volume growth – the average sales volume of a company's products or services exported	☐	☐	☐
Export sales profitability growth – the amount by which revenues remaining after deduction of sales costs	☐	☐	☐

17. Please evaluate how successful was export of your company in the nominated market in the past 2 years regarding each of the following:

	Successful	Neither successful nor unsuccessful	Unsuccessful
Export effectiveness – ability of the organization to achieve export objectives	☐	☐	☐
Export adaptiveness – ability of the organization to react and adapt to changes in its export market	☐	☐	☐
Export efficiency – the relation between export performance outputs and the inputs required to achieve them	☐	☐	☐

18. Please identify one of your markets which could be considered as culturally distant market to Lithuania:

19. What is the level of competition in your nominated market?

- ☐ Low
- ☐ Medium
- ☐ High

20. Please evaluate how the following export indicators of your company had changed in your nominated export market during the last 2 years:

	Decreased	Remained the same	Increased

Export sales volume growth – the average sales volume of a company's products or services exported	☐	☐	☐
Export sales profitability growth – the amount by which revenues remaining after deduction of sales costs	☐	☐	☐

21. Please evaluate how successful was your company's export in your nominated export market in the past 2 years regarding each of the following:

	Successful	Neither successful nor unsuccessful	Unsuccessful
Export effectiveness – ability of the organization to achieve export objectives	☐	☐	☐
Export adaptiveness – ability of the organization to react and adapt to changes in its export market	☐	☐	☐
Export efficiency – the ratio between export performance outputs and the inputs required to achieve them	☐	☐	☐

Appendix 2. The certificate of the survey