



The CAGE distance framework

The CAGE distance framework developed by Prof. Ghemawat evaluates the psychological distance between the home market and the target country through four dimensions: Cultural distance, Administrative and political distance, Geographic distance and Economic distance.

This distance reflects the additional tacit and social costs that foreign firms face when entering a particular host market, known as the “liability of foreignness”.





The CAGE Distance Framework: evaluating the psychological distance



The CAGE distance framework analyzes the psychological distance between the home market and target countries according to four attributes of distance: culture, administration, geography and economics.

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



The CAGE Distance Framework: the case of Lenovo entering the US market



The CAGE distance framework applied to Lenovo's entry into the US market illustrates the diversity of obstacles Lenovo had to face to overcome the 'liability of foreignness' for a Chinese company in America.

Dimensions of distance / Target countries	Cultural distance	Score	Administrative distance	Score	Geographic distance	Score	Economic distance	Score	Total score
US market	<i>Different language, alphabet, history, social norms...</i>	3	Absence of shared monetary and political association with China, political hostilities, different political systems...	3	<i>Lack of common border, long sea route through the Pacific Ocean, long air route. Different Climates and demography.</i>	3	Different purchasing power, GDP growth rate, market size, industrial maturity...	3	12

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CAGE Distance Framework: analyzing the psychological distance between two countries

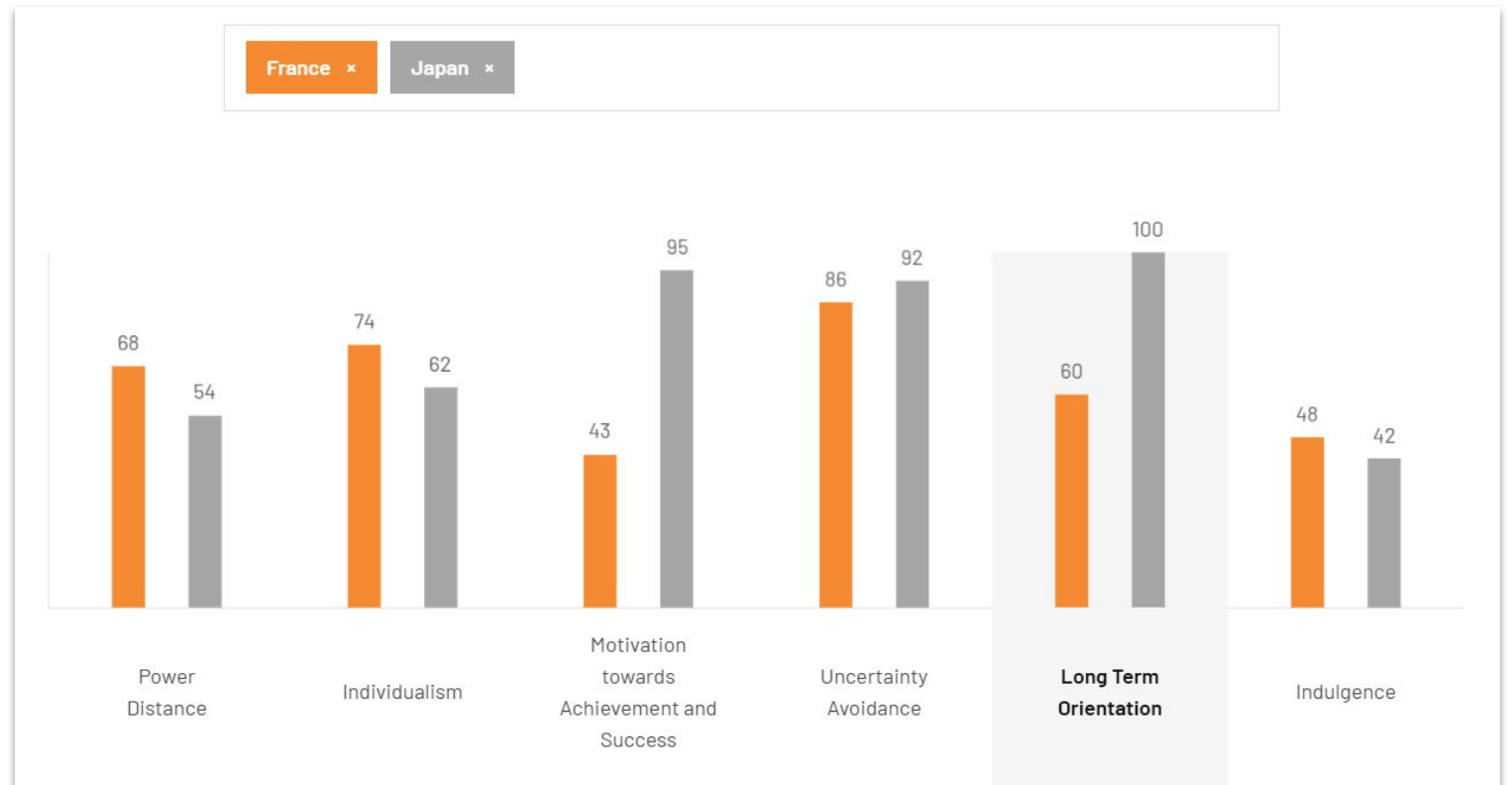
Dimensions of distance / Target countries	Cultural distance	Score	Administrative distance	Score	Geographic distance	Score	Economic distance	Score	Total score
Country #1	...	0	...	0	...	0	...	0	0
Country #2	...	0	...	0	...	0	...	0	0
Country #3	...	0	...	0	...	0	...	0	0
Country #4	...	0	...	0	...	0	...	0	0



The Culture Factor group > Country comparison tool

We define culture as the collective mental programming of the human mind distinguishing one group of people from another. This programming influences patterns of thinking which are reflected in the meaning people attach to various aspects of life and which become crystallised in the institutions of a society.

<https://www.theculturefactor.com/country-comparison-tool>





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