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The Role of Psychic Distance in Market Entry Sequence and Channel Partner Initiation

A Study of New Zealand Food and Beverage SMEs

156.799

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Prepared by
Anthony D. Martin

Supervised by:
Dr Loren Stangl

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Massey University
School of Communication, Journalism & Marketing

Abstract

The approach that individuals within exporting firms take towards market selection is a significant area of academic research and practitioner interest. The concept of psychic distance goes some way to explaining how and why firms select markets for exporting, especially with regard to initial market entry sequence. It is argued however that channel partner initiation is just as if not more important in considering the method to how one market is selected above another – especially in the case of emerging markets.

Aim: The primary objective of this thesis is to study the impact of psychic distance on market entry sequence and channel partner initiation for small and medium sized enterprises (SMEs).

Theoretical Background: The theoretical background for this study is centred on forty years of academic research into the concept of psychic distance. Particular focus is targeted at methodologies used to measure psychic distance to determine its relevance in the modern era and its adaptability for SMEs operating from small domestic markets. The Uppsala model (U-model) of internationalisation is a fundamental reference point for traditional market entry strategies and this is contrasted with the born-global approach with application to small exporting nations. Stimulating factors for internationalisation and export readiness are explored to determine the connection between proactive and reactive export behaviours. Modes of channel partner initiation are examined with an emphasis on different approaches that may be employed in the case of emerging markets.

Methodology: The mixed methodology design encompasses the application of two means of measuring psychic distance across 25 selected export markets. An objective index approach is taken using statistical data and facts and is then contrasted with the perceptions of an expert panel of thirteen export promotion organisation (EPO) senior employees. Qualitative insights into key stimulating factors and export readiness for New Zealand food and beverage (F&B) SMEs are collated to provide context for certain export behaviours. The expert panel then provides a perception based rating of the most common modes of channel partner initiation for the 25 selected markets.

Findings: The results of the research reveal a negative correlation between the perceived psychic distance of export markets and the method of channel partner initiation. Distant markets display a highly reactive relationship with buyers predominantly initiating new channel partnerships either through unsolicited export orders or through influences from social ties and networks. Psychically close markets generally follow the U-model staged approach and are driven by proactive seller-led activity. The psychic distance paradox was discovered as a key inhibitor of export growth in markets considered psychically close.

Conclusions: New Zealand F&B SMEs are pushed in to exporting at a much earlier stage of their business life cycle due to the small nature of the domestic market. As such they are often unprepared for internationalisation and must face the influence of psychic distance without a large human resource or financial base. Most firms follow the U-model approach but are confronted with the psychic distance paradox which may put additional stress on cash flow or force them to withdraw from exporting. Psychically distant emerging markets offer much larger growth opportunities but come with a higher perceived risk. Social ties and networks are a key means of overcoming these perceived hurdles.

Implications: Theoretical implications indicate the continued relevance of psychic distance and the psychic distance paradox for market selection and channel partner initiation. This creates further consideration on how academics, practitioners and policy makers alike can support narrowing the psychic distance gap to take advantage of emerging market opportunities. EPOs should continue to build tailored programmes to match the required channel partner initiation approach for emerging markets to expedite entry of SMEs. Fostering alumni groups of international students and better consideration of the Immigrant Effect are two proposed solutions. This leads to further attention required in determining how EPOs can support export sectors to close psychic distance gaps to emerging growth markets – particularly with respect to F&B SMEs.

Keywords: *Psychic Distance, Market Entry Selection, Export Stimulation, Export Readiness, SMEs, Channel Partner Initiation, Export Promotion Organisations*

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A.D. Martin

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1. Introduction

How do small organisations select which international markets to enter and which channel partners to help them service these markets? These are longstanding and often repeated questions in international business. However, their importance has grown in recent years as the focus of international business development is swinging further towards opportunities in emerging markets. The Asian region specifically is growing at a phenomenal rate with the percentage of global gross domestic product (GDP) projected to nearly double from 18.3 percent in 1990 to 30.8 percent in 2020 (www.nzte.govt.nz, 2013). Three Asian emerging markets - China, India and Indonesia - account for 40 percent of the world's population and represent huge opportunities for firms considering internationalisation. However, these markets also represent distinct cultural and behavioural characteristics which may increase an exporter's level of uncertainty and create barriers to entering and operating successfully in each market. Johanson and Weidersheim-Paul (1975) developed the term *psychic distance* to explain this phenomenon.

Research into the impact of psychic distance on internationalisation decision-making is extensive (O'Grady & Lane, 1996; Stottinger & Schlegelmich, 1998; Dow, 2000; Brewer, 2007; Ellis, 2008). In recent years, several studies have operationalised psychic distance measures (Bello et al, 2003; Brewer, 2007; Håkason & Ambos, 2010). Although the results of these studies provide insights into the role of psychic distance on export decision-making, the findings are based on data from large domestic markets. This fact raises questions as to the influence of domestic market size of the seller on the role psychic distance plays for export market selection. Research by Bosma and Levie (2009) finds that international orientation is lower in large countries – irrespective if size is based on population or landmass. Firms in large countries may find ample domestic opportunities whereas those originating from small domestic markets may have to seek international opportunities for growth. What's more, these firms are often at an early stage of their business life cycle (Arbaugh, et al., 2008).

There is a gap in our knowledge regarding the relationships between psychic distance perceptions and factors stimulating exports. The subsequent international readiness of firms originating from small domestic markets requires additional examination. There is also an apparent gap in understanding how psychic distance relates to smaller and medium sized enterprises (SMEs) as the majority of previous research has mostly focused on multi-national corporations (MNCs).

SMEs are important because of their sizeable role in economic employment and growth. Understanding the impact on internationalisation opportunities is critical because many export-led economies are dominated by the number of firms involved in businesses classified as SMEs. As an example, New Zealand has 97% of firms classified as SMEs with less than 20 employees (The Small Business Sector Report, 2013) and the number of truly multi-national firms is minimal.

In addition to the predominance of SMEs, research on 'born-global' or international new venture firms has challenged the traditional view of internationalisation taking place in an incremental manner (Oviatt & McDougall, 1997; Bell, McNaughton, Young, & Crick, 2003). What has been made clear through the literature is that SMEs are much more likely to suffer the effects that psychic distance may play on market entry selection (Ellis, 2008). The testing of this concept to firms operating in specific sectors has however been modest to date. This is even more evident when considering what impact this may have on not only which markets a firm selects for exporting to but even more importantly, how do they initiate relationships with channel partners in those markets.

One of the most challenging aspects of exporting for any size business is obtaining reliable foreign representation (Leonidou, 2004). This makes channel partner selection one of the most important choices for an exporter (Cavusgil, Yeoh, & Mitri, 1995). Finding a channel partner can prove problematic when aiming to align expectations, scale and expertise. Many SME exporters risk being lost in the mix of large product portfolios of well-established in-market channel partners. Similarly choosing a small scale partner may result in slow growth in sales which can place pressure on cash flow and corporate growth expectations. Despite the importance of channel partners in the

exporting value chain, the absence of research into the topic is conspicuous. Comprehension of how these partnerships are initiated and whether there is any difference in the approach employed across markets at various different stages of socio-economic development warrants further consideration. Ellis and Pecotich (2001b) went so far as to suggest that channel partner identification is one of the most significant knowledge gaps in the internationalisation literature.

My study explores the relevance of psychic distance theory for export preparation, market entry sequence and initiation of channel partner relationships for SMEs originating from a small open domestic market, New Zealand. To do this, my study replicates the methodology used by Dow (2000) to gauge perceptions of psychic distance between New Zealand and selected export markets in order to explore if psychic distance acts as a predictor for market entry sequence and prioritisation of New Zealand exporters. Dow's (2000) study focused on a medium-sized domestic economy - Australia - while this research seeks to determine what impact psychic distance has on the smaller and more geographically isolated exporting nation of New Zealand. The study also employs a psychic distance index developed by Brewer (2007a) to evaluate the results against current exports in a selected sector. Finally my study builds on Ellis (2000) and explores differences in approaches to finding channel partners in the selected emerging markets as compared to developed markets. Through exploring these questions the aim of my research is to understand the approach firms are taking to initiate new channel partnerships in the markets included in the research. I want to understand that if an export market is considered 'psychically distant' is the approach to initiating new relationships altered. Contributions from my research are relevant not only to address the identified gap in the literature but to also inform policy makers and practitioners of methods to support firms in approaching export market opportunities.

A review of the extant literature in *Section 2* will assist in defining the key terms (psychic distance and channel partner initiation) along with key constructs to consider in the stimulating factors for export market development. *Section 3* will outline the research purpose and methodology in

relationship to the conceptual model that will be developed from the literature review and identified research gap. The study is primarily qualitative in nature while also making use of publicly available statistical data on trade and exporter profiles. *Section 4* will provide a detailed summary of the research findings based on the measured results of psychic distance and qualitative insights from a panel of interviewees. A discussion on the findings will be captured in *Section 5* before conclusions are made in *Section 6*. Limitations of the study and suggestions for future research will be proposed in *Section 7*. *Section 8* will complete my thesis with final remarks on the contribution of this study to academia, policy makers and practitioners.

2. Literature Review

The following review of existing literature will explore and capture insights related to four areas of consideration for this research – *Psychic Distance, Export Stimulation and Readiness, Export Market Selection and Export Channel Partner Initiation*. A summary of core concepts and authors from the literature review is included in Table 4 at the end of this section.

2.1 Psychic Distance

The pattern of foreign expansion and its link to the concept of psychic distance has proved to be a popular research theme over the past four decades (e.g. Johanson & Weidersheim-Paul, 1975; O'Grady & Lane, 1996; Stöttinger & Schlegelmilch, 1998; Dow, 2000; Ellis, 2008). At its breakthrough in to popular literature psychic distance was defined by academics from the Uppsala International School as:

“The sum of factors preventing or disturbing the flows of information between firms from and to the market.” (Johanson & Wiedersheim-Paul, 1975).

Effectively psychic distance relates to the unintended ‘noise’ that makes some markets less attractive than others for prospective exporters in the early stages of internationalisation.

Operating in foreign markets not only brings about additional business opportunities for firms, but also challenges, such as differences in language, consumer behaviour, cultural standards, legal framework or purchasing power (Stöttinger & Schlegelmilch, 1998). On that basis psychic distance plays a role in determining which markets firms will enter and in what sequence. Previous research indicates that psychic distance is a significant deterrent to market selection, at least in the initial stages of a company's international business development, and particularly in the case of SMEs (Cicic, Patterson, & Shoham, 1999). In this way exaggerated distance perceptions may lead managers to forego profitable business opportunities abroad in favour of the export path that is more familiar or popular (Håkanson & Ambos, 2010).

2.1.1 What does Psychic Distance Mean?

The definition provided by Johanson and Weidersheim-Paul (1975) has been widely employed and referenced with over 2,800 citations at the time of writing this thesis. The observations of these researchers suggested that gradual internationalisation was the process followed by most Swedish firms in the process of expanding into foreign markets rather than large transformational leaps in investment and commitment. In later years additional attempts to explain the concept were made. Nordstrom and Vahlne (1994) refined the psychic distance definition to:

"Factors preventing or disturbing firm's learning about and understanding a foreign environment"

While O'Grady and Lane (1996) describe psychic distance as:

"...a firm's degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there."

The incremental stages theory of internationalisation was named the U-model (Uppsala model). The U-model predicts that taking only psychic distance in to account, firms start out by invading 'neighbouring' (in the cultural sense) markets and later, as experience grows, more distant markets will be entered (Johanson & Vahlne, 1977; Johanson & Vahlne, 1990). The premise consistent with all definitions is that firms follow a structured path of internationalisation whereby physically close markets are selected for export development in the initial phases (for example Canada<USA; New Zealand<Australia; Ireland<United Kingdom). The four stages in the U-Model internationalisation process as outlined in Figure 1 follow a natural progression from no regular export activities to export via independent representatives (agents or distributors – referred to as channel partners in this study) to in-market sales subsidiary and finally to local production/manufacturing. As the firm gains experience knowledge barriers to development in to new markets are removed as information flows improve, knowledge and understanding grow, and resource involvement of the firm increases. It is after this stage where psychically distant markets can be entered with seemingly less risk.

Figure 1: U-Model Stages of Internationalisation (Johanson & Vahlne, 1977)



The essence of the four stages in Johanson and Vahlne's (1977) U-model is that firms seek to build capability domestically in terms of manufacturing, distribution and marketing functions before adapting their product offering to be suitable for export markets. This staged approach is supported by Keegan (1989) who suggests that firms tackling more distant markets early in their existence leads to higher learning needs and thus ultimately reduces their pace of globalisation. Therefore the smaller and more gradual psychic distance stages alleviate risk and align better with firm's knowledge and capability (Keegan, 1989).

The concept of psychic distance is built on the idea that for any manager, knowledge is easier to glean from certain countries than from others (Johanson & Wiedersheim-Paul, 1975; Brewer, 2007a). Reid (1984), on the other hand, claims that the concept of psychic distance is too deterministic and firms respond to export market expansion in more idiosyncratic ways. Stöttinger and Schlegelmilch (1998) suggest that the impact of globalisation renders psychic distance differences meaningless in the modern environment. In response to these allegations, Ellis (2000) calls for qualitative research based on in-depth interviews, to promote theory-building on foreign market expansion practices (p.463). However, in recent years an abundance of research has been dedicated towards objectively structuring and measuring the process of export market selection rather than taking a deeper look at the qualitative value and application of psychic distance (Dow, 2000; Dow & Karunaratna, 2006; Brewer, 2007a; Ellis, 2008; Dow & Larimo, 2009; Håkanson & Ambos, 2010).

In summary the psychic distance concept has been pulled apart, reviewed, analysed, reconstructed and tested and despite the challenges to some of the core components it still remains a predominant consideration for international marketing academics and practitioners (Dow, 2000).

2.1.2 Isn't Psychic Distance Just a Matter of Perception?

As the firm moves through each of the phases of internationalisation perceived psychic distance becomes a less dominant feature in decision making for the individuals of the firm (Johanson & Wiedersheim-Paul, 1975). How individuals perceive the world is a core essence of psychic distance theory. The concept of psychic distance explores individual perceptions based on demographic background, previous international exposure, knowledge of cultural differences, overseas business practices and management approaches (Fletcher & Bohn, The Impact of Psychic Distance on the Internationalisation of the Australian Firm, 1998). The importance of individual perceptions features heavily in Evans and Bridson's (2005, p.70) definition of psychic distance as:

"The distance between the home market and a foreign market resulting from the perception and understanding of cultural and business differences". (Evans & Bridson, 2005)

Several other authors support the claim that psychic distance should be measured as it is perceived by the individual decision maker since managers make decisions based on their perception of the environment (Stöttinger & Schlegelmilch, 1998; Evans & Mavondo, 2002; Sousa & Bradley, 2006, Sousa & Bradley, 2008). As such, this individual perception-based approach enables managers to incorporate individual biases and peculiarities into the decision-making process (Dow & Larimo, 2009). The notion that psychic distance is a matter of individual perceptions is therefore a key consideration and incorporates the understanding that individuals make decisions, not firms. The foundation of the psychic distance construct has allowed these concepts to be well-researched and significantly reviewed. It creates a way to explain internationalisation behaviour rather than being the result of only geographical or cultural distance to market for exporting firms (O'Grady & Lane, 1996; Stöttinger & Schlegelmilch, 1998; Dow, 2000; Dow & Karunaratna, 2000).

Evans and Mavondo (2002) signal that the majority of research on psychic distance seeks the perceptions of similarities or differences between a foreign country and the home market of the respondent. There seems to be scant empirical research on how soon the focus changes from nearby countries with a low psychic and geographic distance to more distant countries with a large

market size (Ojala & Tyrväinen, 2007). In summary psychic distance is a perception based construct. In most cases it is the perceptions of the individual or main influencing personnel within exporting firms that have to make decisions based on their own experience and knowledge of export markets. Therefore understanding perceived cultural and psychic distances and finding ways to navigate these is important for export development.

2.1.3 Psychic Distance and Cultural Distance - Aren't They the Same Thing?

Although psychic distance and cultural distance are often used interchangeably, there are important differences in these concepts. Whereas psychic distance is an accumulation of individual-based perceptions of differences between home and host countries, cultural distance centres on generalised traits, not individual perceptions.

Cultural differences create a barrier to the creation of a profitable channel because goals and motivations differ across cultures (Leonidou, 1989). For this reason the ability for international business managers to understand foreign cultures and adapt approaches to business in international markets is consequentially crucial. According to Hofstede (1994) international business is about understanding the business of culture. The depth of literature on this topic emphasises its importance (e.g. Hofstede, 1980; Hofstede, 1983; Hofstede & Bond, 1988; Fletcher & Bohn, 1998; Tihanyi, Griffith, & Russell, 2005; Cavusgil, Ghauri, & Akcal, 2008). At the same time the concept of psychic distance has gained substantial popularity and, in many respects, has arguably surpassed cultural distance in terms of the frequency with which it is cited in academic research and its practical usage in international business management (Dow & Larimo, 2009). The intertwining of the two concepts has often been misleading. Despite the seemingly clear definition of psychic distance born from the U-Model work in the 1970s over recent decades the misinterpretation of the concept has centred on being driven primarily by cultural differences. It has not yet been proved that culture is the central or even most important element of psychic distance (Brewer, 2007a). Significant research over time has since raised serious questions over the application of cultural differences as

the key factor in international market selection (Sullivan & Bauerschmidt, 1990; Benito & Gripsrud, 1992; Child, Ng, & Wong, 2002; Mitra & Golder, 2002).

Hofstede's (1983) seminal article on cultural relativity identifies four key dimensions of national culture which are applicable to international business: Individualism vs Collectivism; Large vs small power distance; Strong or weak uncertainty avoidance; and Masculinity vs femininity. Hofstede and Bond (1988) added the additional dimension of 'Confucian Dynamism' which translates in to "long term vs. short term orientation". This relates to the propensity to be relationship rather than transaction motivated. This addition is a fundamental consideration in many emerging markets where underlying cultural fundamentals are built on Confucianism.

The complexity of the components that psychic distance principles comprises has also been reinforced. A series of measures and indices have been created (Dow, 2000; Brewer, 2007a) which have provided more objective means of defining how the psychic distance construct can be applied operationally. These measures move the notion of psychic distance beyond merely cultural differences as perceived by the selling country, firm or individual. Examination of these measures in more detail will follow in *section 2.1.8*. What is clear through the literature reviewed thus far is the distinction of psychic distance not being the same as cultural distance. Psychic distance can encompass cultural distance but there are additional factors that contribute to the perceived prevention or disruption to information flows about export markets other than just cultural differences.

2.1.4 Does Psychic Distance Still Matter?

Since the 1970s perspectives of international business have changed. Globalisation has improved the breadth and density of connections among trade partners from different countries. Developments in transportation and telecommunication technology, such as increased air services agreements and the advent of the Internet, have allowed global sellers and buyers to overcome geographical distances and intercultural differences much more easily and efficiently, which has led to a

convergence of markets (Beier, Hauser, & Hogenacker, 2014). The fast changing nature of the international business environment over the period from 1975 has provoked debate on the psychic distance concept's validity in the modern world (Johanson & Vahlne, 2009). This argument has been fuelled by the emergence of these new technologies and a drive for globalisation that had led some academics to suggest that perhaps the relevance of psychic distance as defined forty years ago has diminished altogether (Stöttinger & Schlegelmilch, 1998; Stöttinger & Schlegelmilch, 2000). The theory behind these assertions is that in a more globalised world individuals within firms are less likely to be influenced by psychic distance as the barriers to information flows continue to be broken down. Information is much more freely available. The movement of people between countries is more frequent and wide spread.

In this respect the main challenge for businesses entering new foreign markets is no longer to overcome "foreignness" as a manner of bridging geographical and cultural distances between markets but rather to overcome "outsidership" (Johanson & Vahlne, 2009; Leonidou & Katsikeas 2010; Hilmersson & Jansson, 2012; Schweizer, 2013). The opportunities lie in obtaining access to new networks in an effort to successfully internationalise. Can it still therefore be assumed that psychic distance plays a major role in international business as cultural, language and business customs alone have retained differences despite the seemingly more connected world of global trade? Certainly in comparing developed against emerging markets this seems feasible. It is the firms and individuals that acknowledge and embrace these differences stand to benefit. In fact, operating in a culturally distant market could actually enhance performance as firms will make a greater effort to learn about the foreign market. These firms can also use cultural differences as a source of competitive advantage through a heightened sense of interest to do business with a new potential business partner from a different culture (Evans & Mavondo, 2002). Awareness of psychic distance and being able to identify methods to overcome perceived barriers to business development in attractive but highly different markets seems to be an essential component of international business growth – especially in the 'Asian Century' (Sachs, 2004). For these reasons it

seems that psychic distance still plays a role in differentiating firms, or individuals within firms, who can take advantage of differences that still exist between markets even in a globalised business environment.

2.1.5 What is the Psychic Distance Paradox?

The psychic distance paradox stipulates that operations in psychically close countries are not necessarily easy to manage, because assumptions of similarity can prevent executives from learning about critical differences (Evans & Mavondo, 2002). There is an implicit assumption that psychically close countries are more analogous, and that resemblance is easier for firms to manage than dissimilarity, thereby making it more likely that they will succeed in similar markets (O'Grady & Lane, 1996). Chetty (1999) finds that managers of SMEs from New Zealand had a propensity to select Australia early in market entry decisions due to the familiarity of the business environment and low operation costs. Australia is seen as an extension of the New Zealand domestic market because the two countries have very similar colonial heritage, are English-speaking, share sporting interests and also have similar political ties with foreign countries. On this basis it could be assumed that the psychic distance between Australia and New Zealand would be marginal. Yet anecdotal evidence suggests that the rate of successful entry and ability to withstand local market conditions for New Zealand exporters to Australia indicates that firms underestimate the subtle differences between the two markets and are seriously under-prepared for their first foray in to international markets. Despite the suspected negligible psychic distance between these two countries the low risk export market entry approach using the U-model can result in a lack of preparedness (O'Grady & Lane, 1996; Evans & Mavondo, 2002). This raises the question of how well do firms believe they know and understand psychically close markets? The U-model of internationalisation would suggest that given the perceived gap in knowledge of psychically close markets is small then those markets naturally become the export markets of choice.

The U-model however ignores the fact that regional trading agreements can expedite the internationalisation of firms (Chetty , 1999). So while some markets may be more psychically distant, if a Free Trade Agreement opens up easier and better promoted access to a market, perhaps firms are more likely to engage in that market at an earlier stage of their internationalisation journey compared to a naturally close market. Therefore the closest markets psychically are not always the easiest or best markets to enter early in internationalisation. The psychic distance paradox serves to highlight that readiness for internationalisation is just as crucial for psychically close markets as it is for more distant markets.

2.1.6 What Role Do Social Ties and Networks Play in Overcoming Psychic Distance?

Psychic distance has been identified through the preceding review of literature as a perceptions based concept. Perceptions can be influenced by knowledge (or lack of), experiences and relationships. It is therefore relevant to consider the rich array of research that has been conducted on the impact that interpersonal networks play in supporting international business development (Moen & Servais, 2002; Bell, McNaughton, Young, & Crick, 2003; Wilkinson & Brouters, 2006). In addition to the work which has revealed the prevalence of psychic distance as a key factor in determining the sequence and approach to entering export markets a further reason which has been exposed is the impact of pre-existing social ties. Social ties may reduce the effects of psychic distance by lowering the uncertainty associated with entering specific markets (Wong & Ellis, 2002). It has been suggested that an entrepreneur of the management team is sometimes able to draw upon established international networks to facilitate internationalisation (Coviello & Munro, 1997; Deakins, Battisti, Perry, & Crick, 2013). An extension of this idea is the notion of immigrant effect. Social ties and networks can therefore aid the linkage to less familiar markets by encouraging a relationship driven entry rather than an objective market assessment.

Immigrant effect refers to the impact that an immigrant employer or employee has on the success of an international marketing operation, principally where that firm is engaged with the

immigrant's country of origin (Hyde & Chung, 2002; Chung, Rose, & Huang, 2012). The suggested impact on firms of employing immigrant workers in market facing roles is to reduce psychic distance. Adoption of the immigrant effects is found to be associated with firms from smaller domestic economies where the need for internationalisation occurs at an earlier stage of the businesses life cycle (Chung, 2004). This is achieved through utilising 'inside' knowledge of cultural and business customs to link a 'Western' mind-set with an emerging market opportunity. Tung and Chung (2010) found that companies that are owned by immigrants and/or hired immigrants in key decision making positions were more likely to resort to a higher resource commitment when entering into the target market and were used more extensively in target markets where there are greater variations in customer behaviour. In this way social ties and immigrant effect both serve to reduce the impact of the disturbance in information flow by using the power of people and connections rather than just information and knowledge. This leads in to further questions of how markets are selected for exports when the U-model and social ties offer different approaches to internationalisation.

2.1.7 What Role Does Psychic Distance Play in Market Selection?

Not all markets have the same potential based on issues such as perceived motives and problems in internationalising and so entrepreneurs need to consider where to expend their efforts and limited resources (Deakins, Battisti, Perry, & Crick, 2013). Proponents of the U-model contend that as a firm becomes more internationally active the influence of psychic distance on its market selection decisions is reduced (Benito & Gripsrud, 1992). As discussed in *section 2.1.6* social networks and ties can play a bigger role in market screening compared to objective valuation methods (Ellis, 2000). Brewer (2007a) suggests that knowledge of markets is an intuitively key issue in selecting profitable markets if an entrepreneur is not to rely on chance. These two views demonstrate a conflict between a proactive and research-based approach and a reactive social-ties based approach.

Evans and Mavondo (2002) suggest that where firms are faced with entering a psychically distant market they are likely to perceive a high level of uncertainty. As a means of reducing this uncertainty,

firms will undertake more extensive research and planning, which will improve their strategic decision making and, ultimately, organisational performance. Rahman (2006) argues that planned screening processes are desirable for firms making international market selection decisions. Linkages are drawn between a systematic market selection process and a firm's performance. On average the more systematic a firm's international market selection was in targeting foreign markets the better it performed (Brouthers and Nakos, 2005; Deakins, Battisti, Perry, & Crick, 2013). This stands to reason for MNCs but whether the same applies to SMEs is yet to be understood.

It has been suggested that entrepreneurial decisions also often follow a systematic and sequential process commencing with a culturally similar country (e.g. New Zealand firms going to Australia) to obtain experience in a country perceived as possessing a limited risk (Deakins, Battisti, Perry, & Crick, 2013). Research finds that internationalisation of traditional firms is likely to occur in an incremental manner over a longer period of time, with firms often focusing on 'psychically' and/or geographically 'close' markets as compared to born-global firms (Bell, McNaughton, Young, & Crick, 2003). In this manner when internationalisation occurs in incremental steps, it can still be ad-hoc and reactionary. Psychic distance sometimes has a role to play in market selection by often causing individuals within firms to only consider markets that they are familiar with and not necessarily the markets with the best opportunity for commercial success. Psychically distant markets appear early in market entry sequence mostly as a result of social ties or reactive behaviour from an interested potential channel partner.

In conclusion, the text-book version of international market-entry sequence for SMEs is incremental and staged to psychically close markets. The reality, at least from the perspective of Ellis (2000) is quite different with social ties often leading to relationship driven market entry.

2.1.8 Can Psychic Distance Be Measured?

The growing interest and relevance of psychic distance to international business development has led to calls being made in determining how the concept should be measured. Kogut and Singh (1988)

adopted Hofstede's (1983) approach and created a US based measurement tool for executives relative to other markets using the four dimensions of culture as a basis. A key restriction in these measures and their application is the heavy persuasion of the dimensions towards cultural aspects of perceived distance. While important and highly relevant, as stated in *section 2.1.3* the cultural component cannot be considered as an isolated and sufficient determinant of psychic distance if one is to stay true to the original definition supplied by Johanson & Wiedersheim-Paul (1975).

In response to the 'sporadic and flawed' efforts to test the impact of psychic distance on export market selection Dow (2000) developed a study to determine the distance between countries and the relevance of distance to market entry sequence. The distance was estimated using a single-item scale issued to an independent panel of ten senior trade commissioners from the Australian government trade organisation (AUSTRADE). The results were statistically arranged so as to measure against the data obtained from a previous study that identified the sequence of market entry for 700 Australian SME high value-added manufacturing exporters. Dow (2000) then conducted a four phase analysis to compare psychic distance and geographic distance; psychic distance and Hofstede's cultural distance; psychic distance and Sethi's (1971) market similarity; and the effect of experience on psychic distance. The final results indicated that psychic distance, as measured by the expert panel-based instrument, is a highly significant predictor of early export market selection for Australian firms and the expert panel instrument appears to have validity in matching reality. According to Dow's (2000) results the influence of psychic distance on market selection declines significantly between the first and second market entry decisions as a firm gathers experience and reduces risk. The results didn't define what level of success the market entry sequence had for the firm in terms of sustainable business growth. However the results did provide an insight in to where resources are likely to be required by export promotion organisations (EPOs) based on which regions require more focus than others as firms follow a familiar path of expansion. The study also didn't have any focus on determining how firms go about entering the markets once they have been selected (i.e channel partner utilisation).

Håkanson and Ambos (2010, p197) highlight that in the extant literature 'psychic distance' is usually conceived of as a perceptual, subjective phenomenon, but it is typically operationalised as an objective, collective construct. As Fletcher and Bohn (1998) have identified, due to difficulties in measuring psychic distance several researchers such as Kogut and Singh (1988) and Benito and Gripsud (1992) used Hofstede's (1980) research to create their measures to quantify cultural distance between countries. Various academics have sought to provide an objective measure to the concept of psychic distance (Dow & Larimo, 2009). Fletcher and Bohn (1998) applied the Kogut and Singh (1988) measures to Australian exporters. They then went on to state that "Further research is necessary to develop a measure of psychic distance that embraces aspects....additional to culture" (p 64) indicating that while the formula was a useful signal for cultural distance it did not in itself capture a true reflection of the concept of psychic distance as it was originally defined. Previous concerns about the operationalisation of psychic distance had led to calls for more research with a view to developing a measurement tool that might even be able to predict export behaviour.

Stöttinger and Schlegelmilch (1998) lamented that despite the wide and deep focus on the conceptualisation of psychic distance there had been limited attempts to operationalise and test these concepts. Stimulants such as National Cultural Distance, Language Distance and Institutional Distance have been employed in an attempt to provide some context for interpreting the application of the concept to understanding individuals perceptions of what psychic distance means. However, each attempt seemed to be unable to capture all key elements successfully.

Subsequent to Dow's (2000) study, and in response to previously unsuccessful attempts, Brewer (2007a) constructed and applied an index for measuring psychic distance based on seven primary indicators and fifteen individual measures for Australian exporters compared with a selection of foreign countries. The index was presented and validated at a business school research seminar with the results providing an insight in to predicting a path for export market entry sequence. The selection of variables in Brewer's (2007A) index was based on "subjective judgment plus data availability" in accordance with Lockwood's (2004) research methodology. An index rather than a

scale was more appropriate for operationalising psychic distance because it builds on the items that are directly responsible for the ease of information flows between a country and a firm (Brewer, 2007a). Table 1 summarises the variables employed. The index had its foundations in the globalisation index from Kearney (2003) and *Foreign Policy* journal and is positioned as being able to be utilised to measure psychic distance between any combination of countries.

Table 1: Brewer's (2007a) Index Measures

Primary Indicators	Item	Measures	Source
Commercial Ties	1.	Two Way Trade	Govt Stats
	2.	Stock of Foreign Investment	Govt Stats
Political Ties	3.	Trade Arrangements	Govt Stats
	4.	Value of Aid Programmes	Govt Stats
	5.	Trade Representation Offices	Govt Stats
Historic Ties	6.	Colonial Relationship	Historical
	7.	Shared Wars	Historical
Geographic Ties	8.	Geographic Proximity	World Atlas
Social Ties	9.	Cultural Similarities	Fletcher & Bohn (1998)
	10.	Sport Preferences	Selected Sports
	11.	Language Similarities	Direct comparison
Country Information Stock	12.	Secondary Information Availability	Govt Stats
	13.	Immigration Numbers	Govt Stats
Level of Development	14.	Level of Development of the Foreign Country	WTO Stats
	15.	Level of Corruption of the Foreign Country	Transparency Index

The index was constructed using these measures across 25 selected markets that covered a wide geographical spread and consisted of both major and minor trading partners for Australia. Brewer (2007a) established that a close negative correlation exists between the psychic distance index and firms actual selection of export markets. The findings identified that the markets representing the least amount of psychic distance for Australian firms were the United Kingdom, the United States and New Zealand. Developed markets such as Hong Kong, Singapore and Japan also featured highly while emerging markets such as India and China were psychically distant and therefore less likely to feature in many firms' internationalisation priorities at the early stages of export market development. The study did not moderate for SMEs and/or specific sector areas of interest. Brewer's (2007a) index created a measurable and understandable means of operationalising the concept of psychic distance. Combined with the approach used by Dow (2000) academics and practitioners have a reference structure to be able to predict potential export market entry sequence for firms who are about to internationalise. Psychic distance therefore can be measured

both on a perceptions based level and using objective inputs in the form of an index. How these forms of measurement can be applied to understanding other components of exporter behaviour is the crux of my study.

2.2 Stimulating Factors and Readiness for Export

The primary area of focus for this section is stage 2 in the U-model (as represented in Figure 1) – exporting via an independent representative. Exporting requires less commitment of organisational resources, offers greater flexibility of managerial actions and involves fewer business risks than establishing a physical presence in off-shore markets (Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007). The benefits of exporting not only offer greater possibilities for business growth but are also necessary for broader economic development. This is especially the case at a macro-level for smaller nations. Many of these countries may not have the population size to generate large increases in social wealth through internal means.

Awareness of foreign market opportunities is deemed to be *the* critical antecedent to exporting (Ellis & Pecotich, 2001b). The manifestation of this awareness can come in many formats. Regardless of how awareness is raised information about opportunities is crucial. The intention to internationalise may be influenced by managerial beliefs about the firm's competitive advantage, readiness to export, the risk associated with internationalisation and the perceived internal and external barriers towards internationalisation (Jaffe & Pasternak, 1994). To explain the process by which exports are initiated one must understand how decision-makers come to learn of opportunities abroad (Ellis, 2000). Decision makers' perceptions of stimuli, their attitudinal commitment towards internationalisation, the firms' resources and capabilities, as well as the mediating effect of lateral rigidity comprise a learning process that leads a firm towards readiness to initiate an internationalisation decision (Tan, Brewer, & Liesch, 2007). In summary there are a multitude of factors that can lead to stimulation and ultimately readiness for internationalisation. Information that creates awareness of opportunities is also a crucial antecedent that requires further exploration.

2.2.1 How Important is Access to and Usage of Information to Exporting?

A key factor in providing stimulation for exporting is the access to and usage of information. Without access to pertinent information firms may be unlikely to have the appetite or willingness to engage proactively in export activities. This may help to explain why many SMEs are more reactive in their approach to seizing export opportunities – they lack access to information and resources to proactively form strategies and networks to develop export markets (Wilkinson & Brouthers, 2006). Both internal and external stimuli provide the key information input to firms on which decisions to expand internationally can be made (Wiedersheim-Paul, Olson, & Welch, 1978; Caughey & Chetty, 1994; Leonidou, 1995). Ultimately the decisions on whether or not a firm engages in international opportunities as triggered by internal and/or external stimuli depends upon appropriate information successfully being ‘internalised’ by the firm into usable knowledge (Knight & Liesch, Information Internalisation in Internationalising the Firm, 2002). Firms motivated by internal factors have been described as more rational and objective oriented in their export behaviour, compared to those stimulated by external factors (Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007).

Some entrepreneurs are influenced by ‘serendipity’, that is that chance events affected their international market selection and servicing decisions (Spence & Crick, 2006; Deakins, Battisti, Perry, & Crick, 2013). Rather than taking the path stipulated in the U-model, chance meetings may lead to ‘reactive’ exporter behaviour. Sarasvathy (2001) argued that entrepreneurs formulate decisions based on a non-linear and iterative process called ‘effectuation’ and one person may react differently from another person to the same event. This is based on the individuals access to information, how they process and use that information along with existing experience, knowledge and attitudes. Firm culture also plays a part (Hofstede, 1994). These factors serve to underline the theory that lack of access to information may not totally hinder export development but is certainly likely to create a more reactive approach to opportunities.

2.2.2 How Do Firms Acquire Information?

While we know a good deal about the types of information considered useful by exporters, a number of questions remain unanswered including how individuals within firms acquire appropriate information and what methods are used to transfer this information between connections (Benito & Welch, *Foreign Market Servicing: Beyond Choice of Entry Mode*, 1994). Firms that possess the motivation to export but may not have access to suitable knowledge have several options available to them such as commissioning the services of an EPO, relying on the networking potential of an international trade fair, and identifying buyers within an existing network of contacts (Ellis & Pecotich, *Social Factors Influencing Export Initiation in Small and Medium-Sized Enterprises*, 2001a). Relationships with domestic institutions specialising in foreign trade promotion can provide SMEs additional support in their internationalization processes to help overcome their size-specific lack of in-house resources (Hauser & Werner, 2009; Hauser & Werner, 2010).

In summary there are formal and measured means of acquiring information. These are usually with the support of export focused organisations which operate alongside more informal channels through networks which are usually the results of individuals' connections. In cases where information on export opportunities is limited firms are more inclined to follow a more traditional path in to internationalisation.

2.2.3 What is the Difference between 'Traditional' Firms and 'Born-Global' Firms?

Internationalisation theories have been challenged in recent years as the dynamics of technology enhancements, social adjustments and economic changes can propel firms in to international markets soon after the firms' inception (Oviatt & McDougall, 1997). The more familiar U-model approach has especially come under attack with respect to firms in higher value technology and manufacturing sectors where traditional stages of internationalization may not keep pace with global demand and rapid growth requirements (Johanson & Vahlne, 2009). 'Traditional firms' tend to focus on the domestic market first, expand incrementally, then gravitate to psychically close markets,

and/or target less developed markets. Traditional firms often internationalise one market at a time and concentrate on a small number of key markets, adapting existing offerings to the needs of each new market and they also tend to be much more reactive (Bell, McNaughton, Young, & Crick, 2003). These firms are 'pushed' into international markets by adverse domestic market conditions, unsolicited orders or enquiries, or the need to generate revenues to finance future product or process improvements (Oviatt & McDougall, 1997; Bell, McNaughton, Young, & Crick, 2003). Management in these firms is also more reluctant to internationalise. For 'traditional' firms the main goals for internationalising appear to be survival by increasing sales volume, greater market share, or extending product life cycles (Bell, McNaughton, Young, & Crick, 2003).

The evolution of 'born-global' firms has been influenced by an inexorable trend towards globalisation and the pervasive impact of new technologies (Knight & Cavusgil, 1996). Born-global firms have more international experience because managers have often worked abroad or for other multinationals before establishing their own companies (Chetty & Campbell-Hunt, 2004). These types of companies appear to leap-frog many of the stages of the U-model as firms' springboard out of their domestic environment into international markets at a very early stage of their life cycle. Environmental and market conditions alongside the internationalisation of industry competition create the ideal context for the born-global firm to surface (Chetty & Campbell-Hunt, 2004). While born-global aligns with faster movement in to internationalization, it doesn't necessarily mean that psychic distance is less apparent. Chetty and Stangl (2010) found in their study of New Zealand software firms that culturally proximate markets are important for both 'born-global' and firms that internationalise incrementally. As a result due to existing networks and experiences in the culturally proximate markets of Australia, the United Kingdom and the United States of America New Zealand firms tended to enter these markets first.

In summary the traditional firm approach to internationalisation is through the U-model stages where risk is minimised and steps in export business development are incremental. The born-global approach is a response to rapidly evolving market and environmental conditions that force firms to

enter export markets at a much earlier stage, often with higher risk factors involved. There are stimulating factors that apply to both traditional and born-global approaches that will be reviewed in *section 2.2.4*.

2.2.4 What Internal Factors Lead to Export Stimulation?

According to the seminal work by Leonidou (1998) internal factors stimulating export development from a proactive approach include achievement of economies of scale, special managerial interest/urge/inspirations, products with unique qualities, possession of a special competitive advantage, potential for extra sales/profits and the need to achieve corporate growth. Firms which follow these factors are likely to take a hands-on approach to planning and developing export business opportunities to satisfy one or many of these stimulation elements. Internal stimulation can also take the form of more reactive factors such as offsetting sales of a seasonal product, utilisation of idle operating capacity, stagnation/decline in domestic sales/profits.

2.2.5 What External Factors Lead to Export Stimulation?

External stimuli include the receipt of unsolicited orders or inquiries, contacts from foreign customers during/after trade fairs and information gained through domestic and foreign partners (Bilkey & Tesar, 1977; Cavusgil, 1980; Johanson, Mattsson, Hood, & Vahlne, 1988; Johanson & Vahlne, 1990; Leonidou, 1998; Johanson & Vahlne, 2009). Notably the external stimuli can also come from more proactive sources such as support through a government export assistance programme or through encouragement from an external agent (channel partner).

Table 2 summarises the main stimulating effects that can lead a firm to commence the internationalisation process.

Table 2: Internal & External Stimuli Categorised (Leonidou, 1998)

<i>Internal Stimuli</i>	<i>Stimulating Factor</i>
Proactive	Achievement of economies of scale
	Special managerial interest/urge/aspirations
	Products with unique qualities
	Possession of a special competitive advantage
	Potential for extra sales/profits
	Need to achieve corporate growth
Reactive	Offsetting sales of a seasonal product
	Utilisation of idle operating capacity
	Stagnation/decline in domestic sales/profits
	Reducing dependence on/risk of domestic business
<i>External Stimuli</i>	
Proactive	Encouragement by external agents/organizations
	Identification of attractive foreign opportunities
	Exclusive information on foreign markets
	Government export assistance/incentives
	Contacts after participating in trade fairs/missions
Reactive	Initiation of exports by domestic competitors
	Competitive pressures in the domestic market
	Favourable foreign exchange rates
	Saturation/shrinkage of domestic market
	Receipt of unsolicited orders from abroad

The stimulating factors represent components of both the U-model and born-global approaches to internationalisation. What is of more significance is the differences between proactive and reactive stimulations. In theory both the U-model and born-global approach require proactive moves to be made on behalf of the seller. However, the involvement of third parties in determining and presenting export opportunities to sellers also needs to be considered. The acquisition and usage of information remains a dominant element of either approach and in many countries there are EPOs in place to assist with these stimulating factors.

2.2.6 What is the Role of Export Promotion Organisations?

Yeoh (2000) states that firms that engage in greater information search, and those that rely on personal and quasi-government information sources, tend to have higher performance levels in internationalisation. This calls into account the role that EPOs have in supporting export development given the importance of information acquisition and usage. As summarised in Figure 2, Seringhaus and Botschen (1990) conclude the specific goals of EPOs are to develop a broad awareness of export opportunities and to stimulate interest among the business community; to assist firms in the planning and preparation for export market involvement; to assist firms in

acquiring the needed expertise and know-how to successfully enter and develop new export markets and; to support foreign market activity tangibly through organisational help and cost sharing programmes.

Figure 2: Specific Goals of EPOs (Serinhaus & Botschen, 1990)



These goals hold particular relevance to under-resourced SMEs whose significant economic, social, and international contributions are increasingly recognised by public policy makers and researchers alike (Serinhaus, 1986; Bell, McNaughton, Young, & Crick, 2003; Wilkinson & Brouthers, 2006).

How knowledge is generated and transferred during the establishment of foreign market entry and how this information flow differs between developed and emerging markets is not as well understood (Serinhaus, 1986; Freeman, Cray, & Sandwell, 2007). This reiterates the concept of psychic distance where prevention and disturbance of information flow is the vital factor to creating the 'distance'. One of the key roles of EPOs then can be described as providing useful material that can minimise the prevention and disturbance of information flow from export markets. This in turn should be able to bridge psychic distance gaps that may exist.

In summary, EPOs play a significant role in supporting stimulation and international readiness of potential exporters. This is especially the case for under-resourced SMEs looking to internationalise. The requirement for information is apparent and this supports the proactive approach that firms can take to exporting under both the U-model and to born-global firms. The next step is to examine the literature on channel partnerships initiation.

2.3 Channel Partner Initiation

Distribution channel management remains a key concern (Matear, Gray, & Irving, 2000) as in an era of low margins, exporters must not only minimise their manufacturing costs and internal operation, but also cope with the growing importance of distributors in marketing and distribution efficiency, and customer satisfaction (Lin & Chen, 2008). Selecting appropriate distributors as channel partners has been an important prerequisite of effective channel performance (Kalafatis, 2000). Channel performance in turn ultimately leads to market success which in turn delivers market growth. In international channel management firms generally prefer indirect over direct distribution where psychic distance is perceived to be high (Ramaseshan & Patton, 1994). This is due in large part to cultural differences that can often be handled via an intermediary channel partner. The use of channel partners is suspected to be higher in psychically distant markets. As such the selection of channel partners to link the home market with the host market to alleviate any perceived psychic distance is crucial.

It has been noted that channel partner selection is one of the most important choices a manufacturer will make in exporting while accessing export distribution channels and obtaining reliable foreign representation rank highly when considering barriers to exporting (Cavusgil, Yeoh, & Mitri, 1995; Leonidou, 2004). The growing strength of large retailers and the increasingly competitive global environment has subsequently forced managers over the years to view their distribution channels as untapped opportunities (Narus & Anderson, 1996; Rosenbloom, 2006). Yet despite the importance of channel partners in the value chain for exporting firms there is a surprising lack of research in to how these partnerships are initiated and whether there is any difference in the approach employed across markets at various different stages of socio-economic development and cultural dissimilarity (Ellis, 2000; Lin & Chen, 2008). Without doubt the importance and relevance of developing buyer-seller relationships is well researched but the focus on *how* and *why* those relationships are formed at the outset has not received due attention. It is of high importance to recognise that finding competent channel partners is an important issue for

manufacturers, especially for many SMEs that might lack sufficient knowledge and information to successfully select distributors (Lin & Chen, 2008).

Historically many issues of managerial importance relating to the organisation and management of channels of distribution have received no consideration in empirical research (Frazier, 1999). Marketing literature shows that while some elements of marketing strategy such as pricing and promotion are adapted to suit the foreign market environment, other elements, particularly distribution and product are more likely to be standardised (Ozsomer, Bodur, & Cavusgil, 1991; Cavusgil & Zou, 1994; Ellis, 2000; Evans & Mavondo, 2002). On this basis an understanding of channel structure and approaches to channel partner initiation are required up front to determine how sellers and buyers are connecting to reach the end customer. The assumption is that this differs in format across markets where cultural dissimilarities are present.

2.3.1 What is the Role and Significance of Channel Partners?

Channel partner initiation constitutes one of the most vital aspects in international marketing as once channel choices are made they are often difficult to change (Ramaseshan & Patton, 1994). Manufacturers can delegate important business functions to channel partners such as physical distribution, sales, customer service, maintenance and warranty, account payment and receipt and the provision of sales visibility back to the supplier (Cavusgil, Yeoh, & Mitri, 1995). Empirical research identifies the fact that poor selection of a channel partner can have severe impacts on success in export markets given the reliance on them to be custodians of brands and products through to the consumer. Yet relatively few firms undertake extensive analyses before choosing a foreign distribution channel (Bell J. , 1995). Market research often follows rather than precedes the choice of channel (Hart, Webb, & Jones, 1994). The choice in emerging markets is more often than not limited to the indirect option due to potential difficulties or time delays in establishing a local subsidiary, government imposed barriers to establishing these channels and/or a major requirement to recruit and leverage local knowledge and resource to access sales opportunities in that market.

Whereas channel partners in developed markets have a set range of functions to perform (e.g. warehousing, product sorting etc) distributors in emerging markets are often called on to perform additional requirements such as promotion strategy or localised tactical marketing (Arnold & Quelch, 1998; London & Hart, 2004; Tung & Chung, 2010). When first launching into foreign markets, the temptation for many SMEs is to appoint exclusive distributors for entire countries (Frazier, 1999). This is a major under-taking – especially when relationships in the early stages of development are typically managed from afar. Given the importance of finding suitable distributors in foreign markets one must question how firms are approaching this challenge.

2.3.2 What are the Modes of Initiating Exchange Relationships?

According to Ellis (2007a) foreign market entries (FMEs) occur as a result of deliberate actions undertaken by sellers, buyers, and mutually-related third parties (e.g. brokers, traders, commission agents, etc.). FMEs may also arise as a consequence of chance meetings between potential channel partners, such as may happen at an international trade fair (Ellis, 2000). As highlighted in the vast body of literature on the internationalisation process FMEs are a result of a rational response to conditions in the market and are made on the collection of relevant and objective information from the market via research methods. The commonly held viewpoint is that decisions for export market entry as well as channel partner initiation are processes using objective frameworks. However, there is ample evidence to suggest that the textbook-advocated systematic or traditional approach to market selection and channel partner initiation is rarely used in practice (Axelsson & Johanson, 1992; Johanson & Vahlne, 1992; Liang & Parkhe, 1997; Ellis, 2000). This is again highlighted by the additional challenges that SMEs face with lower resources and cash flow pressures compared to MNCs. Following on from this it is proposed that those managers involved with making export market decisions frequently draw on existing connections with others as a preference for seeking new export opportunities.

Ellis' (2000) research collected data on 31 foreign market entries to determine the antecedent conditions leading to the realisation of an export partnership. The foreign market entry initiations were classified in to the following five categories as displayed in Table 3. The study results revealed that a strong role for existing social ties was found in four out of five of the non-trade fair initiated foreign market entries. The summation suggests that searching for international channel partners is limited by the social network of the export development individual. This reinforces the view that firms often shun market research and base their international market selection choices on non-systematic and ad-hoc procedures (Papadopolous, 1988). It is likely that the availability of heuristic plays some role in the identification of channel partners rather than a formalised and stage approach (Liang & Stump, 1996).

Table 3: Modes of Channel Partner Initiation - Ellis (2000)

	Classification	Explanation
1.	Seller Initiated (exporters initiative)	The traditional U-model approach where a seller proactively seeks markets and channel partners for export development
2.	Buyer/importer initiated (an unsolicited order)	Frequently it is the potential buyer or importer in the foreign market who establishes the connection between a local market need and some foreign-sourced product (Leonidou L. , 1995), (Liang N. , 1995).
3.	Broker/third party initiated (sponsored by an entrepreneurial agency or middle-man)	The awareness of the trading opportunity may first be noticed by neither the potential exporter nor the potential importer but by some mutually related third party, such as a government agency, bank, or business associate.
4.	Initiated as a result of a trade-fair/chance encounter	Sometimes foreign market opportunities are discovered completely by chance, with no clear initiating role attributable to either the buyer, seller, or third party
5.	Network Theory and Social Ties	Social network theorists recognise that social structure affects competition by creating entrepreneurial opportunities for some people and not for others

A series of information sources used to initiate the relationship were identified following interviews conducted with senior staff from each of the firms. The results concluded that generally the sample firms were reactive in the early stages of internationalisation, as evidenced by the high number of buyer-initiated exchanges for early foreign market entries, but were proactive in attending trade fairs in the search for export opportunities (Ellis, 2000). It is the reactivity at the early stage of internationalisation that is of most interest. If Yeoh's (2000) view is to be upheld that firms that take

a more proactive approach to export market development are likely to be more successful than does this render new opportunities through more reactive means (such as unsolicited export orders and social ties) more inclined to fail? Does this also mean that firms may respond to unsolicited export orders from psychically distant markets at an earlier stage of export development? Both of these questions reiterate the importance of viewing decision making in initiating new channel partnerships from the perspective of the individual rather than at firm level.

In summary, five modes of channel partner initiation were identified. These five modes represent proactive and reactive approaches to export development. The social ties mode requires further examination.

2.3.3 How Do Social Ties and Networks Support Export Development?

Social network theorists recognise that social structure affects competition by creating entrepreneurial opportunities for some people and not for others (Ellis, 2000). Successful exporters have indicated that personal and experiential information sources are rated higher than objective information in developing export market entry decisions (Brown & Cook, 1990; McAuley, 1993; Ellis, 2000). Other academics have noted the benefits of foreign travel and immigration in stimulating awareness of foreign market opportunities (Reid, 1986; Gould, 1994; Ellis, 2000). Social network theory is concerned with information transmission via interpersonal networks recognising that social structure creates inefficiencies in the distribution of knowledge pertaining to market opportunities (Yeoh, 2000; Ellis, 2000). As risk and uncertainty levels are higher for SMEs without access to formalised information these firms may revert to using social ties and networks to develop their knowledge base of international opportunities (Yeoh, 2000).

Ellis and Pecotich (2001b) identify the importance of the personal trait of the decision-makers degree of “cosmopolitanism”. Cosmopolitanism refers to how the individual comes to learn of the foreign market opportunity through their connectivity to people, experiences, channel and markets. These authors also noted that exporting favoured by management writers and EPOs vary from the

actual practices of decision makers in SMEs in that very rarely do firms conduct an objective search for channel partners aimed at optimising returns. This raises questions as to whether it is a lack of awareness of this information, a lack of relevance of the information provided or a gap in the ability to actually supply the information needed. Despite the claims of EPOs and marketing researchers to the contrary, Ellis and Pecotich (2001a) claim that social ties are a valuable source of rich information about foreign market opportunities. Given the choice between formal market research and informal discussions with “those in the know”, most decision-makers opt for the latter (Ellis & Pecotich, *Social Factors Influencing Export Initiation in Small and Medium-Sized Enterprises*, 2001a). It is difficult to ascertain from the literature reviewed thus far as to whether there is a difference in market type - developed or emerging – where social ties plays a more important role. Managers from developed markets may hesitate to do business in emerging markets as these are so very different from developed markets but with the benefit of strong social ties some of these difficulties can be overcome (Cavusgil, Ghauri, & Akcal, 2008). The network approach can however be limited for firms or individuals, notably a large proportion of SMEs, who have little or no exposure to connections beyond the local market (Ellis, 2000). For such firms international expansion is problematic and is seen to follow the default hypothesis of psychic distance (Anderson, 1996).

Opportunities in international business are exogenous, arising as a consequence of market imperfections and the disruptive introduction of new information (Eckhardt & Shane, 2003). Social ties are thought to lower the transaction costs (Rutashobya & Jaensson, 2004), risk (Sharma & Blomstermo, 2003) and, uncertainty (Zain & Ng, 2006) associated with FME while at the same time promoting credibility and trust among exchange partners (Loane & Bell, 2006). In his study on social ties and international entrepreneurship across 230 manufacturers from four Chinese cities Ellis (2011) found that 42% of the exchange ventures researched were the result of unsolicited approaches made by potential customers or intermediaries external to the firm while 45% of the exchange ventures were the result of first-time meetings that took place at trade fairs and exhibitions. These types of initiation seem highly reactive but link back to the importance of social

networks involving in-market contacts. Further consideration of Ellis' (2011) study raises questions as to whether these types of results are likely to be witnessed in other markets and/or other industries.

Social ties are likely to be more relevant when conducting business in emerging markets (Ellis, 2000). Zhou, Wu and Luo (2007) argue that for international entrepreneurial SMEs home-based social networks represent an efficient means to respond to the demand of global supply chain networks. The benefits of these networks are seen to reduce information and knowledge barriers which, in turn facilitates more successful cross-border business operations and improved transaction cost efficiency. This particular type of network mechanism may have an even greater relevance for international entrepreneurial SMEs in emerging economies such as China where the prevalence of personal connections such as *guanxi* are crucial to conducting ongoing and successful business (Redding, 1990; Zhou, Wu, & Luo, 2007). Fletcher and Fang (2006) surmise that the reasons why networks tend to be more important in business activities in Asia are due to one or more of the following: greater political instability in many Asian countries; the incidence of ethnicity; the lack of rule of law; and in some cases the nature of the political system and its evolution. On this basis there is support for the view that the government's export assistance programmes and supporting services for the internationalisation of SMEs could benefit more from the strategic focus on cultivating interpersonal networking capabilities and experiential learning opportunities through social interactions (Welch, Welch, Young, & Wilkinson, 1998; Fischer & Reuber, 2003b; Ghauri, Lutz, & Tesfom, 2003; Zhou, Wu and Luo, 2007).

In effect SMEs with diverse and broad networks of business relationships are able to internationalise more radically than SMEs with limited networks (Chetty & Stangl, 2010). Consequently social ties and networks are significant factors in export development, especially for SMEs and firms seeking opportunities in emerging markets.

2.3.4 How Do Channel Partner Initiations in Emerging Markets Differ?

While establishing a local presence in an emerging market (EM) is considered the most effective means for developing and maintaining social relations, for those lacking the required resources the dominant strategy is to rely on channel partners (Björkman & Kock, 1995; Ellis, 2000). Although there has been an increasing body of literature concerned with international channel relationships academics have criticised this research for mainly exploring relationships across similar, Western cultures and less attention has been paid to relationships between firms in Western and non-Western cultures (Johanson & Vahlne, 1990; Matear, Gray, & Irving, 2000).

Based on a relative lack of empirical research in to Southeast Asia market channels Matear, Gray and Irving (2000) conducted a study to explore the relationship between New Zealand food and beverage (F&B) exporters and their channel partners in Singapore, Malaysia and Indonesia. They used a qualitative case study method to interview 49 personnel from six New Zealand F&B exporting firms. The key finding was that for channel relationships involving Southeast Asian partners, trust rather than commitment is the key to a good relationship and that trust is developed through commitment. Kale and McIntyre (1991) in their study concluded that national cultures had a systemic impact on channel relationships and made a call for further research on the impact of culture on channel relationships. A key question that presents itself is whether or not the level (or lack) of understanding of EMs has an impact on the approach that exporters may take to capitalising on opportunities in those markets. Faced with uncertainties of dealing with foreign customs and cultures, managers continue to discount larger markets in preference for smaller, more familiar markets (Ellis, 2007a).

With significant growth rates already witnessed and predicted to continue in EMs around the globe, a key consideration for SMEs determining their export development strategies is how to locate suitable partners to deliver on the opportunities presented for marketing their goods and services. EMs should not be viewed as following a homogenous pattern of economic development

in which all markets are evolving toward a more Western-style business environment (London & Hart, 2004). In reference to these EMs the question is raised as to whether entrepreneurs choose markets and then find exchange partners in those markets, or do they export to those markets where they have already found suitable exchange partners (Ellis, 2011)? In other words, is the initiation in EMs driven by sellers or is it more inclined to be the result of market effects where SMEs get 'pushed' in to exporting.

The lack or non-existence of functioning distribution infrastructure in EMs is often referenced as a reason for delaying entry. Other difficulties relate to achieving national coverage (especially in large geographical markets such as China and India), government controls over distribution and securing payments through the supply chain (Arnold & Quelch, 1998; London & Hart, 2004). Another major issue in channel partner relationships is to allocate marketing resources between the intermediary and the customers. Large social and cultural distances tend to prevent sellers from being involved in the market and build up network experiential knowledge and institutional knowledge. The learning by the seller is especially low when the relationship with the channel partner is weak which typically results from long distance, low personal contact arrangements (Jansson & Sandberg, 2008). Entering low-income markets in EMs may require a different strategic approach and reaching these markets requires bridging the formal and informal economies (London & Hart, 2004). The structure of supply agreements and the vagaries of margin structures in the value chain are complicated further when markets subjected to high corruption are involved.

When entering an EM, SMEs face the requirement to restructure their knowledge platform further from a domestic market focus to an international one. This restructuring is even more challenging as SMEs expand from mature markets to EMs (Jansson & Sandberg, 2008). The advent of the internet as an engine for initiating exchanges and performing business transactions has created a new wave of trading opportunities between sellers and buyers. Unsolicited export orders (UEOs) received could break through the perceived psychic distance between developed markets and EMs such as Greater China, the ASEAN region and India. Rather than expending time and resources in

conducting searches to find suitable exchange partners in emerging markets sellers may be inclined to trade product with unknown distributors who have made contact through this channel. It is unclear as to whether a planned and measured approach to sourcing and selecting a channel partner proves to be more successful than a more random and reactive method. The measurement of success in itself is open to interpretation (e.g. transaction centred vs relationship focused). On this basis channel partner initiation in EMs is expected to differ from that of developed markets based on the role and expectations of the channel partner coupled with the complexities of EMs or psychically distant markets.

Table 4 provides a summary of core literature reviewed in this research along with the main concepts reviewed in this section.

Table 4: Summary of Core Literature Review Topics and Key Authors:

Topic	Sub Topic	Key Authors	Significant Points
2.1 Psychic Distance	Psychic Distance Definition	(Johanson & Wiedersheim-Paul, 1975)	The sum of factors preventing or disturbing the flow of information between firms and markets
	Uppsala Model (U-Model)	(Johanson & Vahlne, 1977) (Johanson & Wiedersheim-Paul, 1975) (Johanson & Vahlne, 2003)	Internationalisation is an incremental process; Relates a firms experiential knowledge and resource capability along with perceived psychic distance of the potential foreign market
	Psychic Distance Paradox	(O'Grady & Lane, 1996)	Australia/NZ and USA/Canada examples
	Measuring Psychic Distance	(Dow D. , 2000) (Brewer, 2007a) (Kogut & Singh, 1988) (Fletcher & Bohn, 1998)	Dow employed a single item scale for expert panel prediction. This proved to have high accuracy in market entry sequence outcomes for Australian exporters. Brewer developed an index based on factual information related to 7 primary indicators
	'Traditional' & 'Born Global Firms'	(Chetty & Campbell-Hunt, A Strategic Approach to Internationalization: A Traditional versus a "Born-Global" Approach, 2004); (Freeman, Hutchings, & Chetty, Born-Globals and Culturally Proximate Markets, 2012)	Born global firms are forced to commence internationalisation at a much earlier stage of development
	Emerging Markets	(Cavusgil, Ghauri, & Akcal, 2008) (Ghauri P. H., 2012)	Managers may hesitate to access due to differences with developed markets
	Social Network Theory	(Yeoh, 2000)	Lack of access to formalised information leads SMEs to access Social Ties & Networks
2.2 Export Stimulation & Readiness	Internal vs External; Proactive vs Reactive	(Leonidou , 1998) (Leonidou, Katsikeas, & Piercy, 1998)	Does one approach offer more success than another?
	Serendipity	(Spence & Crick, 2006)	Chance events influence market selection and servicing decisions
	Effectuation	(Sarasvathy, 2001)	A non-linear and iterative process
	Cosmopolitaness & Managerial Beliefs	(Ellis & Pecotich, Social Factors Influencing Export Initiation in Small and Medium-Sized Enterprises, 2001a) (Jaffe & Pasternak, 1994)	Managers worldliness and attitudinal commitment to exporting is a key factor
	Export Readiness Index – four key dimensions	(Tan, Brewer, & Liesch, 2007)	Attitudinal & psychological commitment, lateral rigidity & firm resources
	Awareness of Opportunities	(Ellis & Pecotich, Social Factors Influencing Export Initiation in Small and Medium-Sized Enterprises, 2001a)	Awareness of foreign market opportunities is the critical antecedent to exporting
	Availability of Information	(Leonidou , 1995)	The most significant obstacle to exporting is to locate and analyse foreign markets
	Acquisition of Information	(Ellis & Pecotich, Social Factors Influencing Export Initiation in Small and Medium-Sized Enterprises, 2001a) (Yeoh, 2000)	Firms that engage in greater information search have a greater chance of success
	The Role of EPOs	(Serinhaus , 1986) (Serinhaus & Botschen, 1990)	Five core areas (Figure 23)
2.3 Channel Partner Initiation	Modes of Initiation	(Ellis, 2000)	Five main modes of channel partner initiation (Table 3)
	Factors Influencing Channel Choice	(Ramaseshan & Patton, 1994)	Focus on SMEs.
	Rareness of objective search for channel partners	(Ellis & Pecotich, 2001b)	Lack of awareness of information, Lack of relevance of information or a gap in the ability to supply the information required
	Social Ties	(Ellis , 2000)	A valuable source of rich information about market opportunities
	NZ & South East Asia	(Matear, Gray, & Irving, 2000)	Trust is most important but can only be gained through commitment

3. Research Purpose, Methodology and Context

3.1 Research Aims

The research has three primary aims for delivery:

1. To understand how psychic distance influences the behaviour of SMEs
2. To determine perceptions of international channel partner initiations
3. To apply the outcomes as a contribution to academic research and as a learning source for Export Promotion Organisations

3.2 Research Questions

The research aims are driven by the consideration of four core questions:

1. Why does psychic distance still matter?
2. What makes psychic distance relevant to SMEs?
3. Does psychic distance influence how firms initiate channel partner relationships?
4. Can psychic distance be reduced in order to capitalise on opportunities in emerging markets?

3.3 Research Objectives

To deliver on the research aims and answer the questions posed the research will embark on the following:

1. Apply Brewer's (2007a) index from a New Zealand exporter's perspective using the 15 key indicators
2. Use Dow's (2000) study methodology to interview an expert panel and determine the perceived psychic distance from New Zealand to a selected set of export markets
3. Compare the index against the perceptions based results to determine validity and relevance of psychic distance to New Zealand exporters

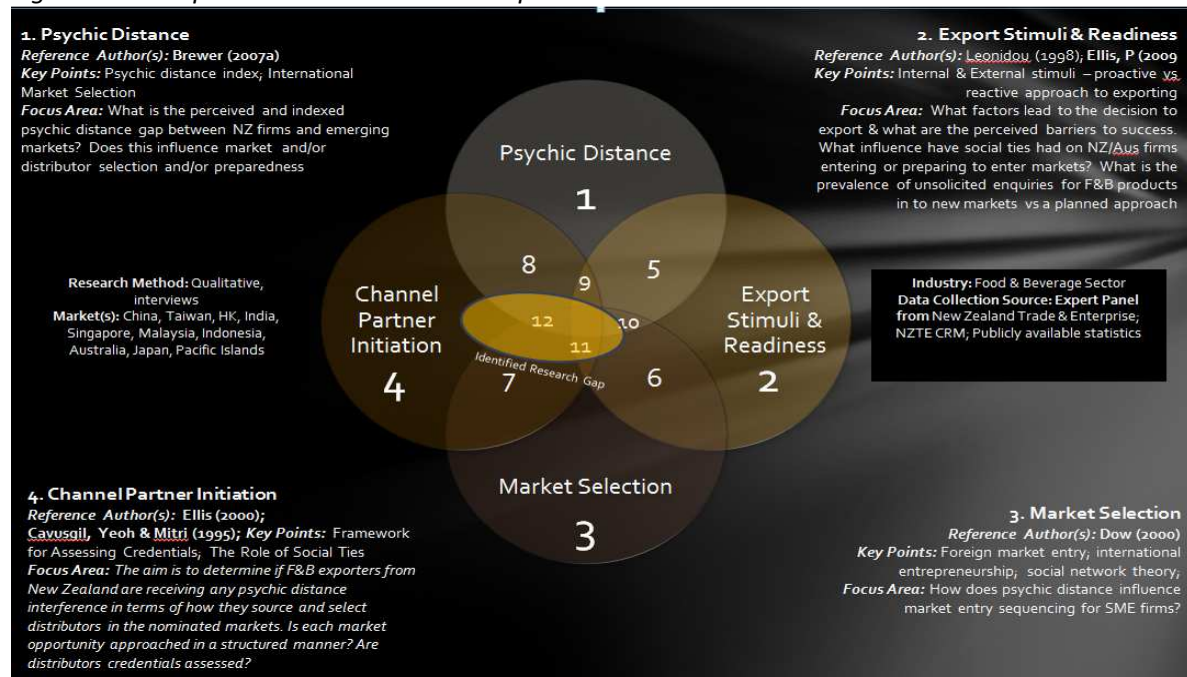
4. Provide a qualitative summary on what stimulates SMEs from a small domestic economy to export, how they prepare for exporting and what relevance psychic distance has
5. Use Ellis' (2000) study framework to determine if psychic distance influences channel partner initiation through a correlation effect between method of initiation used and psychic distance for the selected export markets

3.4 Conceptual Model

3.4.1 Identifying the Research Gap

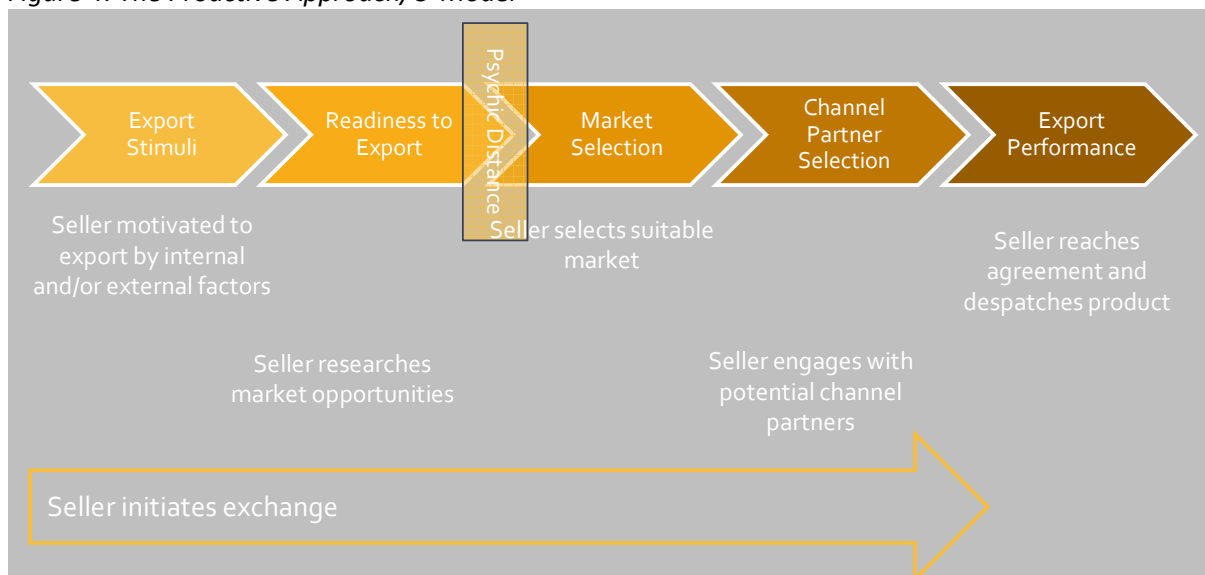
An extensive literature review identified the research gap in the overlap between psychic distance and foreign market channel partner initiation. The impact of export stimuli and readiness to export are secondary areas of consideration for this thesis. It is anticipated that the secondary constructs will create a link to the outcome of the partner initiation process. Relevant authors who have contributed to the extant knowledge of the research areas of interest are noted in the model demonstrated in Figure 3.

Figure 3: Conceptual Model & Research Gap



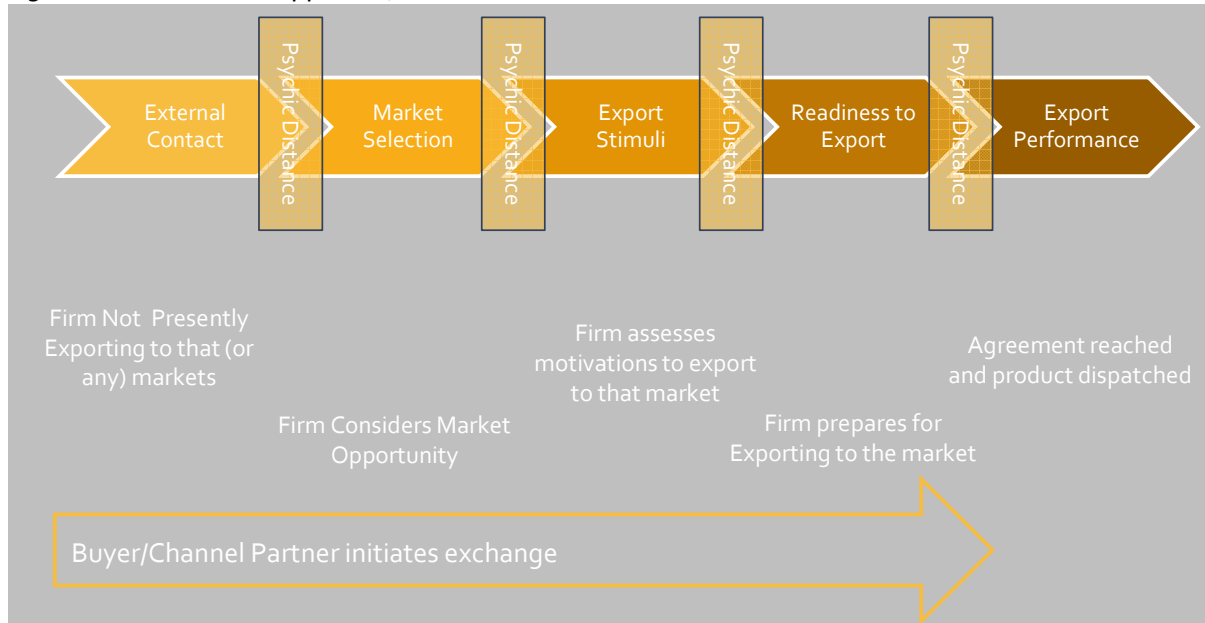
In contemplating the output of the literature review in the previous section two distinct processes of internationalisation for SMEs have been identified. The proactive approach (Figure 4) follows a path of firms responding to export stimulation. These firms are at a state of readiness prior to the point of market selection. In the U-model it is at this point where the consideration of psychic distance may play a role in determining which markets are entered and what methods are employed to initiate a channel partnership. The term proactive simply means that a firm actively searches international market opportunities (Moen & Servais, 2002). This approach will be referred to as the proactive approach or U-model.

Figure 4: The Proactive Approach/U-Model



The reactive approach (Figure 5) on the other hand has the potential of being influenced by psychic distance at multiple points along the path to market. The term reactive means that the firm responds to an opportunity that is triggered by someone or something. This could be internal or external. For example it could be pressure from an existing customer to enter a new market (Agndal & Chetty, 2007). Alternatively, the seller may receive a UEO. Psychic distance may play a role in one or many stages in the path to internationalisation. This approach will be referred to as the reactive approach or UEO model.

Figure 5: The Reactive Approach/UEO Model



These two models form the basis in combining the four core concepts reviewed in section 1 – psychic distance, export stimulation and readiness, market selection and channel partner initiation. An explanation of the research context follows.

3.4.2 Why Focus on SMEs?

Research on the internationalisation of SMEs has recently captured the growing interest of scholars (e.g. Oviatt & McDougall, 1994; Knight & Cavusgil, 1996; Zhou, Wu, & Luo, 2007; Chetty & Stangl, 2010). Inspection of the relevant literature reveals that internationalisation processes have mainly been studied in relation to MNCs but less so for SMEs, which for some reason tend to have been neglected in international research (Coviello & Munro, 1997; Jansson & Sandberg, 2008). Previous studies have found that the characteristics of key decision-makers' drive organisational strategy including resources invested. This investment is based on the perceived attractiveness of market opportunities from the decision-makers's perspective. For example, their personal orientation towards overseas expansion often results in higher international involvement (Cavusgil , 1984; Chandler & Hanks, 1994; Katsikeas, 1996; Deakins, Battisti, Perry, & Crick, 2013). So while research often focuses on the actions of firms greater emphasis should be placed on the decisions and

direction taken by individuals who will have attitudes and perceptions based on knowledge and experiences to apply to the non-linear world of internationalisation. This is further accentuated in SMEs where the lack of support structure often renders more freedom to the individual while placing greater responsibility on high delivery outcomes with low resource availability. For this reason the “prevention and disturbance in information flow to and from potential export markets” (Johanson & Wiedersheim-Paul, 1975, p24) will almost certainly influence the individual’s decisions regarding export behaviour. It is proposed therefore that SMEs are heavily influenced by psychic distance and that this in turn affects market selection and channel partner initiation approaches.

3.4.3 Why Focus on New Zealand?

Previous studies have demonstrated the lack of engagement and capitalisation of export development for Australian exporters which has not matched average export development in the global market (Arcus, 1992; McKinsey & Co., 1993; Valos & Baker, 1996). The same rings true for New Zealand where growth in GDP including that from export development has fallen behind that of other OECD nations despite the heavy reliance a small domestically populated country has on its international outward trade [see Figure 29 in appendix].

Johanson and Vahlne (1990) state that psychic distance is not fixed but diminishes in tandem with international experience and organisational learning. For a small domestic geographically isolated export dependent nation such as New Zealand it would be worthwhile exploring if this statement can be applied to exporters to determine if as more firms enter markets perceived as psychically distant (e.g. emerging markets) does the general perception of psychic distance diminish for subsequent exporters. Does this also then provide learning experiences that new exporters can apply for entering what were once seen as psychically distant markets and on this basis what role do EPOs play in closing some of these gaps. These considerations raise the question as to which markets do New Zealand firms turn to for export development in the early stages of internationalisation.

Evans and Mavondo (2002) suggest that firms based in highly developed and competitive markets may perform well in distant markets where they face less direct competition. Such markets can also provide substantial opportunities in the form of first-mover advantages for firms willing to help improve a less developed country's infrastructure. It can be assumed that firms from countries with large domestic markets are able to develop their resources and then move directly into export markets with a large market size, whereas limited domestic markets drive firms to internationalise their operations early in their development in to small-medium sized markets (Ojala & Tyrväinen, 2007). Due to the small domestic market are SMEs from New Zealand moving in to other small-medium sized markets first? Knight, Bell and McNaughton (2001) explored the relevance of psychic distance on New Zealand firms in the seafood industry but very little other formal research has been conducted in to how New Zealand firms rank export markets in terms of psychic distance – especially in relation to emerging markets.

The openness of the economy coupled with the distance from overseas markets creates challenges for New Zealand businesses that are unique for a small developed economy that is an OECD member (Deakins, Battisti, Perry, & Crick, 2013). Two key events in the late twentieth century impacted New Zealand's move towards a more export-led economy. The first was when Britain joined the European Economic Community in the 1970s which meant that New Zealand's reliance on Britain for agricultural exports was challenged and the market opportunity suddenly diminished. The second was the deregulation of the New Zealand economy from 1984 onwards which led to an influx of cheaper manufactured goods from overseas markets – in particular Asia. It was after this deregulation that New Zealand became one of the most open economies in the OECD and as a result many firms considered exporting an easier option than continuing in the intensely competitive domestic market (Chetty, 1999).

The New Zealand Government has set a target to increase the contribution of exports to the economy from 30 per cent of GDP in 2012 to 40 per cent of GDP by 2025 (Ministry of Business, Innovation and Employment, 2012). Government Ministers repeatedly announce that this growth

can only be achieved by developing new and expanding export markets with a high focus on capturing opportunities currently presented in Asia. Based on New Zealand's relatively small population base (4.5 million in 2013, Statistics New Zealand) and geographical isolation the requirement to engage in internationalisation tends to manifest itself much earlier in a firm's life cycle than in other countries. This also applies when comparing New Zealand with other similar domestic population sized countries (e.g. Singapore, Denmark and Ireland, see Figure 30). In addition, New Zealand's relative geographic isolation requires firms to ship product great distances to often far away countries to capture revenue increases. As a result the factors leading to export stimulation may be in a different prioritisation order than can be found in markets where a much larger (and cross border) population exists. For this reason it is anticipated that psychic distance is a major barrier that needs to be overcome at an earlier stage by New Zealand SMEs seeking growth through internationalisation.

3.4.3 What is the Role of New Zealand SMEs?

Definitions of SMEs vary from country to country. The Australian Federal Government adheres to a classification of an annual turnover of less than \$20 million or fewer than 200 employees. The European Commission defines SMEs as having fewer than 250 employees and less than €50 million in annual revenue. The New Zealand Ministry of Economic Development defines SMEs as those firms with less than 20 employees. These firms account for 40 percent of New Zealand's economic output on a value added basis and 31 percent of all employees (New Zealand Small Business Sector Report, 2014). In 2010 it was estimated that there were almost 460,000 SMEs in New Zealand accounting for 97 percent of all registered firms. As such the importance of these firms to both the domestic and export development of the country cannot be overlooked. Based on the limited resource base that many SMEs have available it is a common trait to apply a less-rigorous approach to export market research and market development planning. This provides fuel to the consideration of whether or not firms, particularly SMEs, are pro-actively seeking export channel partners. Moreover

what is the impact on these SMEs by the apparent psychic distance between the home and host market.

The recurring assumption is that the behaviour of SMEs is quite different from that of MNCs. It is suggested that international entrepreneurial SMEs are capable of exploiting global market opportunities more rapidly and efficiently (Zhou, Wu, & Luo, 2007). In this respect SMEs are more inclined to be more reactive, less systematic, more dynamic and flexible and less weighed down by over-arching strategies when approaching export opportunities. These firms do not employ objective evaluation methods for market screening but depend more on non-economic circumstantial factors (Ellis, 2000).

In the literature review the relevance of the factors stimulating smaller firms to export was explored with a view to determining whether these factors, coupled with firms perceived readiness for exporting is influenced by psychic distance when sourcing and selecting channel partners (Leonidou, 1998; Leonidou, Katsikeas, Palihawadana, & Spyropoulou, 2007). Given the large number of New Zealand businesses that fit within the definition of an SME the relevance to the growth of New Zealand's export sector is significant. At the other end of the spectrum there are very few MNCs that originate from New Zealand. Psychic distance and its impact on decision making for SMEs internationalising and initiating channel partnerships are expected to be noticeable when exploring these concepts from a qualitative perspective.

3.4.4 Why Focus on Food and Beverage Sector?

The focus on the F&B sector for this study is an intentional bias. This is based on the historical reliance on this sector for export development and growth, the unique point of difference that New Zealand F&B can offer in international markets based on the country's reputation as a world class producer and the acknowledgement that for future growth opportunities firms in this sector will need to find more value-add and innovative ways to produce, manufacture, transport, market and distribute their goods. The number of firms involved in F&B production and distribution is extensive

and spans a wide spectrum of size and capability. F&B products account for approximately 55% of New Zealand's exports. An industry report by Coriolis (2013) into the F&B industry suggests that while New Zealand is a major global F&B exporter, the country has significant untapped capacity to export more. Furthermore, the report notes that New Zealand is a country the size of Italy with the population of Singapore however Italy feeds a domestic population of 60m people *and* exports twice as much F&B as New Zealand.

The relatively small domestic market limits the scale of domestic producers – with many operating plants and equipment at the very small end of the scale globally. In addition, the domestic F&B retail channel is highly consolidated with only two main players (Woolworths Australia and Foodstuffs).

The foodservice channel comprising hotels, restaurants, industry and cafes, while less concentrated, has a relatively high cost to serve. This reinforces the fact that New Zealand firms need to begin exporting at a much earlier stage of their growth cycle than similar firms in other countries (Coriolis, 2013). New Zealand already has a strong and growing trade surplus in F&B and beverage but the New Zealand Government has set a target of tripling the country's F&B exports over the next 15 years (Coriolis, 2013). This will be achieved through both growth of existing major sectors and the development of emerging markets. New Zealand exports F&B to a wide range of destinations and Asia is now the largest destination region taking approximately 40% (China is the single largest destination and Asian countries comprise ten of the top 25 destinations). Based on export data for F&B markets New Zealand is in the middle of a fundamental transition from feeding Westerners to feeding the Asia-Pacific region. The growth in share has been at the expense of traditional markets in the USA and Europe and this trend is expected to continue (Coriolis, 2013). It is therefore important to understand the current approaches taken by New Zealand exporters to define areas for improvement in achieving faster and more successful go-to-market strategies. This is particularly relevant for emerging markets that may be less familiar or psychologically distant.

While a small number of larger firms in primary foods (e.g. Fonterra, Zespri, Silver Fern Farms etc) have generally paved the way in terms of expansion into new and emerging markets the opportunity for SMEs cannot be discounted. Historically smaller firms in this sector have chosen to follow a more traditional approach to exporting through a pathway akin to the U-model – they have started business in the New Zealand domestic market and then expanded in to ‘psychically close’ markets such as Australia, the United Kingdom and the United States. It can be argued that this path has provided many success stories. The reluctance to enter and/or lack of awareness of opportunities in psychically distant markets at an earlier stage of exporting may also be restricting additional growth opportunities in markets less well known to New Zealand business owners and managers. I suspect that F&B SMEs struggle to get beyond the intensive competition that is present in the psychically close markets and as a result sometimes fail to reach scale and expand as resources are constricted. This contributes to what has been referred to as “the missing middle” – there is a lack of scaled up New Zealand companies who have truly managed to turn their business in to a global operation (Coriolis, 2013).

The nature and quality of F&B goods grown, produced and manufactured in New Zealand is in high demand in emerging markets (Coriolis, 2013). Many of these markets have not received as much attention in recent years from exporters prompting further questions as to what are the key barriers to entry. There are several reasons which could be used to explain the lack of presence of New Zealand F&B SMEs in emerging markets such as lack of internal resources and/or capital to drive further growth; a lack of knowledge to be able to understand the needs of the market; a lack of external support services to remove or navigate through external barriers to entry; a lack of contacts or networks to establish new business; or a fear of the unknown and a perception that entering emerging markets may be overly difficult.

The motive for the focus on the F&B sector in this research is to determine the approach taken by those firms who are already exporting and ascertain what methods they might be using to initiate

new channel partnerships as this is seen as a key component in delivering growth objectives in analysing market entry success. These findings could then possibly be used to share experiences with other F&B firms considering exporting or enhancing their export status. The results may also provide an opportunity for EPOs to develop frameworks for removing some of the concerns that exporters may face when approaching emerging markets. If psychic distance is proving to be influential in how F&B firms initiate new channel partnerships then a call for further research in to this area can be made to establish what may constitute best practice for foreign channel partner selection.

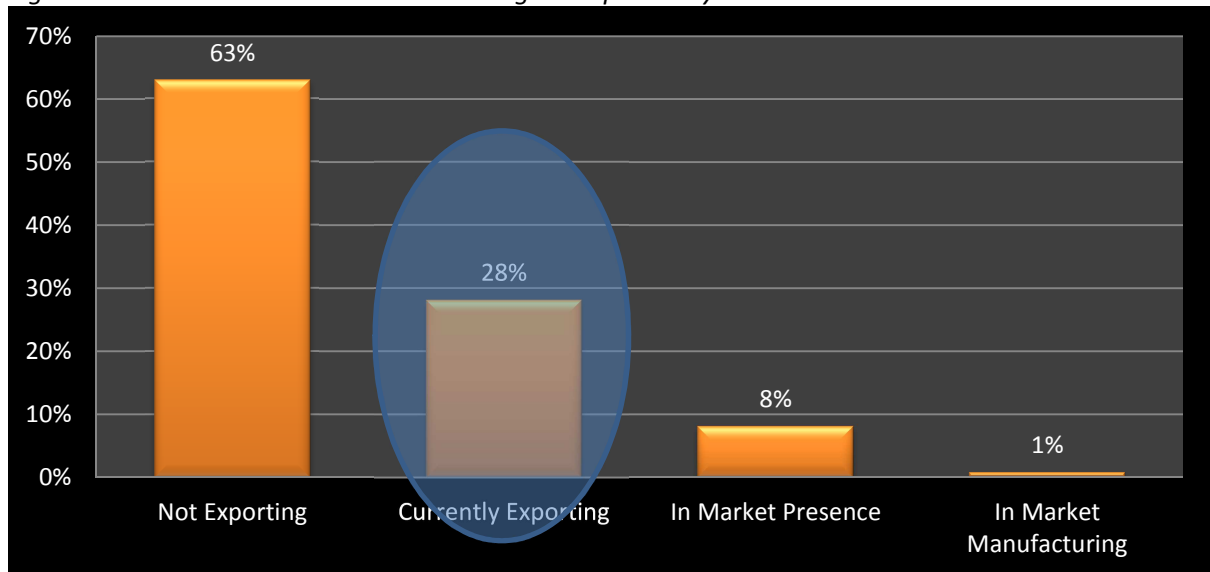
3.4.5 Why Focus on Channel Partners?

A large proportion of New Zealand F&B exporting firms use intermediaries (channel partners) in their exporting model. This explains why there is interest in understanding how these channel partner relationships are initiated. The retail landscape in emerging markets is still dominated by what is commonly called the traditional trade – usually independent, small-format mom-and-pop stores (Navarro, Valero, Molina, & Marzal, 2013). For this reason alongside differences in language and business practices most firms are initiating relationships with channel partners to import, distribute and in many cases control sales and marketing of their product in export markets. An examination of New Zealand business statistics as represented in Figure 6 reveals that approximately 37% of F&B SMEs are involved in international business. 28% use a traditional export model, with personnel based in New Zealand. Eight percent of F&B SMEs have in market presence in at least one market while only one percent of firms are involved in in-market manufacturing. It is estimated that 63% of firms are not currently engaged in exporting. Many of these firms may not be suitable for or capable of exporting. 990 F&B SMEs were included in the ‘currently exporting’ data set.

The low conversion rate of firms from exporting to one, two or three markets as depicted in Figure 7 is low which calls in to question the constraints on further export development. Capital investment is an obvious obstacle. Suitability of product offerings or brand positioning to foreign

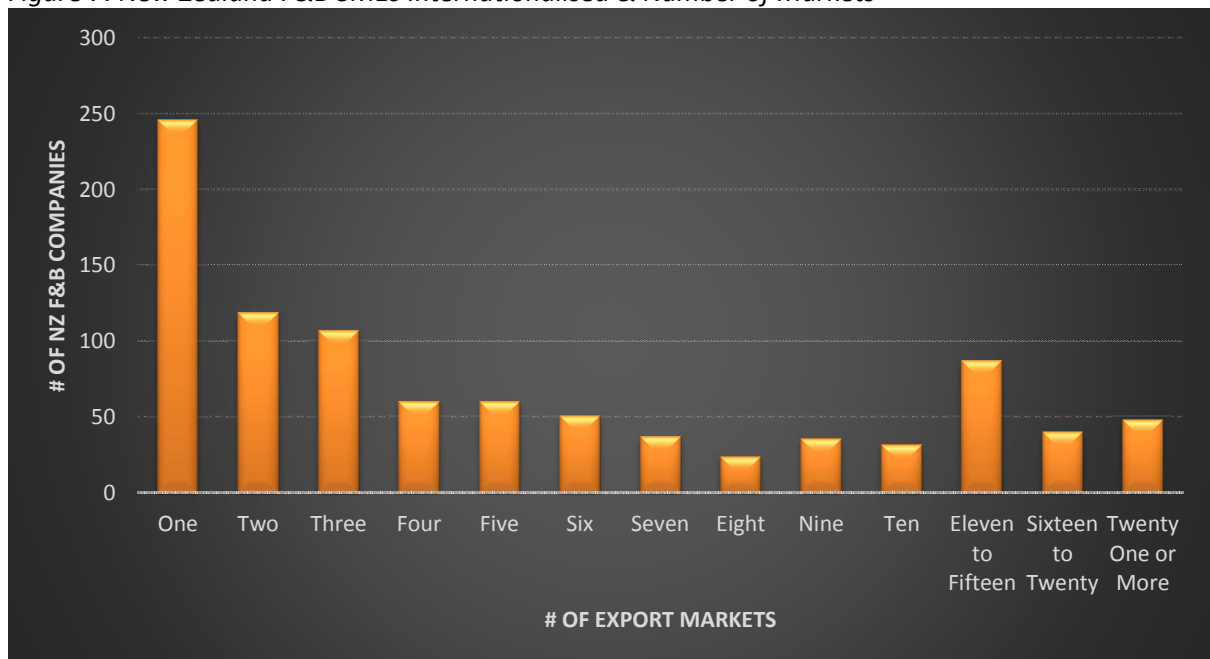
markets could be another. It is anticipated that poor channel partner selection and perhaps a narrow view of market choice in the early stages of internationalisation also choke export growth potential. The exporter (key decision maker) also has to have the motivation to want to expand their exporting footprint. The chart below provides an insight into the expansion of F&B SMEs across export markets.

Figure 6: New Zealand SME Food & Beverage Companies by International Involvement



Source: New Zealand Small Business Sector Report, 2014; New Zealand Trade & Enterprise 2014

Figure 7: New Zealand F&B SMEs Internationalised & Number of Markets

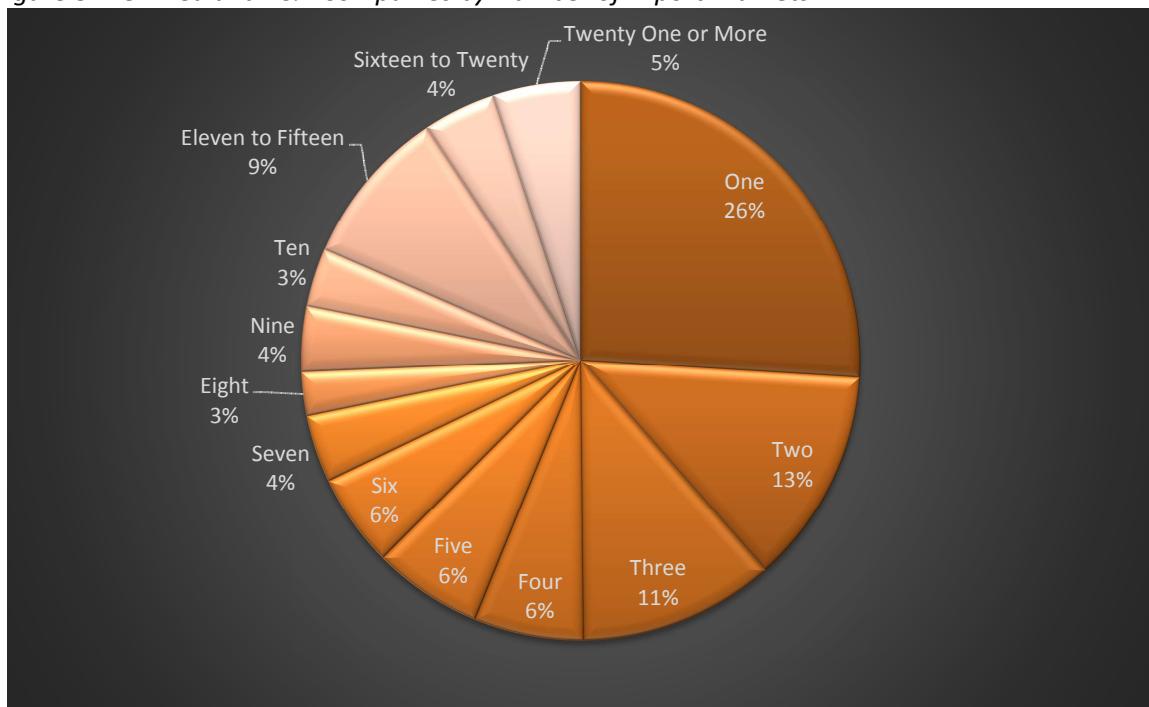


Source: New Zealand Trade & Enterprise 2014

Less than half of the firms that successfully expand into a second or third market then go on to a fourth or fifth export market. As shown in Figure 8 50% of all New Zealand SMEs involved in international markets are exporting to three markets or less. New Zealand firms involved in exporting F&B products and that have a presence in only one market - primarily Australia – accounted for 26% of the data set.

Across the four stages of internationalisation the impact of psychic distance is purported to diminish (Johanson & Vahlne, 1977). Based on the number of New Zealand F&B SMEs that are either not exporting or currently exporting but with no in-market presence the inference is that psychic distance is present and influential.

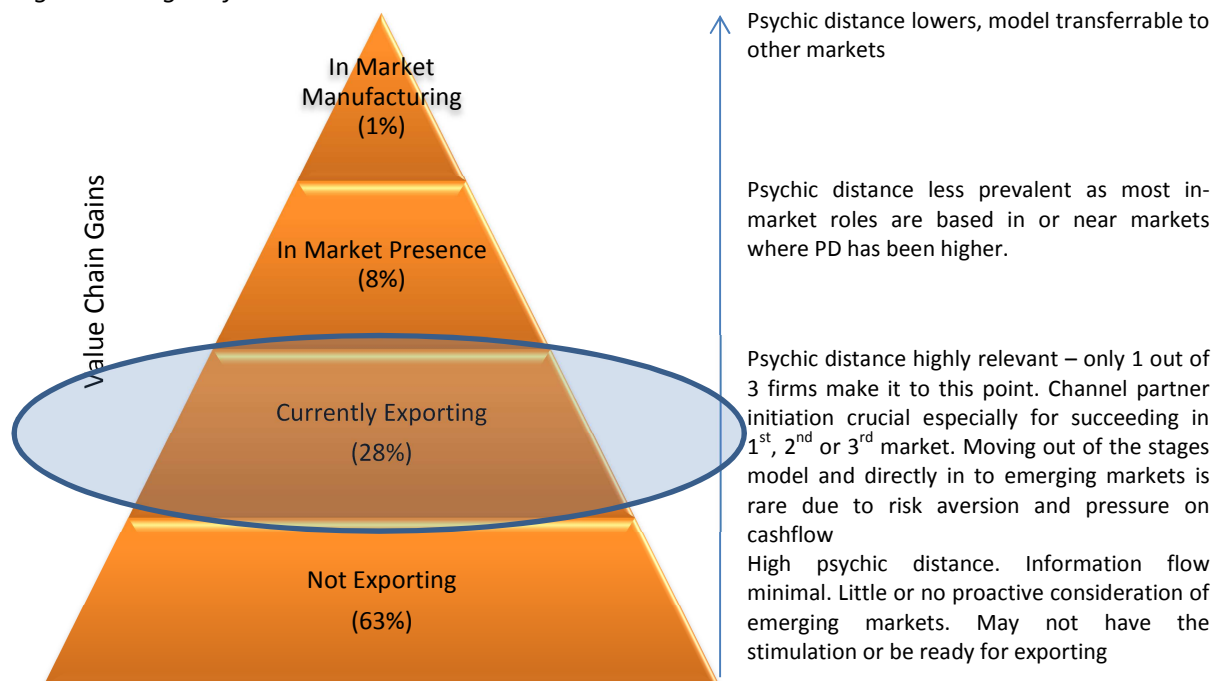
Figure 8: New Zealand F&B Companies by Number of Export Markets



Source: New Zealand Trade & Enterprise 2014

The impact of psychic distance is emphasised at the greatest level at the first stage of internationalisation (Johanson & Vahlne, 1977). Figure 9 provides further commentary on the estimated proportion of New Zealand F&B SMEs represented at each stage of internationalisation and the significance of psychic distance at each point.

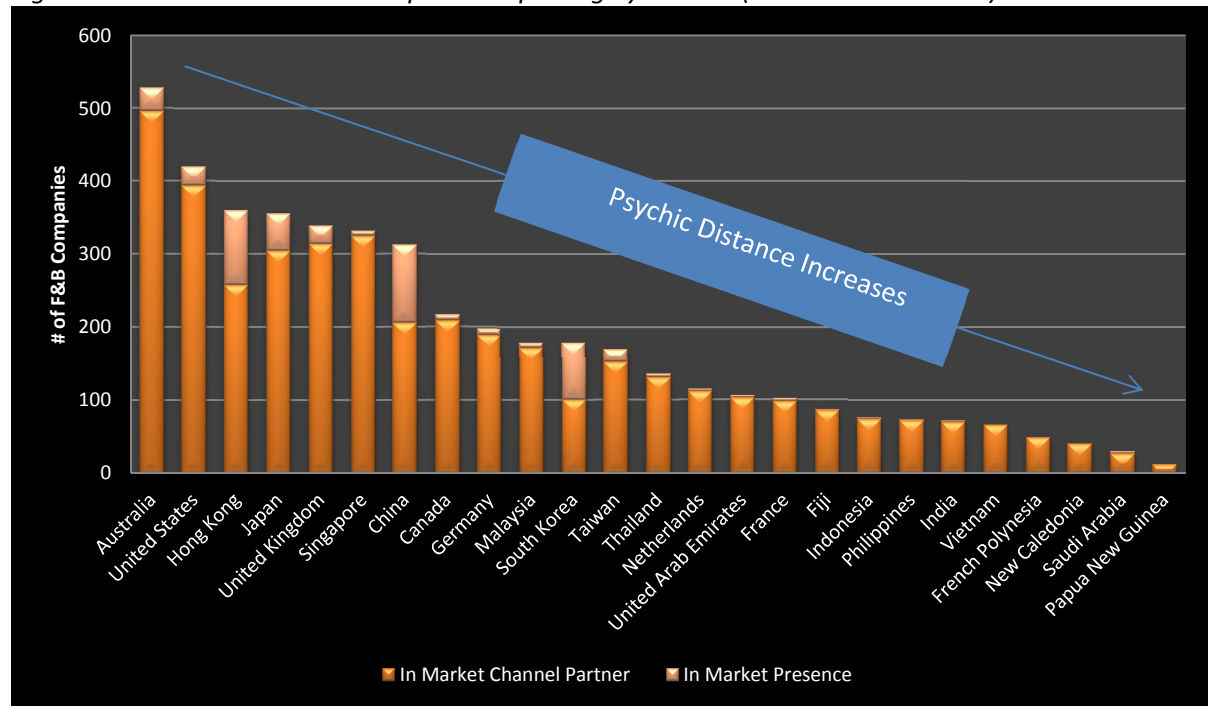
Figure 9: Stages of Internationalisation



To expand on this theory an analysis, which will later be used for the qualitative research, was made of the number of New Zealand F&B SMEs exporting to 25 key markets. The analysis shows that Australia is easily the biggest market for New Zealand F&B firms with 528 companies from the data set of 947 companies either exporting and/or having an in-market presence. Both Hong Kong and China have a large number of companies involved in export operations but the proportion of firms that have an in-market presence is much higher than in the case of Australia, the USA or the United Kingdom. This is possibly an outcome of attempting to reduce psychic distance in these culturally dissimilar markets. A negative correlation is suggested in that the higher the psychic distance, the number of companies operating in that market will be less. A number of emerging markets feature in the data set and it is noted that they are at the lower end of the company engagement chart. For instance the number of New Zealand F&B SMEs operating in each market tails off notably when the data set gets to Indonesia, Philippines, India, Vietnam and Papua New Guinea (see Figure 10). This forms an important basis for the qualitative component of this study and leads to the next reflection on whether the ranked order of how many firms are involved with

each market has a connection with both psychic distance and how firms are initiating channel partnerships in each market.

Figure 10: New Zealand F&B Companies Exporting by Market (25 Selected markets)



Source: New Zealand Trade & Enterprise 2014

3.4.6 How are Channels and Channel Partners Defined?

When assessing exporting opportunities a traditional view for firms is to think of countries as export markets. While technically this is correct it is more accurate, especially for larger and emerging countries, to consider export opportunities by sub-market, regions and cities or even more specifically by channels within markets. What do we mean by channels within markets? For this study, given the emphasis on the F&B sector, the channels have been identified as outlets for product distribution (see Table 30 for further detail).

Each channel and sub-channel requires expertise and knowledge to deliver commercial and sustainable success. In more developed markets it is common for suppliers to have a relationship with the end-channel user directly (e.g. a multi-national retailer). In this case the retailer is the channel partner. It is assumed that in emerging and more psychically distant markets the likelihood

of a direct supply arrangement with a local retailer is low (given the potential disturbance in information flow compounded in many cases by a difference in language and business culture).

The rapid spread of multi-national grocery retail outlets reaching in to emerging markets has created a new model as direct supply between firms from developed markets and psychically distant markets can in some cases be achieved through a centralised procurement base (e.g. purchasing product from Singapore for markets and outlets across South East Asia). The challenge that many smaller firms will face with this model is their lack of scale provides them with little or no bargaining influence with the powerful retailer. In many cases a supplier will offer exclusivity to a channel partner for a market without understanding the strengths of that partner within one or several of these sub-channels. For some products the channel partner may only be suitable for a given sub-channel based on product format, local regulations or ability to supply. In fact, this in itself is an important consideration for many New Zealand F&B SMEs who will not have the ability to reach rapid scale in supply if their in-market channel partner finds success in multiple sub-channels. This strengthens the requirement to understand channels and therefore channel partner capabilities before entering into any form of agreement.

The background provided above leads to the crux of this study which is to determine whether psychic distance really does influence the initiation process that firms use for engaging with channel partners. The opportunity to garner this information from firms themselves is very appealing. However, in the first instance this study seeks to replicate the research conducted by previous scholars (Dow D. , 2000; Brewer, 2007a) by using the experiential knowledge from an expert panel of EPO employees. The reason for this is to provide a more holistic and broader view of key themes that can be seen across the markets selected.

It is proposed that this type of qualitative research will enable a series of important fields to be identified for future research when considering the internationalisation process of exporters from small-medium size countries to emerging markets.

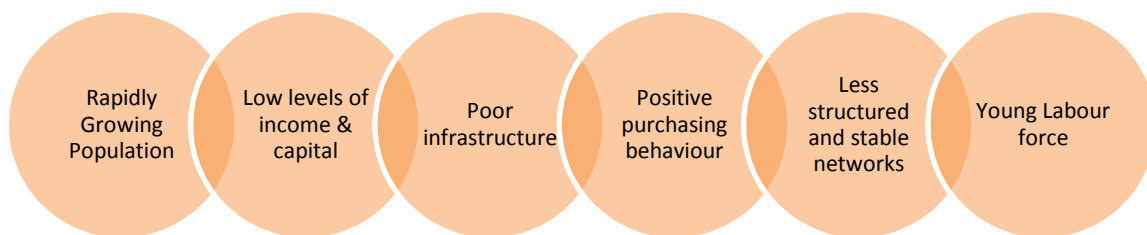
3.4.7 Why Focus on Emerging Markets?

The U-model advocates moving from the domestic market in developed economies to other psychically close developed markets. Evans and Mavondo (2002) suggest that firms based in developed economies may perform well in less developed and newly industrialised countries because of the pioneering advantages of being the first to establish a presence in such markets. In 1995 United Nations data identified 25 countries as being “developed” (USA, Canada, 15 EU countries, Iceland, Norway, Switzerland, South Africa, Israel, Japan, Australia and New Zealand) while all remaining nations are classified as “developing”. Since that time though the widespread use of the term emerging markets (EMs) has been employed to identify developing markets that display solid economic growth rates and movements in government systems. Most EMs have enjoyed annual GDP growth rates of more than 5 percent since 1990 with rates nearer 10 percent in East Asia (Arnold & Quelch, 1998). The defining qualities of newly emerging markets (NEMS) include firstly, movement away from their status as less developed countries having rapidly growing populations, low levels of income per capita, poor infrastructure and a lack of capital. Second, positive momentum of purchasing behaviour exhibited by these countries conceptualises the emerging nation (Nakata & Sivakumar, 1997). Third, they have less structured and stable networks and it is more difficult to develop and establish relationships (Salmi, 2000).

In thinking about ‘doing business’ in EMs and converting this into building strategies, firms need to consider the consumers and business model that can serve their needs, the characteristics of the market and the value chain, the availability of local partners, and the presence of competitors (Cavusgil, Ghauri, & Akcal, 2008). EMs as high growth economies feature a large geographic market, a young labour force, attractive opportunities for domestic sales and sources of supply, anticipated and critical economic reforms that are receptive to foreign investment, and unmatched growth rates and market expansion opportunities (Cavusgil, 1997) Please refer to Figure 11.

Small and medium sized countries that have export driven mandates must have a desire to understand at a greater depth how to approach and successfully enter and grow within EMs. EMs are attractive because they offer great and long term growth potential. It is also a highly competitive environment in terms of creating cut through for new product entrants and for that reason the decision made in export channel partnerships for emerging markets should be of great interest to firms looking to engage in a new market. A key differentiator in EMs is the presence and reliance on social ties as a means of initiating and conducting business opportunities, as indicated in *section 2*. Pre-existing social ties (e.g. in the form of common ethnic links, business networks, family connections, etc.) may reduce the effects of psychic distance by lowering the uncertainty associated with entering specific markets (Wong & Ellis, 2002). Emerging markets are of significance in this study due to the move in focus driven by the New Zealand government for exporters to look more towards the East than the West for new business opportunities. Although traditional developed markets will remain a key source of export revenue it is recognised that Asia in particular is the region which provides the greatest potential for a step change in export development.

Figure 11: Emerging Market Characteristics (Cavusgil, 1997)



3.5 Methodology

3.5.1. Research Setting and Design

The research involved a combination of statistical data compilations (using Brewer's Psychic Distance index as a base) and qualitative information collection and scrutiny. The qualitative work involved thirteen interviews (face to face and phone) with personnel from the New Zealand Government's Export Promotion Agency – New Zealand Trade & Enterprise (NZTE). The approach comprised two stages in line with Srivastava and Hopwood (2009), and as employed by Deakins, Battisti, Perry and Crick (2013), in which data collection and analysis was an iterative and reflective process to progressively refine the research focus and to verify emerging themes.

3.5.2 Field Interviews and Questionnaire Development

A series of pilot interviews were conducted in late September 2013 to gauge comprehension of the research topic and refine the framework for questions to be answered. Following some adjustments to the initial question order and interview structure, the field interviews were conducted over the period of four weeks with a combination of face-to-face interviews (8) and phone interviews (5).

3.5.3 Research Parameters

Based on the small number of MNCs originating from New Zealand and the notion of the "missing middle" as identified by Coriolis (2013) the European definition of SMEs was applied during the data analysis and qualitative interview sessions. This means that firms with turnover of less than €50 million (equivalent to ~ NZ\$75m at the time of publishing) with less than 250 employees was the reference point. This was explained to the interviewees at the start of each interview. The context of SMEs operating in the processed foods segment of the F&B industry was also explained.

New Zealand F&B SMEs was taken to mean any firm that has or is about to engage in exporting of New Zealand produced F&B items. When considering the F&B export revenue generated from New Zealand a large skew is represented by the export of processed milk powder (whole milk and skim

milk). This product is in the most part on-sold to secondary processors and manufacturers, notably under the ownership of large foreign MNCs. As this product category is heavily focused on supply of ingredients for secondary processing, it has been eliminated from the measurement used for this research. This is to allow for a more concentrated set of results based on consumer goods rather than bulk ingredients. Export data was taken from the Statistics New Zealand publication ('Global New Zealand'). The category of "Processed Foods" was used as the key export measure with the value of milk powder deducted from the export value of processed foods to each market involved in the study.

3.5.4 Interviewee Profiles

In line with the approach taken by Cavusgil and Zou (1994) and Ellis and Pecotich (2001b) it is considered that trying to answer these types of questions through mail surveys is not adequate. What is required is the development of a deeper understanding of the factors that drive firms to make their decisions on initiating channel partner relationships through the use of qualitative data collection through personal interviews. The interviewees ranged in experience in both public and private sector roles. The average experience in number of years in working with firms internationalising was twelve. Some of the expert panel held roles as Trade Commissioners. Several Trade Commissioners had been posted to multiple countries during their tenure at NZTE. Solid depth of New Zealand export company experience from the New Zealand and Australian based staff added to the high quality of exposure to the concepts and markets involved in the study.

Table 5: Profile of Interviewees & Interview Locations

Code	Role	Interview Location	Sector/Region
CM01	Customer Manager	Auckland	F&B
CM02	Customer Manager	Auckland	F&B
CM03	Customer Manager	Auckland	F&B
CM04	Business Development Manager	Telephone	Australia/Pacific
TC01	Trade Commissioner	Telephone	Australia/Pacific
TC02	Trade Commissioner	Auckland	Australia/Pacific
TC03	Trade Commissioner	Auckland	Greater China
TC04	Trade Commissioner	Telephone	Greater China
TC05	Trade Commissioner	Telephone	Greater China
TC06	Trade Commissioner*	Telephone (Not Available)	South East Asia
TC07	Trade Commissioner	Wellington	South East Asia
TC08	Trade Commissioner	Telephone	South East Asia
TC09	Trade Commissioner	Auckland	North Asia
TC10	Trade Commissioner	Wellington	South Asia

*Note that due to a change in circumstances during the course of this study it was decided that the interview with one of the South East Asia panel could not proceed.

3.5.4 Construct Operationalisation

To collect the necessary and relevant information to complete the study the research was conducted in four segments as per Figure 12 below. The expert panel interview method replicates previous study methodologies employed by Dow (2000) and Brewer (2007a). A total of 25 export markets were selected across regions including all of the top 20 F&B export markets for New Zealand (see Table 6). In the first stage F&B Customer-Facing Managers from NZTE were interviewed to validate the results of the psychic distance index compiled using Brewers (2007a) measures. The Customer Facing Managers were then asked to identify their perceptions on the stimulation factors for exporting and the readiness of New Zealand exporters to enter the F&B sector in the nominated markets. The basis for these interviews was derived from the Leonidou (1998) internal and external export stimuli model as presented in Table 8. Consistent with previous interview based studies (Freeman, Hutchings, & Chetty, 2012) the interviews were conducted in a semi-structured manner to “both obtain an appropriate degree of comparability and allow ample opportunity for unobstructed narration”).

A further series of interviews using the same technique was then conducted with nine Trade Commissioners who were based in a range of the selected countries. This was to provide for a cross

section of developed and emerging markets in Oceania, Greater China, ASEAN and South Asia to determine the methods that F&B firms are employing in sourcing and selecting channel partners.

Figure 12: Construct Operationalisation



The interviews were recorded and transcribed and ranged in duration from 30 minutes to 90 minutes. The qualitative analysis involved a process of data interpretation through coding methodology. Using a similar technique to Freeman et al. (2012) codes were assigned to significant sentences or phrases of the interview transcripts and this open coding enabled dissection of the data to detect recurring themes or conflicts. Approved access to NZTE databases and CRM tools were required to quantify the number of engagement activities related to developed vs emerging markets for initiating channel partnerships. These databases were also used to ascertain the number of firms exporting to the markets involved in the study. The psychic distance measurement of the selected countries and the channel partner initiation mode associated with each of those markets for New Zealand SMEs in the F&B sector formed the basis for analysis and qualitative commentary.

Further analysis examined whether there is a connection between the method of initiating channel partnerships and the psychic distance of markets. Feedback was also sought from the expert

panel to provide qualitative insights on some of the opportunities and challenges presented in each market that influence the approach in initiating exchanges with channel partners.

3.5.5 Rationale for Market Selection

Based on the research conducted by Dow (2000) and Brewer (2007a) 25 markets were identified as part of this study to test the psychic distance and channel partner initiation concepts. New Zealand's top 20 merchandise export markets, as identified by trade statistics to June 2014 (Statistics New Zealand) were taken as the initial grouping. Complimentary with the research of Ellis (2007a) emerging markets in the Asia Pacific region were selected as being central to this study. This was to offset the historical focus on Eurocentric literature. Each market was categorised based on Geographical Region, Market Type (developed or emerging), Export value from New Zealand (in New Zealand Dollars/NZD), F&B Export Value (in NZD) and whether or not that market had a representative panel member for the interview component. The selection as represented in Table 6 includes 12 Developed Markets and 13 Emerging Markets.

For the purposes of excluding larger companies from the data set, and noting that milk powder is the single biggest food item exported (by large firms) this data was then removed from the figures. The revised market summary for New Zealand F&B SMEs in processed foods (excluding milk powder) and the basis for the responses provided by the expert panel is demonstrated in Figure 14. The market mix changes when milk powder is removed from the data. Australia is easily the predominant export market for processed F&B product followed by China, the USA and Japan. In total 66% of New Zealand's processed food exports (excluding milk powder) are captured within the 25 selected export markets. While not perfect science this method does provide a perspective on how members within the expert panel would conceive of market share and attention from companies that they work alongside.

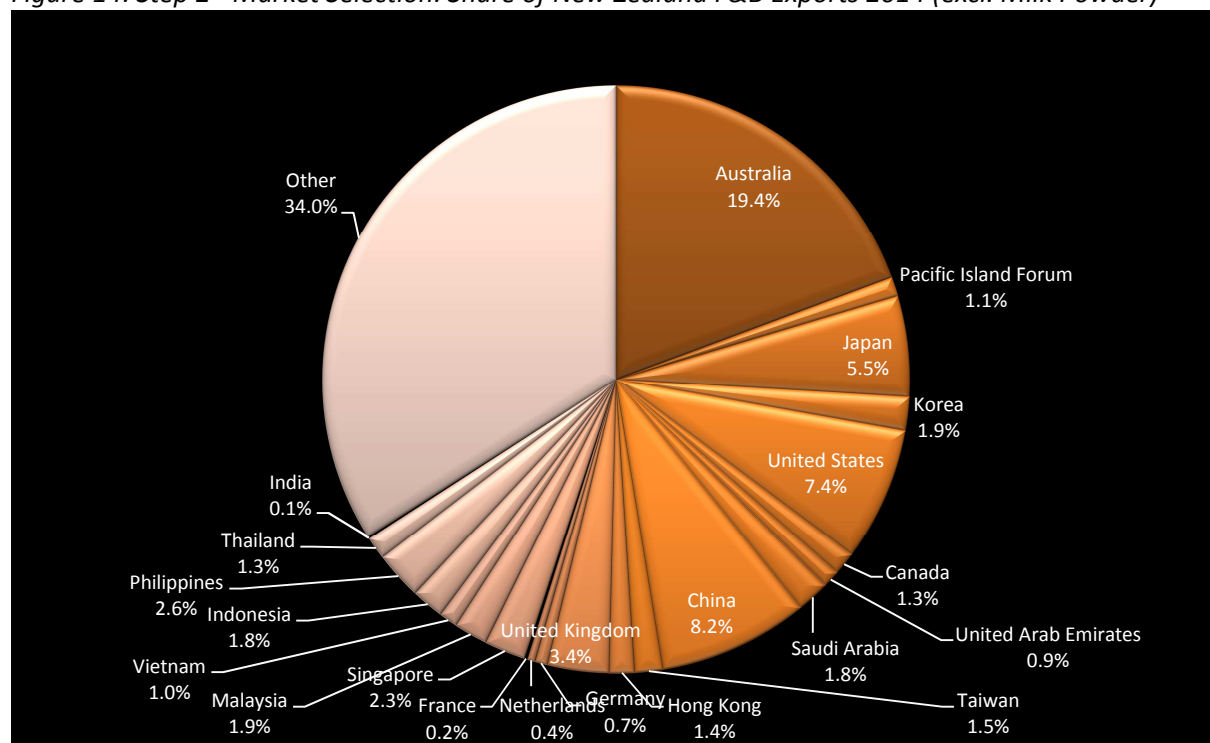
Table 6: Selected Markets

Export Rank	Region	Market Type	Export Market	Export Value (NZ\$m)**	Processed Food & Beverage Exports (NZ\$m)	In-Market Expert
1	Asia	Emerging	China	11,572	6,261	✓
2	Oceania	Developed	Australia	8,931	2,242	✓
3	North America	Developed	United States of America	4,225	903	
4	Asia	Developed*	Japan	2,900	686	✓
5	Asia	Developed*	Republic of Korea	1,654	216	
6	Europe	Developed	United Kingdom	1,538	392	
7	Asia	Developed*	Singapore	1,092	563	✓
8	Asia	Developed	Malaysia	977	653	✓
9	Asia	Emerging	Indonesia	952	529	✓
10	Asia	Developed*	Taiwan	986	443	✓
11	Asia	Developed*	Hong Kong (SAR)	724	226	✓
12	Asia	Emerging	Philippines	822	615	
13	Europe	Developed	Germany	781	80	
14	Asia	Emerging	Thailand	811	467	
15	Asia	Emerging	India	632	12	✓
16	Middle East	Developed	United Arab Emirates	845	681	
17	Europe	Developed	Netherlands	663	70	
18	Middle East	Emerging	Saudi Arabia	699	509	
19	North America	Developed	Canada	544	155	
20	Asia	Emerging	Vietnam	536	292	
22	Oceania	Emerging	Fiji	375		✓
26	Europe	Developed	France	366	18	
32	Oceania	Emerging	Papua New Guinea	236*	*	✓
35	Oceania	Emerging	French Polynesia	182*	*	✓
37	Oceania	Emerging	New Caledonia	170*	*	✓

Source: Statistics New Zealand, June 2014

*Trade statistics not available in report

Figure 14: Step 2 - Market Selection: Share of New Zealand F&B Exports 2014 (excl. Milk Powder)

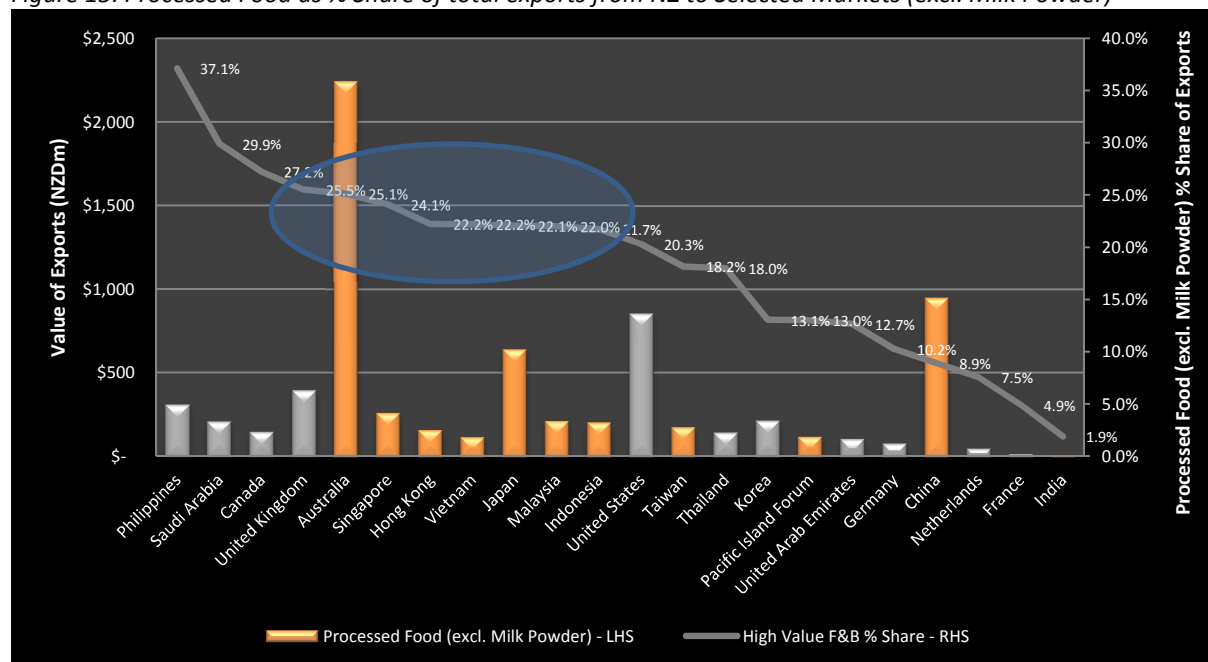


Source: Statistics New Zealand, 2014

The final stage of constructing the data set relative to the expert panel interviews was to examine the proportion of import value for processed foods from New Zealand in to each of the 25 markets (Figure 15). The purpose of this was to determine the influence that processed F&B had on New Zealand’s export relationship with each of the selected markets. The bars on the chart demonstrate the value of processed F&B exports to each of the selected markets – excluding milk powder. The line represents the percentage share of the processed F&B (excluding milk powder) as percentage of a total exports from New Zealand to each market¹.

There is a cluster of countries where New Zealand processed F&B exports comprise approximately 20-25% of total export value (Australia, Singapore, Hong Kong, Vietnam, Japan, Malaysia & Indonesia). All of these markets will be involved in the interview process with the in-market expert panel along with Taiwan, the Pacific Islands Forum (represented by the largest markets – Fiji, Papua New Guinea, French Polynesia and New Caledonia) and the People’s Republic of China.

Figure 15: Processed Food as % Share of total exports from NZ to Selected Markets (excl. Milk Powder)



¹ When milk powder is removed from the data the Philippines has the highest proportion (37.1%) of New Zealand imported processed food (made up of other dairy products such as butter, cheese and liquid milk and cream alongside whey and milk constituents, frozen beef, food preparations, frozen fish, beverages including wine and prepared meat).

3.6 Study Design

3.6.1 Measuring Psychic Distance

Two measures will be used to determine the psychic distance between New Zealand and the 25 selected markets. Initially the index developed by Brewer will be used to provide an indicator of distance using an objective method. Secondly, Dow's (2000) methodology will be used to determine a perception based response from the expert panel on the psychic distance between New Zealand and the selected group of countries. Table 7 specifies the indicators constructed by Brewer (2007a) that will be used to gauge psychic distance between New Zealand and the 25 selected export markets. Data was obtained from various sources and collated into tables to provide an objective measure of distance for each indicator. The individual measures are then aggregated to produce an overall measure of psychic distance².

Table 7: Psychic Distance Index: Replication of Brewer's Study (2007a)

Primary Indicators	Item	Measures	Data Type	Data Source
Commercial Ties	1.	Two Way Trade	Variable	Statistics NZ
	2.	Stock of Foreign Investment	Variable	Statistics NZ
Political Ties	3.	Trade Arrangements	Variable	Statistics NZ
	4.	Value of Aid Programmes	Variable	MFAT
	5.	Trade Representation Offices	Variable	NZTE/MFAT
Historic Ties	6.	Colonial Relationship	Fixed	Historical
	7.	Shared Wars	Fixed	Historical
Geographic Ties	8.	Geographic Proximity	Fixed	World Atlas/Google
Social Ties	9.	Cultural Similarities	Fixed	Fletcher & Bohn (1998)
	10.	Sport Preferences	Fixed	Top 4 H&A sports
	11.	Language Similarities	Fixed	Direct comparison
Country Information Stock	12.	Secondary Information Availability	Variable	Massey University
	13.	Immigration Numbers	Variable	Statistics NZ
Level of Development	14.	Level of Development of the Foreign Country	Variable	WTO Stats
	15.	Level of Corruption of the Foreign Country	Variable	TPI

² Cultural Distance measures were also used as a benchmark in comparing Hofstede's model for New Zealand and each of the 25 countries (see *Section 9.1*). It was noted that many of the researchers have used scales based on Sethi's (1971) clustering of world markets or Hofstede's (1980) cultural difference dimensions as surrogate indicators.

Dow (2000) used a background in studies employing key informant based scales as a means of justification for the group of Trade Commissioners used in the gathering of information (i.e. Single-item instrument: applied to an independent panel as used by (Vahlne & Nordstrom, 1992). The distance between countries was estimated with a single-item scale administered to the independent panel of trade commissioners. Each of the participants was given a description of psychological distance adapted from Carlson's (1974), Johanson and Weidersheim-Paul's (1975) and Johanson and Vahlne's (1977) work and were asked to rate on a ten point scale the psychological distance from Australia of 25 countries. The questionnaires were completed independently. This study will use the same methodology through interviewing NZTE personnel based in New Zealand with a focus on the F&B Sector.

3.6.2 Measuring Export Stimulation

Table 8 summarises the export stimuli categories from Leonidou (1998). This table formed the basis of assessment into the stimulating factors that are driving New Zealand F&B SMEs to export. As discovered in *Section 2* it is anticipated that many SMEs initiate exporting in a reactive manner and this in turn will influence the methods they use for sourcing and selecting channel partners – particularly in emerging markets. Data from interviews with the expert panel was collected through a request to rate the three most common forms of export stimulation that they witnessed for the New Zealand F&B SMEs based on their experiences. The relevant data was collected in table 29. *The interviewees were also asked to provide comments on the major stimulating factors. The responses were captured for use in Section 4.*

Table 8: Internal& External Stimuli Categorised (Leonidou , 1998)

Internal Stimuli	
Proactive	Achievement of economies of scale
	Special managerial interest/urge/aspirations
	Products with unique qualities
	Possession of a special competitive advantage
	Potential for extra sales/profits
	Need to achieve corporate growth
Reactive	Offsetting sales of a seasonal product
	Utilisation of idle operating capacity
	Stagnation/decline in domestic sales/profits
	Reducing dependence on/risk of domestic business
External Stimuli	
Proactive	Encouragement by external agents/organizations
	Identification of attractive foreign opportunities
	Exclusive information on foreign markets
	Government export assistance/incentives
	Contacts after participating in trade fairs/missions
Reactive	Initiation of exports by domestic competitors
	Competitive pressures in the domestic market
	Favourable foreign exchange rates
	Saturation/shrinkage of domestic market
	Receipt of unsolicited orders from abroad

3.6.3 Determining Perceived Initiation Methods of Channel Partner Relationships

The method of measuring channel partner relationship initiations also includes perception based responses from the expert panel. Each panel member was asked to rate the proportion of firms in their respective markets who had commenced new channel partnerships via one of five methods as identified by Ellis (2000). A summary of the number of F&B SMEs exporting to the market was provided and the interviewee estimated the percentage of initiations under each of the five headings based on their experiences in their own market as well as that of markets within the region they operated in (e.g. Oceania, Asia, North America). The data will be collected in a tabulated format as per the example in Table 9. A weighted formula is used to establish the level of proactive behaviour from the seller's perspective.

Table 9: Exchange Partner Initiation (Ellis & Pecotich, Social Factors Influencing Export Initiation in Small and Medium-Sized Enterprises, 2001a) – example table:

Export Market	# of F&B SMEs	Seller Initiated	Buyer Initiated	Social Ties & Networks	Third Party Initiated	Trade Fair	TOTAL
Australia	526	x%	x%	x%	x%	x%	100%
China	310	x%	x%	x%	x%	x%	100%
Taiwan	170	x%	x%	x%	x%	x%	100%
Hong Kong	360	x%	x%	x%	x%	x%	100%
India	70	x%	x%	x%	x%	x%	100%
Singapore	320	x%	x%	x%	x%	x%	100%
Malaysia	180	x%	x%	x%	x%	x%	100%
Indonesia	80	x%	x%	x%	x%	x%	100%

3.7 Method of Data Collection

3.7.1 Statistical Data

A variety of data sources were used for the psychic distance measurement component. Key points of data collection were the publicly available export (and import) repository (www.statisticsnz.govt.nz). The CRM from NZTE was a key source of company and market statistics to ascertain how many firms in the F&B sector were actively exporting to and/or interested in the key markets identified in the study. Data from the expert panel interviews was collected using a Dictaphone to record responses. This enabled the interviewer to focus solely on the direction of the interview and adapt as necessary to ensure the key and relevant points of information were extracted.

3.7.2 Qualitative Feedback from Expert Panel Interviews

To provide context and validity of the perception related responses the interviewees were asked to provide commentary and insights in to how individuals within firms responded to export stimulation and what factor psychic distance may have played in their decision making – particularly at the time of selecting a market or more specifically a new channel partner relationship.

This section has outlined the research objectives, parameters and methodology used in response to the research gap identified in *section 2*. The following section contains the key findings from the research through a series of graphical representations and interview quotations.

4. Findings

4.1 *Psychic Distance –New Zealand’s Export Markets*

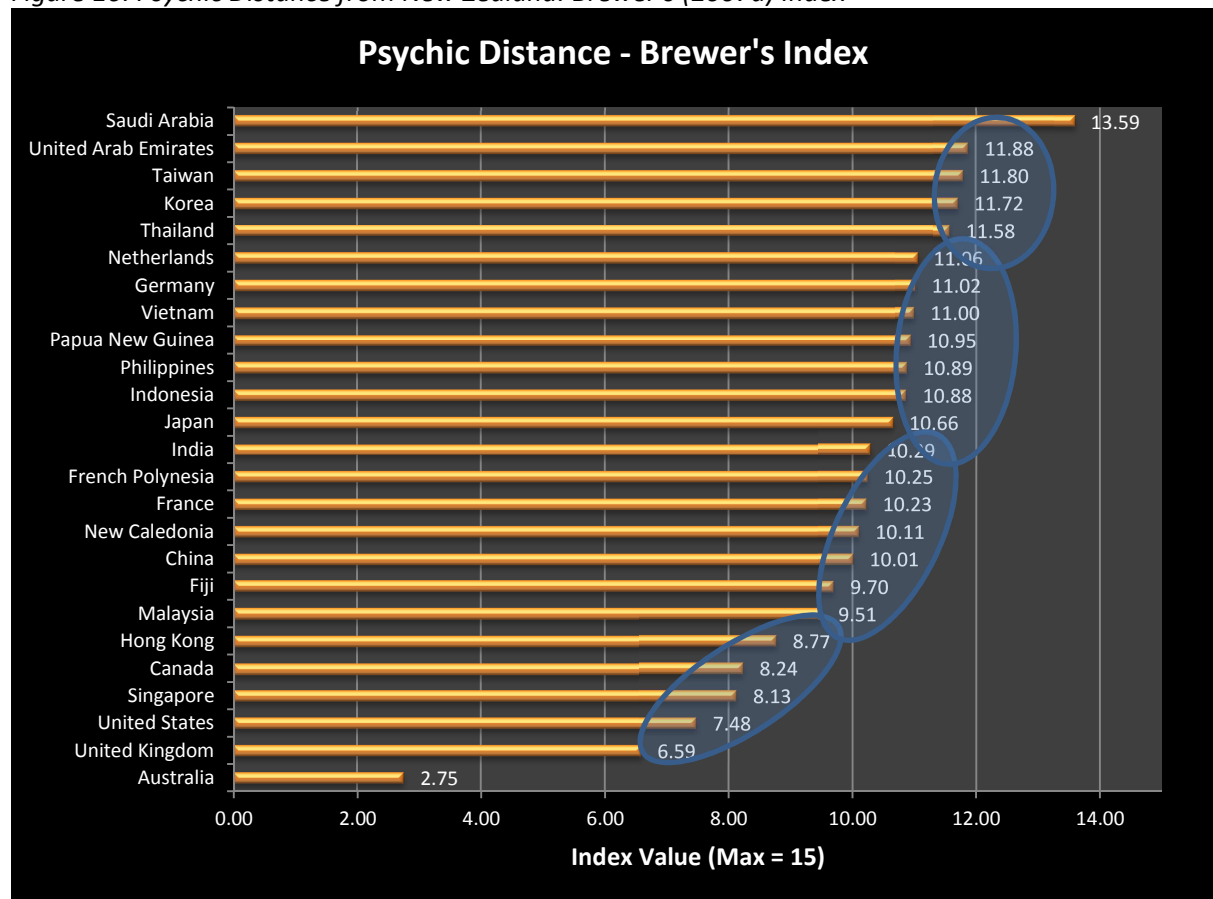
4.1.1 Brewer’s Index for New Zealand Exporting Firms

Using Brewer’s (2007a) index the following results were obtained for the 25 selected markets. The detailed data involved in calculating the psychic distance measures can be found in the appendix (see *Section 9.2*). Note that the data used to obtain these results was not sector or SME specific – the purpose of this first section is to provide an overall objective measure of potential psychic distance considerations for the selected markets. The results are graphically represented in Figure 16.

Australia was clearly defined by Brewer’s index as the market with the least psychic distance from New Zealand. Australia has been New Zealand’s largest trading partner for many years (only recently surpassed in 2013 by China), has a well cemented trade agreement (CER), is geographically close, has a large proportion of New Zealand’s FDI, has a significant colonial and historical relationship, has frequent sports exchanges and is culturally similar it also has a large immigrant community of New Zealanders. At the other end of the spectrum is Saudi Arabia. Although this country ranks as New Zealand’s 15th largest trading market, Brewer’s index extends the psychic distance from New Zealand based on the lack of other similarities from culture to sports exchanges. In fact, Saudi Arabia was the most distant market using the normalised scaling method in eight out of the 15 indicators. The remaining top five markets that are psychically closest to New Zealand are predominantly English speaking and Western influenced: the United Kingdom, USA, Canada and Singapore. The stages model of internationalisation would suggest that entry into foreign markets for a New Zealand exporter would follow this sequence (at least up to a point where experience and knowledge enabled the exporter to disengage from the sequence and choose more psychically distant markets). It is interesting to note the appearance of China in the top ten markets (9th) using Brewer’s (2007a)

index. This is driven heavily by the fact that China is New Zealand’s largest two way trade partner (2013). Other factors include a good sized Chinese immigrant community in New Zealand, a free trade agreement between New Zealand and China (since 2008), there are multiple trade representative offices for New Zealand in China and it is geographical advantage relative to Middle Eastern and European markets. China proves to be somewhat enigmatic as an export destination for many SMEs who struggle to access useful information flows that can de-clutter the myriad of challenges that such a massive and complex market offer. In addition to this, there has been many misconceptions about “entering and conquering” the Chinese market. However as knowledgeable commentators have noted, China is a country of many markets.

Figure 16: Psychic Distance from New Zealand: Brewer’s (2007a) Index



India appears in Brewer’s index as New Zealand’s 13th most psychically close market in the selection which is surprising on a number of fronts. While there are distinct ties (historical, sporting, and immigration) the value of trade, FDI and cultural differences create a significant amount of

'noise' between the two countries which is also reflected in the F&B trade statistics from New Zealand to India. There are also many non-trade barriers which make India a challenging market for New Zealand F&B exporters. Channel partner relationships is expected to be one of the major challenges.

While being geographically close to New Zealand the Pacific Island nations in the market set feature down the list with Fiji (8th), New Caledonia (11th), French Polynesia (12th) and Papua New Guinea (19th). These markets are in themselves distinctive and do not warrant being clumped under the heading of 'Pacific Islands' if we consider cultural differences. Despite the relative psychic distance of these markets the volume of trade per capita of F&B products is significant.

In summary, beyond the outliers of Australia (closest) and Saudi Arabia (most distant), the results of Brewer's (2007a) index can be clustered into four main groupings (as represented by blue ovals in Figure 16) based on their psychic distant rankings: early markets (United Kingdom, United States, Singapore, Canada and Hong Kong); Phase 2 markets (Malaysia, Fiji, China, New Caledonia, French Polynesia and India); Distant Markets (Japan, Indonesia, Philippines, Papua New Guinea, Vietnam, Germany and the Netherlands); and Exceptionally distant markets (Thailand, Korea, Taiwan and United Arab Emirates). There seem to be some anomalies in this ranking order as the newly industrialised and advanced countries of Taiwan and Korea, alongside Thailand, would in most cases be assumed to rank closer than India or Papua New Guinea for example. The next step is to test the expert panel perceptions of psychic distance order to further understand these inconsistencies.

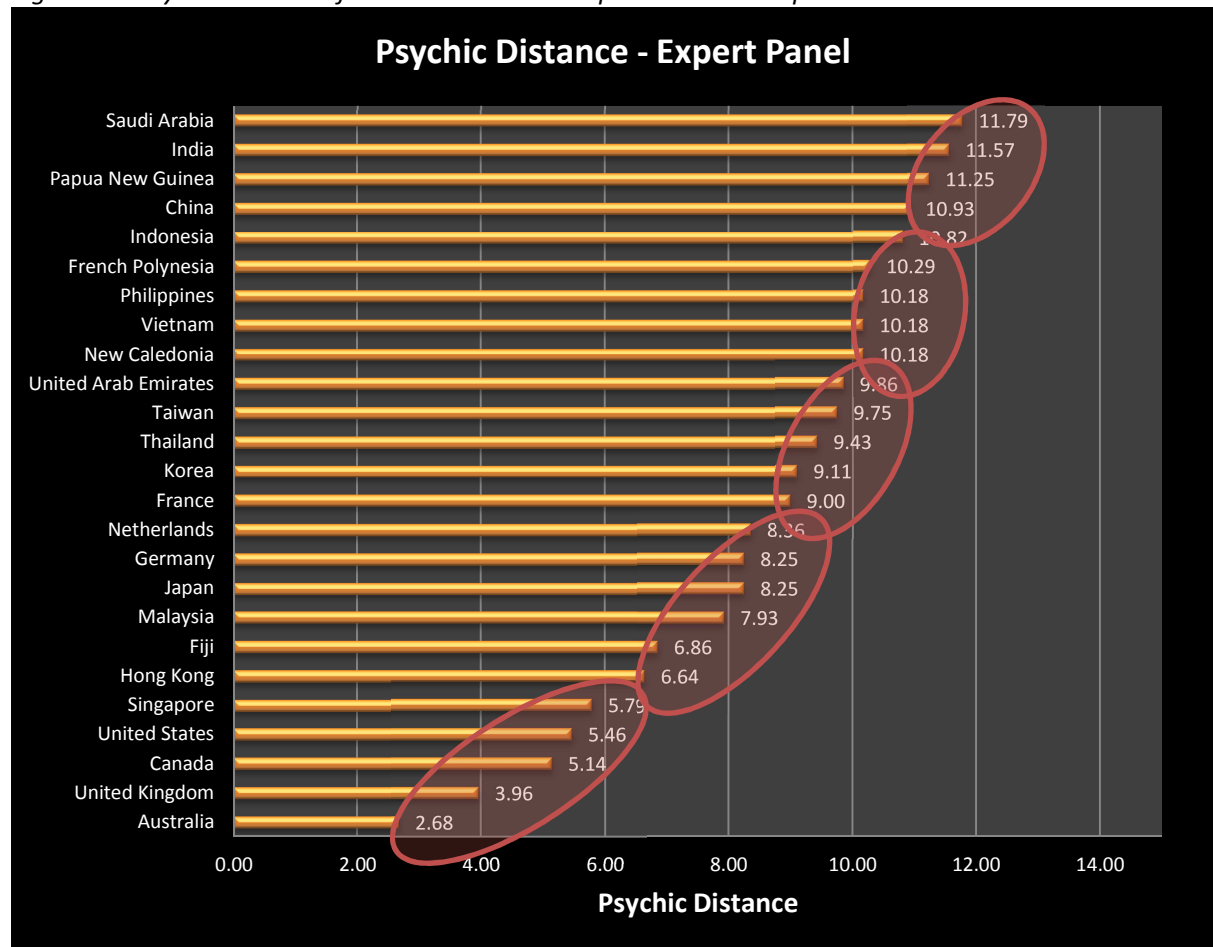
4.1.2 Psychic Distance Perceptions of the Expert Panel

In accordance with the outlined methodology, the panel of trade experts were asked to rate on a scale of one to ten each of the 25 selected export markets in terms of perceived psychic distance from New Zealand for F&B SMEs. The results have been represented in Figure 17 which identifies the markets in order of distance. The results, which remain anonymous in this thesis, were obtained using a simple average calculation across the thirteen sets of interviews to provide a perceived

distance measure representative of the expert panel. The resulting psychic distance value was multiplied by a factor of 1.5 times so it could be directly compared with the results from Brewer's (2007a) index (that is with a maximum index score of 15). Using the definition provided the respondents clearly identified Australia as the closest market with an average perceived distance of 2.68. The United Kingdom, Canada, United States of America and Singapore were the next four countries that the expert panel identified as being closest to New Zealand.

Interestingly Indonesia, China, Papua New Guinea, India and Saudi Arabia ranked as the five most distant markets from New Zealand. Several of these markets are often rated as being core to New Zealand's future export growth opportunities. Therefore this perceived distance as defined by the panel of trade experts illuminates the fact that there are disturbances or prevention of information flows in high areas of opportunity. This in turn may lead to greater challenges during internationalisation and market entry sequence. These results also differed in terms of rank order compared with how Brewer's (2007a) index rated them. The actual scores were not significantly different but we know from Dow's (2000) study that the expert panel methodology is proven as an accurate predictor of market entry sequence. A further step in examining the relevance of the psychic distance measures will be to test the ranked order from the expert panel against the number of firms exporting to each of the 25 selected markets (Figure 10) to identify if any correlations exist. In the expert panel rankings five segments can be identified for clusters of markets but with a different order profile from Brewer's (2007a) index results. These clusters are represented by the ovals in Figure 17. The first cluster is the close markets for early entry in the U-model/proactive (Australia, United Kingdom, Canada, United States, Singapore); the second cluster are the phase two markets (Hong Kong, Fiji, Malaysia, Japan, Germany, Netherlands); the third cluster are the third phase markets (France, Korea, Thailand, Taiwan, United Arab Emirates); the fourth cluster are the distant markets (New Caledonia, Vietnam, the Philippines, French Polynesia and Indonesia); and the final cluster are the markets with the biggest prevention or disturbances in information flow (China, Papua New Guinea, India and Saudi Arabia).

Figure 17: Psychic Distance from New Zealand: Expert Panel Perceptions



4.1.3 Validating Brewer's Index against the Expert Panel Perceptions

To test and validate the results from Brewer's index analysis was conducted to determine the proximity of the psychic distance relative to the perceptions of the expert panel. Table 10 represents the results which tend to indicate that in general Brewer's (2007a) index created a larger psychic distance gap between markets compared to the simple single point scale used by the expert panel. The most notable exception was China whereby the expert panel rated this market as the 22nd most psychically distant from New Zealand and therefore perceived as having far more disturbance in information flow than Brewer's (2007a) index indicated. Brewer's (2007a) index had rated China the 9th closest market to New Zealand and clearly influenced by the fact that China is New Zealand's largest trading partner. The numerical gap itself was not overly significant when indexed, however the order that China came in the ranking illustrated the complexity of this market in the eyes of the trade experts. India was also ranked as being more distant by the expert panel compared to

Brewer's (2007a) index. Given the apparent opportunities in both of these markets for F&B exporters, these results indicate that the perception of market entry difficulty remains high for practitioners despite the increased emphasis on these markets for export education and development in recent years (NZTE).

Table 10: Testing Brewer's Index against Expert Panel

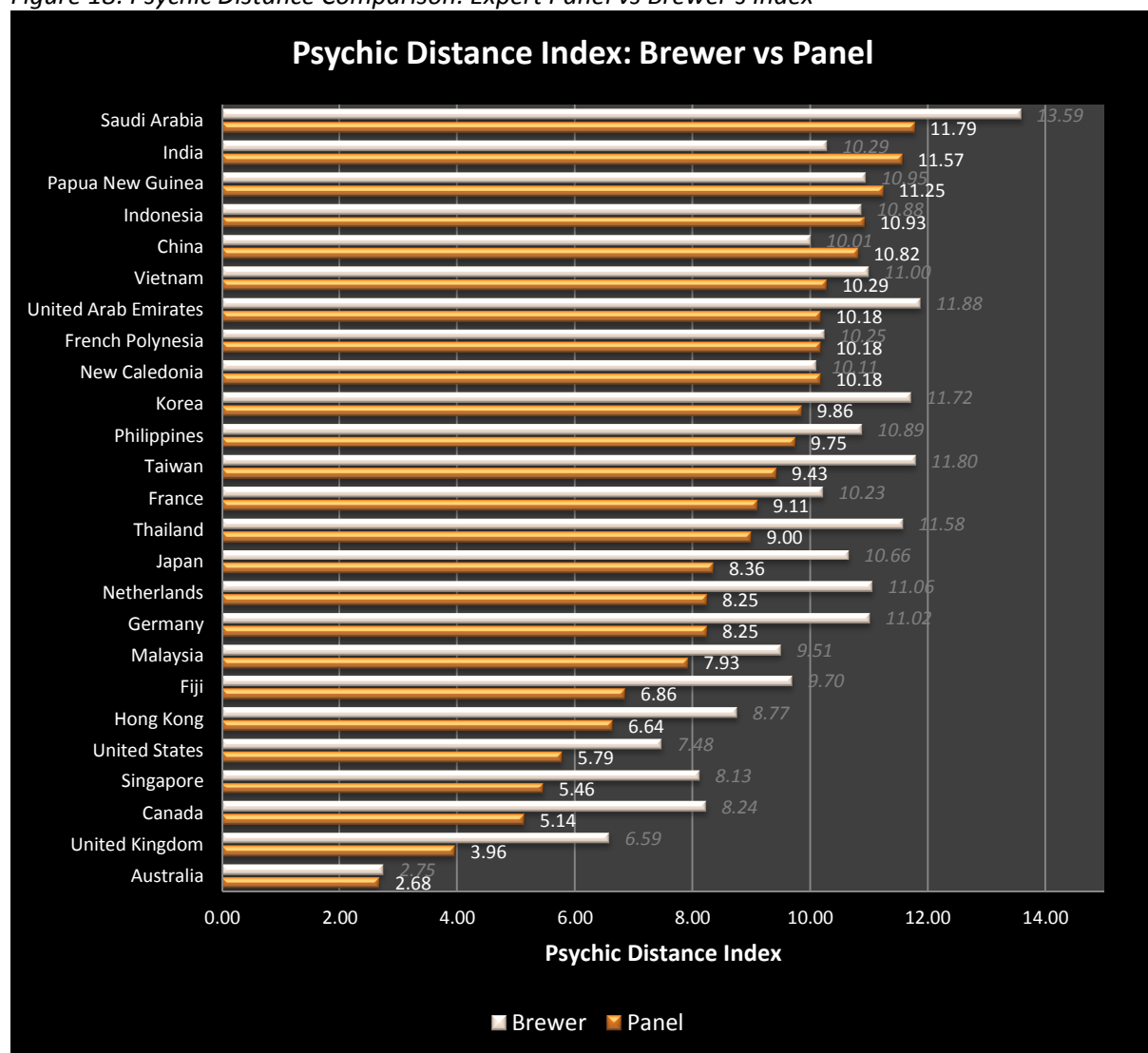
Export Market	Panel Rank	Panel Score	Brewer's Index Rank	Brewer's Index Score	Difference Between Expert Panel and Brewer's Index
Australia	1	2.68	1	2.75	Equal Rank (=)
United Kingdom	2	3.96	2	6.59	Equal Rank (=)
Canada	3	5.14	5	8.24	Panel Ranks as Closer (+2)
Singapore	4	5.46	4	8.13	Equal Rank (=)
United States	5	5.79	3	7.48	Panel Ranks as More Distant (-2)
Hong Kong	6	6.64	6	8.77	Equal Rank (=)
Fiji	7	6.86	8	9.70	Panel Ranks as Closer (+1)
Malaysia	8	7.93	7	9.51	Panel Ranks as More Distant (-1)
Germany	9	8.25	18	11.02	Panel Ranks as Closer (+9)
Netherlands	10	8.25	17	11.06	Panel Ranks as Closer (+7)
Japan	11	8.36	14	10.66	Panel Ranks as Closer (+3)
Thailand	12	9.00	21	11.58	Panel Ranks as Closer (+9)
France	13	9.11	10	10.23	Panel Ranks as More Distant (-3)
Taiwan	14	9.43	23	11.80	Panel Ranks as Closer (+9)
Philippines	15	9.75	16	10.89	Panel Ranks as Closer (+1)
Korea	16	9.86	22	11.72	Panel Ranks as Closer (+6)
New Caledonia	17	10.18	11	10.11	Panel Ranks as More Distant (-6)
French Polynesia	18	10.18	12	10.25	Panel Ranks as More Distant (-6)
United Arab Emirates	19	10.18	24	11.88	Panel Ranks as Closer (+5)
Vietnam	20	10.29	20	11.00	Equal Rank (=)
China	21	10.82	9	10.01	Panel Ranks as More Distant (-12)
Indonesia	22	10.93	15	10.88	Panel Ranks as More Distant (-7)
Papua New Guinea	23	11.25	19	10.95	Panel Ranks as More Distant (-4)
India	24	11.57	13	10.29	Panel Ranks as More Distant (-11)
Saudi Arabia	25	11.79	25	13.59	Equal Rank (=)

The results show that for six of the 25 markets the ranking sequence from Brewer's (2007a) index was the same as that of the expert panel (Australia, United Kingdom, Singapore, Hong Kong, Vietnam and Saudi Arabia). This is especially the case for four of the top 10 markets identified by the expert panel. At first glance the results suggest that Brewer's (2007a) index has a high degree of accuracy when mapped against expert panel perceptions of psychic distance. The index provides a solid objective platform for initial analysis and relativity of determining psychic distance between the home country and the export market. However, the perceptions methodology is still regarded as the most important and relevant approach for psychic distance measurement (Evans & Mavondo, 2002).

This is especially true taking in to account firms from smaller nations such as New Zealand that have to commence internationalisation at an earlier stage of development.

The biggest differences in the index results as compared to the expert panel perceptions came from the ranking of Germany, Thailand and Taiwan which the panel identified as being far closer (9 places in each case) than Brewer’s (2007a) index. At the other end of the spectrum China (12 places), India (11 places) and Indonesia (7 places) were all ranked as more distant from the expert panel’s perspective than as Brewer’s (2007a) index indicated. Figure 18 provides a graphical interpretation of the differences between the results using Brewer’s (2007a) index and those gained during the interview process with the expert panel.

Figure 18: Psychic Distance Comparison: Expert Panel vs Brewer’s Index



The chart illustrates the extended distance emphasis that Brewer's (2007a) index places on a number of the markets in the data set. What makes this analysis important is the fact that the expert panel are called upon in their roles to guide and advise New Zealand companies about internationalisation. If the expert panel interview method is considered an accurate predictor of market entry sequence then then the usefulness of the results obtained from this method is suitable for further analysis and drawing conclusions. The application of Brewer's (2007a) index has been tested and found to have a reasonable relationship with the simple expert panel interview method. Despite some variations in ranked order the measurement methodologies have both been validated.

For the purposes of the rest of this study the results obtained from the expert panel will be employed for testing the remaining questions – namely what relevance do perceptions of psychic distance from the expert panel have with regard to the order in which SMEs are selecting markets for exporting and; does this have an impact on how channel partner relationships are initiated. It is noted that psychic distance is supposedly only relevant to the initial stages of internationalisation – as firms gather knowledge and experience psychic distance is purported to decrease. However, I argue that market entry sequence can still be influenced by psychic distance in later stages, especially for SMEs if information is not able to get through to key decision makers.

The consideration of stimulating factors and readiness to export will be examined through the interview process and key insights in the form of quotations from the interviews will be interspersed with the text. Each quotation will be noted by the code given to the interviewee (e.g. TC03)

4.1.4 Market Entry Sequence

If the psychic distance expert panel results were to be considered accurate in line with Dow's (2000) study then it would stand to reason that a New Zealand exporter would commence exports in Australia then proceed to extend their reach into the United Kingdom, Canada, Singapore and the USA before perhaps branching into more 'risky' and psychically distant markets. However, what has been noted is that due to the increase in perceived opportunities for commercial gain in emerging

markets, firms may look at abandoning this entry sequence and aim to advance beyond the psychically close markets at a much earlier phase. This could be of a proactive or reactive nature.

CM02: "It is because of a whole range of things like the shift in Free Trade Agreements and our proximity, I often see companies going first step to Australia then think, right, we have got Australia sorted, next step China."

This change in approach is a shift away from previous U-model stages in that it points to a departure from some of the perceived constraints that previous authors have indicated may get in the way of a firm selecting a more distant market at an earlier of internationalisation.

The market entry sequence for New Zealand firms can be summarised by the level of activity New Zealand companies have across selected F&B export markets. The information in the table 11 identifies each of the 25 selected export markets and whether a current free trade agreement exists between New Zealand and that country.

Table 11: International Activity in Selected Export Markets – F&B SMEs

Country	Active Free Trade Agreement	In Market Channel Partner	In Market Presence	TOTAL
Australia	Yes	496	32	528
United States	No	394	26	420
Hong Kong	No	258	102	360
Japan	No	305	51	356
United Kingdom	No	314	25	339
Singapore	Yes	325	7	332
China	Yes	206	107	313
Canada	No	209	8	217
Germany	No	189	9	198
Malaysia	Yes	172	7	179
South Korea	No*	101	78	179
Taiwan	Yes	152	18	170
Thailand	Yes	131	5	136
Netherlands	No	112	3	115
United Arab Emirates	No	103	3	106
France	No	98	4	102
Fiji	No	86	1	87
Indonesia	No	74	2	76
Philippines	Yes	72	1	73
India	No	70	2	72
Vietnam	Yes	66		66
French Polynesia	No	49		49
New Caledonia	No	40		40
Saudi Arabia	No	27	3	30
Papua New Guinea	No	12		12

Source: New Zealand Trade & Enterprise. Note that data on in-market presence is raw and has not been screened or validated for accuracy.

*South Korea Free Trade Agreement was completed in November 2014, to be activated in 2015

The information also notes how many New Zealand F&B SMEs are exporting to each country based on the total data set of 947 companies. These is further split in to how many companies have an in-market channel partner or have an in-market presence (i.e. a representative physically located in that country).

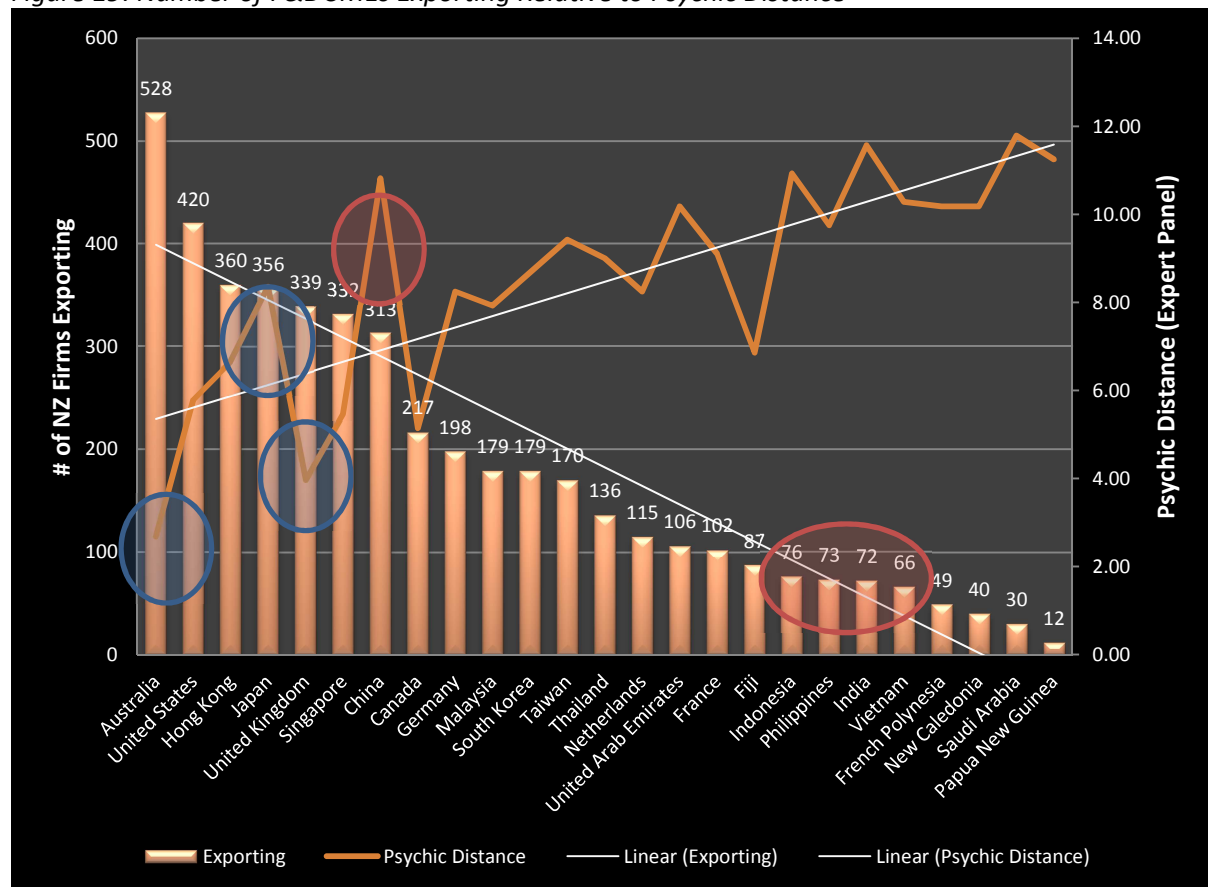
The data set indicates that in Australia 32 (or 8%) New Zealand exporting F&B SMEs have an in-market presence with staff employed by the firm located 'on the ground' in the export market. This suggests that the majority of operations for the Australian market for F&B SMEs are being managed remotely from New Zealand. Conversely, in China more than 50% of New Zealand exporting firms have an in-market presence (107 out of 206). This suggests a different approach taken in attempting to manage information flow prevention and disturbances in a psychically distant market.

Figure 19 shows the relationship between the number of New Zealand F&B SMEs exporting to each market and the perceived psychic distance from New Zealand to each of the 25 markets. When presented graphically it is apparent that psychic distance appears to have a role in determining market entry sequence to export markets for New Zealand F&B SMEs. In effect the impact of the market entry sequence reveals a self-fulfilling prophecy. As more firms enter certain markets knowledge and awareness of that market is shared and individuals within other firms then feel more comfortable in entering those markets. Psychic distance seems to be reduced as a result. The linear upward trend-line in the graph helps to explain the correlation with the higher psychic distance for the less familiar markets and the number of firms currently engaged in exporting activities with those markets. For example, the emerging markets of Indonesia, Philippines, India and Vietnam have a low number of company engagement and high psychic distance. China has a high proportion of firms relative to the perceived psychic distance. It is worth noting at this point that Figure 19 does not demonstrate the size of market potential and the opportunities. Market access to China alongside the size

of the market has proven to be the exception to a U-model market entry sequence (i.e the ranking in order is above the psychic distance ranking). Japan is the other exception in the top five markets

There seems to be a missing factor in how firms are educated about the business prospects in psychically distant markets and the risk is that these markets remain distant and untapped for many exporters. Further discussion on this point will follow in *Section 5*. Comments from the expert panel that are captured in the next sub-sections and will also add context to the results obtained.

Figure 19: Number of F&B SMEs Exporting Relative to Psychic Distance



4.2 Readiness of New Zealand SME F&B firms to Export

Common themes from the expert panel regarding the readiness of New Zealand companies to export highlighted that despite the necessity of advancing to the stage of internationalisation New Zealand F&B SME exporters are still unprepared for the challenges they face in most export markets. Some of this was related to the need to maintain cash flow, leading to more erratic market and channel decisions and in line with the work of Spence and Crick (2006) regarding the prevalence of serendipity. Other influences on unpreparedness were linked to a level naivety and time constraints. Many of the comments reverted back to the earlier internationalisation of New Zealand F&B SMEs.

TC09: "If the company was based in the USA or Australia they wouldn't need to export so early. My impression would be generally the readiness isn't as high as it ideally should be."

The constant point of reference for this particular study is the lack of size of the New Zealand domestic market for F&B SMEs with growth aspirations. Firms are propelled into exporting earlier and with little or no resourcing to deliver growth. An outcome of this is that firms often cannot commit financial or human resources to research market opportunities or make informal decisions on channel partner. As a result they take the approach of "learning while they are doing". One expert panel interviewee suggests there is a multitude of factors that contribute to the preparedness of a firm for internationalisation.

TC10: "I think when you talk about export readiness, a lot of it comes down to a mix of their understanding of what that market needs, connections they are able to make with that market, the personnel within the company and their abilities and cultural sensitivity to relate to that market and simply the knowledge that exists in the company and then it comes down to the product and how that product or service will fit with that market and what needs to be adapted or adjusted, but you can say a company may be exporting even in terms of how it is put together, the business model it has may not be the right one, so if it is producing the wrong thing it is not export ready."

4.2.1 The "Optimal Size" for Internationalising

Many of the expert panel interviewees had a perspective on what size a company should be in terms of reaching a suitable level of capital backing and experience before venturing into exporting. The

lower end of the range was NZ\$5 million in annual revenue, and this was seen as a tipping point where a company really moves out of being 'small' to 'medium' and capable of dealing with the uncertainties and risk associated with expanding offshore. This also seemed to provide enough of a buffer with domestic sales to carry a business through any unforeseen hindrances. Examples of these interruptions are foreign currency fluctuations, regulatory changes, shipping delays which may hinder or halt international sales for a period of time.

TC09: "Once companies get to \$5 million, it is easier to push – we see that as the one sweet spot where things do start to change."

TC08: "I would say it was probably similar to a \$5 to \$10 million turnover where you have to start looking at someone who can dedicate themselves to these international sales and at that point you start getting a bit more analysis and planning behind market discovery as opposed to a reactive approach."

CM01: "It is not until they get to \$20 million that most of those things are there in my view with F&B companies – in essence this is when they have got their main capability platforms in place."

The reference in this response to capability platforms recognises the importance of resourcing requirements for export development.

4.2.2 Resourcing for Export Markets

An observation of one panel expert regarding resourcing for New Zealand F&B SMEs engaging in international markets was:

TC08: "Many New Zealand companies want to "dip their toe in the water" but what they find is that "if someone grabs your foot and drags you in then you face a huge struggle to keep your head above water."

The theme of optimal size to start exporting also expanded into the requirement for employing staff who can focus specifically on growing export opportunities. A typical symptom of New Zealand SMEs was the over-stretched capacity of staff involved in the internationalisation process. These staff are required to find opportunities, understand export markets, develop new partnerships, arrange shipping and logistics and more often than not also have a full understanding of operations, sales, marketing and commercial functions.

TC10: "I have seen many companies that are on the smaller side of your SME. They have limited resource, they may have one person covering half the world, if not the world and it may be the same person who owns the company who is trying to run it. They all tend to go up and have a look around. They may not even do that, they may simply do it all remotely, whether it is responding to someone or getting someone like NZTE to do some desk research for them, locate some people who might be interested, exchange of samples and remotely they appoint someone, conversations on the phone and then after that they go up to market and see them. The worst possible thing of course is to do that."

The remote appointment of channel partners was raised several times and seems to be a factor of cash and time constraints resulting in sellers not visiting export markets let alone meeting the people and businesses that will represent their brand.

Another key point around resourcing and its connection to successful export market entry is the support and servicing model that firms choose in New Zealand for an F&B company would more often than not have a sales representative and/or key account manager who would have a relationship directly with retailers. They would understand the retail environment, promotional frequency, sales volumes and marketing of the product they are supplying. Yet in an export environment many firms can either not commit that type of resource or they have a full expectation that their channel partner will carry out these activities with the same level of understanding as the direct employees themselves.

CM03: "These firms don't understand that what has made them perhaps successful in New Zealand needs to be replicated at least if not more in a foreign market many miles away."

Similarly, it was noted that firms who do seek to replicate their resource model in new markets because it has been successful in a domestic or psychically close market or appears to be working well may need to more carefully consider alternative structures for emerging markets.

TC10: "The business model of the company may need to change too in terms of how it is actually structured and set up for business. It may be okay for New Zealand, maybe New Zealand and Australia, but to take on India you may find that they have to restructure the way they do things."

4.2.3 Information Gathering in the 'Discovery Phase'

Firms were often seen as completely missing what is termed by the expert panel interviewees as the 'discovery phase' and skipping straight to the market entry and "see what happens" phase. This often applied to companies partnering with the first offer or enquiry that they received. This happens when the objective was simply to enter the market, not necessarily to understand it.

TC09: "Discovery can be as simple as talking to other exporters to doing market research, to looking at the tariff situation, looking at regulatory barriers, understanding who the competitor set is up there. Companies frequently skip the discovery phase and with smaller firms you also see, with \$10m or \$20m, \$30 million as well, but tend to just go out to market and see what happens".

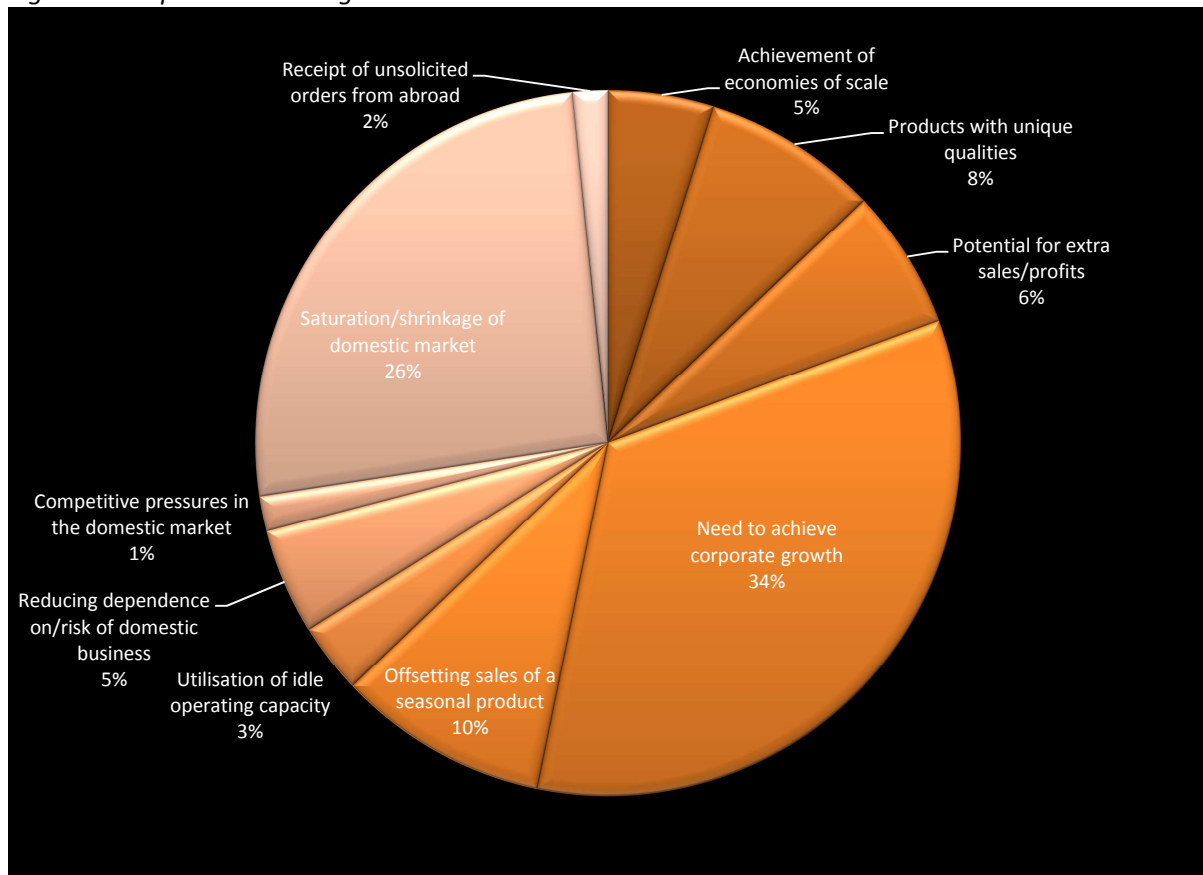
In these instances the pressure on export sales requirements results in decisions being made on less than adequate information. The information flow of psychically close markets can be just as easily disturbed as that for more distant markets.

TC09: "There is a lack of understanding or planning of what is the logical sequence and what is a decent amount of time to do this properly. It can be rushed and that could be because they got an enquiry from a market and they rush because of that or there is a pressure, we have got to build revenue quickly for whatever reason, let's get in to export."

4.3 Stimulating Factors Motivating New Zealand SME F&B firms to Export

The literature review revealed that decisions to internationalise can be affected by internal (psychic distance) and external (small domestic market) influences. The expert panel were asked to classify the major factors that stimulated export development for New Zealand F&B SMEs based on the factors identified by Leonidou (1998). The panel rated the top three factors as recorded in Table 29 and the results were collated to produce the summary in Figure 20. The highest rating stimulation factors were internally driven and proactive (achievement of economies of scale, products with unique qualities, potential for extra sales/profits and need to achieve corporate growth) with the need to achieve corporate growth being the largest contributor identified by the panel of experts in terms of motivating a firm to internationalise. The second largest causal factor was saturation of the domestic market.

Figure 20: Export Stimulating Factors



4.3.1 The Need for Growth Necessitates Exporting

When considering the underlying factors leading to New Zealand F&B companies exporting, the overwhelming stimulating factor was the need to achieve growth. While this stands to reason as a business needs to expand to survive and thrive, the significance of New Zealand's relatively small domestic market size was consistently identified as a reason that exporting is a necessity rather than this being optional for firms seeking to move through their cycle of growth. The expert panel constantly commented on the much earlier necessitation of export business development to achieve growth given the small population base in New Zealand. This necessity for growth is coupled with a highly competitive domestic sales channel environment and provides the confrontational decisions that companies must face in beginning their internationalisation at a very early stage in their life cycle. This stimulant may come as no surprise on inspection of New Zealand's population base and geographical location, but does reinforce the impact that this places on SMEs. As a result of having

to seek export markets at a much earlier stage of their lifecycle, individuals within firms may not have developed the knowledge or experience to deal with the many challenges that internationalisation can present.

TC07: "It's a function of growth. It doesn't take companies very long in New Zealand to reach saturation so then often export is into Australia. Exporting is primarily around sustainable growth for New Zealand companies that comes at a much earlier stage in their lifecycle than it would say in Australia. With a customer base of 4.5 million people you get there pretty fast and you are still on trainer wheels when you have hit that ceiling."

The small size of the domestic market does create a testing ground for new product development opportunities because the highly competitive retail environment demands constant innovation in promotion and development. However, much of this product development is only ever domestic-oriented and many firms having reached a level of saturation in the New Zealand market then seek to push out the product in its New Zealand format to a range of export markets rather than adapting products to meet consumer needs. Australia remains attractive as the consumers there are more psychically akin to New Zealanders – in theory at least. However, bigger challenges may be faced when attempting to push these product formats in their current state out to more psychically distant markets. In this case firms may come to rely on a more reactive approach in terms of market and channel partner selection as potential buyers show interest in their product.

4.3.2 Reactive and Proactive Opportunities

In line with Ellis' (2000) study it was found that generally firms are more likely to be reactive in the early stages of internationalisation by responding to buyer initiated opportunities. The expert panel also commonly stated that small companies tend to be more reactive in their approach to seeking opportunities.

TC05: "Small companies are busier – you are the marketing manager, the accountant, you are often the GM, you are the HR person, so you are time poor, therefore they will be more reactive."

TC08: "smaller companies were more likely to either just chase reactive opportunities or they are less likely to turn down reactive opportunities."

TC09: Some companies simply are responding initially to what were unsolicited enquiries from overseas, so people have found them through a friend, through another New Zealand company, through the internet and the enquiries come through and after they see a number of them, they figure rightly or wrongly, let's give it a go."

This reactive approach is related to the earlier stage of the need to export which in turn leads to a lack of experience and knowledge including a lack of understanding as to how to glean relevant information to support a successful entry into export markets.

TC08: "We talked with one company about an opportunity in Scandinavia for Manuka honey. I asked why Scandinavia was even on their radar and they said their UK importer had some business connections up there and they banked on him, and I said what does that market look like? And they said we have no idea. They had no desire to actually understand anything about the market, but there was a sales opportunity, any sale is a good sale, as long as you get cash at the end was almost their approach, so I guess it is a really good example of a) they are small, b) they were technically good at something else but weren't particularly strong from a commercial perspective."

Reactive opportunities are not it seems exclusive to psychically distant markets. It is rather a case of opportunism and the result of pressures to deliver additional sales that encourages reactive behaviour in many instances.

4.3.3 Cash Flow is King

Exporting is treated as a means to generate additional cash flow and quench the thirst for growth, but the attention given to where the product will end up, what benefit the channel partner may provide and ultimately who the end consumer are can be lost in the excitement of meeting sales targets when the product leaves the country.

TC08: For smaller firms cash flow is a key driver for decision making and this makes them more inclined to be reactive.

Revenue can only be generated sustainably by the success of what happens in the channels and markets where the product ends up.

TC05: Opportunistic behaviour can also be found in larger companies where individuals or business units are chasing short term sales targets. They may make decisions which are not necessarily rational and even though you have potentially got access and resource to be able to go out and conduct some decent analysis and research it doesn't happen as often as you would think. Often it is about chasing the short terms sales targets and then being able to say I am in 15 markets – but what are you actually doing

in those 15 markets? What are you doing to make them sustainable, rather than just selling a pallet every now and then.”

TC10: “Some have a more long-term plan approach which works, some have more of a short-term focus and a lot of it does depend on resources and the patience where immediacy of the need to export to a particular country and understanding of how that place works.”

While cash flow is a stimulating factor to seek export opportunities it is also an inhibiting factor when it comes to allowing enough time and resource to properly analyse and plan for export market entry. Even more relevant is the fact that the search for international exchange partners is generally characterised by greater uncertainty and complexity, which combine to increase search costs (Ellis, 2000).

4.4. Channel Partner Initiation

In line with previous studies (Ellis & Pecotich, 2001b) and to answer the key research questions posed at the beginning of this thesis, each of the expert panel members were asked to provide insights into how New Zealand SMEs in the F&B sector were going about initiating channel partner relationships in the selected markets. The main findings are detailed below.

4.4.1 The First Encounter

Comments were frequently made on the methods firms employed for connecting with potential channel partners in many of the selected markets. It was noted that company representatives would travel to a market, often unprepared with little or no research conducted prior to arrival. In some cases the firms would arrive unannounced at the EPOs office and expect support in the form of market information, meeting arrangements and commitment to ensuring an upcoming deal was done. One of the interviewees referred to this as “chasing rainbows”. This was prevalent in the developed markets. In other instances a set of appointments would be made with prospective channel partners and the supplier would meet with several of the prospects in the very short space of time they had available in the market. If interest was shown by one of the prospective channel partners in the supplier’s product a follow up note would be sent from the prospect as a means of

continuing the conversation, often this was with a view to converting this into a potential sales opportunity. However, in many cases the expert panel commented that the suppliers took too long to respond to these requests and in some cases did not respond at all, leaving the prospective partner perplexed or disengaged. When the EPO staff followed up on behalf of the prospective channel partner the supplier's response was often along the lines of: "I'm too busy to follow up". This was often because they had already moved on to the next market of interest and were going through exactly the same process with new channel partner prospects. In relationship driven cultures this type of behaviour is not well received.

TC10: "Quite often with a market such as India, you may get an initial flurry of excitement and engagement if you like, about doing something and then it just dies away – why does that happen? It can be for all sorts of cultural reasons, communication, it can be negotiation strategies, whatever, but companies will go through cycles like that and it can be that I've seen the New Zealand company trying to be proactive like hell and then the company is not responding and I have seen the other way around too with the New Zealand company saying I am too busy, focus elsewhere, price is wrong."

The fact that sufficient time in many cases is not being allocated to understanding markets, building relationships with prospective channel partners and following up on contact made with these prospective buyers undermines a lot of the opportunities made available to exporting firms in attractive export markets. Often this is a result of a lack of focus or direction in terms of export strategy for the firms. Fundamentally though the expert panel consistently identified the need for long and deep relationship building - especially in more psychically distant markets.

TC07: "Ultimately what determines the success of a relationship is the amount of building relationship and then carrying on building the relationship - that is probably our biggest failing."

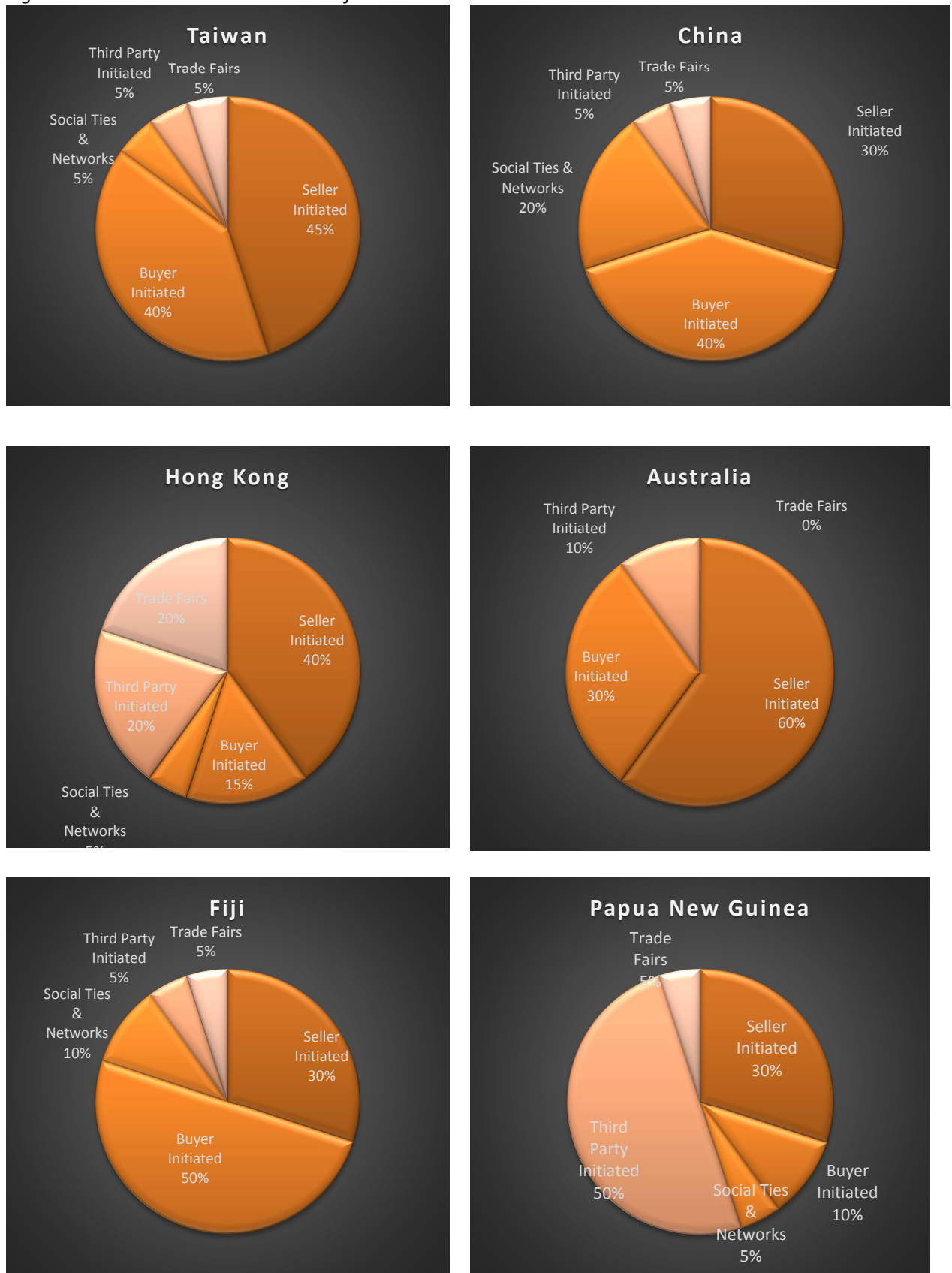
In the more psychically distant and Confucius dynamic markets in Asia the lack of cultural awareness or consideration of the requirements needed to establish a new channel partnership was of concern.

TC10: "New Zealanders tend to, I don't know whether it is an assumption, or whether it is a blindness or a lack of confidence and actually understanding a different culture, but there is quite a common perception across the different markets that many New Zealanders and business people lacked a sufficient degree of cultural sensitivity towards the culture that they are actually working in."

4.4.2 Perceived Channel Partner Selection Mode Perceptions

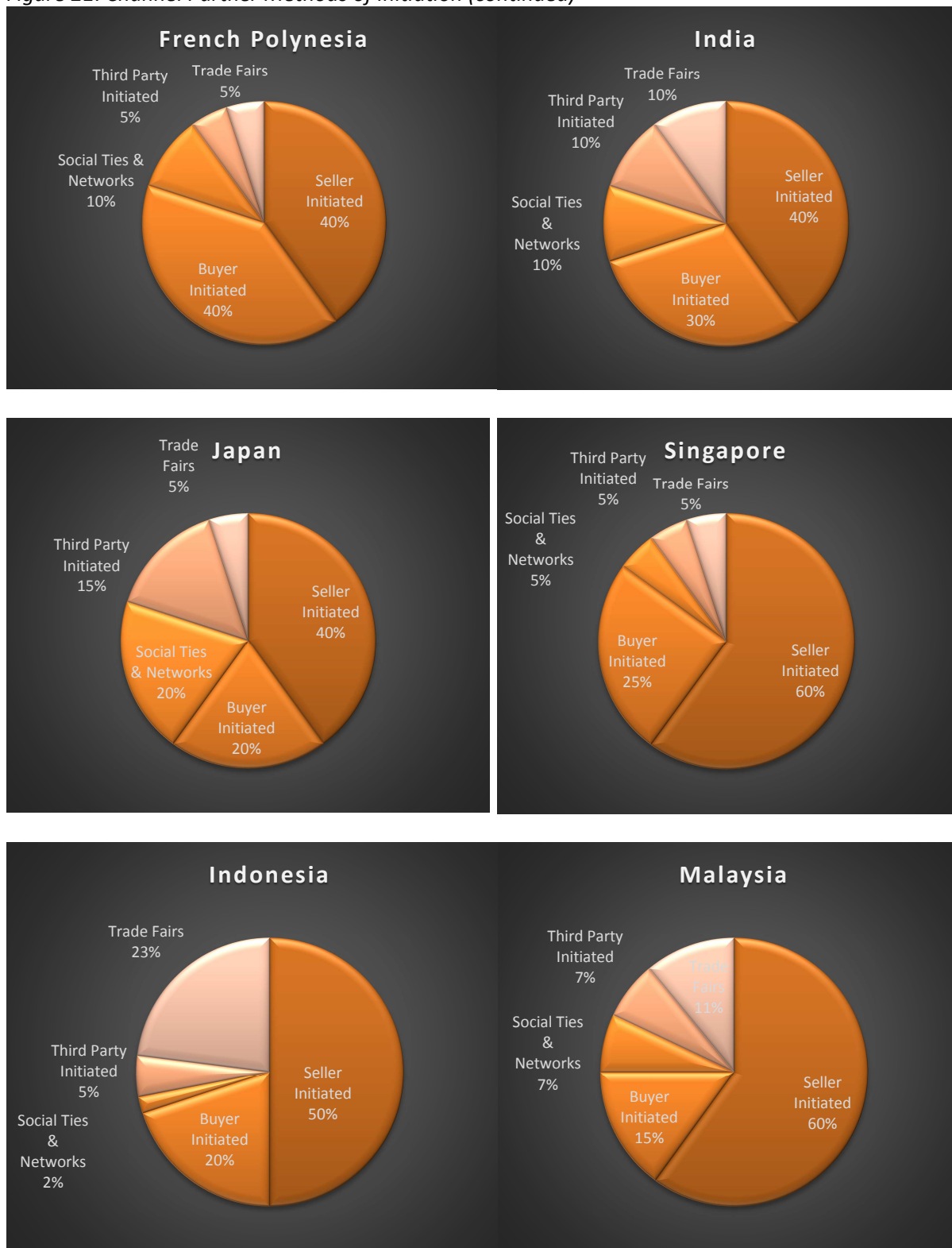
Predominant channel partner initiation methods were rated by the expert panel based on their experiences in their respective markets and regions. The panel was asked to define the proportion of channel partner initiations attributable to each of the five methods outlined in Ellis's study (2000). Commentary was provided for each market relevant to the various weightings provided. In Ellis' (2000) study of the 31 foreign market entries examined, thirteen were initiated by the eventual buyer (42%), twelve by the seller (39%), four by mutually-related parties (13%), and two were the result of trade fairs (6%). For the purposes of this interview a fifth dimension was added – initiation through social ties and networks. The results from a selected group of markets are displayed in Figure 21. The results provide an interesting view on the perceived differences in how export channel relationships are initiated between New Zealand based SME F&B exporters and the distributors and buyers of their products in market. There was a large difference between the more psychically close markets of Australia and Singapore where partnership initiation was heavily weighted towards the seller as compared to the more psychically distant markets of China and India where the perceived weighting of channel partner initiation came from the buyers or markets themselves.

Figure 21: Channel Partner Methods of Initiation



Note that the Pacific Islands were separated in to three core markets – Papua New Guinea, French Polynesia and Fiji

Figure 21: Channel Partner Methods of Initiation (continued)



The expert panel had various views on why some of these differences existed and a snapshot of some of these from selected markets is captured below.

Australia – The Psychic Distance Paradox

A common theme presented by the interviewees was the struggle that many SMEs face when they enter the Australian market, usually as a first export market. The requirement to commence exports from a small domestic market base in order to grow sales revenue necessitates a leap in to exporting with a nearby country which in many cases is Australia. However, the structure and psyche of the market in Australia is perhaps not quite as aligned with New Zealand as many first time exporters may believe. This reinforces the findings of O’Grady and Lane (1996) with respect to the psychic distance paradox that affects firms that enter geographically and seemingly culturally close markets without due consideration for differences that will be present.

TC01: “In Australia we probably struggle with it a little bit more. One because it is very often the very first export market companies come to, so they are not used to operating on that sort of global stage and they bring a New Zealand mentality with them and the other thing is doing business in Australia is, for New Zealand companies, compared to the rest of the world, actually pretty easy.”

What magnifies this even further is the fact that many New Zealand companies assume that the method which may have brought them some success and growth in New Zealand will translate in to similar results in Australia based on some sort of shared kinship.

CM04: Because we see Australia as an extension of New Zealand, perhaps our attitude is a little bit relaxed. They have been looking over here for a distributor and all they have done is e-mail a list of companies. That is not what I would consider the best way to do things. I think people really underestimate Australia and aren’t prepared as well as they should be.”

In addition to the lack of preparedness to enter Australia the different approach to business in that market also raises the relevance of Hofstede’s cultural relativity indices. (Hofstede G. , 1983)

CM04: “They come to us saying that the reason that they haven’t done well is because Australians don’t like New Zealanders and things just haven’t gone well and they never will do well over here because of the parochial reasons, which isn’t true. Companies that are really well prepared and they know the market; it has got nothing to do with parochialism.”

This point highlights that lack of preparedness seems to be a higher predictor of unsuccessful initial market entry approaches due to non-usage and/or limited access to relevant information to assist with internationalising.

The presence of cultural differences even with psychically close markets was presented through anecdotal evidence from in-market experiences that the expert panel had faced. The first example was with the differences in conducting business in Australia as opposed to Asian markets.

TC01: "It doesn't have that kind of 'I really like you and would like to do business with you Asian influence'. It is much more transactional than that, so you have something that I want, I will purchase it off you."

The high numbers of New Zealand F&B SMEs that currently have Australia as an export market suggests that firms are actively seeking to enter that market as their first foray in to Internationalisation.

Australia and New Zealand's closely related historical ties commonly result in the assumption that the two nations are inextricably aligned. Given the geographical proximity of Australia to New Zealand the natural extension for many firms seeking to engage in exporting is to commence in this culturally similar market. Australia scores more highly in Power Distance and Individualism than New Zealand but otherwise the two countries are very similar when mapped against Hofstede's (1983) index (refer to Figure 10.1.6). The expert panel has identified that 60% of new business development for New Zealand SME F&B firms in Australia is initiated by the sellers (30% buyer initiated and 10% through third party agencies). There is little or no presence of social ties and networks or trade fairs being key initiators of new business for New Zealand firms looking to enter the F&B market in Australia. The presence of third party agents in Australia has also dwindled over time as in the retail channel buyers are more inclined to want to purchase product and have a relationship directly with the manufacturer/seller.

CM04: Years ago there was quite a number of smaller distributors who would pick up new products and do a lot in terms of that work, developing brands because it was quite a small portfolio of products, but those companies just haven't survived. You need economies of scale to make those businesses work now."

Based on a lower prevalence of third party agents and more direct relationships with retailers and end users the onus of responsibility falls back heavily on the supplier to deliver marketing and selling value to the channel partner relationship.

CM04: "Nothing transfers over here, you are basically starting from scratch in terms of building that brand and things here without any of those advantages and they either look for a distributor who will do all that for them and you are getting more really defined distributors who will do anything, they realize they have to do it themselves."

People's Republic of China – Market Pull & Reactive Opportunism

Despite China becoming New Zealand's largest market for F&B exports in 2013 (Statistics New Zealand) the research and qualitative feedback indicates that the majority of new partnerships are of a more reactive nature (buyer initiated is 40% and social ties and networks initiated is 20%). This tends to suggest the presence of UOEs where the seller plays a more passive role in channel partner initiation. The psychic distance perceptions results indicate that China remains a distant market for New Zealand SMEs relative to other large trading partners. As a result a large amount of business development results from channel partners in China seeking New Zealand product by reaching out to engage with sellers and manufacturers. This emphasises the approach revealed by Papadopoulos (1988) and reiterated by Ellis (2000) that firms often shun market research and base their international selection on non-systematic and ad-hoc procedures. The psychic distance underscores this behaviour when a firm receives interest in their product from a buyer or social connection from a market that may not well understood by the seller. Firms can be stimulated in to exporting to a psychically distant market such as China as a result of this UEO and unwittingly enter in to a new channel partnership. However, not all partnerships formed in this manner prove successful or enduring. In fact an observation

was that there is a high prevalence of failed partnerships based on exporters 'jumping in to bed' with the first prospective buyer who shows interest in their product.

TC04: "From a Chinese point of view, it might be that you are the best partner for me, doesn't mean I am the best partner for you."

The decision made by the seller to engage with the channel partner (directly to the buyer or via a social or network connection) appears to often be made on the prospect of more easily navigating the complexities of market entry and reaching a mass market that offers significant sales potential. What is not clear in many cases is how well the selling firm understands the real potential of the channel partner to deliver on the selling firms aspirations for that market. In some cases the selling firm may not know their aspirations for that market either – it could just be a chance opportunity to expand distribution.

TC04: "So I think when you go fishing, you have got a minnow on the end of the line or you have got a whale. Below the surface you can't tell, but then it is having the expertise and the capability to be able to determine that."

A common feature of input from the expert panel was that the real education and support opportunity for EPOs in assisting with successful internationalisation in to markets such as China is in the form of breaking a huge market in to several sub markets – by region, city, channel, sub channel and the matching this against channel partner's capability.

Hong Kong (SAR) – Open Markets = Intense Competition

As an "open market" Hong Kong offers many less barriers to entry for exporting firms and this is especially true for F&B companies as more than 95% of its food requirements are imported (www.ats-sea.agr.gc.ca). While this makes it an attractive market to enter it also means the sheer number of countries and firms' exporting to the market is large.

TC05: Competitiveness of 'open markets' means more resource required for success.

The 'dump and run' strategy employed by smaller firms who put the effort in entering the market but do not have the resources to follow up on managing the marketing and selling of

the product in the channel after launch is prevalent in such markets. Hong Kong is predominantly proactive. It is estimated that 40% of New Zealand SME F&B exporters initiate relationships with channel partners in Hong Kong and only 15% are initiated by the buyers. In this respect the proactive approach is more commonly used for initiating new channel partnerships.

TC05: The well developed and highly competitive grocery retail environment in Hong Kong means that there is less of a requirement for third party importers and distributors as the leading retail players have moved towards a preference for direct purchasing from the selling or exporting firms.

Sellers are proactively engaging with retailers rather than vice versa. A significant proportion of new business is also developed in Hong Kong via the methods of trade fairs (20%) and third party agents (20%). The expert panel identified that the channel most influenced by these types of initiation is in the “food service” channel. Hong Kong is renowned as a major trade fair centre and for this reason the frequency and size of large trade fairs in the F&B sector provide significant opportunities for chance opportunities to result in new business development commercialisation.

India – Distant & Reactive

India ranks as the 24th most psychically distant market as measured by the expert panel out of the 25 selected countries. It is estimated that 40% of new business partnerships are initiated by the buyer. There is a significant component of channel partnerships that the buyer has initiated either directly or via a third party agent (40% in total). The influence of social ties and networks are prevalent (10%) and one out of every 10 new channel partnerships is formed as a result of a trade fair encounter. The psychic distance factor seems to be unmistakably at play for the set of companies involved in this study – India is perceived as being highly psychically distant and the impact of new channel partnerships related to reactive approaches matches that of the proactive/buyer initiated approach. The low presence of New Zealand F&B SMEs in India also reflects a low awareness of New Zealand product in the market.

TC10: "a New Zealand company ran into an Indian agent at a Trade Fair in Germany and on the spot said 'yes, you are our man!' and he never went to India, he never saw him in India, he didn't see what his offices were like or the set-up was like or did any due diligence."

Distributor services have changed over time and in many cases the distributor of F&B products is much more inclined to be 'box-movers' now rather than provide additional services. The channel partners role has become about large portfolios and scale to make the service model work commercially.

4.4.3 Social Ties and the Immigrant Effect

To reiterate the point made in earlier research (Ellis, 2000), social ties are likely to be more relevant when conducting business in emerging markets than in developed economies. Decision-makers entering under-developed markets ordinarily have less objective information available to them hence their greater reliance on locally-situated trade intermediaries. An under-rated source of channel partner connections is the effect that immigrants can have on making connections with a market and channel as an employee, business owner or representative of a SME. One area that was raised during the interviews was the connections that can and should be maintained for alumni who have studied in New Zealand and then returned to their home market or another foreign market in their region. These people take with them a good connection with the home country, skills and knowledge acquired through studying in that country and more than likely have good connections in the market they have returned to. Although there are various Chambers of Commerce and networking entities in place the utilisation of alumni as key connectors for business development is an area that is not leveraged to full effect.

TC03: "As migration has occurred over time from the Pacific Islands to New Zealand what you have seen is the formation of stronger relationships back to the home country so naturally they have formed those loops and there is a lot of SMEs, particularly in Auckland, who literally first and second generation Islanders are trading back to the Islands..."

TC10: "a company actually has an Indian working for them, he decides to go back to India, they will sell your product in India, and I will open up a store."

TC04: "Talking about the psychic distance between New Zealand and China, China and New Zealand, I would still put that as quite high because of the amount of effort put in, because of the return on investment. The only moderating factor would be also because you do have over 300,000 Chinese students that have graduated from New Zealand institutions in the last 10-13 years."

4.4.4 Holiday Exporters

A theme identified by the expert panel members across a number of markets was the notion of small business owners who plan to take a holiday in a country of interest. Often the business owner (or export manager) will use the holiday as an opportunity to attempt to sell their product in to that market on their way through or returning from their destination. Sometimes the idea for exporting to a given market was initiated from a comment made by a friend or colleague who believed there was a gap in the market for the supplier's product (based on anecdotal feedback). Other times it was based on some desktop research but seldom did the holiday-exporter arrive in market prepared to truly initiate a channel partnership.

CM04: "Not from any sort of push of their own, it is because somebody has said 'oh your product will sell really well in Australia', so it is partly because of that, partly because people think Australia is an extension of New Zealand and they think they can come over to Australia on holiday and they can out a few extra products in their bag and go out and sell them."

TC03: "In all markets you've got to have discipline. A good example is the wine sellers who are taking a holiday so they will whack half a dozen bottles of Pinot or whatever they have in a chilli bin and they put on their shorts and jandals for one day and they go to the local resort or the local town and try to get people to taste what they have got and buy a pallet on the side and it is an absolute disaster in many cases."

TC01: ", I mean we have seen it multiple times where they will be literally over here visiting their kids that are at University and they will drop into a retailer and try and fob their stuff to them because their kids are at Varsity so they have to fill in their day until they can go out for dinner kind of thing and are totally, totally underprepared, so it is a weakness and it is something that we handle pretty hard here to try and overcome."

In effect the net result of the holiday exporter approach underlined a general lack of preparedness and unwillingness to investigate market opportunities with diligence. While this is a generalisation and possibly relevant to only a fraction of new channel partner initiations

the key point is that it seems to be more prevalent in countries that would typically be considered psychically closer to New Zealand.

4.4.5 The Difficult Second Order

A widespread observation from the expert panel was that a production and sales target mindset prevailed in many cases from New Zealand F&B SMEs rather than consumer driven and relationship focused. Comments were made that exporting firms were:

TC08: "busy high-fiving when the container left the wharf in New Zealand as the job of exporting was done".

This approach was seen as not taking in to account the fact that the hard work had only just begun – especially in cases where a third party channel partner was involved. Many firms did not have the systems or resources in place to understand what happened to the product when it arrived in market through to how, where, when and for how much it was sold to the end consumer.

TC05: "You have to be in it for the long term, you have to have significant resources behind you and know that you are going to be against the toughest competition in the world, but if you do all of that I think you start to win, then you will win in any market because this is a very tough competitive market. Many New Zealand companies don't have a dedicated resource for a particular market or markets sometimes and they will just leave a product on a shelf and often hope it runs."

In effect despite taking a proactive approach to initiating a new channel partnership individuals within firms may then be either so busy with existing business or chasing new business development opportunities that they do not put the time in to agreeing on key partnership principles and targets with their importer/distributor. As a result sales and additional orders can be slow in forth coming.

TC08: "So many New Zealand companies send product off to "Cold storage" or "Dairy Farm" (retailers in Asia) and it sits on the shelf and doesn't sell - it just happens time and time again."

In these instances the motivations and capability of exporting in the first place need to be challenged. The need for growth or utilisation of additional production capacity for example do

not in themselves create a solid model for seeking to replicate successes achieved in the domestic or other existing export markets.

TC08: "So you have got people in New Zealand, you have got a merchandiser, you have got a sales rep, you have got a regional sales manager, you have got a product manager, you have got a marketing manager, you have an accountant, a CFO etc and then decide we'll go into a bigger market and you put all your eggs in the basket of a consolidator, or a distributor or an agent who you probably don't know well and then lack the funding to gear up the resource adequately."

In summary, throughout this section on Channel Partner Initiation the key themes were the relentless chasing for business of channel partner facing employees from F&B SMEs means that often there is a big gap in communication and positive signals towards local partners. Constrained resource is a major factor but so is a lack of focus and a general level of naivety when it comes to conducting business in new, and especially emerging, markets. The expert panel identified the predominant means of channel partner initiation for their respective markets in line with Ellis' (2000) study and each market had its own unique story in terms of how and why new channel partnerships were formed. Four of these examples were included for Australia, China, Hong Kong and India. The influence of social ties and the Immigrant effect have been revealed as potential areas for further review and this will be covered in the discussion section. In general the lack of preparedness and knowledge in entering new export markets means that many New Zealand F&B SMEs resort to trying to launch new business with sound motivations (e.g. holiday exporters, UEOs) when new partnerships are created, often there are no agreed parameters or means of delivering successful commercial outcomes for the seller. As with all of this feedback through the interview process there are wide ranging responses and broad generalisations made. However, the key themes were consistently revealed in the thirteen interviews and the perceptions of channel partner initiation approach for the 25 selected markets will now be plotted against the psychic distance results to determine if there is a relevant correlation.

4.5 Confluence of Stimulation & Psychic Distance in Channel Partner Initiation

In considering the best way to demonstrate the key findings of the research a 'bubble chart' representation was chosen. The chart plots the results from the psychic distance assessment by the expert panel - as validated alongside Brewer's (2007a) index - against the channel partner initiation mode ratings provided by the expert panel. Four key quadrants were identified as segments capturing the potential market entry sequence and channel partner initiation approach for each of the 25 markets. The bubble size was used to demonstrate the value of processed food exports to each market (excluding milk powder). The purpose of this was to demonstrate where the focus on F&B growth has been placed and whether this is also related to psychic distance and channel partner initiation modes. The four segments have been labelled and explained as follows.

4.5.1 Psychically Close and Seller Initiated

The focus in this area is on preparedness and bridging the psychic distance gap to other markets. Key markets in this segment are Australia, United Kingdom, Canada, Singapore United States, Hong Kong and Fiji. The inference is that for these markets, New Zealand F&B SMEs perceive them as being psychically close and more accessible. In most cases a proactive approach to exporting is taken which is usually initiated by the seller. Being proactive does not necessarily correspond with being prepared but practitioners and researchers should take note of potential work to increase preparedness for exporting to these markets based on the low perceived psychic distance gap.

4.5.2 Psychically Distant and Seller Initiated Channel Partnerships

This area reinforces the U-model where the traditional proactive approach works. Malaysia, Japan, Germany, The Netherlands, France, Korea, New Caledonia, French Polynesia and Taiwan are in this segment. The markets are a psychic step from the domestic market and more familiar markets but firms will in the most part employ a proactive approach to entry and channel partner selection.

4.5.3 Psychically Distant and Buyer Initiated Channel Partnerships

A number of emerging markets fit in to this segment including Thailand, the Philippines, the United Arab Emirates, Vietnam, China, Indonesia, Papua New Guinea, India and Saudi Arabia. Channel partnership arrangements tend to be more reactive and buyer initiated. The approach to new business development should be more market-led based on developing networks, social ties and relationships with buyers.

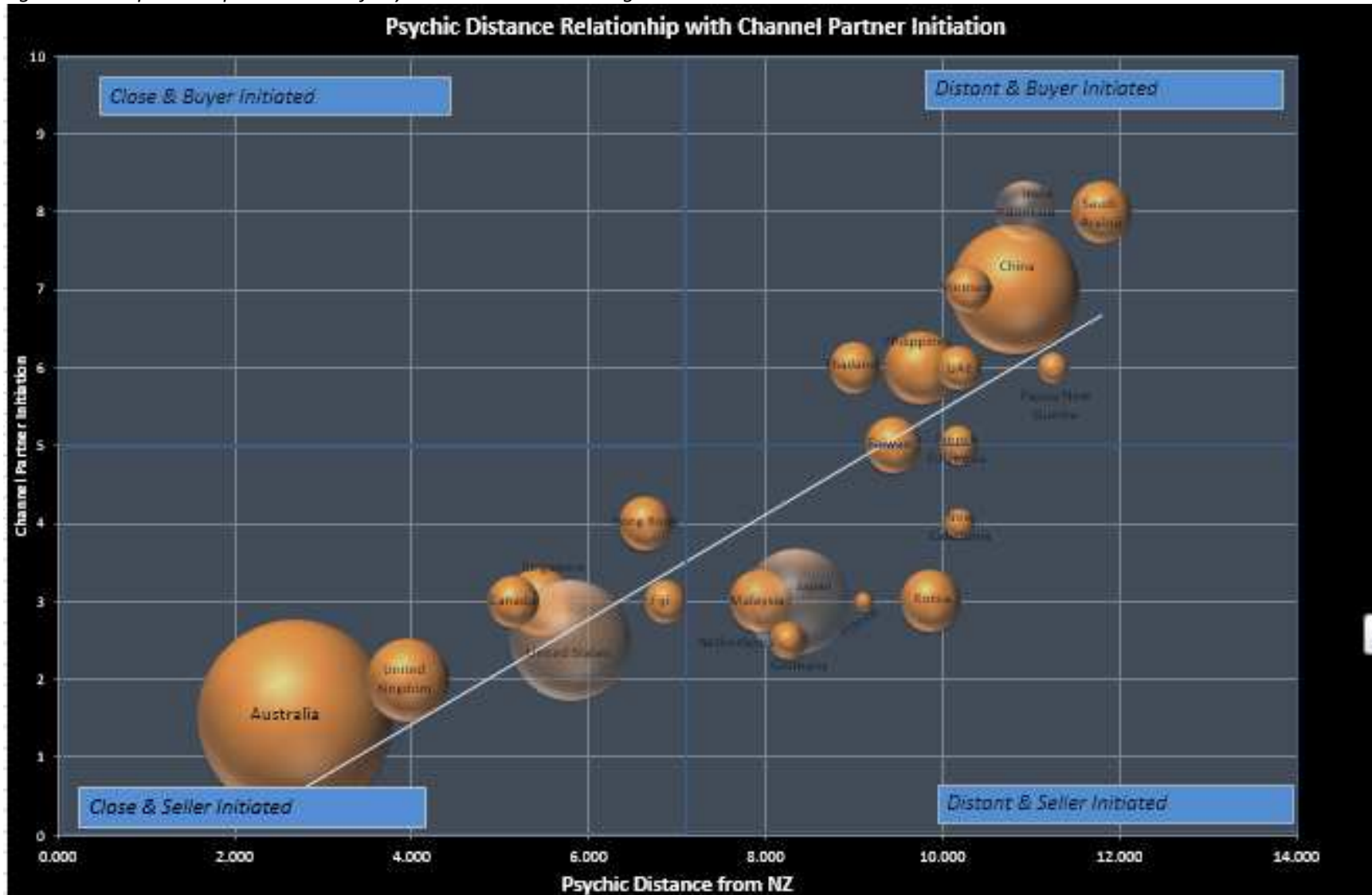
4.5.4 Psychically Close and Buyer Initiated Channel Partnerships

In this scenario a market-pull approach is prevalent where channel partners actively seek seller's product. The expert panel didn't identify any export markets in this segment although it could be argued that there are definite examples of this behaviour in the more developed markets of Australia, the United Kingdom, Singapore and Hong Kong.

In summary firms looking to expand in to emerging export markets should consider the opportunities for engaging channel partner relationships. Psychic distance is a factor so how can EPOs work to close this gap and encourage firms in to psychically distant and more desirable growth markets at an earlier stage in their life cycle?

Channel partnerships can be initiated proactively or reactively from the seller's perspective. Does one path lead to more success than the other though? These questions will be examined in more detail in the following section.

Figure 22: Graphical Representation of Psychic Distance & Exchange Partner Selection Methods



5. Discussion

The constant stream of focus and research on the concept of psychic distance over the past forty years has proven the steadfastness of its place in international business theory. There have been many attempts to question, test and even undermine the validity of psychic distance as the world has seemingly become smaller under a globalised and digital age. The results proven in many studies, including this one, however indicate that the early definition developed by Johanson & Wiedersheim-Paul (1975) rings true. The perceived prevention and disturbance of information flow between home markets (comprising of individual managers or sellers within firms) and host markets (comprising of channels and channel partners/buyers) still remains a highly relevant factor in establishing successful business in export markets.

The confluence model from Figure 22 relating psychic distance and channel partner initiation provides further thought on the influence that psychic distance has on export market development. The results show that psychic distance is not just about market selection but just as equally, about how new foreign market channel relationships are established. The following section will provide an updated definition of psychic distance and explain why the concept of psychic distance is still relevant to international business today. Following this commentary will be provided on the relevance of psychic distance to exporters from a small and geographically isolated country such as New Zealand. Stimulation and readiness for internationalisation may differ from medium and large sized countries where the dynamics associated with experience gained from a larger domestic market. Next a discussion on how channel partnerships are initiated in developing and emerging markets will be laid out. The impact that these initiations may have on sustainable business growth – particularly where branded products such as processed F&B are concerned – will be defined further in this section. Finally a look at the role of EPOs in successfully internationalising SMEs will be taken along with some points for further consideration in how psychic distance gaps to emerging markets may be overcome.

5.1 An Updated Definition of Psychic Distance

The preceding literature review in this thesis yielded no less than five definitions of psychic distance (Johanson & Wiedersheim-Paul, 1975; Nordström & Vahlne, 1994; O'Grady & Lane, 1996; Evans & Bridson, 2005; Brewer, 2007a). Reference has been predominantly made in this study to the definition of Johanson and Wiedersheim-Paul (1975) – *the perceived prevention or disturbance in information flow*. This definition has been favoured to date as international expansion is reliant on access to information and therefore any impediments placed in the way of information will affect the quality of decisions regarding access to markets or channels.

As each definition has evolved and built on the conceptual history of psychic distance theory a central point that has maintained consistency is the importance of the perception of foreign countries for the 'individual' or the 'collective' (Stöttinger & Schlegelmilch, 1998; Dow, 2000; Sousa & Bradley, 2006). The ambitious and noble efforts to objectively measure psychic distance have contributed well to the depth of understanding of the concept. The index methodology developed by Brewer (2007a) to calculate psychic distance has proven a useful approach to gaining some perspective on how New Zealand firms may view export markets. Using an operationalised and objective measure provides concrete data to bring about repeatability and comparative usage which can aid comprehension of what is an otherwise highly subjective construct. However, the influence of perceptions based on personal (or collective) experiences, knowledge and cosmopolitaness remain the essence of understanding the impact of psychic distance to making decisions in an international business environment. In this vein a revised definition of psychic distance for application in the modern international business environment from the findings of this study is:

The knowledge gaps belonging to an individual or collective that creates perceived barriers to business development and warrants some markets or channels less appealing than others.

5.2 Why Psychic Distance Still Matters

The need for SMEs to consider exporting at a much earlier stage of a company's lifecycle to deliver growth calls on an ability to examine export opportunities. This must be done without the benefit of scale or significant experience relative to similar types of firms in larger and more geographically proximate markets. While the U-model as promoted by Johanson and Vahlne (1977) would dictate that New Zealand SMEs might stage their export market development through entering a less psychically distant market in the first instance (such as Australia, the United Kingdom, Canada, Singapore or the USA) in certain sectors such as the F&B industry the immediate opportunity for channel entry and long term growth may reside in psychically distant markets which in many cases will also be emerging markets.

The U-model does not address the observation that emerging markets can provide much better long term prospects for many product categories at an earlier stage of SME export market development. In fact, in many examples smaller firms that expand in to psychically close markets end up competing directly alongside the same suppliers in their own domestic market who have chosen the same psychically close markets themselves for export development. In these situations the market share of similar product from the supplier's country doesn't grow but more often cannibalises sales from the other exporter(s) from the same country. This approach will not assist in achieving overall export growth and is counter-productive from a macro or Government objective angle. What's more is that the psychic distance paradox has proven to be present for New Zealand F&B SMEs – particularly in the case of market entry to Australia.

A high number of New Zealand companies enter Australia as the first market for international business but a significant number do not convert in to a second, third or fourth market when the traditional U-model approach is taken. The open nature of many developed markets and the intense competition that comes as a result doesn't necessarily make them any easier than considering emerging markets at an earlier stage of export development. Emerging markets may seem (and in many cases are) more difficult to enter but the costs of entry can be lowered and risks minimised if

suitable approaches are made to educating the companies of how best to initiate channel partner relationships for sustainable business development. For these reasons the confirmation of the presence of psychic distance in export market selection and channel partner relationship initiation for New Zealand F&B SMEs calls for further consideration in to what factors may be missing in supporting prospective exporting companies, and more importantly the individuals within those companies, to overcome the aspects that are disturbing the flow of information required to make educated and smart internationalisation decisions. Psychic distance still matters as the results obtained in this study indicate because both market entry sequence and channel partner initiation methods appear to be related to perceptions of psychic distance. Additionally, the psychic distance paradox is leading firms to underestimate the requirements for preparing for internationalisation. SMEs can get caught in a psychic distance trap and fail to convert international growth in to more appealing channels and markets because of bad decisions made early in their export development.

5.3 The Relevance of Psychic Distance to New Zealand SMEs

The interview process with the expert panel provided the opportunity to obtain perceptions of psychic distance for the 25 selected markets. This process also validated the approach of perception based assessment as endorsed by Stöttinger & Schlegelmilch (1998), Evans and Mavondo (2002) and Sousa and Bradley (2006 & 2008). Brewer's index provided a starting point for context but the perceptions of the expert panel provided the real insight in to how companies that the interviewees have worked with view markets in terms of psychic distance. In this study perception proved to be reality. In plotting the psychic distance perceptions obtained through the interview process against the number of New Zealand F&B SMEs operating in each market the study revealed the close negative correlation between the two. In other words the expert panel method reinforced Dow's (2000) study as being a highly accurate predictor of market entry sequence for exporting firms. It also proved the attractiveness of export markets is related to psychic distance.

The interviews revealed that channel partners from the most psychically close markets to New Zealand generally have less of a focus on longer term relationship building and instead lean towards more transactional based arrangements. As a result exporters moving from the closer markets to more distant markets are still often inclined to approach the opportunities for business with the same transaction centric approach – making the sale is key.

Conversely, the channel partner may consider that the relationship itself is the most important aspect of doing business and transactions only come as a result of the strength of the relationship. This is emphasised through the differences in cultural characteristics as identified by Hofstede and Bond (1988). These cultural differences should not necessarily be viewed from a whole-market perspective but rather at channel partner level. Consideration should be given to how channel partnerships should be initiated for relevant target markets. For example, as Matear, Gray and Irving (2000) found the building of Trust based on commitment is crucial to lasting relationships in emerging markets in Asia. Therefore, individuals from exporting firms should examine ways to more deeply make contact and engage with prospective channel partners.

5.4 The Role of Psychic Distance in Channel Partner Initiation

The expert panel responses suggest that New Zealand F&B SMEs are stimulated in to export activity based primarily on two key factors - the need for business growth and saturation of the domestic market. These two are clearly connected. The need to engage in export activities at an earlier stage of the firms life cycle based on these two core factors leads many companies to choose psychically close markets almost by default as a starting point for internationalisation. On the surface these results may suggest that firms then take a proactive approach in most cases to export market development in line with the summary of export stimulation provided by Leonidou (1998). The need for growth would ordinarily result in the proactive seeking of export markets for opportunities based on in-depth research and commercial evaluation. This approach seems to apply, in theory at least, to

psychically close markets. Stimulation for entering emerging markets is a different proposition. Firms are more likely to take UEOs from emerging markets as growth opportunities rather than strategic or commercially sound decisions. This type of approach to internationalisation is a result of reactive stimulation and has a much higher prevalence in psychically distant and emerging markets.

Thirteen emerging markets were included in the selection of countries for this study. Most of the emerging markets were identified through the expert panel as having a high prevalence of buyer initiated channel partnership relationships. Emerging markets comprised 63 percent of the value of exports in the selected market set of 25 countries as per table 6 (NZ\$8,685m). On examination of the New Zealand F&B SMEs active in the selected emerging markets however only 27 percent of the processed F&B firms had a relationship or in market presence with these markets (1,239 channel partnerships out of a total of 4,555). This reveals that the SMEs that are active in emerging markets are performing at a higher rate in terms of export value per channel partnership compared to those operating in the more developed markets.

The U-model of internationalisation is the dominant approach. In some cases it could be that firms are influenced by advice from third parties to follow the U-model approach to minimise risk when internationalising. This remains understandable and totally rational but the point that is clear is that firms who venture in to emerging markets perform better – provided they have entered for the right reasons and are prepared well enough to do so.

In the proactive model from Figure 4 the influence of psychic distance in the seller's path to internationalisation is most influential at the point of market selection. It is assumed that the firm is by this stage ready for exporting and then proceeds to research markets of interest before finding a channel partner. I argue that this is heavily weighted towards the MNC view of export market development or for some SMEs with psychically close markets. Most SMEs are however more inclined to follow the approach represented in Figure 5. Stimulation for exporting is based on external factors and psychic distance can create barriers to information flow at multiple points along

the market entry process. Most notably the impediments caused by psychic distance can create issues with channel partnerships. When the decision on a channel partner has been made in a reactive manner the role of psychic distance can be magnified. In these instances EPOs have major parts to play.

5.5 The Evolving Role of EPOs

In the literature review the role of EPOs according to Seringhaus and Botschen (1990) was outlined with five core areas of focus.

Figure 23: Specific Goals of EPOs (Seringhaus & Botschen, 1990)



What has become clear through this research and the insights gained from the expert panel from the New Zealand Government's EPO is that continuous evolution is required to match the changing needs of markets and channels within those markets. The psychic distance perceptions of EPO employees who are in the position to provide advice and direction to SMEs also is a critical element in supporting export development. The distinct correlation between the psychic distance perceptions of the expert panel and the number of New Zealand F&B SME companies represented in each of the 25 selected markets has a bearing on how individuals within firms make their choices about market entry selection. What's more is that within the markets studied there is a clear difference in how channel partnerships are initiated in developed markets as opposed to emerging markets. Various academic studies have advocated support for the view that the government's export assistance programmes and supporting services for the internationalisation of SMEs could benefit more from the strategic focus on cultivating interpersonal networking capabilities and experiential learning opportunities through social interactions (Welch, Welch, Young, & Wilkinson, 1998; Fischer & Reuber, 2003b; Ghauri, Lutz, & Tesfom, 2003; Zhou, Wu, & Luo, 2007). This study

reinforces this recommendation so that in emerging markets EPOs should focus on being social network pivots for would-be market entrants so that gaps between markets and firms, especially where psychic distance is high, can be closed. This is an important precursor to the formation of successful channel partnerships. Objective measures and criteria should be put in place to establish standardisation across markets around how networks and social ties should be built and cultivated. These are the relationships that will inevitably lead to greater business development in more psychically distant and relationship-centred markets.

Opportunities in emerging markets should intuitively be market led rather than production driven judging by the high incidence of buyer-led business development in psychically distant markets. The risk of this approach hinges on the very ad-hoc nature of responding to UEOs from prospective buyers and a lack of capability to deliver on what those buyers' expectations are. A valid conclusion is that despite the efforts that local and national Government EPOs put in to supporting internationalisation the majority of companies still lack detailed business plans or consideration of a logical sequence of market entry events and specifically how to successfully approach channel partner engagement. Notably, as discovered from the expert panel responses, this often stems from the need to achieve short term sales objectives or from a requirement to satisfy cash flow requirements. However, more often than not it seems that these types of pressures lead to poor decisions and shaky relationships that fail to last, live up to the expectations of both sides or deliver sustainable growth.

In addition to being resource constrained many F&B SMEs also lack skilled personnel in international marketing to develop channel strategies for export markets. EPOs can play a role in providing in-market guidance to SMEs with the support of their locally engaged staff who are based in the various locations around the world. The challenge is how to manage multiple categories, suppliers and product lines. EPO employees in most cases cannot conduct commercial activities themselves due to the nature of their organisation structure. However, employees within these organisations should still have the ability to provide a broader perspective on channel and category

opportunities. The real value of EPOs lies in the international network that they hold and how this links in with the domestic based employees who have the relationship with the SMEs.

The data revealed in this study is based on the estimated number of F&B SMEs operating in New Zealand and extracting out the number of firms that are currently actively engaged in exporting through a channel partner, have an in-market presence or have in-market manufacturing. One role of EPOs as per Seringhaus and Botschen's (1990) assessment is to develop broad awareness of export opportunities and stimulate interest among the business community. The data obtained for this study reveals that an estimated 63% of New Zealand F&B SMEs are not engaged in any international activity. This may be because there is a lack of stimulation to consider exporting or it could be that too many SMEs simply lack the size and scale to take the steps to grow beyond the domestic market. What is more important for EPOs in the situation of a small and geographically isolated market like New Zealand is to develop the performance of SMEs who are ready, capable and prepared to commence exporting or expand in to new export markets. Companies don't know what they don't know in terms of export market opportunities. Particularly in the case of smaller firms if they are to engage in exporting the results of this study suggest that they will proactively seek to enter the more developed and psychically close markets or they may initiate exports to an emerging or psychically distant market if they are approached by a prospective buyer. EPOs have a role to play in balancing these approaches so that SMEs are well informed about opportunities in channels and markets outside of just the psychically close reference set.

Ellis (2000) found in his study that formal activities based on objective data collected by professional or government agencies were virtually never used to identify opportunities abroad and consequently have had little bearing on foreign market entry behaviour. While this point was not made abundantly clear during the interviews conducted in this research (a likely result of the bias of the interviewee panel) it warrants some further consideration. Is the information provided by EPOs rich enough to support the key decisions that need to be made by exporters to successfully internationalise? This is where the influence of social ties and networks alongside the

cosmopolitanism of managers within SMEs is an essential ingredient of export market knowledge. For managers who have experience in an international environment and are well connected the sequence of market entry and channel partner selection in most cases won't be influenced by EPO recommendations. However, for SMEs that have little or no knowledge of markets beyond their experiences as a 'holiday exporter' the accessibility and usage of information relies heavily on EPOs reaching the decision makers within firms so they can make informed choices about potential markets for their product.

One of the most notable adjustments to the approach to internationalisation revealed from this study is that rather than just seeking markets to enter exporters should first seek channel partners who align with their own company's values and goals. Naturally there are the key elements of suitability of markets for certain products, ability to access those markets based on registration requirements and the influence of trade and non-trade barriers.

The expert panel view on an optimal annual revenue base from domestic sales before a firm is considered 'ready' to export (*Section 4.2.1*) reveals a bias towards a traditional approach to internationalisation. To achieve export growth aspirations at a firm and macro level a change to the traditional U-model approach needs to become more common place. If capable channel partners are matched with manufacturers then, in markets where there is a lack of existing demand for certain products, the partners may be able to stimulate activity to create demand. This calls on the need to have deep and trustworthy in-market connections, especially in emerging markets. This role falls back on to EPOs in the case of SMEs. In situations where there is a lack of channel partners questions should be asked as to how can they be initiated or established to provide opportunities.

6. Conclusion

The research aims for this study focused on gaining a greater understanding of how psychic distance influences SMEs from a small domestic economy when selecting export markets and initiating channel partnerships. This was achieved by utilising Brewer's (2007a) index to gain an initial perspective on psychic distance from New Zealand to 25 selected export markets. This provided context to replicate Dow's (2000) methodology of interviewing a panel of experts from New Zealand Trade & Enterprise to provide perceptions of psychic distance to the same 25 markets. The panel of experts also provided insights into stimulating factors and readiness for exporting for New Zealand F&B SMEs. The expert panel then rated the predominant methods of channel partner initiation for each market. The combined results enabled the creation of a model to be created to graphically illustrate the relationship between psychic distance, channel partner initiation method and size of processed food exports (excluding milk powder). Twelve of the markets in the selection were classified as "developed" while the remaining thirteen markets were classified as "emerging". Apart from two exceptions (Fiji and New Caledonia) the emerging markets rated highly in perceived psychic distance and the predominant form of new channel partnerships was through buyer initiated methods (UEOs or via social ties and networks). The main implications from the results are in how the psychic distance gap to emerging markets can be closed and how EPOs can provide additional and more focused support to F&B SMEs for both developed and emerging market channel strategies.

The significance of psychic distance to firms from small and geographically isolated countries such as New Zealand is reinforced by the fact that the stimulation to commence exporting for growth comes at a much earlier stage of the firms life cycle due to the saturation of the domestic markets. As a result firms are sometimes led to export for the wrong reasons – purely based on the need for growth rather than a real market need. New Zealand F&B SMEs are typically not 'born-global' and are more inclined to be traditional in their approach to internationalisation. They are often

stimulated in to exporting based on reactive components and make decisions based on low information acquisition and usage. For this reason psychic distance plays a role as a path of least resistance. Many firms are consumed by the familiarity of developed markets and therefore miss out on the bigger and longer term opportunities available in emerging and usually psychically distant markets. More often than not it is cash flow requirements that drive internationalisation and partnering decisions. These choices are made without the necessary research and preparation because of the pressure on delivering short term targets for key stakeholders and/or the need to keep generating cash to feed a growing business. Australia is psychically close and most exporters take a proactive approach to entering the market. However, a major lack of preparedness (psychic distance paradox) and little or no apparent utilisation of social ties tends to lead to a lack of success in Australia.

The degree of market familiarity with export markets is a key motivator for firms. Many New Zealanders have a connection with Australia, the United Kingdom, The USA, Singapore, Hong Kong and the Pacific Islands but less so with China, India, Indonesia, Vietnam and Saudi Arabia. The growing importance of immigration (and the “Immigrant Effect”) will start to change this over time in addition to more New Zealanders moving to and travelling through psychically distant markets. In addition the large and growing number of international students from psychically distant markets studying in New Zealand will help to close the gap. These students will assist in creating greater awareness of culture in New Zealand while also creating new business connections for fellow students and organising alumni efforts once they have returned to their home country.

This study doesn’t seek to dissuade firms from following a path that sees them enter psychically close markets. This makes perfectly logical sense for building capability and reducing risk at the early stages of international reach. But it is necessary to consider the information upon which exporting firms are basing their decisions. Moreover, how have they (as individuals) arrived at the decision on how to enter the channel where they will market their product? Access to good quality information

is crucial – but it is also a big commitment as in sectors such as F&B the landscape is changing all of the time. This is even more noticeable in emerging markets where the pace of channel development is rapid. EPOs should spend more time developing formal networks of key contacts in markets such as utilising alumni and returning business people. Social ties and networks are a real means of new channel partner initiation – especially in emerging markets.

7. Research Limitations and Further Considerations

7.1 Using Panel Based Research

The intention of this study was to provide key insights into the role that psychic distance has on market entry sequence and channel partner initiation for SMEs from a small domestic economy. The results have provided some interesting considerations regarding the place of emerging markets in export market development behaviour. The expert panel interviews demonstrate a perceived correlation between the psychic distance of a market and the most likely method of initiating a new channel relationship for SMEs in the F&B sector. These results were validated by comparing the perceived psychic distance as measured by the expert panel and the number of firms actively engaged in export activities in each market. While this has provided a useful benchmark for contemplating what attempts can be made to support SMEs in export market development, especially with emerging markets, as identified in Dow's (2000) study the major limitation is the use of a single item instrument. The interviewees had to make generalisations about what they saw taking place in their respective markets and within the F&B sector. As a result the information obtained does not have as much depth as if the interviews and information had been obtained directly from firms' themselves. As a further extension of this study, additional research should be conducted with a range of firms to determine whether the expert panel perceptions are indicative of firm's behaviour towards market entry sequence and channel partner initiation. Further validation is also required on how firms perceive the psychic distance gap and whether there are ways to navigate the disturbances in information flow that may restrict firms from selecting one market over another.

7.2 Depth of Findings - Qualitative or Quantitative Research

This study is primarily qualitative and perceptions based in nature. While statistical data has been used to measure psychic distance from Brewer's (207a) index and validate the expert panel perceptions of psychic distance against the number of companies exporting to each market, no

formal quantitative research methods were used in conducting the analysis. Future research should focus on quantitatively examining psychic distance and its correlation with channel partner initiation using proven statistical analysis methodology.

7.3 Channel & Market Coverage

A generic view of F&B channels was used for this study. For more detailed outcomes a deeper look in to retail or food service channels would be worthwhile. Additionally, alternative channels such as institutions and corporate channels could be reviewed. The rise of e-commerce marketplace platforms in emerging markets such as China and Indonesia have provided growth opportunities for entrepreneurs to sell products online. In this channel there are also potential instances of largely reactive behaviour whereby third party agents may approach the seller with the opportunity to launch into a channel which they may not be familiar with. This channel was not covered in the scope of this study but it is of significant relevance to many emerging markets where traditional bricks and mortar retail outlets are less developed and e-commerce is rising quickly as an alternative channel for sales potential. The F&B sector is especially of interest to in-market buyers for this channel. Therefore an area for potential future research is to test the application of psychic distance to channel marketing and selling in non-conventional channels such as e-commerce.

No markets from South America or Africa were included in the selection – the bias was towards Asia/Middle East and New Zealand's traditional trading partners in Europe and North America. Future research could include a broader range of countries (firm-specific research may support this with additional markets to be included).

The results revealed in Figure 19 and Figure 22 provide new thinking on channel partner initiation modes relative to perceptions of psychic distance but they do not allow for market size moderation. Additional research in to this dimension and to build on Ellis' (2008) work would provide a more pragmatic view of the opportunity size of skipping stages in the U-model for SMEs that take a proactive approach to export development.

7.4 Relativity of Other Small Exporting Nations

This study has focused specifically on New Zealand as a small and geographically isolated exporting nation. Additional research to compare and contrast results with other small exporting nations in terms of determining whether psychic distance influences market entry sequence and channel partner initiation methods would provide useful insights in to how EPOs from these countries can support export development in to emerging markets.

7.5 Longitudinal Study Opportunity

To re-emphasise earlier limitations identified by previous researchers (Ellis, 2000) there is also a need for further research to investigate the relationship between the success of an export venture and the conditions under which that venture was initiated. There is a continuum based on the age of the firm or the level of experience, but in general early exporters appear reactive to psychically distant markets. The possible reliance on social ties in emerging markets calls into question the role of EPOs in providing export development assistance. The role should be more focused on developing deep and long standing relationships rather than the Western model of transactional orientation. A longitudinal study that examines the path of SMEs selecting markets and initiating channel partnerships then measuring performance over time would contribute to the understanding of what impact greater knowledge of channel partnership establishment modes can have.

7.6 Understanding Emerging Markets

The study results revealed that emerging market entries are more likely to be reactive because less is known about the market by the seller. Understanding what information would be useful and applicable in covering these knowledge gaps is an area that also requires further consideration. EPOs carry a responsibility in many cases to seek, collate and disseminate information to existing and prospective exporters. If emerging markets are still perceived as psychically distant then what is the approach that should be taken to close those gaps so that entry in to less familiar markets is not so intimidating? The intention of this study was not to suggest firms should decide between

developed or emerging markets or to criticise the stages model path that most firms seem to take. However there are cases of 'protectionism' in some developed markets which actively promote purchasing local product ahead of imported goods (e.g. "Buy Australian made", <https://australianmade.com.au/>). At the same time emerging market consumers may be prepared to pay a premium for the same goods from the import markets but psychic distance must first be overcome. Significant research in to understanding market opportunities for products in foreign markets should again fall on EPOs to manage for resource constrained SMEs. How this data is accessed and used has been examined by fellow researchers (Souchon & Diamantopoulos, 1997) but requires additional consideration to determine whether any changes are taking place over time or if SMEs are still inclined to rely on social ties and networks or more reactive means to making decisions on new channel partner relationships.

7.7 Researching the Untapped Social Ties of International Alumni

The disconnection between individuals within exporting firms and psychically distant export markets carries with it an ongoing contemplation as to how the gaps can be reduced. In examining potential means to do this I undertook a review of the number of foreign students studying in New Zealand. The reason for this was that in Brewer's (2007a) index measurement the number of immigrants living in each country was factored in as a key variable (as see in Table 23). In the case of New Zealand the biggest sources of immigration flow was with Australia and the United Kingdom – subsequently also rated as the closest markets psychically to New Zealand in both Brewer's (2007a) and Dow's (2000) methodologies. The second largest sources of immigration flow for New Zealand are China and India. These markets ranked 21st and 24th respectively as the most distant markets out of the selected 25 markets. In this respect, despite the increasing influence of psychically distant cultural groups in New Zealand there appears to be a slow integration between these statistics and the connectivity within international business development. In addition, when an examination is made of international students studying in New Zealand the highest ranking countries for students

are China and India (see Figure 25). Thailand, Vietnam and Saudi Arabia are all rated as having a high psychic distance to New Zealand but also have high numbers of international students in New Zealand. Many of these students will in time return to their home countries and become successful entrepreneurs and business people in their own right. They may be very well connected individuals. After their study in New Zealand they may be strong Ambassadors for the country as well as the Institution where they studied. As such, research in to the effect of international alumni groups would provide an interesting view of potential untapped social ties and networks that New Zealand SMEs could access for export market entry and channel partner initiation in emerging markets.

Figure 25: International Fee Paying Students at Tertiary Institutions in New Zealand by Country

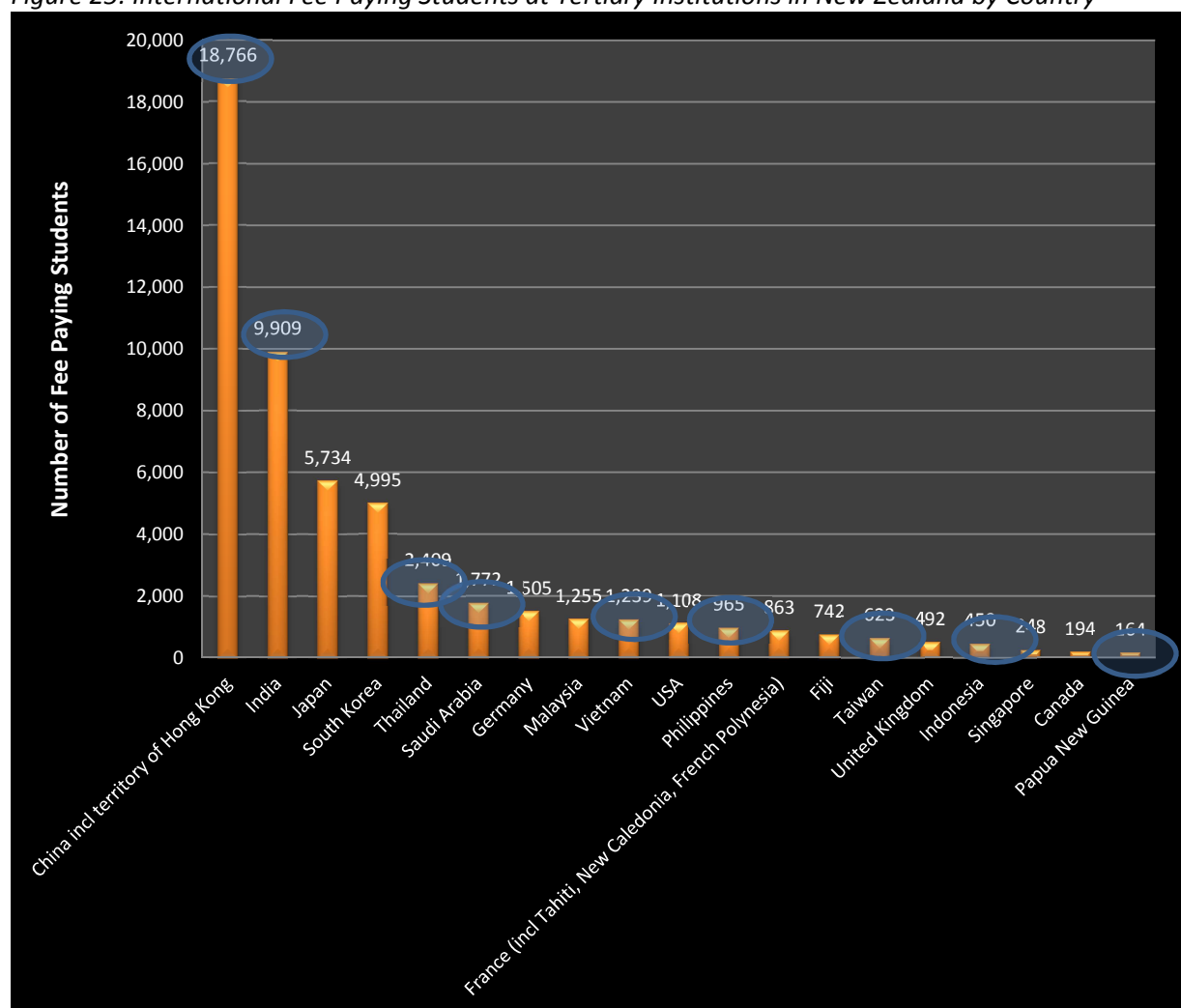
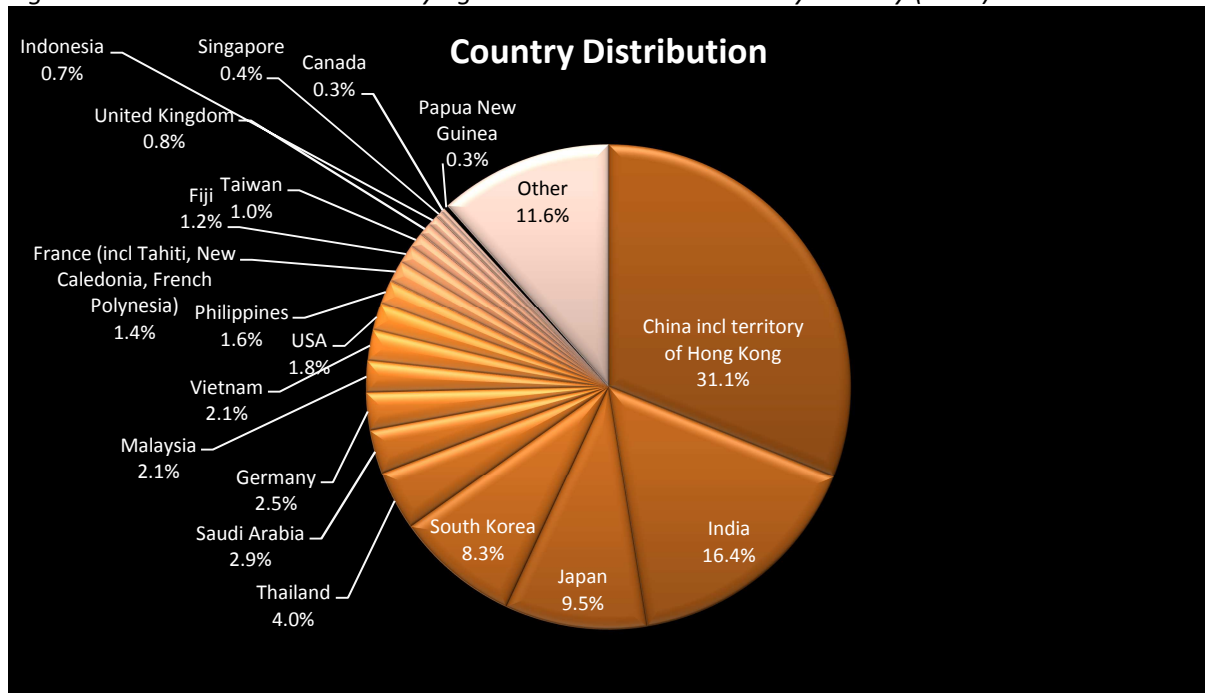


Figure 26: International Full Fee Paying Students in New Zealand by Country (2014)



Source: Education New Zealand 2014

8. Final Remarks

My study has contributed five main components to the field of International Business research. Firstly, the literature review consolidated a view of four key international business concepts – psychic distance, export stimulation and readiness, market entry and channel partner initiation. I identified a gap in research to extend the application of psychic distance beyond market selection and in to consideration of initiating new channel partnerships. To my knowledge this field had not been built in to psychic distance research previously. The second contribution was the application of Brewer's (2007a) index to the 25 selected export markets from the perspective of a small and geographically isolated exporting nation – New Zealand. The third contribution was using Dow's (2000) method of measuring psychic distance with the expert panel of EPO senior employees and contrasting this with the results from Brewer's (2007a) results. The fourth component was obtaining the insights from the expert panel in to export behaviour for F&B SMEs operating from a small domestic economy. A strong presence of the psychic distance paradox was identified. Finally, my study combined all of these factors to provide a model on how psychic distance influences channel partner initiation. This was based on the perceived predominant modes of channel partner initiation across all 25 of the selected markets and revealed a negative correlation between psychic distance and channel partner initiation mode.

For academic researchers these contributions add to the depth of research in these independent areas by collectively linking the various components and providing clear directions for future research. The U-model has been challenged in recent years based on the changing dynamics of international business. I have added to this field by providing greater understanding of exporter behaviour for F&B SMEs and how this differs between developed markets and emerging markets.

For policy-makers the research contribution has provided challenges to building export promotion and support models on traditional internationalisation paths. The recommendation is for

further tailoring of these programmes to capitalise on the proactive or reactive nature of channel partner initiations that are found between developed and emerging markets.

For practitioners my research provides valuable insights in to exporter behaviour and outlines several challenges that exporters may face in early internationalisation including the psychic distance paradox and the impact of a lack of readiness. Calls are also made for further consideration in finding ways to close perceived psychic distance gaps to take advantage of opportunities that are available in psychically distant emerging markets rather than purely following a traditional U-model methodology.

For processed foods exports not every market will be of interest or attractiveness for every product type. The question is more around how New Zealand F&B SMEs can be made aware of market opportunities to develop products that will be more suitable for larger and potentially psychically distant export markets.

Psychic distance is just as relevant in international business and market entry choices today as it was forty years ago. Despite access to faster and greater amounts of information the results of my study reveals that SMEs are not getting the information they need to break down all psychic distance barriers that may persuade them to choose one market for exporting over and above another. For this reason the prevalence of buyer initiated channel partnerships is high and SMEs have a more reactive approach to entering emerging markets. In developed markets entry modes are more proactive but readiness for internationalisation is still generally low. The growth potential, particularly for F&B product in emerging markets cannot be ignored so ways to understand and navigate the challenges in establishing new export business in these markets is relevant and essential for EPOs to understand. I believe that this study has contributed to this understanding while also providing some clear direction for future research considerations that can assist in more strategic and successful export market development.

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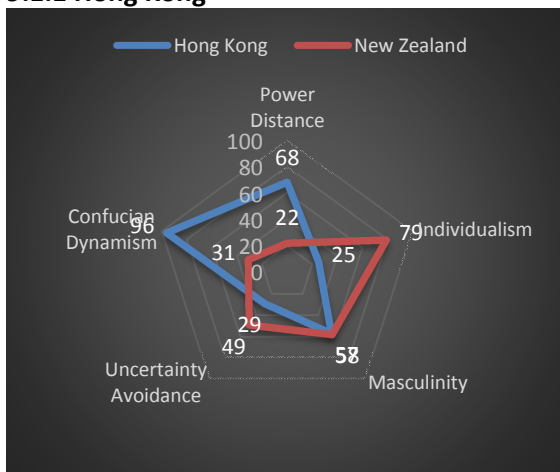
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10. Appendices

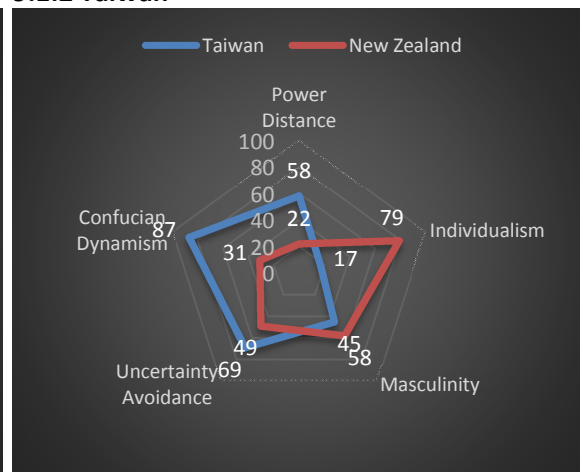
10.1 Cultural Distance Analysis

A review of Hofstede and Bonds (1988) Cultural Distance measures were applied between New Zealand and a range of the 25 selected markets used in this study. The purpose of this was to provide some context on the impact of cultural distance as a stand-alone concept prior to a full review of psychic distance measures. Each of the 'radar' charts below represents the relationship between the five cultural measures of New Zealand and the five cultural measures for 15 of the 25 markets reviewed in this study. Note that not all of the 25 markets for my study had been measured by Hofstede and Bond (1988) so only those markets with measures available were compared.

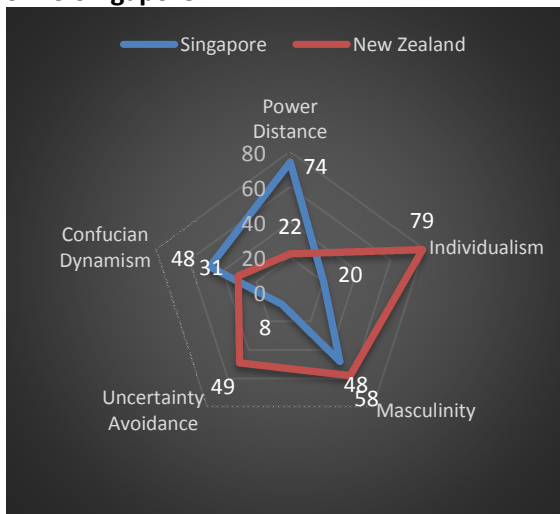
9.1.1 Hong Kong



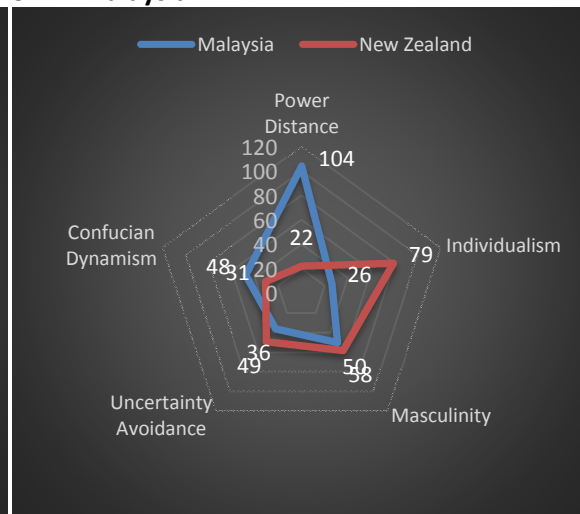
9.1.2 Taiwan



9.1.3 Singapore

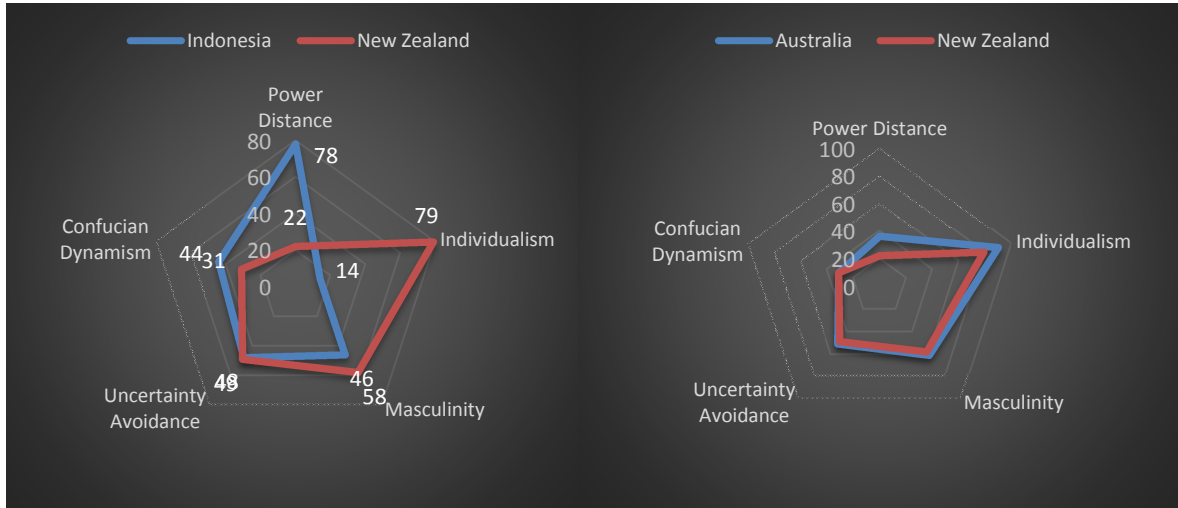


9.1.4 Malaysia



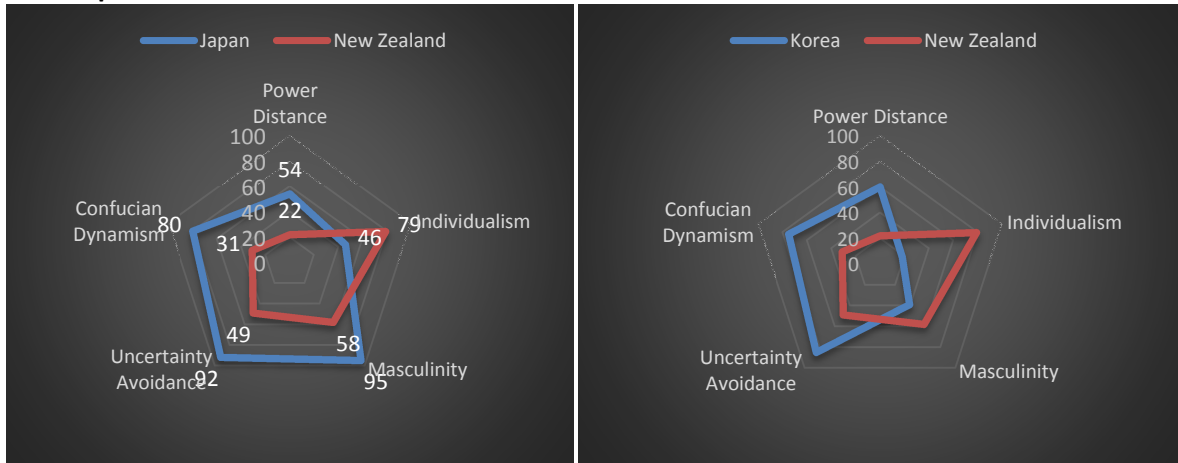
9.1.5 Indonesia

9.1.6 Australia



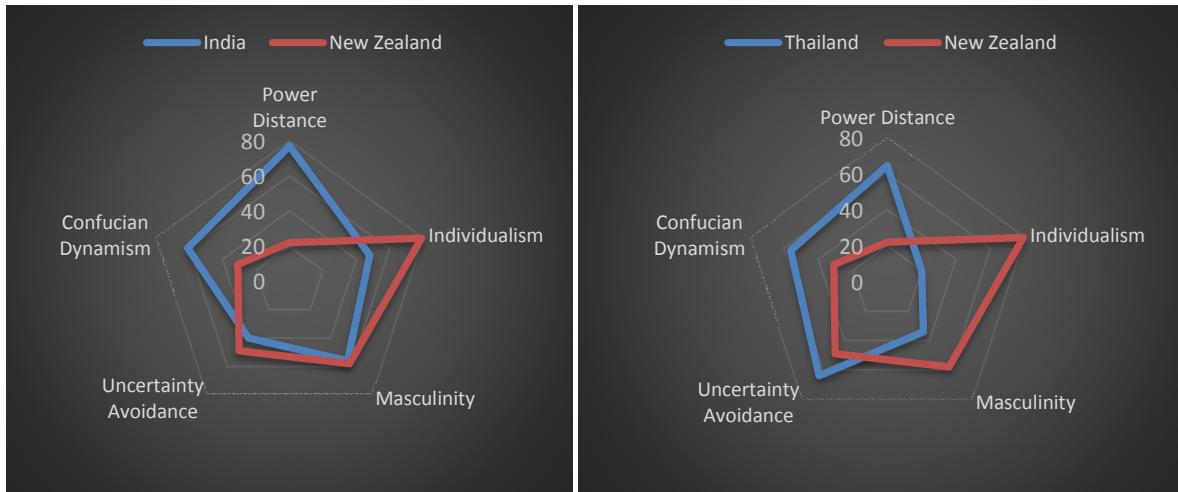
9.1.7 Japan

9.1.8 Korea

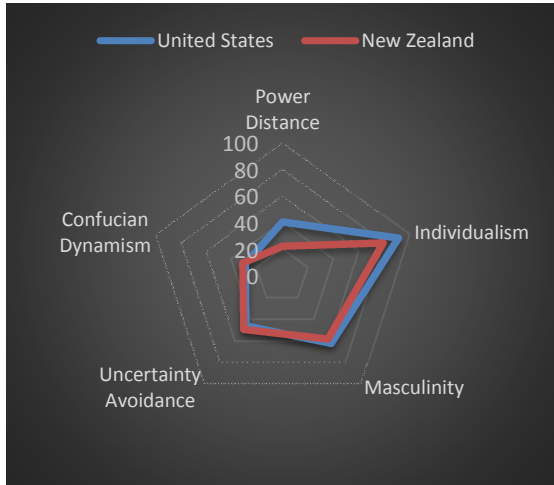


9.1.9 India

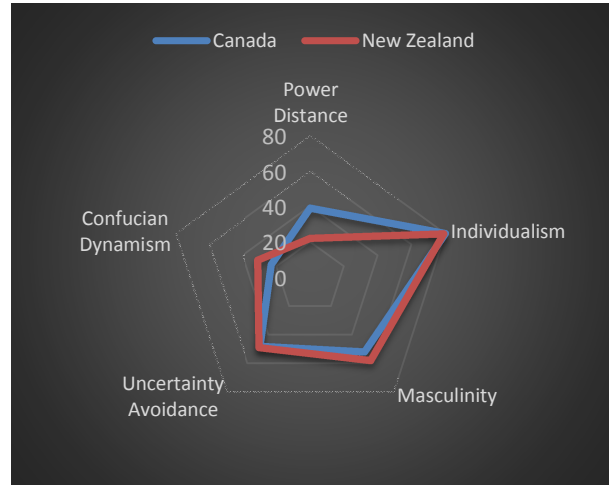
9.1.10 Thailand



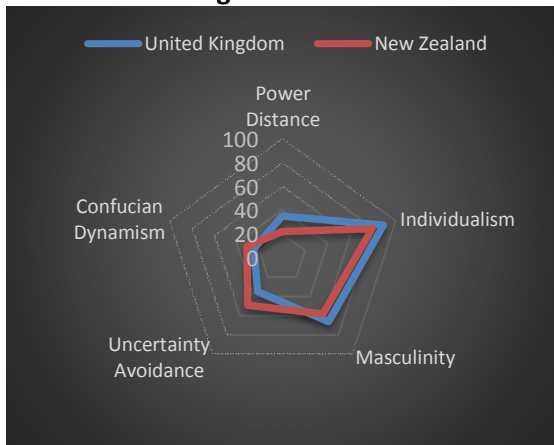
9.1.11 USA



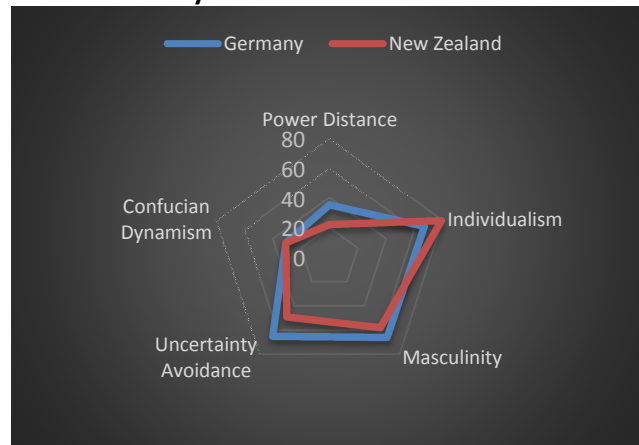
9.1.12 Canada



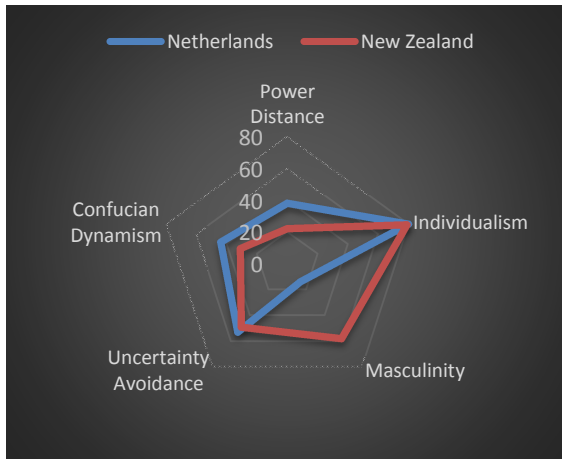
9.1.13 United Kingdom



9.1.14 Germany



9.1.15 Netherlands



10.2 Psychic Distance Measurement (Brewer, 2007a)

The following summary provides a brief explanation of the measures used for Brewer's (2007a) psychic distance index and the relevant results for the measures from New Zealand to each of the 25 selected markets for my study. Each table provides a list of the results for each measurement and a normalised adjustment so that each of the 15 indicators has a maximum score of 1.00 and a minimum score of 0.00.

10.2.1 Commercial Ties

A strong relationship between two countries encourages stronger information flows between those countries (Carlson, 1974) calculated by:

1. Home's exports sold to Away plus Home's imports brought from away;
2. The stock of Home's FDI in Away plus Away's stock of FDI in Home

Data was taken from the 'Global New Zealand' statistics with data up to 30th June 2014.

The data reveals that the selected markets cover 84% of New Zealand's merchandise export value and 85% of New Zealand's merchandise import value. The markets are ranked in order of two way trade value and the index applied accordingly to normalise the results.

Table 12: Two-way Trade between New Zealand & Selected Markets

	Value of Exports (FOB, NZ\$000)	Value of Imports (CIF, NZ\$000)	% of Exports	% of Imports	Result	Rank	Normalised
China	11,572	8,459	0.226	0.170	0.396	1	0.000
Australia	8,931	6,134	0.175	0.123	0.298	2	0.242
United States	4,225	4,965	0.083	0.100	0.182	3	0.536
Japan	2,900	3,220	0.057	0.065	0.121	4	0.691
Korea	1,654	2,112	0.032	0.042	0.075	5	0.810
Singapore	1,092	2,314	0.021	0.046	0.068	6	0.827
Malaysia	977	2,322	0.019	0.047	0.066	7	0.833
Germany	781	2,398	0.015	0.048	0.063	8	0.838
United Kingdom	1,538	1,278	0.030	0.026	0.056	9	0.858
Thailand	811	1,661	0.016	0.033	0.049	10	0.875
United Arab Emirates	845	1,095	0.017	0.022	0.039	11	0.902
Indonesia	952	877	0.019	0.018	0.036	12	0.908
Taiwan	986	789	0.019	0.016	0.035	13	0.911
France	366	1,357	0.007	0.027	0.034	14	0.912
Saudi Arabia	699	1,002	0.014	0.020	0.034	15	0.914
Netherlands	663	489	0.013	0.010	0.023	16	0.942
Canada	544	555	0.011	0.011	0.022	17	0.945
India	632	453	0.012	0.009	0.021	18	0.945
Vietnam	536	490	0.010	0.010	0.020	19	0.948
Philippines	822	134	0.016	0.003	0.019	20	0.952
Hong Kong	724	137	0.014	0.003	0.017	21	0.957
Fiji	375	60	0.007	0.001	0.009	22	0.978
Papua New Guinea	208	12	0.004	0.000	0.004	23	0.989
French Polynesia	195	3	0.004	0.000	0.004	24	0.990
New Caledonia	170	2	0.003	0.000	0.003	25	1.000
	43,198	42,318	0.84	0.85			
	51,161	49,773					

Source: Global New Zealand, June 2014

Data was taken from the 'Global New Zealand' statistics with data up to 30th June 2013. The results indicate the significant share of FDI from Australia in New Zealand with the United States of America being the second largest FDI market for New Zealand. The market selection accounts for 82.5% of Foreign Direct Investment in New Zealand and 81.9% of New Zealand investment in overseas markets.

Table 13: Two-way Foreign Direct Investment between New Zealand and Selected Markets

	Value of FDI in NZ (NZ\$000)	%	Value of NZ FDI in Market (NZ\$000)	%	Total %	Rank	Normalised
Australia	54,357	0.558	12,734	0.525	1.084	1	0.000
United States	10,635	0.109	4,004	0.165	0.274	2	0.747
Singapore	2,507	0.026	1,200	0.049	0.075	3	0.931
United Kingdom	2,575	0.026	974	0.040	0.067	4	0.939
Netherlands	3,102	0.032	100	0.004	0.036	5	0.967
Hong Kong	989	0.010	545	0.022	0.033	6	0.970
Japan	2,795	0.029	22	0.001	0.030	7	0.973
Canada	1,093	0.011	59	0.002	0.014	8	0.987
Malaysia	618	0.006	50	0.002	0.008	9	0.992
Germany	662	0.007		0.000	0.007	10	0.994
China	93	0.001	112	0.005	0.006	11	0.995
Taiwan	267	0.003	0	0.000	0.003	12	0.997
United Arab Emirates	150	0.002	20	0.001	0.002	13	0.998
Philippines	200	0.002	0	0.000	0.002	14	0.998
Indonesia	99	0.001	0	0.000	0.001	15	0.999
Korea	44	0.000	10	0.000	0.001	16	0.999
Fiji	-11	-0.000	23	0.001	0.001	17	0.999
Saudi Arabia	57	0.001	0	0.000	0.001	18	0.999
Vietnam	40	0.000	0	0.000	0.000	19	1.000
France	39	0.000	0	0.000	0.000	20	1.000
Thailand	3	0.000	0	0.000	0.000	21	1.000
India	2	0.000	0	0.000	0.000	22	1.000
Papua New Guinea	0	0.000	0	0.000	0.000	23	1.000
French Polynesia	0	0.000	0	0.000	0.000	24	1.000
New Caledonia	0	0.000	0	0.000	0.000	25	1.000
TOTAL (Selected Markets)	80,316	0.825	19,853	0.819			
GRAND TOTAL (all Markets)	97,327		24,254				

Source: Global New Zealand, June 2014

9.2.2 Political Ties

The depth of political relationships brings an increased awareness between firms in both countries and facilitates the exchange of information between the countries (Australian Department of Foreign Affairs and Trade 2005; (Weidersheim-Paul & Welch, 1972)

1. Bilateral and regional trade agreements involving both Home and Away
2. Government aid programs between Home and Away
3. Official government trade offices from each country in the other

New Zealand has an enviable and growing list of Free Trade Agreements including CER with Australia, a Free Trade Agreement with China, the AANZFTA connection with South East Asia and the looming TPP Agreement which would see ties joined with the major economic powers across the Pacific region. New Zealand also has Free Trade Agreements with China and ASEAN - potentially some of the more psychically distant markets so it is of interest to determine if these FTAs can play a role in by-passing some of the perceived barriers to growing business in these markets from an SME perspective.

Table 14: Trade Agreement Status between New Zealand and Selected Markets

	# of Free Trade Agreements	Normalised
China	1	0.00
Australia	1	0.00
United States	0	1.00
Japan	0	1.00
Korea	0	1.00
Singapore	1	0.00
Germany	0	1.00
Malaysia	1	0.00
United Kingdom	0	1.00
Thailand	1	0.00
Indonesia	1	0.00
United Arab Emirates	0	1.00
Taiwan	0	1.00
France	0	1.00
Saudi Arabia	0	1.00
Canada	0	1.00
India	0	1.00
Netherlands	0	1.00
Vietnam	1	0.00
Hong Kong	1	0.00
Philippines	1	0.00
Fiji	0	1.00
Papua New Guinea	0	1.00
French Polynesia	0	1.00
New Caledonia	0	1.00

A summary of Trade Agreements is included below with “1” indicating a Free trade Agreement was already in place at the time of collating the results and a “0” indicating that no Free Trade Agreement was in place.

The New Zealand Aid Programme is the New Zealand Government’s international aid and development programme managed by the Ministry of Foreign Affairs and Trade. Four of the markets in the selection receive aid funding from this programme – Papua New Guinea, Indonesia, Vietnam and Fiji.

Table 15: Value of Aid Programmes to Selected Markets

	Value of Aid (NZ\$000)	Normalised
China		1.00
Australia		1.00
United States		1.00
Japan		1.00
Korea		1.00
Singapore		1.00
Germany		1.00
Malaysia		1.00
United Kingdom		1.00
Thailand		1.00
Indonesia	16	0.11
United Arab Emirates		1.00
Taiwan		1.00
France		1.00
Saudi Arabia		1.00
Canada		1.00
India		1.00
Netherlands		1.00
Vietnam	12	0.33
Hong Kong		1.00
Philippines		1.00
Fiji	4	0.78
Papua New Guinea	18	0.00
French Polynesia		1.00
New Caledonia		1.00

The number of trade offices in each country was derived from New Zealand Trade & Enterprise and counter-part trade promotion agencies websites for the 25 selected markets.

Table 16: Number of Trade Representative Offices in New Zealand & Selected Markets

	# of NZ Offices in Market	# of Offices in NZ	Total	Normalised
China	3	1	4	0.00
Australia	2	1	3	0.25
United States	2	0	2	0.50
Japan	1	0	1	0.75
Korea	1	1	2	0.50
Singapore	1	0	1	0.75
Germany	1	0	1	0.75
Malaysia	1	0	1	0.75
United Kingdom	1	0	1	0.75
Thailand	1	0	1	0.75
Indonesia	1	0	1	0.75
United Arab Emirates	1	0	1	0.75
Taiwan	1	0	1	0.75
France	0	0	0	1.00
Saudi Arabia	0	0	0	1.00
Canada	1	1	2	0.50
India	2	0	2	0.50
Netherlands	0	0	0	1.00
Vietnam	1	1	2	0.50
Hong Kong	1	0	1	0.75
Philippines	1	0	1	0.75
Fiji	0	0	0	1.00
Papua New Guinea	0	0	0	1.00
French Polynesia	1	1	2	0.50
New Caledonia	1	1	2	0.50

9.2.3 Historic Ties

Historical ties between countries and their people engender more detailed knowledge of the involved countries and higher levels of trade and investment than would be the case otherwise (Ghemawat, 2001).

3. Whether there is a direct colonial relationship between Home and Away (in either direction)
4. The relationship between Home and Away in World War I and World War II

Table 17: Colonial Relationship between New Zealand and Selected Countries

	Relationship	Normalised
China	0.0	1.0
Australia	0.5	0.5
United States	0.0	1.0
Japan	0.0	1.0
Korea	0.0	1.0
Singapore	0.5	0.5
Germany	0.0	1.0
Malaysia	0.5	0.5
United Kingdom	1.0	0.0
Thailand	0.0	1.0
Indonesia	0.0	1.0
United Arab Emirates	0.0	1.0
Taiwan	0.0	1.0
France	0.0	1.0
Saudi Arabia	0.0	1.0
Canada	0.5	0.5
India	0.5	0.5
Netherlands	0.0	1.0
Vietnam	0.0	1.0
Hong Kong	0.5	0.5
Philippines	0.0	1.0
Fiji	0.5	0.5
Papua New Guinea	0.0	1.0
French Polynesia	0.0	1.0
New Caledonia	0.0	1.0

Table 18: Shared Wars Between New Zealand and Selected Countries

	WWI	WWII	Indicator	Normalised
China	1.0	1.0	2.0	0.5
Australia	2.0	2.0	4.0	0.0
United States	2.0	2.0	4.0	0.0
Japan	2.0	0.0	2.0	0.5
Korea	0.0	1.0	1.0	0.8
Singapore	2.0	2.0	4.0	0.0
Germany	0.0	0.0	0.0	1.0
Malaysia	2.0	2.0	4.0	0.0
United Kingdom	2.0	2.0	4.0	0.0
Thailand	1.0	1.0	2.0	0.5
Indonesia	1.0	1.0	2.0	0.5
United Arab Emirates	0.0	0.0	0.0	1.0
Taiwan	1.0	1.0	2.0	0.5
France	2.0	2.0	4.0	0.0
Saudi Arabia	0.0	0.0	0.0	1.0
Canada	2.0	2.0	4.0	0.0
India	2.0	2.0	4.0	0.0
Netherlands	1.0	1.0	2.0	0.5
Vietnam	1.0	1.0	2.0	0.5
Hong Kong	2.0	2.0	4.0	0.0
Philippines	1.0	1.0	2.0	0.5
Fiji	2.0	2.0	4.0	0.0
Papua New Guinea	1.0	1.0	2.0	0.5
French Polynesia	2.0	2.0	4.0	0.0
New Caledonia	2.0	2.0	4.0	0.0

Geographic Ties

Geography has long been believed to have a favourable effect on commercial exchange between countries (Beckerman, 1956).

1. The direct distance between the closest two major port cities in Home and Away in kilometres

Table 19: Geographic Proximity between New Zealand and Selected Markets

	Distance (Kms)	Rank	Normalised
China	9,283	14	0.45
Australia	2,629	3	0.05
United States	10,511	17	0.52
Japan	8,850	10	0.42
Korea	9,635	16	0.47
Singapore	8,429	8	0.39
Germany	17,843	22	0.96
Malaysia	8,442	9	0.40
United Kingdom	18,362	24	0.99
Thailand	9,586	15	0.46
Indonesia	7,645	6	0.35
United Arab Emirates	14,222	20	0.74
Taiwan	8,851	11	0.42
France	18,571	25	1.00
Saudi Arabia	14,957	21	0.78
Canada	11,373	19	0.57
India	11,201	18	0.56
Netherlands	18,142	23	0.97
Vietnam	8,866	12	0.42
Hong Kong	9,164	13	0.44
Philippines	8,035	7	0.37
Fiji	2,155	2	0.02
Papua New Guinea	4,125	5	0.14
French Polynesia	4,099	4	0.14
New Caledonia	1,809	1	0.00

Social Ties

There is evidence to support the contention that community differences, especially business differences, affect the flow of knowledge and, therefore, the psychic distance between countries (Davidson, 1983).

5. The cultural distance index that Fletcher and Bohn (1998) developed
6. The number of sports played regularly between Home and Away at the national team level
7. Similarity of national language, business, or alphabet

Table 20: Cultural Distance between New Zealand and Selected Countries

	Cultural Distance	Normalised
China	29.2	1.00
Australia	0.1	0.00
United States	0.7	0.02
Japan	15.2	0.52
Korea	20.3	0.70
Singapore	19.3	0.66
Germany	1.7	0.06
Malaysia	23.6	0.81
United Kingdom	0.6	0.02
Thailand	16.5	0.57
Indonesia	18.3	0.63
United Arab Emirates	20.0	0.68
Taiwan	20.4	0.70
France	6.1	0.21
Saudi Arabia	25.0	0.86
Canada	0.6	0.02
India	9.7	0.33
Netherlands	5.5	0.19
Vietnam	18.0	0.62
Hong Kong	20.5	0.70
Philippines	15.7	0.54
Fiji	10.0	0.34
Papua New Guinea	10.0	0.34
French Polynesia	6.0	0.21
New Caledonia	6.0	0.21

Table 21: Sporting Preferences between New Zealand and Selected Countries

	Cricket	Rugby Union	Rugby League	Netball	Total	Normalised
China	0	0	0	0	0	1.00
Australia	1	1	1	1	4	0.00
United States	0	1	0	0	1	0.75
Japan	0	1	0	0	1	0.75
Korea	0	0	0	0	0	1.00
Singapore	0	0	0	0	0	1.00
Germany	0	0	0	0	0	1.00
Malaysia	0	0	0	0	0	1.00
United Kingdom	1	1	1	1	4	0.00
Thailand	0	0	0	0	0	1.00
Indonesia	0	0	0	0	0	1.00
United Arab Emirates	0	0	0	0	0	1.00
Taiwan	0	0	0	0	0	1.00
France	0	1	1	0	2	0.50
Saudi Arabia	0	0	0	0	0	1.00
Canada	0	1	0	0	1	0.75
India	1	0	0	0	1	0.75
Netherlands	0	0	0	0	0	1.00
Vietnam	0	0	0	0	0	1.00
Hong Kong	0	0	0	0	0	1.00
Philippines	0	0	0	0	0	1.00
Fiji	0	1	0	1	2	0.50
Papua New Guinea	0	0	1	0	1	0.75
French Polynesia	0	0	0	0	0	1.00
New Caledonia	0	0	0	0	0	1.00

*The four most common sports with regular international exchanges between the host country and away country.

Table 22: Language Similarities

	Language Similarity Normalised
China	1.00
Australia	0.00
United States	0.00
Japan	1.00
Korea	1.00
Singapore	0.00
Germany	0.50
Malaysia	0.25
United Kingdom	0.00
Thailand	1.00
Indonesia	1.00
United Arab Emirates	0.25
Taiwan	1.00
France	0.50
Saudi Arabia	1.00
Canada	0.00
India	0.25
Netherlands	0.50
Vietnam	1.00
Hong Kong	0.25
Philippines	0.25
Fiji	0.25
Papua New Guinea	0.25
French Polynesia	0.50
New Caledonia	0.50

Information Availability

The more information there is available, the more easily firm managers can learn about new markets (from (Brewer, 2007a); HM Revenue and Customs 2005)

8. Publications about Away available at Home
9. Permanent immigrants and visitors from Home and Away living in the other countries plus temporary visitors from each to the other

Table 23: Secondary Information Available

	# of References	Rank	Normalised
China	11203	5	0.807
Australia	18300	3	0.682
United States	42258	2	0.260
Japan	9686	7	0.834
Korea	1717	12	0.974
Singapore	1482	13	0.978
Germany	10253	6	0.824
Malaysia	1045	20	0.986
United Kingdom	57046	1	0.000
Thailand	1250	17	0.982
Indonesia	1766	11	0.973
United Arab Emirates	250	24	1.000
Taiwan	1149	19	0.984
France	13801	4	0.761
Saudi Arabia	318	22	0.999
Canada	5863	9	0.901
India	7424	8	0.873
Netherlands	3712	10	0.939
Vietnam	1477	14	0.978
Hong Kong	1460	15	0.978
Philippines	940	21	0.988
Fiji	1207	18	0.983
Papua New Guinea	1394	16	0.980
French Polynesia	233	25	1.000
New Caledonia	283	23	0.999

Table 24: Immigration

	# of NZers in Country	# of Immigrants in NZ	Rank	Result	Normalised
China	2418	7817	3	10235	5.650
Australia	49331	16469	1	65800	0.000
United States	2810	3658	5	6468	6.033
Japan	966	1872	9	2838	6.402
Korea	1580	1695	8	3275	6.357
Singapore	433	891	14	1324	6.556
Germany	923	2775	6	3698	6.314
Malaysia	737	1091	12	1828	6.505
United Kingdom	7896	14213	2	22109	4.442
Thailand	441	864	15	1305	6.558
Indonesia	211	524	21	735	6.616
United Arab Emirates	347	548	18	895	6.599
Taiwan	284	724	17	1008	6.588
France	761	1868	11	2629	6.423
Saudi Arabia	100	300	25	400	6.650
Canada	1602	1799	7	3401	6.345
India	1334	6397	4	7731	5.904
Netherlands	273	507	19	780	6.611
Vietnam	232	524	20	756	6.614
Hong Kong	375	801	16	1176	6.571
Philippines	382	2364	10	2746	6.411
Fiji	481	1183	13	1664	6.521
Papua New Guinea	100	300	22	400	6.650
French Polynesia	100	300	23	400	6.650
New Caledonia	100	300	24	400	6.650

Source:

Level of Development

The higher the level of a country's development, the closer is its psychic distance to all other countries, regardless of the state of play at home. Business is easier to conduct in these countries, and market conditions are easier to understand.

10. The United Nations human development index

11. Transparency International corruption index

Table 25: Level of Development

	UN HDI	Normalised
China	101	0.643
Australia	2	0.000
United States	3	0.006
Japan	10	0.052
Korea	12	0.065
Singapore	18	0.104
Germany	5	0.019
Malaysia	64	0.403
United Kingdom	26	0.156
Thailand	103	0.656
Indonesia	121	0.773
United Arab Emirates	41	0.253
Taiwan	22	0.130
France	20	0.117
Saudi Arabia	57	0.357
Canada	11	0.058
India	136	0.870
Netherlands	4	0.013
Vietnam	127	0.812
Hong Kong	13	0.071
Philippines	114	0.727
Fiji	96	0.610
Papua New Guinea	156	1.000
French Polynesia	50	0.312
New Caledonia	50	0.312

Source:

Table 26: Level of Corruption

	TI Corruption Index	Normalised
China	39	0.77
Australia	85	0.03
United States	73	0.23
Japan	74	0.21
Korea	56	0.50
Singapore	87	0.00
Germany	79	0.13
Malaysia	49	0.61
United Kingdom	74	0.21
Thailand	37	0.81
Indonesia	32	0.89
United Arab Emirates	68	0.31
Taiwan	61	0.42
France	71	0.26
Saudi Arabia	44	0.69
Canada	84	0.05
India	36	0.82
Netherlands	84	0.05
Vietnam	31	0.90
Hong Kong	77	0.16
Philippines	34	0.85
Fiji	40	0.76
Papua New Guinea	25	1.00
French Polynesia	50	0.60
New Caledonia	50	0.60

Source:

Table 27: Summary of Results - Brewer's (2007a) Index

Primary Indicators	Item	Measures	Australia	Fiji	Guinea	French Polynesia	New Caledonia	China	Taiwan	Hong Kong	India	Singapore	Malaysia	Vietnam	Indonesia	Philippines	Thailand	Japan	Korea	United States	Canada	United Kingdom	Germany	Netherlands	France	Emirates	Saudi Arabia	
Commercial Ties	1	Two Way Trade	0.242	0.978	0.989	0.990	0.991	0.000	0.911	0.957	0.945	0.827	0.833	0.948	0.908	0.952	0.875	0.691	0.810	0.536	0.945	0.858	0.838	0.942	0.912	0.902	0.914	
	2	Stock of Foreign Investment	0.000	0.999	1.000	1.000	1.000	0.995	0.997	0.970	1.000	0.931	0.992	1.000	0.999	0.998	1.000	0.973	0.999	0.747	0.987	0.999	0.994	0.967	1.000	0.998	0.999	
Political Ties	3	Trade Arrangements	0.000	1.000	1.000	1.000	1.000	0.000	1.000	0.000	1.000	0.000	0.000	0.000	0.000	0.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
	4	Value of Aid Programmes	1.000	0.778	0.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.333	0.111	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
	5	Trade Representation Offices	0.250	1.000	1.000	0.500	0.500	0.000	0.750	0.750	0.500	0.750	0.750	0.500	0.750	0.750	0.750	0.750	0.500	0.500	0.500	0.500	0.750	0.750	1.000	1.000	0.750	1.000
Historic Ties	6	Colonial Relationship	0.500	0.500	1.000	1.000	1.000	1.000	1.000	0.500	0.500	0.500	0.500	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.500	0.000	1.000	1.000	1.000	1.000	1.000	1.000
	7	Shared Wars	0.000	0.000	0.500	0.000	0.000	0.500	0.500	0.000	0.000	0.000	0.000	0.000	0.500	0.500	0.500	0.500	0.500	0.750	0.000	0.000	0.000	1.000	0.500	0.000	1.000	1.000
Geographic Ties	8	Geographic Proximity	0.050	0.020	0.140	0.140	0.000	0.450	0.420	0.440	0.560	0.390	0.400	0.420	0.350	0.370	0.460	0.420	0.470	0.520	0.570	0.990	0.960	0.970	1.000	0.740	0.780	
Social Ties	9	Cultural Similarities	0.000	0.342	0.342	0.205	0.205	1.000	0.699	0.702	0.332	0.661	0.808	0.616	0.627	0.538	0.565	0.521	0.695	0.024	0.021	0.021	0.058	0.188	0.209	0.685	0.856	
	10	Sport Preferences	0.000	0.500	0.750	1.000	1.000	1.000	1.000	1.000	0.750	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.750	1.000	0.750	0.750	0.000	1.000	1.000	0.500	1.000	1.000
	11	Language Similarities	0.000	0.250	0.250	0.500	0.500	1.000	1.000	0.250	0.250	0.000	0.250	1.000	1.000	0.250	1.000	1.000	1.000	0.000	0.000	0.000	0.500	0.500	0.500	0.250	1.000	
Country Information Stock	12	Secondary Information Availability	0.682	0.983	0.980	1.000	0.999	0.807	0.984	0.978	0.873	0.978	0.986	0.978	0.973	0.988	0.982	0.834	0.974	0.260	0.901	0.000	0.824	0.939	0.761	1.000	0.999	
	13	Immigration Numbers	0.000	0.981	1.000	1.000	1.000	0.850	0.991	0.988	0.888	0.986	0.978	0.995	0.995	0.964	0.986	0.963	0.956	0.907	0.954	0.668	0.950	0.994	0.966	0.992	1.000	
Level of Development	14	Level of Development of the Foreign Country	0.000	0.610	1.000	0.312	0.312	0.643	0.130	0.071	0.870	0.104	0.403	0.812	0.773	0.727	0.656	0.052	0.065	0.006	0.058	0.156	0.019	0.013	0.117	0.253	0.357	
	15	Level of Corruption of the Foreign Country	0.030	0.760	1.000	0.600	0.600	0.770	0.420	0.160	0.820	0.000	0.610	0.900	0.890	0.850	0.810	0.210	0.500	0.230	0.050	0.210	0.130	0.050	0.260	0.310	0.690	
		Psychic Distance	2.754	9.701	10.951	10.248	10.108	10.015	11.801	8.767	10.289	8.127	9.510	11.003	10.875	10.887	11.584	10.663	11.719	7.480	8.235	6.592	11.023	11.063	10.225	11.880	13.595	
		Rank	1	9	18	13	12	7	23	6	10	5	8	19	17	15	22	14	21	3	4	2	16	20	11	24	25	

10.3 Data on New Zealand SMEs

Figure 27: New Zealand SMEs Annual Revenue

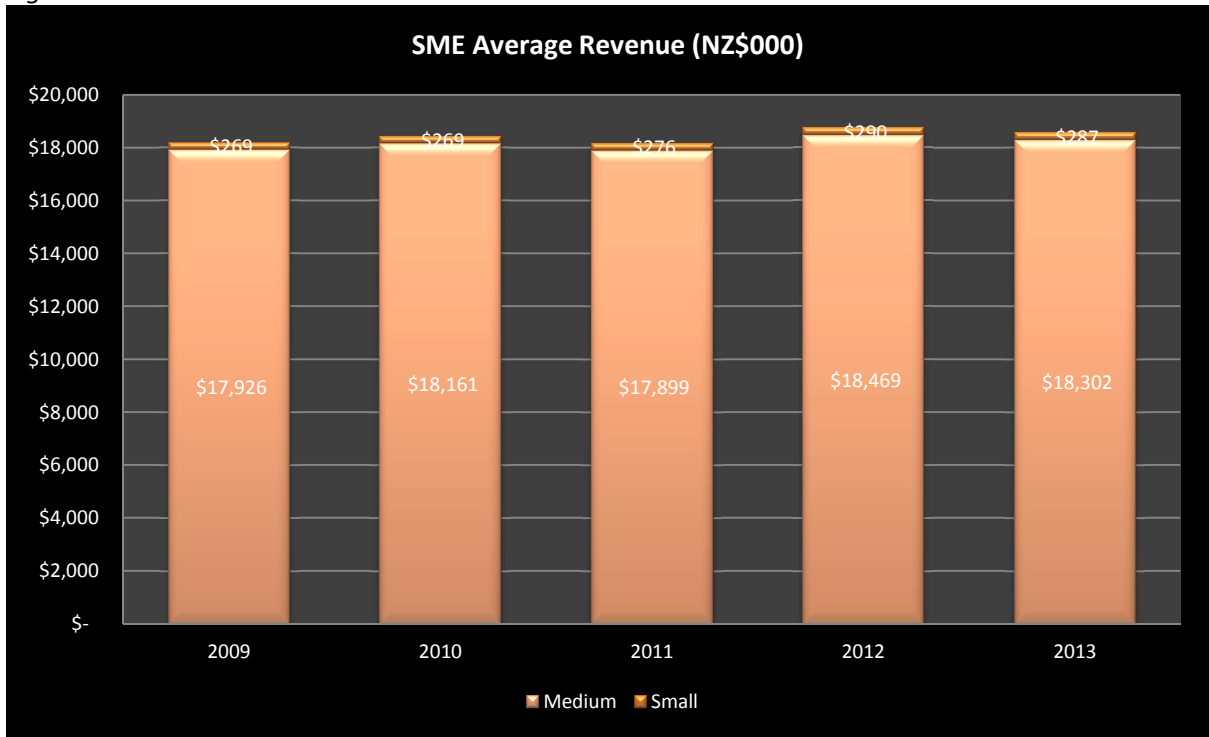
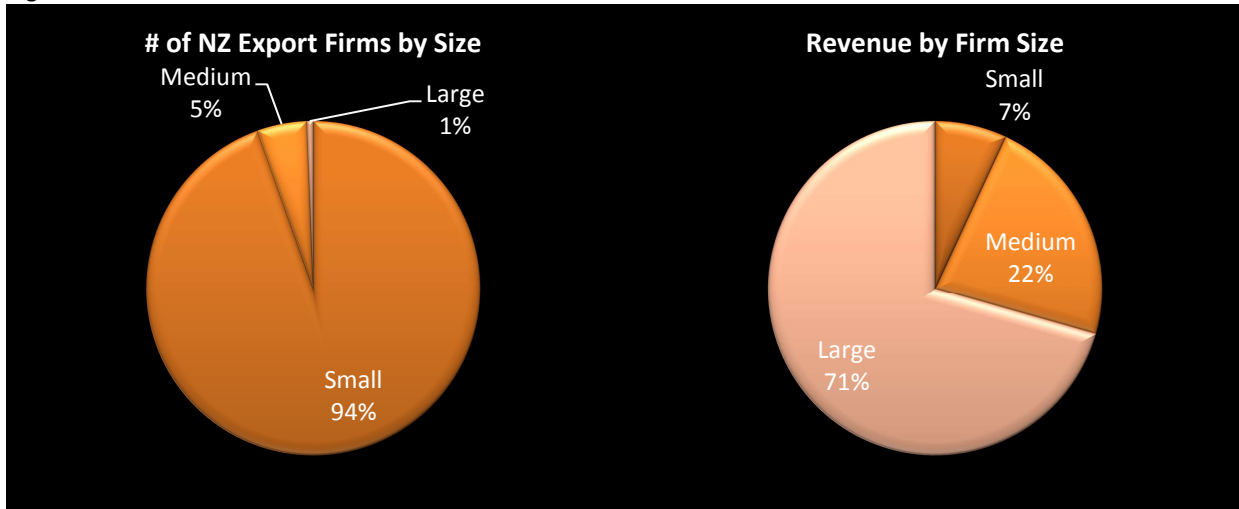


Figure 28: New Zealand SMEs Annual Revenue



Source: New Zealand Small Business Sector Report, 2014

10.4 Free Trade Agreement Summary

Table 28: New Zealand Free Trade Agreement Summary (November 2014)

<i>Australia</i>	<i>1983</i>	<i>Closer Economic Relationship</i>	<i>CER</i>
<i>China</i>	<i>2008</i>	<i>New Zealand-China Free Trade Agreement</i>	<i>NZCFTA</i>
<i>Thailand</i>	<i>2005</i>	<i>New Zealand and Thailand Closer Economic Partnership</i>	
<i>Singapore</i>	<i>2001</i>	<i>New Zealand and Singapore Closer Economic Partnership</i>	
<i>Brunei</i>	<i>2005</i>	<i>Trans-Pacific Strategic Economic Partnership</i>	
<i>Chile</i>	<i>2005</i>	<i>Trans-Pacific Strategic Economic Partnership</i>	
<i>Singapore</i>	<i>2005</i>	<i>Trans-Pacific Strategic Economic Partnership</i>	
<i>Malaysia</i>	<i>2009</i>	<i>Malaysia–New Zealand Free Trade Agreement</i>	<i>MNZFTA</i>
<i>Hong Kong</i>	<i>2011</i>	<i>Hong Kong-New Zealand Closer Economic Partnership</i>	
<i>ASEAN</i>	<i>2010</i>	<i>ASEAN-Australia-New Zealand Free Trade Agreement</i>	<i>AANZFTA</i>

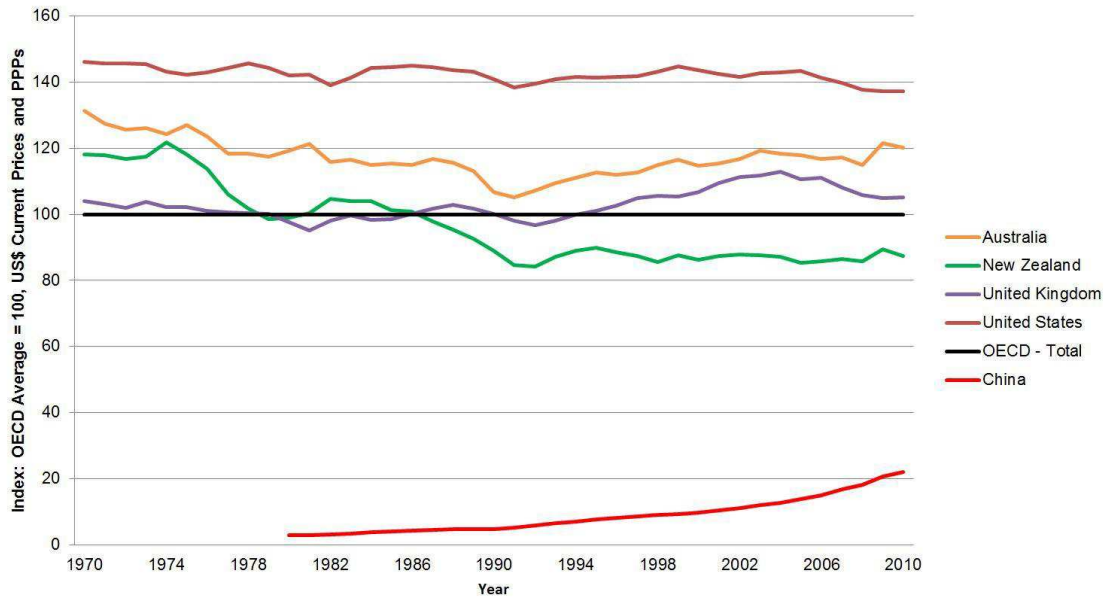
10.5 Expert Panel Internal and External Stimulation Results

Table 29: Internal & External Stimuli Categorised (Leonidou, 1998): Perceived stimulating factors

NZ F&B SMEs – Expert Panel Ranking															
Internal Stimuli		CM01	CM02	CM03	CM04	TC01	TC02	TC03	TC04	TC05	TC06	TC07	TC08	TC09	TC10
Proactive	Achievement of economies of scale				2	1									
	Special managerial interest/urge/aspirations						2								
	Products with unique qualities			2						3					
	Possession of a special competitive advantage														
	Potential for extra sales/profits												2		2
	Need to achieve corporate growth	3	1	3	3	2	1	3	3			3			3
Reactive	Offsetting sales of a seasonal product	1	2	1				1						2	
	Utilisation of idle operating capacity									2					
	Stagnation/decline in domestic sales/profits														
	Reducing dependence on/risk of domestic business				1					1				1	
External Stimuli															
Proactive	Encouragement by external agents/organizations														
	Identification of attractive foreign opportunities														
	Exclusive information on foreign markets														
	Government export assistance/incentives														
	Contacts after participating in trade fairs/missions														
Reactive	Initiation of exports by domestic competitors														
	Competitive pressures in the domestic market														1
	Favourable foreign exchange rates														
	Saturation/shrinkage of domestic market	2	3			3	1	2	2			2	3	3	
	Receipt of unsolicited orders from abroad						3		1			1	1		

10.5 Miscellaneous

Figure 29: New Zealand's Relative GDP per Capita since 1970



Source: OECD, 2013

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Figure 30: Relative Markets in Economic Size & Population to New Zealand

Rank	Country	Population	As At	Exports as % of GDP*	Source
113	Denmark	5,634,437	April 1, 2014	54%	Quarterly official estimate
114	Finland	5,453,784	February 28, 2014	38%	Monthly official estimate
116	Singapore	5,399,200	July 1, 2013	191%	Official estimate
118	Norway	5,124,383	April 1, 2014	39%	Quarterly official estimate
122	Ireland	4,593,100	April 1, 2013	105%	Annual official estimate
123	New Zealand	4,530,480	May 21, 2014	30%	Official population clock

*Source: World Bank, 2013

Table 30: Channel Descriptions

Channel	Sub-Channels	Outlet Types	Examples
Retail	Modern	Wholesale/Cash N Carry Hypermarket Supermarket	Wal-mart (USA) Carrefour (France) Cold Storage (HK)
	Traditional	Convenience stores Markets 'Mom & Pop' stores Wet markets Farmers markets	Circle K (Canada) Mydin (Malaysia)
Food Service	Hotel	Local & International	Hilton
	Restaurant	Fine dining, local, quick service	Michelin star/KFC
	Café Industrial	Local, chain Catering	Corner café/Starbucks Airlines/Schools/Hospitals
e-commerce	Business-to-Business (B2B)	Industrial	Company websites
	Business-to-Consumer (B2C)	Marketplace	T-Mall/Alibaba
	Consumer-to-Consumer (C2C)		TradeMe/E-Bay
Corporate	Governments	Ministries	Banqueting
	Private Institutions	Banks	Gifting

10.6 Ethical Considerations

The Massey University Human Ethics Committee (MUHEC) Screening Questionnaire has been completed and a draft full MUHEC Application form is attached along with Low Risk Committee Approval letter.

Approval was confirmed to proceed on 17th May 2013.

