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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

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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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Contents

1. Introduction	7
2. Literature Review	11
2.1 <i>Psychic Distance</i>	11
2.1.1 What does Psychic Distance Mean?	12
2.1.2 Isn't Psychic Distance Just a Matter of Perception?	14
2.1.3 Psychic Distance and Cultural Distance - Aren't They the Same Thing?	15
2.1.4 Does Psychic Distance Still Matter?	16
2.1.5 What is the Psychic Distance Paradox?	18
2.1.6 What Role Do Social Ties and Networks Play in Overcoming Psychic Distance?	19
2.1.7 What Role Does Psychic Distance Play in Market Selection?	20
2.1.8 Can Psychic Distance Be Measured?	21
2.2 <i>Stimulating Factors and Readiness for Export</i>	25
2.2.1 How Important is Access to and Usage of Information to Exporting?	26
2.2.2 How Do Firms Acquire Information?	27
2.2.3 What is the Difference between 'Traditional' Firms and 'Born-Global' Firms?	27
2.2.4 What Internal Factors Lead to Export Stimulation?	29
2.2.5 What External Factors Lead to Export Stimulation?	29
2.2.6 What is the Role of Export Promotion Organisations?	30
2.3 <i>Channel Partner Initiation</i>	32
2.3.1 What is the Role and Significance of Channel Partners?	33
2.3.2 What are the Modes of Initiating Exchange Relationships?	34
2.3.3 How Do Social Ties and Networks Support Export Development?	36
2.3.4 How Do Channel Partner Initiations in Emerging Markets Differ?	39
3. Research Purpose, Methodology and Context	43
3.1 <i>Research Aims</i>	43
3.2 <i>Research Questions</i>	43
3.3 <i>Research Objectives</i>	43
3.4 <i>Conceptual Model</i>	44
3.4.1 Identifying the Research Gap	44
3.4.2 Why Focus on SMEs?	46
3.4.3 Why Focus on New Zealand?	47
3.4.3 What is the Role of New Zealand SMEs?	49
3.4.4 Why Focus on Food and Beverage Sector?	50
3.4.5 Why Focus on Channel Partners?	53
3.4.6 How are Channels and Channel Partners Defined?	57
3.4.7 Why Focus on Emerging Markets?	59

3.5 Methodology.....	61
3.5.1. Research Setting and Design.....	61
3.5.2 Field Interviews and Questionnaire Development	61
3.5.3 Research Parameters	61
3.5.4 Construct Operationalisation.....	63
3.5.5 Rationale for Market Selection	65
3.6 Study Design.....	68
3.6.1 Measuring Psychic Distance.....	68
3.6.2 Measuring Export Stimulation	69
3.6.3 Determining Perceived Initiation Methods of Channel Partner Relationships	70
3.7 Method of Data Collection.....	71
3.7.1 Statistical Data	71
3.7.2 Qualitative Feedback from Expert Panel Interviews.....	71
4. Findings.....	72
4.1 <i>Psychic Distance –New Zealand’s Export Markets</i>	72
4.1.1 Brewer’s Index for New Zealand Exporting Firms.....	72
4.1.2 Psychic Distance Perceptions of the Expert Panel	74
4.1.3 Validating Brewer’s Index against the Expert Panel Perceptions	76
4.1.4 Market Entry Sequence	79
4.2 <i>Readiness of New Zealand SME F&B firms to Export</i>	83
4.2.1 The “Optimal Size” for Internationalising	83
4.2.2 Resourcing for Export Markets	84
4.2.3 Information Gathering in the ‘Discovery Phase’	86
4.3 <i>Stimulating Factors Motivating New Zealand SME F&B firms to Export</i>	86
4.3.1 The Need for Growth Necessitates Exporting	87
4.3.2 Reactive and Proactive Opportunities	88
4.3.3 Cash Flow is King.....	89
4.4 <i>Channel Partner Initiation</i>	90
4.4.1 The First Encounter.....	90
4.4.2 Perceived Channel Partner Selection Mode Perceptions.....	92
4.4.3 Social Ties and the Immigrant Effect	100
4.4.4 Holiday Exporters.....	101
4.4.5 The Difficult Second Order.....	102
4.5 <i>Confluence of Stimulation & Psychic Distance in Channel Partner Initiation</i>	104
4.5.1 Psychically Close and Seller Initiated	104
4.5.2 Psychically Distant and Seller Initiated Channel Partnerships.....	104
4.5.3 Psychically Distant and Buyer Initiated Channel Partnerships	105
4.5.4 Psychically Close and Buyer Initiated Channel Partnerships	105

5. Discussion.....	107
5.1 <i>An Updated Definition of Psychic Distance.....</i>	108
5.2 <i>Why Psychic Distance Still Matters.....</i>	109
5.3 <i>The Relevance of Psychic Distance to New Zealand SMEs.....</i>	110
5.4 <i>The Role of Psychic Distance in Channel Partner Initiation.....</i>	111
5.5 <i>The Evolving Role of EPOs.....</i>	113
6. Conclusion.....	117
7. Research Limitations and Further Considerations.....	120
7.1 <i>Using Panel Based Research.....</i>	120
7.2 <i>Depth of Findings - Qualitative or Quantitative Research.....</i>	120
7.3 <i>Channel & Market Coverage.....</i>	121
7.4 <i>Relativity of Other Small Exporting Nations.....</i>	122
7.5 <i>Longitudinal Study Opportunity.....</i>	122
7.6 <i>Understanding Emerging Markets.....</i>	122
7.7 <i>Researching the Untapped Social Ties of International Alumni.....</i>	123
8. Final Remarks.....	126
9. References.....	128
10. Appendices.....	138
10.1 <i>Cultural Distance Analysis.....</i>	138
10.2 <i>Psychic Distance Measurement (Brewer, 2007a).....</i>	141
10.3 <i>Data on New Zealand SMEs.....</i>	157
10.4 <i>Free Trade Agreement Summary.....</i>	158
10.5 <i>Expert Panel Internal and External Stimulation Results.....</i>	159
10.5 <i>Miscellaneous.....</i>	160
10.6 <i>Ethical Considerations.....</i>	162