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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 psychologically close.

**Conclusions:** New Zealand F&B SMEs are pushed into 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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