

PSYCHIC DISTANCE, FIRM SIZE, PERCEIVED RISK AND EXPORT MARKET CHOICE OF EXPORTING FIRMS IN UGANDA

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Abstract

The purpose of study was to investigate the relationship between psychic distance, firm size, perceived risk and market choice of Uganda's exporting firms. The research question is based on the fact that there is a notable shift of Uganda's firms from exporting to markets that are geographically distant to nearer regional markets, a situation that could be attributed to psychic distance which leads to higher levels of perceived risk that the small and medium sized Ugandan firms could be trying to avoid due to their limited resources.

The study used a cross-sectional research design and collected quantitative data using a structured questionnaire from a sample of 80 exporting firms of which only 72 questionnaires were used for analysis.

The analysis indicated that psychic distance is positively correlated with the perceived risk while it was also established that psychic distance was negatively correlated to export market choice. The regression showed that both psychic distance and perceived risk were found to be having a significant effect on export market choice.

The study recommends that firms should invest in psychic reducing activities and these could include; participating in international trade exhibition in countries perceived to be psychically distant and recruit psychically sensitive employees and/or export managers who are internationally exposed, multilingual and can understand other languages and cultures in the foreign market. Governments can also seek out trade arrangements with distant countries to facilitate trade amongst themselves in a a harmonized trade environment that is free of differences.

Keywords: Psychic Distance, perceived Risk, Firm Size, Export market Choice

Introduction

Uganda's exports continue to enjoy access to both regional and distant markets as their destination market choices. Exporting to regional markets can be explained by the geographical distance where neighborliness would favor and attract exports to such markets. This fact however, does not suffice especially where some geographically close markets have not attracted Uganda's exports. For example, some regional markets and in particular the Tanzanian market has not attracted much of Uganda's exports. There seems to be a different explanation apart from geographical nearness. In understanding the direction of export in different markets, psychic distance has been identified to be a major indicator of foreign market orientation including the choice of the market choice and entry mode of firms (Stottinger & Schlegelmilch, 1998). Firms are seen to be serving markets that are close to their country of origin psychically. Psychic distance is used to explain export marketing strategies including international diversification and export market choice (Tihanyi, Griffith & Russell, 2005). Studies on psychic distance have focused on choice of entry mode (Claver, Quer, & Rienda, 2007) few if any has been done on the choice of the export market. Managers use psychic distance to make decisions as regards which entry mode to adopt in a given market. This is always associated with the risk anticipated in a given a market. There is a belief that psychic distance influences the risk perceived by managers. Claver et al, (2007) seems to argue that wider psychic distance hinders the adoption of higher commitment entry strategies. Bridson, Byrom, Evans & Medway (2008), contend that cultural differences impede the progress and expansion of firms into new markets.

In the internationalization process, firms will commit more resources if they perceive less risk involved in the target market (Forsgren & Hagstro, 2007). Companies invest in markets that are perceived to be close and these are the markets at a closer psychic distance but not necessarily geographic distance. The investment could be in marketing, distribution or production facilities. On the other hand, Griffith, Javalgi & White (2003) note that the larger the size of the firm, the more suited it is to absorb the risk associated with going international. This indicates that firm size impact on the risk perceived in the different markets.

According to Hollensen (2007), physical and psychological closeness to the international market plays an important role in the export activities of a firm. He notes that firms that operate near the border posts may end up entering such markets without perceiving

their marketing activities as exporting; they would perceive them as mere extensions of domestic products without considering them as exports. This therefore demonstrates the easiness with which market selection and choice decisions are easily determined in a psychically close market. Psychically close markets are likely to be perceived as less risky than those perceived to be psychically distant (Alexander, Rhodes & Myers, 2007).

The concept of psychic distance could therefore be used in explaining the direction of Uganda's exports. Over the years, Ugandan exports have shown a steady growth with total formal merchandise exports rising by 29% from US\$ 1.33 billion in 2007 to US\$ 1.7 billion in 2008. Traditional exports earned US\$ 530 million; Service exports earned US\$ 722 million while non traditional exports brought in US\$1. 2 billion (UBOS, 2008). Uganda's major trade partner for the years has been the European Union contributes 27.7% and 31.1% for the years 2004 & 2005 (UBOS, 2009). In the Middle East, Uganda's leading trade partner has been the United Arab Emirates with US\$128. 111million in 2008 contributing 7.4% of the total Uganda's exports. In Asia, Singapore topped the region by attracting US\$29 million compared to India and China which attracted US\$12. 788 million and US\$18. 735million respectively. The less exports to China and India could be attributed to the smaller size of Ugandan firms that makes them unable to exploit such bigger markets due to high levels of perceived risk and large amounts of resources that need to be committed to such markets.

Whereas there has been considerable effort to promote exports by the government of Uganda, it is puzzling how Singapore for example tops the Asian region in attracting Uganda's exports compared to China and India's economic and market size; this could be explained among other things by physical distance. The liberalized environment in the most urbanized Singapore can be related to that of United Arab Emirates in creating a physically close export market for Ugandan Exporters.

At regional level, the amount of exports to regional markets is increasing compared to those going to seemingly geographically distant markets (UEPB, 2009) which partly could be due to the shorter psychic distance between the markets. For instance, Uganda's exports to the COMESA region have increased higher than those going into the European Union market. In the years 2006, 2007 and 2008 exports to the COMESA represented 29.5%, 37.9% and 42.1% respectively of the total exports of the country. In particular, Sudan topped up amongst the COMESA countries with an export value of US\$ 245,872,760 representing a 56 % increase from US\$ 157,116,711.86 in the year 2007. Exports to Rwanda and the Democratic Republic of Congo also increased by 64% and 25% respectively (Nshekanabo, 2009). It is notable that exports to COMESA region have been increasing higher above other

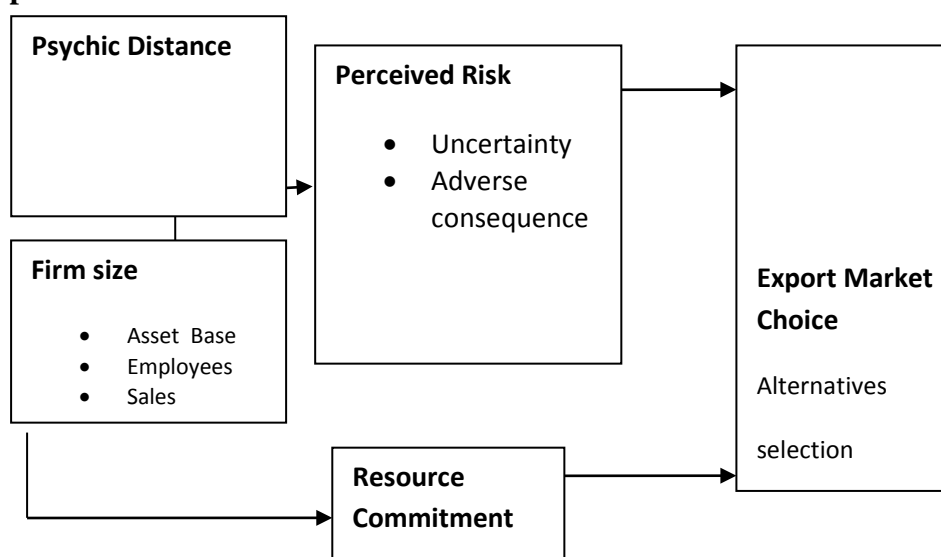
regions for the three years running from 2006-2008. The increase in exports to these regional markets requires a careful study to investigate this trend.

In the past five years that was from 2000 to 2005, the European Union topped as Uganda’s export market destination. However, for the three consecutive years of 2006, 2007 and 2008, the COMESA region has become the leading market destination of Uganda’s Exports. In 2008, exports to COMESA countries resulted in total income of about US\$ 725.152 million representing a 155.6 % increase compared to the European Union market which brought in US\$460. 218 million representing a 74.5 % increase (UBOS, 2009). This indicates a notable shift in the market destination of Ugandan exports from far markets to nearer and regional markets. This could be attributed to psychic distance, perceived risk in far markets and the need for higher resource commitment which the small and medium sized Ugandan firms do not have.

The study was guided by the following objectives;

- *to establish the relationship between psychic distance and export market choice,*
- *to establish the relationship Perceived risk and export market choice,*
- *To examine the relationship between psychic distance, firm size, perceived, risk, resource commitment and export market choice of Ugandan products,*
- *To establish whether psychic distance, firm size, resource commitment and perceived risk have an effect on export market choice.*

The Conceptualization



Source: Developed basing on Claver et al, 2007; Stottinger & Schlegelmilch, 1998; Forsgren & Hagstro, 2007; Hollensen, 2007.

Explaining the Model

The model is conceived from the literature, literature seems to indicate that Psychic Distance impacts on the level of perceived risk in the foreign market, which influences the choice of market the firm intends to venture into. (Claver et al, 2007). In addition, firm size also impacts on the perceived risk and the level of resources that a firm is willing to commit in a market of choice (Forsgren & Hagstro, 2007). The model tries to establish the relationship between psychic distance, perceived risk, firm size and resource commitment and how these impact on market choice of exports. Studies have used psychic distance to a moderate choice of entry mode into foreign markets (Stottinger & Schlegelmilch, 1998). This model extends such debate by looking at whether psychic distance can influence the choice of the market. Psychic distance influences the level of perceived risk (Claver et al, 2007). Since risk is influential in choice decisions (Forsgren & Hagstro, 2007; Hollensen, 2007), the model intends to look at how, psychic distance being moderated by the perceived risk influences the choice of market. The model also looks at firm size and how firm size being moderated by resource commitment can influence the choice of the export market.

The rest of this paper is organized as follows; the review of related literature presents other scholars' views about psychic distance, firm size, perceived risk, resource commitment and export market choice. The next section shows the methodology used in data collection, analysis and presentation. Findings of the study and their interpretation. The last section contains the discussions, conclusions and recommendations of the study.

Psychic distance and export market choice

Psychic distance has been defined as factors preventing or disturbing firm's learning about and understanding of a foreign environment, however this was a redefinition from the earlier definition that considered the psychic distance to be “factors that are preventing or disturbing the flow of information between the actual and potential suppliers and the consumers“. This illustrates that the definition of psychic distance is still under review and requires further fine tuning as another definition by O'Grady and Lane (1996) attempts to define 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 the decision to operate from such a market.

Evans, Treadgold & Mavondo (2000) attempt to appeal to the “psychic” elements which are the mind and soul and they therefore contend that psychic distance is about the differences in perceptions of managers that shape the understanding of the differences in culture and business practices existing in different markets. They seem to argue that all those

factors that would cause managers to perceive market practices differently fall in the realm of psychic distance. They therefore consider differences in language, business practices, political and legal systems plus differences in market infrastructure to constitute the wider definition of psychic distance.

There are other attempts that have been made in defining Psychic distance, Zhu and Yang (2004) consider psychic distance as a variable measuring the perceived similarity across countries and composed of various dimensions including geographic distance, cultural distance, development level, and membership and/or neighborhood effects. This definition of psychic distance seems to be adopted by Stottinger & Schlegelmilch (1998) who consider psychic distance as a degree of similarity or dissimilarity that makes some export markets more attractive than others. The assumption is that exporters are less likely to take up and/or continue business relations with countries that are perceived to be dissimilar (i.e. show a high psychic distance). Moreover, it is argued that a sense of cultural proximity and thus a lower psychic distance to a foreign market will encourage exporters to venture into such a country. Zhu and Yang (2004) in their definition seem to include neighborhood effects and membership. This definition can be extrapolated to look at the neighborliness of countries and their membership to a regional trade bodies and how these influence the choice of export market.

There is an argument that exporting requires an immense company learning efforts and resources and these increases with psychic distance to the target export market, some exporters perceive this as risky in some way and therefore, setting off by tackling psychically more distant markets would be something that exporters would avoid due to the perceived risk involved in such a market. In fact, Malhorta, Sivakumar and Zhu (2009) in their study of target market selection found out that most firms from developing countries would prefer to chose countries which are close in geographical distance to their home country. In addition such firms are likely to target markets with cultures, administrative structures and economic conditions relatively similar to their home countries This is because, not only does psychic distance affect export promotion strategies that can be employed by the export but also the nature and accessibility of distribution channels in a given market.

In another study Lado, Martinez-Ros and Valenzuela (2004) found out that the degree of similarity to home country, which is an indication of a smaller psychic distance, makes some foreign market more attractive than others. They established that the psychic distance between a domestic and foreign market play a guiding role in the selection and strategic decision in the internationalization of firms which includes their decision on which markets

to export to. Small knowledge intensive firms have been found to internationalize in psychically close markets, but psychic distance has not been found to have a great impact on firms that considered to be “born-globals” nevertheless there are other factors that could be influencing the decision on which export market the exporter should chose (Ojala & Tyrvainen, 2009).

The operationalization of psychic distance has largely focused on how different individual managers and or customers perceive the home and foreign market (Evans & Mavondo, 2000). Therefore psychic distance is operationalized by looking at differences in language, business practices, political and legal systems, education, economic development, marketing infrastructure, industry structure and culture.

Perceived risk and export market choice

Perceived Risk is a concept that has studied in an effort to understand how risk influences and predicts consumer behavior in certain markets and in the consumption of certain products (Hornibrook & Fearn, 2003).

Other studies focused on reducing this perceived risk to influence strategy both at the firm and industry level. Firm level strategy amongst exporting firms involves which export markets should be chosen. In operationalizing perceived risk, Hornibrook & Fearn (2003) consider uncertainty and adverse consequence to constitute perceived risk. This conceptualization focuses on consumer behavior towards buying particular products, they contend that when a consumer is faced a range of alternatives of products he can buy, he would have to consider the risk involved which can be classified as inherent risk and handled risk; inherent risk being that risk that describes a person’s perception of risk associated with a particular category, whereas product specific risk, or handled risk, is specific to the item being considered. Since exporters are also faced with alternative market choices, the exporter would consider the risk involved in a given market before he makes a decision of which market he can export to. This makes it likely that perceived risk might influence the choice of the export market.

On the other hand, Stone & Gronhaug (1993) conceptualized perceived risk by looking at a number of dimensions, they considered perceived risk to include; Financial risk, Social risk, Psychological risk, Time-related risk, Physical risk, and Performance risk as they relate to a given venture.

Perceived risk has also been defined as the amount of money feared could be lost in engaging a particular market, this fear could be increase depending on the resources available to a firm, it is thus notwithstanding to note that the firm size will influence the perceived risk

in a given export market. Resource and capital availability reduce the perceived risk in a chosen export market, in addition, market knowledge which could be influenced by psychic distance will have an impact on the perceived risk, and firms with knowledge about psychically close markets consider and perceive such markets to be less risky (Forlani, Parthasarathy & Keaveney, 2008). In their study, Forlani et al.(2008), they found out that firm size is negatively correlated with perceived risk, this shows the bigger the size of the firm the less the perceived risk its managers will feel in a given market of choice.

Hollensen (2007) notes that one of the general market risks that hinder the process of internationalization is psychic distance, he notes that exporters are less comfortable confronting market conditions and challenges existing in the markets that they consider to be psychically distant. This could cause exporters to consider exporting to markets they will have perceived to be less risky and in most cases these are the psychically close markets.

In the internationalization process, reduced perceived risk which is determined by psychic distance would lead to increased resource commitment by a firm (Forsgren & Hagstro, 2007). Exporting activity being part of the internationalization process could therefore be influenced by the psychic distance. Exporting involves choosing an export market; exporters could therefore choose such markets that are perceived to be psychically close in order to reduce on the perceived risk involved in the market. Exporting companies invest in markets that are perceived to be close and these are the markets that are at a closer psychic distance but not necessarily geographic distance. In choosing which entry modes to adopt in different markets, Blomstermo Sharma and Sallis (2006) studied the service sector, they found out that different services categories that is soft and hard services adopt different entry modes depending on the risks involved, the found out that in markets where the psychic distance is perceived to be high and thus a perceived high risk, firms tend to adopt low control entry modes while in markets where exporters have had prior experiences and thus less psychic distance and perceived risk, exporters tend to adopt high control entry modes that give them an upper hand in the control of their export business. Malhotra, Sivakumar and Zhu (2009) found out that managers make market entry decisions by making a trade-off between the risks involved in the foreign market and the returns expected. Whereas psychic distance presents a risk to the managers, sometimes the market potential presents opportunities that markets are endearing to exploit.

Firm size, Resource commitment and export market choice

The concept of Firm size has been conceptualized to refer the number of employees that a firm employs and also the amount of capital that a firm has invested. Depending on the

nature of industry, the different variables have been given varying influence on the size of the firm, in the service industry where employees (human resources) are of greater importance, firm size has been measured largely depending on the number of employees, however on the manufacturing sector, capital (equipment, technology and financial capital) is given greater importance in determining the size of the firm. Whereas larger firms would be interested in mature markets, small firms would be interested in developing and growing markets where they are comfortably competing for growth and market opportunities (Griffith et al, 2003; Sekarya, Eckman & Hyllegard, 2007).

Claver et al (2007), conceptualized firm size to refer to financial and managerial resources available to a firm, they seem to consider the financial resources of the firm by looking the sales volume, this however makes it complicated as to whether they studied firm size in terms of the level of sales volume, none the less they contend that firm size is associated with level of resource commitment in a given market.

In the study of firm size, Lado et al (2004) seemed to contend that larger firms going into new markets have more resources that can be put to such markets with less sensitivity to risk and this facilitates and improves their competitive advantage in the market. Sustar & Sustar (2005) found out that there is an association between the size of the firms in Slovenia and the choice of internationalization strategy. These strategies could include among others; market selection strategies.

Uganda firms are globally considered to be small and medium enterprises, these firms are likely to be less interested in mature and competitive markets in Europe or the America, they are comfortable doing business in developing markets of Eastern and Central Africa and thus making them their markets of choice.

Firms in Uganda can be considered as micro, small and medium size enterprises depending on the number of employees working for the firm. Baale & Hisali (2009) the majority of Ugandan firms (67%) engaged in exporting are ironically considered large employing about 100 employees, however, this size is small when considered to firms in export markets such as the European Union and the United states. In addition to the above, firm size in Uganda keeps fluctuating from micro to large firms, this size constraint affects how much a firm is willing to commit in a given market.

Buyinza (2009) notes that the growth of firm size boosts export of the firm decision by 8 percent, this could due to the increased labor expertise and capital that is required in the implementation of the firm's decisions. Exporting firms must among other decisions make the decision regarding which market to export to. This decision may be influenced by the

level of capital required to venture in a chosen market and also the required human expertise necessary to handle the exporting activity.

In this study, Buyinza (2009) found out that firm size and the level of education of managers had a significant influence on the export decision. Knowing that education increases exposure of managers to foreign markets, this exposure not only reduces the psychic distance of the export managers but also the perceived risk involved in the foreign market. It can therefore be deduced that the perceived risk of foreign markets reduces with increase in size which can affect the choice of the export market.

Uganda's small and medium sized firms engaged in textile production were finding it difficult to do market studies about their potential buyers, making it difficult for them to exploit the US market even when the country was legible for the AGOA initiative with the United States. Such firm would feel comfortable serving regional markets without overstretching themselves for distant and developed market (USAID, 2001).

Research Methodology

The research design was quantitative in nature and it used a cross-sectional research design in which the data collected was primary in nature pertaining to the period of the study. Since choosing an export market is a an ongoing activity, a cross sectional research design as considered appropriate.

The sample population was 100 exporting firms that had participated in the Presidential Exporters Award 2008 from which a sample of 80 firms was targeted according to Krejice and Morgan (1970) method of determining random sample size for research activities. These exporters were selected based among others their ability to diversify into different markets. Therefore in this study of Export market choice; this sample presented the list of firms that have made diversified export market choice. The selected firms were randomly picked. 80 questionnaires were issued to these firms, 3 questionnaires were never returned as it proved difficult to get them from the respondents due to various reasons, and 5 questionnaires were filled but not useable for the analysis since they were not fully filled. Primary data were collected from the selected exporting firms. A structured and self administered questionnaire was used to collect the data from the respondents who included; export managers, assistant export managers, marketing managers among others Data was analyzed using the Statistical Program for Social Scientists (SPSS) version 17.0. Data was analyzed using correlations and regressions with an aim of establishing the relationship between variables and the causal effects of the variables.

The research instrument and Measurements of Variables

The researcher used a self administered questionnaire. The variables were measured as follows;

- Psychic distance was measured by looking at differences in perceptions as regards language, economic systems, business practices, political and legal systems plus differences in market infrastructure. It was based on a 5 Likert- scales ranging from very similar to very dissimilar. This is in line with Evans, Treadgold & Mavondo (2000); & Stottinger & Schlegelmilch (1998).
- Firm size was measured by looking at the number of employees that the firm is employing. This is in line with Griffith et al, (2003) and Claver et al (2007). The study also used annual sales/turnover and total assets in determining firm size. This was in line with the BID Report (2008) that studied firm size of enterprises in Uganda. Both sales turnover and capital base were in rages of; below 12 million, 12-360 millions and over 360 millions Uganda shillings.
- Perceived risk was measured by considering the level Uncertainty and adverse consequence of choosing a particular market. Scales used were adapted from Hornibrook & Fearne (2003).
- Resource commitment was measured using items adopted from Daugherty, et al (2001).
- Export Market Choice was operationalized by looking at alternative choices, i.e. respondents were asked as to whether they exported to (1) regional markets (2) other markets (3) both regional and other markets.

Findings

Reliability and Validity of Instrument

Table 3.0 shows the Cronbach Alpha Value and the Content validity index

	Anchor	Cronbach Alpha Value	Content Validity Index
Firm Size	3 Point	.65	.67
Resource Commitment	5 Point	.78	.67
Perceived Risk	5 Point	.85	.70
Psychic Distance	5 Point	.82	.79
Market Choice	5 Point	.70	.63

Firm Characteristics

Table 4.1. Firm Characteristics showing the Annual sales turnover, Level of asset base, period for which the Firm has been operating, number of employees in the organization and the nature of products the company is dealing in.

Firm Characteristics		Count	Percent	Mean	St. Dev
Annual Total sales or Revenue or Sales Turnover	Below 12m	19	26.4	1.85	0.60
	12 - 360m	45	62.5		
	Over 360m	8	11.1		
	Total	72	100.0		
Level of Asset Base	Below 12m	6	8.3	2.19	0.57
	12 - 360m	46	63.9		
	Over 360m	20	27.8		
	Total	72	100.0		
Number of employees in your company	1 – 10	19	26.4	2.04	0.76
	11 – 20	31	43.1		
	Over 20	22	30.6		
	Total	72	100.0		

The results from the table above show that most of the firms have an annual sales turnover in the range of 12-360 millions Ugandan shillings, as these contributed 62.5%, a few firms had a sales turnover of over 360 million which contribute to only 11.1%. The results further illustrate that majority of the firms had an asset base between 12-360 million (63.9%) followed by firms with an asset base above 360 million Ugandan shillings (27.8%) and the least number of firms had an asset base of below 12 million, 8.3%.

The results show that the majority of the firms has been in operation for a period of 6-10 years (48.6%) followed by those that have been operating for the period of over 10 years (33.3%). The least number of firms has been in operation for a period of 1-5 years (18.1%) in terms of employee number, the biggest number of firms employed between 11-20 employees (43.1%), closely followed by those employing over 20 employees (30.6%) and lastly by those firms employing 1-10 workers (26.4%).

Individual Characteristics

The majority of the respondents were male constituting 63.9% with the least number being female (36.1%). Of these employees, the biggest number of respondents was of the age between 21-30 years (52.8%), a smaller number of the respondents were under 20 years and above 51 years, as both the ages constituted just 1.4% each of the total number of respondents.

As regards the job titles, it is surprising that many of the respondents in these exporting firms were neither export managers nor assistant export managers. In fact the majority of the respondents had other job titles (70.8%) and export managers were constituted 9.7% and assistant export managers were 18.1%. This indicates that most of these firms exporting could be not having specific institutions geared towards the exporting activity. This shows that most of the managers involved in making export market choices are not necessarily described as export managers but different titles. In terms of the age of the respondents, the biggest number of respondents were aged between 21-30 years (52.8%), followed by those aged between 31-40 years (37.5%). Those aged below 20 years and above 50 years constituted 1.4 % each.

Table 4.2. Showing the number of firms exporting to Markets outside Africa.

<i>Markets outside Africa</i>	Count	Percent	<i>Asian Countries</i>	Count	Percent
European Union	47	65.3	China	21	29.2
USA	34	47.2	Japan	6	8.3
Valid Asia	18	25.0	Hong Kong	3	4.2
Middle East	13	18.1	Singapore	2	2.8
South America	11	15.3	Others	1	1.4

The analysis shows that most Ugandan exporters are exporting to the European Union (65.3%) and the least number of firms export to South America and Middle East with 15.3% and 18.1% respectively. On the other hand, within Asian Market, Ugandan exporters are mostly exporting to China (29.2%) followed by Japan with 8.3% and a smaller number of Ugandan firms export to export to Singapore (2.8%).

Relationship between the variables

Table 4.3 showing the nature of the relationships at play among the study variables presented using the Pearson (r) correlation coefficient.

	Firm Size	Resource Commitment	Psychic Distance	Perceived Risk	Export Market Choice
Firm Size	1.000				
Resource Commitment	.661**	1.000			
Psychic Distance	-.401**	-.378**	1.000		
Perceived Risk	-.287*	-.207	.429**	1.000	
Export Market Choice	.365**	.378**	-.609**	-.583**	1.000

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

The results in Table 4.3 shows a significant negative relationship between Psychic Distance and Export Market Choice ($r = -.609^{**}$, $p. <.05$), implying that wider levels of

Psychic Distance relate with low possibilities of Export Market Choice. The results further indicate a significant positive correlation between psychic distance and perceived risk ($r = .429^{**}$, $p < .05$), implying that high levels of psychic distance in a given market indicate high levels of perceived risk in that market. On the other hand low levels of psychic distance correspond with low levels of perceived risk. However, this relationship was found to be weak. In other words low levels psychic distances are associated with low levels of perceived risk. From the analysis, it is showed that firm size is negatively correlated to psychic distance ($r = -.401^{**}$ $p < 0.5$) which indicates that the larger size of an export firm the shorter the level of psychic distance.

The study shows that perceived risk and export market choice are negatively correlated ($r = -.583^{**}$ $p < 0.5$). This illustrates that low levels of perceived risk relate with high possibility of export market choice.

From the table above resource commitment is positively related to export market choice ($r = .378^{**}$) indicating that higher resource commitments are associated with higher levels of export market choice.

Regression Model

Table 4.4. showing the regression model that indicates the extent to which the Resource Commitment, Psychic Distance, Perceived Risk and Firm Size determine the export market choice.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.618	.439		1.407	.165
Resource Commitment	.110	.113	.127	.978	.333
Psychic Distance	-.396	.106	-.417	-3.728	.000
Perceived Risk	-.354	.109	-.345	-3.245	.002
Firm Size	.056	.132	.056	.424	.674
Dependent Variable: Export Market Choice					
R Square	.541		F Change	15.31	
Adjusted R Square	.505		Sig.	.000	

Sig. should be equal to or less than .05 for significance

Results in the table above indicate that the variation in Export market choice are explained by 50.5% of all the variables; psychic distance, perceived risk, resource commitment and firm size (Adjusted R Square = .505). In addition, it was observed that only two variables namely; Psychic distance and perceived risk were found to have a significant effect on the export market choice. Of the two, psychic distance is the most significant (Beta = -.417, sig. < .05), and its effect on export market choice is such that increasing psychic distance leads to a reduction in export market choice. Similarly, perceived risk also was

found to have a negative effect on export market choice (Beta = $-.345$, sig. $<.05$) implying that as perceived risk increases, the export market choice reduces.

Discussion of Results, Conclusions and Recommendations

The findings indicated that psychic distance has a negative correlation with export market choice. This could mean that the higher the level of psychic distance in a given market, the less likely that exporters will chose that market. This in fact is in agreement with Hollensen (2007) who points out that physical and psychological closeness to an international market eases the decision to select such a market because it will be perceived to be relatively similar to the market where the exporter is coming from. The physical closeness could be interpreted to mean the physical geographical distance while the psychological closeness could mean the perceived closeness in terms of economic policies, political systems and legal systems among others. Babichenko (2006) seems to agree with Hollensen (2007) in his study amongst Estonia firms, he found out that the diminishing psychic distance between the Baltic countries and the Russian Federation was partly responsible for the increased foreign direct investment in Estonia. These findings are further supported by Malhotra, et al (2009) who suggest that firms from developing countries prefer to choose markets/countries that have similar cultures as their home country and that the same firms also prefer to target countries that are in closer geographical distance to their home country, this could due to the fact that most firms in developing countries perceive such distant markets and markets diverse cultures to be risky, requiring greater resource commitment and managerial expertise. Alexander et al (2007) also found out in their study of retail expansion that retail firms were more likely to have operations in host countries where the home geographical distance and language differences were shorter and minimal respectively. They further established that similar monetary systems like the adoption of a same regional currency encouraged retail firms to open up operations in their neighboring countries. However, their findings were having a contradiction in which they found out that some retail firms having chosen the “psychically far” markets were seen to be performing better than in the psychically close markets. This finding nonetheless do not underscore the consideration of psychic distance in choosing the market to operate from. This is because success and failure once in the chosen market could be determined by other factors.

The findings also showed that psychic distance is positively correlated to perceived risk, which means that that the higher levels of psychic distance correspond with higher levels of perceived risk. The findings therefore seem to suggest that when the psychic distance is high in a given foreign market, the exporters are likely to perceive such a market

to be less risky. This is in line with Alexander et al (2007) who found out that psychically distant markets are likely be perceived more risky than psychically close markets. Greater psychic distance between countries in fact creates uncertainties and cost to firms as they try to integrate this distance in their strategies (Malhotra et al, 2009). From the findings, it was also observed most exporters were exporting to the European Union, which could mean that these countries are seen to have a shorter psychic distance compared to say South America which had the least number of firms exporting to such markets. This could be due to the fact that cultures, the language, the political and legal systems in these countries are more different from those in Uganda which increases the perceived risk in those markets. These findings can be further illustrated by the fact that within the European Union, exporters export more to the United Kingdom; this could further be explained by the relatively similar political, legal and acceptable business practices of the UK and the Ugandan business environment. In the study of service entry modes, Blomstermo et al (2006) found out that psychic distance impacted on the decision to use a high control entry mode or the less control entry mode. They assert that as psychic distance increases, it increases the likelihood of adopting a low control entry mode; this could due the higher risk perceived due to the increased level of psychic distance. This finding could be relevant in understanding the reasons that cause Uganda exporters to choose some markets and leave others. However, Malhorta et al (2009), further suggests that in some very attractive markets, the psychic distance might not be considered, exporters would be willing to take the risk of entering such markets because of their attractiveness and potential to grow. This could explain why some exporters are now rushing to Southern Sudan distance notwithstanding the diverse cultural, language, political system differences.

Findings illustrated that between the independent variables, psychic distance and perceived risk had a significant relationship with export market choice, and on the other hand firm size and resource commitment were seen to have a relatively weak relationship with export market choice. However, Evans and Mavondo (2002) note that there is a high possibility of stereotyping about psychic distance in relating it to export market considerations. This stereotyping according to their findings never considers the different conditions prevailing in given markets; this could therefore mean that export market choice is not entirely determined by the level of psychic distance in that market, these factors include perceived risk as put forward by Babinchenko (2006) who in his analysis of Western investors interests in Estonia found that their risk propensity was also responsible for their decisions of not investing in the market, the long perceptions about the Russian Federation

market and its historical communist conditions drove away investors. In addition he notes that lack of information about the market, standards and the quality prescriptions, duties and quotas coupled with the high cost of production in Russian including the wage levels had contributed to less penetration of Estonia investors in Russia, this could mean for examples that firms with less resource capacity could not engage in this market considering the risks involved and of course the cost of production. The lack of information about market could actually have widened the psychic distance and increased the perceived risk to the level that such firms could hardly export or invest in the Russian market. As regards firm size and resource commitment, these were not found to have a significant relationship with export market choice, this is however in contrast with the findings of Malhotra, et al (2009) and Lado et al (2004) who seem to assert that firms which are large enough and with enough resources are able to commit enough resources to new markets and able to wedge against the market risks in those markets. In fact, this points to the fact that firms with large asset base and human resources would be willing to hire expatriates who are more conversant with the intended export market so they reduce on the psychic distance than local managers who could not be having such experience.

In summary, findings indicate that psychic distance, firm size, resource commitment and perceived risk have a significant effect on export market choice. Scholars including Hollenson (2007); Babichenko (2006); Koch (2001) and Malhotra, et al (2009) seem to contend with this view that psychic distance affects the exporter's market strategy considerations including the choice of which market to export to. The findings seem to suggest that firm size and resource commitment do not have a direct effect on the export market choice. Ojala & Tyrvain, (2009) argue that it is not solely psychic distance that influences the choice of the export market but rather other factors such as the export market size, opportunity seeking behavior and actions taken by managers that influence the decision of which market a firm should export to.

On the contrary, Blomstermo et al (2006) seems to argue that psychic distance increases the perceived risk in the export market of choice. He argues that large firms can overcome the challenges of psychic distance since their size can buffer the risk perceived. This view is supported by Buyinza (2009) who argues that smaller Ugandan firms were unable to exploit the United States market due to the fact they do not have enough resources to commit to such a big and developed market even when they had a preferential arrangement under the AGOA initiative. It can thus be deduced that firm size affects the Export choice of the market.

Recommendations, limitations and areas for further research

From the findings, the study recommends the following action points;

- Export firms can on their own invest in activities that can reduce psychic distance, these could include; participating in international trade exhibition in countries perceived to be psychically distant and also encourage or recruit psychically sensitive employees such as employees or export managers who are internationally exposed, multilingual and can understand other languages and cultures in the foreign market.
- Exporters should embrace the practice of insuring their export businesses in markets where they perceive high risks. This would guarantee that their business would not be adversely affected in case of abrupt changes in the foreign market. In addition Ugandan exporters can partner with local enterprises in the foreign market that are familiar with the local market conditions to reduce on the perceived risk arising from unfamiliar market situations
- The trade and investment promotion organizations should invest in programs that are aimed at reducing the psychic distance between the home market and the export markets. These programs could include sponsoring exporters on trade missions in psychically distant markets to enable exporters acclimatize with cultural, economic, social and business environments in these markets.
- The policy makers can encourage and negotiate preferential trade arrangements both at the bilateral and regional level and encourage regional integration arrangements that aim at reducing psychic distance and perceived risk by harmonizing economic, legal and business practices. This would go a long way in reducing the level of dissimilarity that export managers feel whenever they think of exporting to particular markets.

In some studies, there has been differing interpretations of the psychic distance as some scholars restricted themselves to a narrow view of cultural distance, however latest studies have fine tuned this variable to include other issues such legal environment, acceptable business practices that were all captured in this study. Since this study focused on the choice of the export market, it did not study the performance of firms once in the chosen markets, future research could study the impact of psychic distance on the later performance of firms in the psychically close or distant markets i.e. whether the exporters' performance in those markets could be determined or influenced in one way or the other by psychic distance.

There is a need to carry out a sector-specific study that is less generalized study to establish the impact of psychic distance in specific export sectors such as service exports with

the aim of establishing whether its influence in choosing markets is variedly spread across the different export sectors. Future research could also study the nature of managers of export firms in Uganda and their ability to manage the perceived risk emanating from the psychic distance in foreign markets. This is because some literature pointed to the study of psychic distance on an individual level rather than macro or organizational level since psychic distance is experienced by managers. Future studies therefore could focus on whether firms run by local managers experience wider psychic distance than those run by foreigners.

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