**International market selection: the role of heuristics and cognitive biases of entrepreneur in psychic distance perception**

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Ever-increasing environmental uncertainty and complexity stimulates entrepreneurs to opt for biases and heuristics as an approximation of more comprehensive decision-making (Busenitz & Barney, 1997). Using the terminology of Kahneman (2003), cognitive System 1 (intuition) becomes prevalent over System 2 (reasoning). The decision to enter a foreign market is not an exception. The international market selection by an entrepreneur is often an intuition-based process which overrides the reasoning associated with rational assessment of psychic distance stimuli (Baack et al., 2015; Clark et al., 2018; Williams & Grégoire, 2015). A complex construct of ‘psychic distance’ becomes thus simplified to geographic distance, reducing the choice to the set of physically proximate markets (Papadopoulos & Denis, 1988). This approximation works fine in an environment where physical neighbors are culturally proximate. Extensive research on international entrepreneurship is largely recorded in Europe (Ojala, 2008; Puthusserry et al., 2014) and North America (O’Grady & Lane, 1996), but Russia is still a blank spot. In this regard, Russian Primorsky Territory is an interesting context for researchers of international entrepreneurship. As Russia is culturally more proximate to Europe (GLOBE 2020), entrepreneurs in Primorye are forced to choose the lesser of two evils: remoted but culturally proximate European markets, or neighboring, but culturally distant Asia. Local small business seems not to follow the establishment chain (Johanson & Vahlne, 1977) yet chooses to enter culturally distant Asian markets. What allows the entrepreneurs in this context to ignore the incentives of psychic distance and choose East Asia? We use advances in behavioral economics and psychology to demonstrate how cognitive biases and heuristics can lead to the deviations in perceived psychic distance. The study aims to identify the patterns of the decision-making process while selecting a foreign market considering the systematic deviations from rationality.

We apply verbal protocol analysis – a method which allows to grasp the cognitive process of an entrepreneur and his/her decision-making outcomes (Ericsson & Simon, 1980). The method also allows for representative conclusions to be drawn from small samples. The validity is achieved through multiple observations from a single respondent. Guided by the information provided by the local Export Support Center, we selected 5 entrepreneurs engaged in manufacturing who intended to enter foreign markets. The respondents had to make decision on 10 countries, each of them represented one of the 10 cultural groups in GLOBE 2020 and were among the principal export partners of Primorye and Russia. The set of protocols thus comprised of 50 pieces. We asked the entrepreneurs to think out loud while assessing a prospective foreign market. Each protocol included 6 tasks to obtain information on how entrepreneurs perceive risks and prospects abroad, recognize entry barriers, and assess their knowledge. The task sheets were identical, the sequence of countries was random. To learn more about the company’s operations and their personal experience we further interviewed the entrepreneurs and collected data from open sources. To analyze the protocols a coding scheme of 11 codes was developed to capture the attitude towards opportunities and risks, the depth of knowledge, and the role of international experience. The unit of analysis was a pause-separated sentence or a group of sentences that contained a complete thought. Further information on the cognitive complexity was retrieved from the duration of pauses (Green, 1998). Content analysis was conducted in accordance with Krippendorff (2004). The unit of analysis was emotionally colored words and phrases that characterized the degree of the respondent’s confidence in knowledge and judgments. Entrepreneurial overconfidence was detected by the frequency analysis (Williams & Grégoire, 2015).

Entrepreneurs in Primorye seem to be reluctant to select psychically close markets where risks are minimal. ‘Blinded’ by the country physical proximity, the small-business owners cannot objectively assess the true differences between countries. The data in the given context seems to contradict the results of Ambos et al. (2019) which state that psychic distance is formed by the objective macro-indicators and the individual characteristics of the entrepreneur have limited influence. When choosing the internationalization path, entrepreneurs are guided by the opportunities abroad. This is consistent with the research on the importance of opportunity discovery (Bhowmick, 2018). The detection of opportunities was associated with cognitive fluency while identifying risks turned out to be a more difficult task accompanied by longer and more frequent pauses. These results seem to contradict earlier claims that managers are more susceptible to loss than to gain (Elia et al., 2019). The first reference point in the foreign market selection is professional experience. Experience is a source of overconfidence (Forbes 2005), allowing the entrepreneur to make an unambiguous decision about choosing or not choosing a country. The next step is anchoring and adjustment heuristic (Tversky & Kahneman, 1974). Due to the lack of experience for the specific market, the person’s decision is based on experience with a subjectively similar third country. If the entrepreneur does not find similar experience, the decision is based on the feeling of knowing (Metcalfe et al, 1993). An entrepreneur is reluctant to choose markets for which there is no knowledge or high degree of knowledge. Only a moderate level of knowledge can facilitate the choice. This level allows the entrepreneur to recognize opportunities yet is not sufficient to identify differences and detect risks. The empirical data of the verbal protocols show that the patterns of the entrepreneur's cognitive system led to a simplification of psychic distance and “leap frog” internationalization of small enterprises of Primorsky Territory. The results contribute to the development of an emerging line of research on the influence of entrepreneurs’ cognitive patterns on the foreign market selection.