

Using behavioural insights to encourage exporting in Greater Manchester

Scoping Report

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I. Executive summary

Exporting brings benefits for the economy as a whole, for the economic performance of regions within a country and for individual businesses themselves. For individual businesses, increasing international trade is associated with profit and productivity gains and increased economic resilience. However, businesses in the UK (especially small and medium sized enterprises) are still exporting less than comparable firms in other developed economies.

This report summarises how behavioural insights could be used to encourage take-up of business export support offered by the Manchester Growth Company (MGC) and Department for International Trade (DIT). Our work draws on the relevant academic and policy literature about what motivates firms to export, with additional insights from a limited sample of qualitative interviews with Greater Manchester (GM) businesses and MGC business advisors.

Our research shows that there is a big difference between entry and expansion. Businesses begin exporting for different reasons, and in different ways, compared to the reasons why they expand their exporting activity once they have made their first foreign sale.

A key reason that companies do not start exporting is the contrast between expectations and reality about how difficult exporting is. Evidence suggests that non-exporting companies have worse views of exporting than exporting companies, and if they are provided with information on international trade, their beliefs might be reinforced even further.

At the same time, many businesses start exporting accidentally or spontaneously. This often happens after so-called 'chance events' like receiving an unsolicited order from a foreign company. There are two ways this can happen. The first is through companies' online presence, either their own website or through the use of e-commerce tools like Etsy or Amazon. The second is that businesses often learn about these initial opportunities through their business relationships. Social connections play an important role in helping businesses to get new information. People often get new information not from close friends or family, but from so-called 'weak ties'. While we need to be careful applying this theory directly to the case of business networks, the 'weak ties' who could help a business identify 'chance events' could potentially include professional advisors (legal or financial), recruitment agencies or previous employers.

Our findings indicate that businesses become more confident about exporting once they have their first international deal and started to develop plans for expansion. That is, the conscious planning approach, often presumed by classical literature, and the idea of using any business support service mostly appears at companies once they had their first international deal.

We have categorised our recommendations under three themes: increasing uptake of advisory and support services, encouraging exporting more generally, and collecting and making better use of data.

Figure 1 – Summary of recommendations

Increasing uptake of advisory and support services
<p>General recommendations to improve the attractiveness of communications</p> <ul style="list-style-type: none"> • Try using terms other than 'exporting' • Do not provide excessive amounts of information • Use the message 'You have been chosen' <p>Communicating with companies who already export</p> <ul style="list-style-type: none"> • Build on the first successful experience • Tell companies if they underperform compared to their peers • Test loss- and gain-framed messages <p>Communicating with companies who don't yet export</p> <ul style="list-style-type: none"> • Break the export process down into a small number of manageable steps and make engagement with the Business Growth Hub the first step • Advertise the Service as a foot-in-the-door to exporting • Use anecdotes from exporting companies
Encouraging exporting more generally
<p>Help businesses to facilitate 'chance events' by advising them to:</p> <ul style="list-style-type: none"> • Develop and use their social networks • Attend trade shows • Improve their online presence <p>Help businesses to recognise 'chance events' by</p> <ul style="list-style-type: none"> • Using case studies to show how businesses started exporting accidentally • Contrasting businesses' beliefs with the reality • Using social norms to highlight that most businesses start exporting accidentally
Collecting and making better use of data
<p>Explore all available sources of data to enable communications to be more effectively targeted, especially by industry and exporting status.</p>

II. Introduction and background

Background to this report

Manchester Growth Company (MGC) commissioned the Behavioural Insights Team (BIT) to help them understand how behavioural insights could improve their exporting support offer to businesses in GM. In particular, we sought to summarise the available evidence on how businesses make decisions about exporting and to provide guidance to MGC about how they could more effectively communicate with businesses about the exporting business support offered by their Business Growth Hub.

This report summarises our research findings, which were based on three pieces of research:

1. **A review of the academic and policy literature** summarising the available evidence on how companies make decisions about exporting and on how they can be encouraged to begin exporting or to expand their international trade.
2. **Semi-structured interviews with six SMEs** from a range of sectors and with a mixed previous history of exporting. The goal of these interviews was to better understand the business owners' perspectives, to understand how they make business decisions in general and particularly how they make decisions about international trade.
3. **A focus group with five business advisors employed by, or based in, MGC.** Some advisors worked specifically on exporting and internationalisation, others worked on more general business advice.

The importance of exporting

Exporting has significant benefits for individual firms, for regions and for the broader macro-economy of the UK. However, despite these benefits, the share of SMEs exporting decreased in the aftermath of the 2008 financial crisis and has since stagnated at around 19%.¹ Moreover, in recent years UK exports have grown at a slower rate than the developed economies of Europe² and Greater Manchester has seen slower growth still than the England or North West average.^{3 4}

The benefits of exporting

International trade is important both for individual businesses, the overall UK economy and the performance of regional economies.

First, we know that exporting is highly beneficial for individual firms. It produces direct benefits in terms of increased turnover and higher growth levels, with research showing that a typical SME in 2016 received an average additional revenue of £287,000 per year as a result of exporting.⁵ According to a survey, 58% of businesses thought that exporting led to a 'level of growth not otherwise possible'.⁶ This foreign presence and income also means that exporting companies are more resistant to shocks: a UK company is 11% more likely to survive if it does business abroad.⁷ Moreover, exporting also brings about significant indirect benefits to

companies. Measuring such effects accurately is difficult but companies report numerous such positive side effects, such as developing new products or improving credibility.⁸ It is therefore not surprising that exporting is the most popular mode of entering international markets.⁹ Other ways of operating internationally (e.g. franchising, pursuing a merger or becoming a shareholder of a foreign company) are usually more complicated and costly.

These individual benefits of exporting to businesses also translate to national level gains for the UK economy. International trade is considered to have beneficial effects on businesses' productivity¹⁰ through increased innovation,¹¹ the new techniques they acquire from foreign companies and the more productive methods they develop themselves.¹² Therefore, increasing exporting could also be a way of tackling the UK's broader productivity challenge.¹³ The UK's planned departure from the European Union soon is another key driver. The expected stronger barriers to selling products and services in the EU, the UK's largest trade partner,¹⁴ will need to be counterbalanced with an increase in exporting to other, non-EU countries.

Alongside its impact on the national economy, international trade can also play a role in boosting local economic growth.¹⁵ Exporting companies are more productive than businesses that only serve a local or regional market and thus they drive productivity growth. Because they are not wholly dependent on income from local customers, exporting companies are also more independent of local economic performance and increase the resilience of local and regional economies. Finally, by generating additional demand in the local economy, they create more jobs in local services – and this 'multiplier effect' is even stronger for high-skill exporters.

National and local exporting trends show room for improvement

Although exporting brings about significant profit gains for individual businesses, small and medium sized enterprises (SMEs) still seem reluctant to enter foreign markets. This is a problem as SMEs are responsible for 60% of all private sector employment and 47% of all private sector turnover in the UK.¹⁶ According to recent estimates, only 19% of SME employers reported having traded abroad in the last 12 months.¹⁷ While this figure has not changed in the past years, it is a 5-percentage point decline compared to the levels before the 2008 financial crisis.¹⁸

There are also considerable regional disparities in the number of exporting companies, which is partly due to the varying attractiveness of cities and city regions for different types of businesses. Important characteristics that either attract exporting companies to a region or facilitate companies' exporting activity are city locations, the density of city centres, skilled local labour, and proximity to London.¹⁹

Recent statistics suggest GM significantly underperforms in terms of exporting. Between 2005 and 2013, the exports of goods grew 41% nationally, 43% in the North West, but only 29% in GM.²⁰ This is despite the fact that GM is considered to be world-leading in an array of "Key Enabling Technologies" (such as graphene).^{21 22} Moreover, the city of Manchester itself is below the national average amongst UK cities in terms of export value per job and productivity (gross value added per worker).²³

III. Why and how do firms export?

If we wish to encourage businesses to start exporting, we first need to understand how they make decisions about exporting. There is a wealth of research in behavioural science showing how human decisions are not always as 'rational' as we expect. Even important decisions are often not the results of careful consideration and evaluation of all available information. We regularly make decisions that harm our own self-interest, or that are made on the basis of imperfect information or rules of thumb. We are also prone to systematic biases in the way we process information and make decisions. Since businesses are ultimately made up of people, we should therefore not be surprised if at least some of their decisions are made in ways which similarly depart from a standard economic view of 'rationality'.

In this chapter we outline the two types of decisions businesses can make about exporting (entry and expansion) and then move on to summarising evidence about how they make these different decisions.

The difference between entry and expansion

The literature differentiates between two different types of decisions companies can make about exporting or trading internationally. First, a business needs to decide whether or not to enter a specific foreign market at all (*the 'extensive' margin of exporting*). Second, once it has decided to enter a market a business needs to decide how much to expand in a given market (*the 'intensive' margin of exporting*).²⁴ Put it differently, the 'firm's extensive margin' is the number of markets it exports to and the 'firm's intensive margin' is the value and/or volume exported in each of these markets.²⁵

Research shows that decisions about entry and decisions about expansion are different in important ways. In the UK, only 4% of SMEs who are currently not exporting plan to export in the future.²⁶ In contrast, 58% of SMEs who are already exporting would like to export more. This is a challenge, as 81% of businesses are in the non-exporting group.

Classical economic models of international trade explain this phenomenon using firms' productivity levels.²⁷ Entering a foreign market will increase the competition a business faces. It can therefore only expect to survive, and ideally thrive, if it is sufficiently productive before entering the market. Classical models therefore suggest that businesses decide whether to export to a specific foreign market by observing their productivity level and using this to decide whether they would be competitive.

However, this classical theory might not capture all the reasons that businesses decide not to export. Exporting firms do tend to have a higher productivity than non-exporting firms (even before they begin exporting). However, this difference is not big enough to fully explain the self-selection of those firms.²⁸ In addition, evidence shows non-exporters have more negative beliefs about the benefits and costs of exporting than businesses who already trade internationally.²⁹

An interesting question to ask here is what constitutes entry to a new 'market' in the eyes of a business. Does the decision to enter a second country after an initially successful export feel more like entry or expansion? A classical view would treat each new market as a fresh decision, considering the relative competitiveness of the firm in this new market. However, in the following section we discuss alternative ways of thinking about how businesses make exporting decisions. These suggest that, in practice, the larger gap may be between the first export deal and subsequent expansion (whether in the same market or to another). Later evidence from our (admittedly small) sample of qualitative interviews also suggested that businesses approached their first export deal differently to subsequent deals.

How do companies make decisions about exporting?

We can differentiate between two approaches economists and decision theorists have developed to understand how decisions are made in businesses: the normative and the descriptive approach.³⁰ The normative approach sets out how an economically rational firm would approach decision-making, carefully planning decisions and weighing up the costs and benefits of entering different international markets. The descriptive approach sets out how firms behave in reality, which can often differ from this idealised model and tends to involve '*improvisation*' or '*spontaneity*'.

The role of planning in exporting

The planning approach considers business managers as rational actors who make optimal choices. This approach assumes that managers use all the available information (recognising that in practice not all potentially useful information is available) they need to make a decision, they can consider all potential costs and benefits and can weigh these up in order to decide on a course of action with the best possible outcomes for the company.³¹ Managers are able to plan ahead by collecting information, realising the options and evaluating them.³²

The planning theory suggests that businesses will carefully consider each of their steps on the path of exporting. This appears to be borne out by survey evidence, with UK businesses frequently citing barriers to exporting like financial risks, cultural risks and the lack of direct or indirect contacts.^{33 34} In contrast, established exporters face slightly different barriers when doing business overseas. These firms usually mention legal and regulatory difficulties, lack of contacts, high customs and tariffs, and lack of resources and information.³⁵ In such an approach, entry into each new market would be considered afresh as it will carry unique risks and opportunities.

Why planning might misguide businesses?

While most of these barriers undoubtedly exist, research suggests that the perception of these barriers might be subject to biases which make them appear more or less severe to a business leader than actually are.

We know that people frequently search for information on a topic in a biased way, unconsciously seeking out one-sided information that supports their views.³⁶ In a similar way, when presented with information people often exhibit 'confirmation bias'; taking on board information that supports their existing beliefs and discounting information that does not.³⁷ Biased information search and biased information processing can then lead people to form different conclusions and beliefs and make different decisions than others; even when they have sought out or even been given the same information.

A recent study shows how this process can play out in the decision-making of exporting and non-exporting companies; leading them to process export-related information differently. In an experiment, a randomly selected group of exporting and non-exporting UK manufacturing companies were sent a brochure providing information about exporting.³⁸ The aim of the brochure was to convince the business to begin exporting. Businesses were surveyed both before and after receiving the brochure about their perceptions of the costs and benefits of exporting. The investigation revealed that after being presented with information, non-exporters reported lower perceived benefits and higher perceived barriers, that is, they revised their beliefs *downward*. In contrast, existing exporters, after seeing the exact same information brochure, reported higher perceived benefits and lower perceived costs. Preliminary results also suggest indicative evidence that the brochure increased exporting amongst already exporting companies several months later. A potential explanation for this remarkably different impact on exporters and non-exporters is the confirmation bias we described above. People tend to pick and focus on information that confirms and strengthens their pre-existing beliefs, and often disregard information opposing or conflicting with their beliefs.

In summary, while planning is important in exporting, it does not provide a comprehensive explanation for why and how companies decide to start exporting. This is why, in recent years, economists and decision makers have begun to apply the more realistic descriptive decision making model to understanding how firms make exporting decisions.

The role of spontaneity in exporting

The descriptive theory of exporting behaviour³⁹ focuses on how decisions are actually made and can be contrasted with the more idealised, normative approach. The descriptive approach suggests that, in reality, export decisions are often not made in a very systematic or considered way. Building on the notion of bounded rationality,⁴⁰ this approach suggests that managers often make decisions that are far from optimal, for example because they do not have enough time, lack necessary information or are too busy.

One study applying decision theory to exporting identified spontaneity as one of the most important elements of this decision making approach.⁴¹ The spontaneity dimension here indicates people actually improvise and make decisions in the moment. A study summarising empirical research on the topic notes that entry decisions are often described as 'ad hoc', made for non-rational reasons (defying the optimising logic of the market), or 'completely lack[ing] rhyme or reason'.⁴²

The importance of spontaneity may be due to the fact that if businesses can recognise and act on opportunities to make their first export deal, they can save the effort of seeking out potential customers. Once companies have made their first international sale, they also seem to be much more willing to expand the amount of international trade they do.

These spontaneous first export deals frequently happen after so-called '*chance events*', which seem to play a very important role in businesses' international expansion. Survey evidence suggests 58% of SMEs begin selling to overseas markets as a result of a chance event.⁴³ Other survey evidence suggests that the chance event of being directly approached by someone in a foreign market, was the main reason behind 76% of foreign market entries by small firms in the UK in 2016.⁴⁴ Statistics show similar ratios in both the U.S.⁴⁵ and Turkey⁴⁶ where getting an unsolicited order from a foreign company accounted for two-thirds of export initiations. By comparison, companies rarely seemed to use formal research activities that relied on information collected by independent or government agencies to start exporting.⁴⁷

These '*chance events*' are, by definition, not completely within the control of businesses. However, this does not mean they can do nothing to encourage or identify them. One of the best ways to accidentally learn about foreign opportunities is through businesses' social networks rather than through formal market research.⁴⁸ Companies can either become aware of foreign market opportunities through their existing social ties⁴⁹ or, in some cases, the buyer or a third party can reach out to the business through its own social network.⁵⁰

Social networks in this case are not necessarily just '*strong*' ties like friends, family or colleagues. Social ties help businesses to begin exporting by making it easier for businesses to gather reliable, first-hand information about available opportunities they otherwise would not come across.⁵¹ As individuals we tend to spend lots of time with people who are similar to us and have similar knowledge. This means that, when looking for new information or new opportunities, our most important social connections can be those people we are more weakly connected to.⁵² These weak ties are people or businesses who belong to mostly different social groups and circles but whom we still occasionally speak to. While we need to be careful applying this theory directly to the case of business networks, '*weak ties*' for a business could potentially include professional advisors (legal or financial), recruitment agencies or previous employers.⁵³

The development of e-commerce also provides opportunity for SMEs to find and connect with new suppliers and customers. Those businesses that also trade online (e.g. by using online marketplaces or through their own website) were shown to export at a higher rate and reach a larger number of foreign destinations compared to '*traditional*', not-Internet-enabled SMEs.⁵⁴ This may be because market platforms (e.g. Etsy or Amazon) are often '*international by default*'.

In summary, chance events are an important way of finding out about potential exporting opportunities and they are largely facilitated by the social networks (both personal and professional) of those who work in and run businesses. The openness of the management in a company to building relationships with other market actors and their ability to recognise these '*chance events*' may have a significant impact on the company's propensity to start exporting.

IV. Results from our fieldwork

In this section we summarise the results of our qualitative research with business owners and business advisors who work with MGC. Given the small number of interviews conducted, these findings should only be considered as indicative. The aim of the qualitative research was to use these interviews to explore the research findings outlined in the previous section in greater depth, and to try to understand in more detail the specific mechanisms or factors driving certain patterns observed in the literature (for example the reliance on chance events).

The businesses we interviewed were selected by Manchester Growth Company from amongst their clients. The criteria for selection was to pick a diverse set of companies in terms of age, industry, employee number and exporting status. Because the companies were selected by MGC from amongst existing and former clients, and they had to volunteer to come in for an interview or to do one on the phone, our sample is likely to be skewed toward businesses who are more likely to engage with business support. Where our findings could be the result of this selection bias, we note this in the analysis. An anonymised summary of our interviewed companies can be found in the Appendix.

How do businesses make decisions in general?

In our interviews we first wanted to understand how businesses we interviewed make decisions in general – whether they plan, seek out information and evaluate options or they just ‘go with the flow’.

The businesses we spoke to tended to follow both approaches in their decision making. Managers said that they frequently made decisions by following a thorough planning process, mapping out opportunities and planning ahead. Many of them mentioned multi-year plans for their companies. All the companies we spoke to very consciously paid attention to the opinion of their customers and tried to make decisions with customer opinion front and centre. They also sought support from several places: from employees, banks, business partners, online forums and the Growth Hub. Since the businesses we interviewed were clients of the Growth Hub, they are probably more likely to have sought external support than businesses in general. For example, awareness of Growth Hubs among SME employers is 22% and usage around 3%,⁵⁵ meaning that an average company is unlikely to be a client of the Growth Hub. Consequently, the general business population might be less open to planning and seeking external support than Growth Hub clients.

However, the improvisational style of decision-making came up in our interviews at least as often as more formal, planned decision-making. The managers we talked to mentioned several large steps in their companies’ growth that were mostly the result of external events. For example, one of the businesses we spoke to ended up entering a completely new product market after its distributor went bankrupt and they received their customer list. Another of our interviewees explained how they realised that in the first few years their company had accepted

every piece of work offered to them and that this has resulted in slowing growth and an 'unsustainable business model'. Although the path that led to their current situation was mostly driven by unplanned and spontaneous decisions, they now reflected back to their decisions and the steps they made in a much more conscious and professional way.

'We made a lots of mistakes, the plateau was because we took a lots of things that were outside of our core skills'

Company 2, Marketing Agency

They realised that the reason for this was the lack of a strategic direction – one of the ways they now try to set one in place is aiming at a better client selection.

'It's interesting to see if we can guide us strategically instead of just being a consequence of everything around us'

Company 2, Marketing Agency

Entering a foreign market

During our interviews, we explored how businesses understood and approached exporting. We were especially interested in how they first started exporting and what their expectations about international trade were before they began.

While our sample was limited, we did find that our interviews reflected the literature, with five out of the six businesses we interviewed having their first international sale following a 'chance event'. Although they found these opportunities through a variety of different channels, none were the result of the companies specifically planning to enter a foreign market. The 'chance events' that prompted our interviewees' first export deals were:

- **Company 2:** The company was invited, unprompted, to a pitch for a job which they subsequently won.
- **Company 3:** The first international sale came through a US customer finding the company's products on an online marketplace and getting in contact to make an order.
- **Company 4:** One of the company's business partners was offered the opportunity to pitch a job, but they did not feel that it was suitable for them. They therefore passed the lead on to Company 4 who subsequently took up the opportunity and won the work.

'An agency friend of ours were asked whether they would do it, but they said, we don't do this type of work, it's too complex, it's too high level for us. And they asked: do you know anybody? And we said, we could do that type of work. (...) we were probably the only start-up on the list, you know, very contrasting'

- **Company 5:** The company was contacted by a Belgian firm who found them after the company's existing customers recommended them.

'(the first export deals) came out of nowhere because we were approached by a Belgian company. We deal with two of the largest [...] manufacturers, they had been talking to this Belgian company'

- **Company 6:** The company was asked by one of the foreign partners they represent in the UK to prepare packaging and ship it to a Middle Eastern country. Subsequently, the local partner contacted them for additional spare products which initiated further export deals.

The managers we talked to admitted that they started exporting 'accidentally' or 'spontaneously', and that entering to a foreign market was not amongst their goals at the time.

'We were only thinking about selling in the UK at this stage, but this Belgian company made us realise that they might actually want these in Belgium as well'

Company 5, Manufacturing

'It just wasn't a decision (...) it never was a conscious decision to work there'

Company 2, Marketing Agency

'We did not plan to start exporting so soon'

Company 4, Digital Agency

Our fieldwork reflected our findings from the literature that business networks and business-to-business relationships play a crucial role in many of our interviewees' exporting experiences. They either came across their first exporting opportunity through their network or they used their network to improve and expand on their access to foreign markets. In fact, the importance of connections came up in almost every aspect of business during our interviews. Our interviewees also mentioned trade shows and international trade events as important places to meet potential customers. Seeking out, recognising and acting on these potential 'chance events' that come through a business' network might be one of the most important steps toward starting to export.

'You should speak to people. People phone me up, "you want to sell stuff to Spain, how you'd do it"'

Company 1, Manufacturing

'In the UK, we had a contact of a contact, and they were looking for some agencies and they asked those guys and they were like, "what about them?"'

Company 4, Digital Agency

Perceived barriers to exporting

Unfortunately, we were not able to identify any companies to speak to during our fieldwork who have never exported. However, our interviews with businesses who had exported at some stage (and in some cases had decided not to do so any longer) did highlight both real and perceived barriers.

The most frequent difficulty that came up in our interviews was finding international customers. This was confirmed also by our focus group of MGC advisors.

'There is nothing harder than finding the customer. Finding the customer is the most difficult. If you have got what they want, they will buy off'

Company 5, Manufacturing

This is important because the companies we spoke to were all highly customer-driven, making decisions about what to do on the basis of customer needs or desires (as opposed to, for example, directly responding to what their competitors do). The focus on customers' needs came up many times in our interviews and many linked them directly to their business's success.

'I think my business sustains and will grow in the future because I listened to my customers'

Company 1, Manufacturing

Moreover, companies said they might also ignore the option to export because they believe it is difficult, complicated or time-consuming and that this would be a huge step for their company.

'[the international trade advisor] mentioned that there were export funding projects, but I was like "we don't go out of Manchester, how would we export?"'

Company 5, Manufacturing

The gap between expectation and experience

Our fieldwork highlighted quite a clear contrast between the expectations companies had about exporting before they started and what their actual experiences were once they began. Some companies might consciously avoid foreign markets because of the complications they think it involve. They might 'panic' when they first face the prospect of having to export.

'We do get inquiries from people saying, "I just got an order from overseas, what the heck should I do with it?"'

MGC advisor

However, when we directly asked our interviewees whether international trade was harder than domestic trade, they generally did not view it as particularly difficult. In fact, it was striking that they saw the two as quite similar in most ways apart from the barrier of 'physical location' and occasional language difficulties.

'No [it wasn't harder]. It was a customer who were further away than any of the existing customers, there wasn't anything else different'

Company 5, Manufacturing

'There is very minimum barriers for us to be able to do service outside'

Company 4, Digital Agency

'[exporting] is quite easy, it's just setting up a dollar account'

Company 2, Marketing Agency

'I have a client who accidentally built up an exporting base of £3000 to the US through Etsy'

MGC advisor

This difference between expectations and reality does not mean that exporting presented no challenges. Companies mentioned that figuring out the relevant customs and taxes can be difficult. Speaking different languages might also sometimes make things harder, although some of our interviewees were confident in using translators and doing business by involving third parties.

'[British] people are afraid of languages. (...) most people abroad want to speak English, they are educated to a standard so there isn't any more a linguistic barrier. There is a guy in Catalonia, doesn't speak a word in English neither do I Spanish, but we have a common friend an English teacher who helps us so we can just chat'

Company 1, Manufacturing

In addition, some barriers are present only for specific sub-groups of companies. Companies that produce or distribute physical goods need to get those goods to the destination country. However, interviewees we spoke to found that transportation was easier than they initially expected. One of our interviewees relied on transport companies a lot since they already have expertise in international trade.

'But now, all the transport companies anybody involved in it, all know the process. There is some paperwork, there sure there is, but they have their own department to do it, that's what they do'

Company 1, Manufacturing

Our interviewees mentioned only a few things that they lacked during their first export deal – clear rules and regulations in case of e-commerce or sources of detailed information about local regulations in the case of very specific industries. However, overall they seemed to cope with exporting just as they would cope with any other challenge in their normal, domestic sales.

Continuing exporting

In our small sample of interviews, companies' first experience with exporting played a crucial role in determining their attitudes towards any further expansion abroad.

A few of the companies who had a good first experience realised that their product was also marketable abroad and they have since developed plans to expand in other countries or explicitly built export goals into their strategy. This often meant that managers decided to start looking into the requirements and details of international shipping, customs, expos and other parts of trade – something that they might have been hesitant to do before the first export deal.

One of the companies, who previously could not have imagined selling abroad, has started developing larger international plans after their first few deals. This also exemplifies how significant the impact of a first international deal can be on the company's approach to trade.

'We were thinking about selling royalty to someone in America who sells our product, as far as we can ensure that it has enough quality. At the moment we are thinking about selling to Europe'

Company 5, Manufacturing

However, one of the managers we talked to had a disappointing first experience with exporting. Although they had a few follow up sales with the company, they remained reluctant to go into foreign markets. They cited three reasons that their first deal went a bit wrong: 'cultural issues' with how the Middle Eastern partner do business, their banks giving them bad advice and a 'lack of appreciation of what could go wrong'. Consequently, they have not exported since, despite other businesses sometimes contacting them.

'[why we do not export] boils down to the combination of lack of confidence, lack of experience, and lack of understanding on who else to talk to apart from [an advisor] who was encouraging but maybe not the nuts and bolts man who we wanted'

Company 6, Manufacturing and Distribution

Confusion about the term 'exporting'

A final observation from our fieldwork was the slight confusion and hesitation about the use of the term 'exporting'. We asked each interviewee what the term exporting meant to them. For most companies we spoke to, exporting still means the shipping and selling of physical products abroad. Consequently, some businesses we interviewed did not feel that they exported although they would meet the official definition of exporting. This was either because they sold only a few and smaller products abroad or because they were from the service industry where they do not need to ship products. This view was confirmed also in our focus group with MGC advisors:

"How would you sell overseas?" is a better angle maybe. Exporting is big shipping containers'

Company 3, Handmade Manufacturing

'Exporting to me feels like it's a widget you build here and take abroad. Providing a service doesn't feel like exporting'

Company 2, Marketing Agency

'I don't like exporting as a term. I prefer selling overseas over exporting'

Company 2, Marketing Agency

'People see it as I am selling to America, to China, they don't see it as I am exporting'

MGC advisor

This is an important takeaway for communicating with these companies as the term 'exporting' may not resonate with many service sector firms. For them, 'exporting' might feel a bit distant and other terms may be a better way of attracting their attention and making the message salient.

Conclusion from our interviews

While the findings of our fieldwork should not be overstated (because of the small samples) we believe three key themes came through. These themes also echo many of the findings highlighted in our review of the academic literature.

1. Many businesses start exporting accidentally or spontaneously, often following direct, unsolicited requests from foreign companies or through opportunities coming through social networks. This has two important implications: (1) business networks and connections and online marketplaces are important sources of business development, and (2) it is important to help businesses identify and exploit 'chance events' which give them the opportunity to make their first international deal.
2. The first international sale is important because, if it was successful, companies became more confident about exporting afterwards and started pro-actively seeking out opportunities. While the first step (entry) might be accidental, this second step (expansion) was usually more planned.
3. Exporting may be an unhelpful word. Amongst our (admittedly small) sample of interviewees it still largely meant the selling and distribution of physical products in a different country.

V. Recommendations

In this final section, we set out our recommendations for how GM businesses could be encouraged to export, or to export more, and how the Growth Company could encourage more businesses to engage with its Business Growth Hub specialist export support services. While we discuss each recommendation separately, some of these ideas could be combined in practice. For example, some measures to improve general attractiveness of communication such as using terms other than exporting could be used together with breaking down the steps of starting exporting. A summary of our recommendations are shown in the table below

Figure 2 – Summary of our recommendations

Increasing the uptake of advisory and support services
<p>General recommendations to improve the attractiveness of communications</p> <ul style="list-style-type: none"> • Try using terms other than 'exporting' • Do not provide excessive amounts of information • Use the message 'You have been chosen!' <p>Communicating with companies who already export</p> <ul style="list-style-type: none"> • Build on the first successful experience • Tell companies if they underperform compared to their peers • Test loss- and gain-framed messages <p>Communicating with companies who don't yet export</p> <ul style="list-style-type: none"> • Break the export process down into a small number of manageable steps and make engagement with the Business Growth Hub the first step • Advertise the service as a foot-in-the-door to exporting • Use anecdotes from exporting companies
Encouraging companies to begin exporting
<p>Help businesses to facilitate 'chance events' by advising them to:</p> <ul style="list-style-type: none"> • Develop and use their social networks • Attend trade shows • Improve their online presence <p>Help businesses to recognise 'chance events' by:</p> <ul style="list-style-type: none"> • Using case studies to show how businesses started exporting accidentally • Contrasting businesses' beliefs with the reality • Using social norms to highlight that most businesses start exporting accidentally
Collecting and making better use of data
<p>Explore all available sources of data to enable communications to be more effectively targeted, especially by industry and exporting status.</p>

1. Increasing the uptake of advisory and support services

A core goal of this project was to develop behaviourally-informed suggestions for messages to businesses that might increase the take-up of export advisory services. This section focuses on how this could be achieved and what we believe the Growth Company should focus on when drafting communications. We divide our advice into three parts: general recommendations to improve the attractiveness of communications with business, messages for companies who have already exported and messages for companies who have never previously exported.

1.1 General recommendations to improve the attractiveness of communications

The following ideas could be applied to any communication the Business Growth Hub has with companies to promote their advisory service (for example one-off email mail-outs).

- **Try using terms other than 'exporting'.** Our fieldwork suggests that 'exporting' might have connotations that disengage firms with the topic of international trade. Trying alternative phrases and terms, such as 'selling overseas' or 'finding new customers abroad' could make the service more appealing to a broader range of companies. Our interviewees also showed an enthusiasm towards finding and satisfying their customers, and for many of them exporting is nothing more than doing business with a customer who is abroad. As such, suggesting that the Growth Hub can help these businesses find 'new customers abroad' might resonate more with them.
- **Do not provide excessive amounts of information.** Behavioural science suggests that providing too much information to people can backfire: they might get put off and delay making a decision or they might sub-consciously focus only on information that confirms their existing beliefs (also known as confirmation bias).⁵⁶ We know that providing the same information on the benefits and costs of exporting causes exporting businesses to become more positive about exporting, and those that don't yet trade abroad to become more negative. Presenting companies with all the possible issues the Business Growth Hub can help them with might actually backfire, making lots of potential difficulties more salient than they otherwise would be.
- **Use the message 'You have been chosen'.** In one of our past trials, BIT worked with BIS and HMRC to send e-mails to businesses to encourage them to take up subsidised business advice (Growth Vouchers).⁵⁷ Businesses were randomly allocated to receive the same messages but with different subject lines. The most successful version ("*You have been chosen*") had a significantly higher open rate and click-through rate than all the other versions. This message has been similarly effective in other BIT trials on business communication. Thus, trialling the use of this line in the subject and also in the body of emails may be effective in prompting companies to act. However, overuse is likely to dilute its effect. The more general lesson here is that businesses may be more responsive to communications that are targeted at and personalised to them (see 'Recommendation 3 – Collecting and making use of data to target communications').

1.2 Communicating with companies who already export

Companies who have already sold abroad, even if only on a one-off basis, have taken the first important step on the exporting path. Our ideas draw on leveraging this first step and on other tactics which have been successful in past BIT trials to improve communication with businesses.

- **Build on the first successful experience.** Our work suggests that companies who have already had an exporting deal might be more receptive to the Business Growth Hub's communications. This is because their first experience of exporting might have prompted them to start developing international expansion plans. Reminding businesses not to interrupt this process might trigger the so-called Zeigarnik-effect: our desire to complete an incomplete process.⁵⁸ Prompting the feeling in business leaders that with their first export deal they started a process which they should continue may encourage them to take up the export advisory service. Moreover, these messages could also be used to remind businesses that exporting was easier than they may have believed beforehand. Examples of the kind of messages which could do this are:

"Sold something overseas in the last five years? Was it easier than you expected? Do you want to think about how to expand on your initial success? We can help"

"Have you recently had a one off sale abroad? Don't break the momentum, talk to us about how we can help you take the next steps to expand your sales overseas"
- **Tell companies if they underperform compared to their peers.** Providing relative performance feedback (i.e. telling people how they compare to their peers) has a long history in social psychology.⁵⁹ For example, in a recent BIT project we sent GPs a letter which informed them that *'the great majority (80 per cent) of practices in [the recipient's local area] prescribe fewer antibiotics per head than yours'*. Those who received the letter reduced their antibiotic prescribing rates by 3.3 per cent compared with those who did not.⁶⁰ Using this idea in this context would require a more extensive use of trade data of companies by identifying 'underperforming' exporting companies – for example, the bottom 50% in an industry in terms of value – and contacting them. The message might directly compare the given company with its peers, for example *"Half of Greater Manchester businesses in the Manufacturing sector sell more abroad than you"*.
- **Test loss- and gain-framed messages.** People generally dislike losses more than they like equivalent gains.⁶¹ This finding has implications for how the costs and benefits of an action should be framed when trying to encourage someone to change their behaviour. In general, messages which highlight the losses people will incur by not acting are more effective than those which focus on potential gains. However, this is not universal. For example, in health communications evidence suggests that loss-framed messages are more effective for promoting illness *prevention* behaviours (e.g. quitting smoking)⁶² but gain-framed messages are better in promoting illness *detection* behaviours (e.g. attending lung health checks).⁶³

These findings are a good illustration about why it is important to test different approaches against each other. We therefore recommend the Business Growth Hub test both loss- and gain-framed messages in emails to find out which is more effective at encouraging take-up of the advisory service. Such messages might include:

"You are missing out on this opportunity if you don't continue"

"Continuing your international expansion is the best way to give a boost to your business"

1.3 Communicating with companies who don't yet export

Companies who have not yet traded internationally (or have not done so for some time) need to receive different messages. When reaching out to these companies, we recommend focussing on the ease of exporting and on the power of social norms.

First, businesses who don't yet export perceive it as a complex and risky process requiring lots of time, investment or effort. Messages need to address these beliefs and convince companies that contacting the Business Growth Hub is a good first step towards starting to export and that the process may not be as complicated as they expect. Second, the perception that exporting is complex might mean that businesses underestimate how many of their peers are already exporting. This is quite a common phenomenon: for example, most people believe the average UK adult saves less for their retirement than they do, eats more sugar than they do and exercises less than they do.⁶⁴ Correcting this false belief may also be an effective way of motivating non-exporting businesses to act.

Communicating with this group presents a slight tension. Our previous recommendations were about encouraging businesses who have already made a one-off international sale to use the Growth Hub to plan further expansion. Getting companies who have not yet exported to engage with the Growth Hub requires a message which emphasises that the process is easier than they expect, but that they may still benefit from additional help. The Growth Company should be aware of this tension when drafting material for this group.

- **Break the export process down into a small number of manageable steps and make engagement with the Business Growth Hub the first step.** People often find it easier to achieve complex or challenging goals if they are divided into a small number of more manageable steps. For example, a past trial by BIT aiming to boost apprenticeships showed that a letter sent to employers that, along with social norms and loss aversion messaging, included clear steps increased the number of employers consulting information on the levy.⁶⁵ Providing a reasonably short, generic step-by-step guide to beginning to export could be an effective way to motivate employers to act. As we have seen earlier, this journey should be relatively simple and not contain too much detailed information. In addition, engaging with the Growth Hub service could be shown as the first step in this process. For example, a very simplified path might look like the following:

Figure 3 – Example flow diagram of export journey



- **Advertise the service as a foot-in-the-door to exporting.** The *foot-in-the-door technique* utilises our desire for consistency with our past behaviour to encourage us to take a particular action. When asked to comply with a small initial request, people are more willing to comply with a larger and more costly request later on.⁶⁶ For example, those who signed a petition supporting a cause were more likely later to also donate to that cause.⁶⁷

Suggesting that the Business Growth Hub is the first step towards selling overseas may attract attention and make the decision for businesses easier. Furthermore, it also links exporting directly to the work with the Advisor, making it more likely that later there will follow up on the initial meetings and put efforts into striking their first exporting deal.

- **Use anecdotes from exporting companies.** Our reaction to information is often very dependent on the messenger who is delivering it. We might be more influenced by a messenger either because they are perceived as more authoritative (such as a GP recommending getting vaccinated) or because they are relatable or have a similar background to us (an ex-smoker giving advice on healthy lifestyle). For example, an earlier BIT trial showed that when a recruitment email comes from a real and named officer from the British army who talks about their own experiences, the rate at which candidates submit their application form increases dramatically.⁶⁸ Using anecdotes from named, preferably well-known businesses who have used the Growth Hub's services to start exporting may be an effective way of encouraging businesses to act. This could be made more salient by targeting these messages by industry, ensuring that the messenger is as relatable to the target audience as possible.

2. Encouraging companies to begin exporting

Our research suggests that messages to increase actual exporting activity in GM might differ from messages to increase take-up of the advisory service. This is because businesses often start to develop exporting plans consciously only after their first 'chance event' exporting deal. It may only be at this stage, when they are beginning to make more conscious plans, that they seek out help from the advisory service. The following suggestions therefore explore what kinds of activities, apart from engagement with the Growth Hub, could help businesses to begin exporting. Based on our research, businesses often start exporting 'accidentally' following 'chance events'. Below we set out a few ideas on how to help businesses facilitate more of these chance events and identify and act on them when they occur.

2.1 Helping businesses to facilitate 'chance events'

Our research established two main types of chance events: an unsolicited order being made from overseas (usually as a result of a foreign company finding the business's website or social media site) or an opportunity coming through the business's social network. To increase the number of these events, you can advise businesses coming in for any advisory appointment or in your general communication to businesses to:

- **Develop and use their social networks.** Fellow businesses are perfect for gathering information. The value of occasionally speaking with business partners about opportunities needs to be highlighted to businesses. Several of our interviewees saw other companies as not just as competitors, suppliers or buyers, but also as people who could help them learn more and develop beneficial links. One of the best ways that companies can use their social networks is to engage with their 'weak ties'; organisations they know but who are in a different industry or have a different point of view (e.g. their bank, suppliers or customers).
- **Attend trade shows.** Trade shows are, at their core, opportunities for lots of buyers and sellers of a common product or service to gather and exchange information in an efficient way. As trade shows often focus on particular industries, relevant business networks can develop there more efficiently and quickly.
- **Improve their online presence.** Sometimes businesses are recommended second- or third-hand through a chain of links between the business and a potential customer. In these and other cases, the potential customers' main source of information about the business is its online presence. Businesses need to see developing a good online presence as an important first step towards finding new customers (domestically and internationally). In addition, the Department of International Trade (DIT) has developed an online tool to help businesses to choose an online marketplace to sell their goods overseas.* Using such a marketplace is a good way of encouraging overseas orders.

2.2 Helping businesses to recognise 'chance events'

Once opportunities to make an international sale appear, companies need to recognise and act on them. Our fieldwork showed a few examples where businesses could have let these opportunities pass but instead took action. Conversely, we spoke to businesses who intentionally ignored unsolicited overseas orders, and it is likely that other businesses may do so unintentionally, because they are busy or because messages are overlooked. Increasing the frequency of 'chance events' will only be effective if businesses learn to identify them and feel motivated to act on them.

* <https://selling-online-overseas.export.great.gov.uk/>

One way to help them do this is to address belief in the necessity of planning. Many businesses might believe that starting exporting always requires effort and planning. Messages which highlight that, in fact, exporting usually starts accidentally could be an effective way of tackling this belief. This could be done in a number of ways:

- Presenting short, sharp **case studies** of how other businesses started exporting, highlighting the chance element.
- **Contrast** businesses' beliefs with the reality. Show them **how companies usually think** businesses start exporting and **how they actually started** exporting.
- Export planning is often the "norm", and those who rely on improvisation feel guilty for their lack of planning.⁶⁹ Use **social norms** and tell companies that the majority (58%) of businesses started exporting following a chance event.⁷⁰
- Show businesses that **there is no one size fits all** solution. How much and how often companies export varies and message should seek to convince businesses to **do it in a way that works for them**.

3. Collecting and making use of data to target communications

Our final recommendations underpins our earlier suggestions. Many of our suggestions require the use of data to identify and target specific businesses. We therefore recommend that MGC to explore ways of collecting more extensive data on businesses and to make use of publicly available information from Companies House.

Our research shows that different businesses require different types of communication. In particular, there are at least two possible ways to target businesses to make communication with them more effective: segmenting by exporting status and by industry. Exporting and non-exporting businesses respond to the same information in different ways, and some industries are more likely to respond to the term 'exporting' than others.

Segmenting communications according to export status and industry might allow MGC to target different groups of firms with more specific messages that better resonate with them. One potential data source is HMRC that holds reliable, firm level data on customs and trade statistics.⁷¹ Some of this data (for example firm level, month-by-month data on sales outside the EU) is publically available. In other cases it is not publicly available but has been used in academic studies⁷² and so it may be worth discussing with HMRC.

VI. Conclusion

Getting more businesses to start exporting is important for both the wider UK economy and the Greater Manchester region. It also brings direct benefits to individual businesses themselves. International trade is associated with productivity gains, increased profits and increased economic resilience. However, businesses, (especially SMEs) are still reluctant to start exporting and UK businesses export less than those of most other comparable, developed economies in Europe.

According to our research, encouraging firms to enter international markets is very different to encouraging them to expand their international sales. This implies that different approaches are needed to encouraging entry and expansion. Spontaneity is a key factor driving firms to enter international markets and to make their first export deal, with initial export deals often being the result of 'chance events' rather than a careful, strategically planned expansion. Therefore, encouraging businesses to begin exporting is about helping them to identify and act on these chance events.

Only later do businesses recognise that they have exported, and begin to make more carefully laid plans for building on this initial success. How they experience their initial sale, and whether they even recognise it as 'exporting', seems to be crucial to whether they start making these plans. At this stage, they need to be encouraged to see expansion as the natural next stage of their journey. The Business Growth Hub and DIT export support can be advertised as helping them to make this progression.

Our recommendations are based on a survey of the academic literature and interviews with a small sample of local businesses. We therefore recommend that the Business Growth Hub and DIT test our suggestions and evaluate their effectiveness. There are many examples of well-meaning, intuitive approaches to tackling difficult issues which, after evaluating them, turned out not only to be ineffective but sometimes even backfiring.⁷³ While the recommendations in this report are based on the best available evidence we identified, testing, evaluating and adapting will help ensure that they achieve results in the real world.

This could be done by using the A/B testing facility available in most email management systems (e.g. MailChimp), testing different versions of emails and measuring their impact on click-through or on subsequent action (i.e. engaging with export support services). While such findings will need to be interpreted cautiously, as low numbers may mean that the results may be due to chance, we are confident that developing a culture of routinely testing different versions of communications against each other will help the Growth Company identify the most effective ways of communicating with businesses.

Appendix – Table of interviews

	Wider industry	# of employees	Age of company	Currently exporting?
Company 1	Manufacturing	50	Between 10-30 years	Yes
Company 2	Marketing agency	18	Between 10-30 years	Yes
Company 3	Handmade manufacturing	1	Less than 5 years	Had one international shipping
Company 4	Digital agency	6	Less than 5 years	Yes
Company 5	Manufacturing	Around 15	More than 40 years	Yes
Company 6	Manufacturing and distribution	60	More than 40 years	They do not consider themselves exporters but they have a few international deliveries every year

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- ²⁰ New Economy (2015). *Greater Manchester Manufacturing Strategy*. Greater Manchester Local Enterprise Partnership – Greater Manchester Combined Authority.
- ²¹ Ibid
- ²² Key Enabling Technologies (KETs) are a group of six technologies (micro and nanoelectronics, nanotechnology, industrial biotechnology, advanced materials, photonics and advanced manufacturing technologies). The European Commission identify them as key enablers of innovation in a range of

industries that might help tackle societal challenges. Therefore, the EC considers them essential for sustainable economic development. See more on https://ec.europa.eu/growth/industry/key-enabling-technologies_en

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- ⁷² Breinlich, H., Donaldson, D., Nolen, P.J. & Wright, G. (2017). Information, Perceptions and Exporting - Evidence from a Randomised Controlled Trial. Working Paper. University of Essex, Department of Economics, Discussion Papers.
- ⁷³ For example, 'Scared Straight' is a programme designed to reduce youth offending by taking young people to prison to see the potential consequences of their actions. It has since been shown to increase the chances of a young person committing crime. See: Petrosino, A., Turpin-Petrosino, C., Hollis-Peel, M.E. & Lavenberg, J.G. (2013). 'Scared Straight' and other juvenile awareness programmes for preventing juvenile delinquency. *Cochrane Database of Systematic Reviews*, 4. No. CD002796. DOI: 10.1002/14651858.CD002796.pub2.