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Strategic Decision Making Processes: External Factors Influencing Foreign Market Entry

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Abstract

The purpose of this research was to explore the influence of external factors on strategic decisions for foreign market entry. To achieve this aim, a conceptual model of a theorized set of factors was used to explore the main factors influencing foreign market entry. Data was gained throughout semi-structured interviews with 46 decision-makers from different organisations in Kuwait who were interviewed to collect required data. The findings exposed external factors including Market attractiveness, Market size and growth, Market competitiveness, as well as laws and regulations that significantly affect decisions needed to global market entry.

Keywords: Strategic Management, Strategic decision making, Foreign market entry.

1. Introduction

Osland et al. (2001) stated that fast movement towards globalization has caused a growing number of global strategic associations, distributing, and overseas branches. During the last four decades, one of the most commonly researched subjects in international marketing has been that of internationalization of business (Fletcher & Brown 2005), and one of the business cornerstones featured is Strategic Decision Making for international market entry.

Worldwide political movements and what have led to social and economic intersections and consensus have consequently produced key business occasions and confrontations for global marketers. A constant international movement regarding economic liberalization and the growth of recent economies are enhancing such occasions and confrontations. Therefore, global marketing entry is a fundamental task in today’s economic movements and its significance is assumed to enlarge as marketplaces convert to be more internationalized (Harcourt 2007).

The organizations participating in global markets, keeping in mind the easing the obstacles to the international market, has been growing (Nummela, Loane, & Bell, 2006). Additionally, due to the growth of global economy, a high number of organizations are motivated by the desire to enlarge business and to attract high number of customers through international market entry.

Strategic management concerns the realization of the strategic position of an organization, the strategic options that could be taken in the future to convert an organizational strategic option into an action to implement (Johnson and Vahlne, 2008). An organization’s strategy is the motivation during which they strive to achieve their long and short-term objectives. Every organization’s objective should be set to fulfill their stakeholders; however, it is likewise the stakeholders that reveal the opportunities and aims of an organization that will consequently assist them to clarify their aims and objectives. The agreed-upon strategy for an organization must correspond to their short and long-term mission.

For strategic decision making of the desire to globalize businesses, it is significant to be aware of the complete procedure behind it and the obligations that are needed from the business once the decision to enter international market has been achieved.

Accurate market investigations and strategic entry planning are the essential devices which must be achieved to assist in the process of strategic decision-making. However, regardless of this needed plan, global business literature usually supposes that globalization strategic decisions are decently logical and researchers mostly tend to pay no attention to strategic decision-making investigations in clarifying how businesses made their international market entry (Brouthers & Hennart, 2007).

Yip and Hult (2012) revealed that there is much evidence proving that organizations that utilize a world-wide strategy and want to internationalize themselves may face competitive and financial challenges. Thus, the decisions of choosing and entering are a set of processes which are highly related because the market's charisma is motivated by the strategic power of the organization, level of competition in such markets and the government concerning feasible methods of international market entry.

Choosing the most suitable method of international market entry requires full awareness of the different methods available and realizing all the circumstances under which a specific method might be more appropriate than others. Strategic decisions to enter the international market may only be related to large organizations as small ones can't afford to take such action. However, the cornerstone for taking such strategic action is still the capability of planning entry strategies.

To be successful in international markets entry, the right decisions about which marketing strategies to utilize, the choice of the International market to enter and the way and method to adopt in order to enter these markets are considered cornerstones in transferring a business into global markets (Fletcher & Brown 2005; Rahman, 2006; Malhotra et al. 2003).

The objective of this research is "to explore the influence of external factors on strategic decisions required for internationalization market entry". To meet these objectives, the research question for this study is "What are the key factors influencing the strategic decisions needed for development of international marketing entry?" To achieve this aim, a conceptual model based on previous literature was proposed to measure the variables affecting the decision making needed for international market entry.

The remainder of the paper is structured as follows: Section 2 reviews the literature and hypotheses development. Section 3 discusses the research methodology, Section 4 provides analytical results and discusses and lastly, Section 5 provides the conclusion of this study.

2. Literature Review and hypotheses development

It is significant for global marketers to have some predetermined decision to assist them in improving their global marketing policies in addition to realizing the main indicators that affect the success of the improvement decisions of their policy (Bradley 2005; Doole & Lowe 2008). The decisions for global market entry are motivated by the economic features of the overseas business situation and the observed evolution of such markets.

The market growth plays a fundamental role when a business decides to follow with their internationalisation, (Laird et al. 2003; Gallego et al. 2009).Normally, if the business cannot accomplish their strategic objectives in their local market, then escalating into an international market can be a solution. Furthermore, if the evolution percentage of the business in a local market is low, expanding into international markets would assist a business to accomplish its anticipated evolution percentage more quickly.

The purpose of this research is to provide the knowledge issues related to the external factors that influence on the strategic decisions needed to foreign market entry.

2.1. External forces Influencing Choice of Foreign market Entry

2.1.1. Market attractiveness

The market attractiveness is the combination of the size and the growth of the target market. In the same context, Kwon & Konopa, (1993) stated that market attractiveness is usually specified by the size of the goal market and the nation's economic development/performance. However, Simkin and Dibb (1998) proposed another indicator into the idea of market attractiveness that is customer satisfaction. It refers to the population in market environment. Morschett et al. (2009) explores that it is not about the physical distance when selecting a market; however a business should confirm the market attractiveness during the process of market targeting.

Therefore, our first hypothesis is:

H_1: Organization's strategic decisions to enter International markets are influenced by market attractiveness.

2.1.2. Cultural differences

In general, businesses avoid direct dealings with overseas states when the obvious distance between local and overseas markets is high concerning cultural differences and business performance. Thus businesses, in order to solve such obstacles, select low source obligations and high agility concerning international market entry (Rodríguez, 2002; Hollensen 2011, 324.)

Language, norms, symbols, beliefs and values are the basic elements of culture. There are many as a result of these consequences, and it is highly significant to be fluent in the language of the target market so as to accomplish business discussions. A foreign language requires other customer inspirations and different types of ideas. (Quer, Claver, & Rienda, 2007; Hollensen 2011, 265)

Many scholars have undoubtedly considered cultural differences as a challenge for businesses that planned to attend international markets; this is because selecting a target market with a parallel culture as the local market is a difficult mission (Bjerke et al. 2005; Morschett et al. 2009; Malhotra et al. 2008).

Accordingly, the relationship between cultural differences and foreign market entry is hypothesized as follows:

H_2: Organization's strategic decisions to enter International markets are influenced by cultural differences.

2.1.3. Country risk and demand uncertainty

The main reason for business catastrophes during the foreign market entry process is the deficiency of enough information needed for the target market. Essentially, it is about insufficient sympathetic of foreign market entry factors, instigated by the business management's concern with organizing resources, tools, and employment (Jović, 2006, p. 119). Normally, businesses operated in several international markets for some time before the strategic decisions regarding international market entry was concluded. Therefore, enough information about the target market is essential in deciding which foreign market to enter Hollensen (2001).

Business usually seeking to reduce their vulnerability by limiting supply obligations regarding overseas market, in particular, when the risk is expected to be high in the target market (Hollensen 2011, 324).

Risks that originate from vagueness about the need, the competitors, and the budget required, in addition to the risks that intimidate the nation's financial creditworthiness (Quer, Claver, & Rienda, 2007; Root, 1998; Jović, 2006, p. 119) should be taken into account. Corresponding to the above we propose the following hypothesis:

H3: Organization's strategic decisions to enter International markets are influenced by country risk.

2.1.4. Market size and growth

Market size and growth refer to the total accessibility of a market, for instance, the highest total of saleable organizations of products and/or services for all the contributors throughout a tangible duration. When market capability surpasses the current market level, then it can say that there are opportunities for market growth which consequently promotes the dealers (Grafers, Schlich & Söderström 2006, 53).

If a market is rising at rapid rate, and this rate of rise does not seem maintainable over a number of years, the best recommendation for the business is to choose this opportunity with no suspension and apply straight transferring (Koch, 2001). This element has been considered highly significant as the more market capacity; the more investments are made (Hollensen, 2001; Dahringer & Mühlbacher, 1991). Hence, the following hypothesis is proposed.

H_4: Organization's strategic decisions to enter foreign markets are influenced by market size and growth.

2.1.5. Market competitiveness

Businesses should avoid market globalization when the strength of competition in a foreign market is extreme as markets normally have a tendency to smaller gains. A competitive market is the key element in selecting market foreign entry (Lewis & Richardson (2001).

Bruhno and Schilt, (2001) raise different questions such as how many competitors should a business challenge within the target market? What size of the market share should the business have? How does the business rivalry affect the business's selection of marketing route in a target market? It is highly significant for a business to select a market where there are not too many competitors. Furthermore, a delay on foreign market entry leads to higher entry obstacles than an advance foreign entry in the selected market (Robinson and McDougall, 2001; Tuppura et al. 2008). Hence, the following hypothesis is proposed.

H5: Organization's strategic decisions to enter foreign markets are influenced by market competitions.

2.1.6. 2.1.6 Laws and regulations

It is normal when a business plans to enter foreign markets that they should be ready to acclimatize with the laws and regulations of the target market. This element is also considered highly significant because in some global markets, laws and regulations within the target state may stop or limit transactions with the target market or it may only authorize local business (De Búrca, Brown & Fletcher, 2004). Moreover the method of foreign market entry may be controlled and arranged by the authority of the target state.

This explains why some businesses may choose a route of joint venture or another market entry method just to avoid such strict rules and regulations (Hollensen 2008, 209).

Corresponding to the above we propose the following hypothesis:

H_6: Organization's strategic decisions to enter International markets are influenced by lows and regulations.

Based on the review of the above-mentioned past searches, the proposed research model is shown in Figure 1.

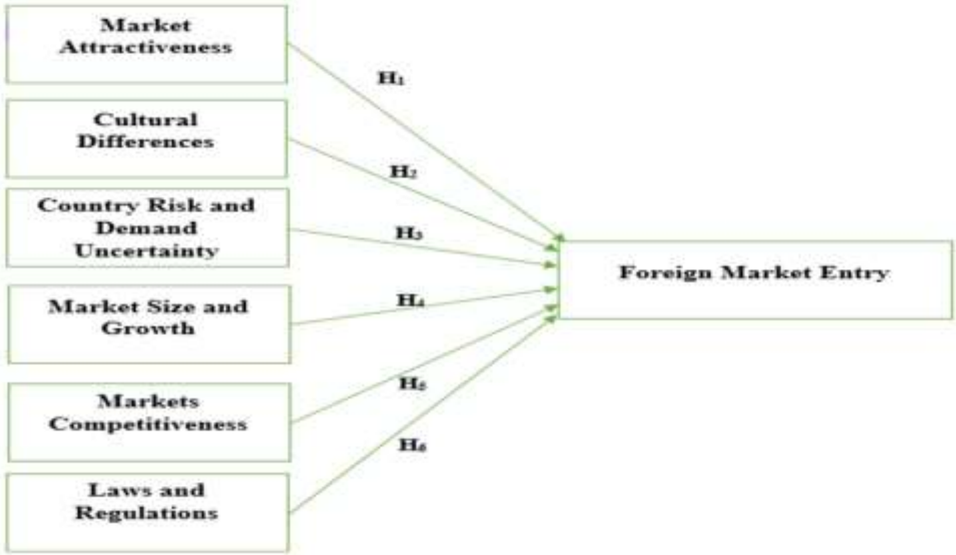

Fig. 1: Conceptual research model

3. Research Methods

The survey focused on respondents belonging to organizations placed in Kuwait. Firms were identified from lists obtained by Kuwait Chamber of Commerce.

120 firms from such lists were communicated by email through Google document clarifying the aim of the research, the significance of contributing to such research and giving declaration that their information would be dealt with using high security and privacy.

In this email we requested them to nominate a person, who was thoroughly experienced in taking strategic decision for international market entry, to answer the questionnaire.

Finally, a total of 46 respondents acknowledged their desire to participate. The second stage was to arrange an appointment to interview them. A team of five members carried on their shoulders the distribution of roles to complete the interviews. The selected interviewees were the owners, chief executives or managers responsible for their businesses process of foreign market entry.

3.1. Survey Instrument

The semi-structured interview based on key questions were conducted and divided into two groups. The first concentrated on participant’s demographic data, including gender, age, educational background, and job title.

The second part of this questionnaire was created to measure the factors influencing decisions for foreign market entry including Market attractiveness, Cultural differences, Country risk and demand uncertainty, Market size and growth, Markets competitiveness, and Laws and regulations.

The participants were provided with a list of 12 questions (two questions on each of the seven proposed hypotheses). Participants were asked to indicate their understanding about each question, using a Likert scale (1-5), with responses ranging from “strongly disagree” to “strongly agree.” The collected data was analyzed based on correlation and regression analyses using the Statistical Package for Social Sciences (SPSS) version 19 computer program.

4. Analytical results and discussion

4.1. Reliability and Validity of Scales

The reliability of the scales applied in this research was calculated by Cronbach's coefficient alpha. As shown in Table 1, reliability coefficient alpha scales for the measured seven factors affecting foreign market entry exceeded the minimum acceptable level of 0.7 (Tenenhaus et al., 2005), which revealing that the scales used in this study were highly reliable.

Table 1. Reliability and validity scales

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.949	.947	7

4.2. Correlation Test

Correlation analysis was performed (see table 2) to examine the relationship between the independent variables (Market attractiveness, Cultural differences, Country risk and demand uncertainty, Market size and growth, Markets competitiveness, and Laws and regulations) and the dependent variable (Foreign market entry). To inspect the bivariate relationships between the above variables, a Pearson's correlation analysis was carried out and the results shows that variables (Market attractiveness =0.937, Cultural differences=0.934, Country risk and demand uncertainty=0.204, Market size and growth=0.909, Markets competitiveness=0.968, Laws and regulations=0.968) correlate to customer satisfaction. Further, all of the p-values are above 0.903, which is very close to 1 (except country risk and demand uncertainty). This indicates that there is a strong relationship between independent and dependent variables. In other words, this indicates that changes in any independent variable will strongly correlate with changes in the dependent variable.

Table 2: Correlation test results

		Market Attractiveness	Cultural Differences	Country Risk and Demand Uncertainty	Market Size and Growth	Market Competitiveness	Laws and Regulations	Foreign Market Entry
Market Attractiveness	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	46						
Cultural Differences	Pearson Correlation	.872(**)	1					
	Sig. (2-tailed)	.000						
	N	46	46					
Country Risk and Demand Uncertainty	Pearson Correlation	.275	.274	1				
	Sig. (2-tailed)	.065	.066					
	N	46	46	46				
Market Size and Growth	Pearson Correlation	.853(**)	.846(**)	.290	1			
	Sig. (2-tailed)	.000	.000	.050				
	N	46	46	46	46			
Market Competitiveness	Pearson Correlation	.908(**)	.968(**)	.239	.876(**)	1		
	Sig. (2-tailed)	.000	.000	.110	.000			
	N	46	46	46	46	46		
Laws and Regulations	Pearson Correlation	.903(**)	.902(**)	.170	.880(**)	.937(**)	1	
	Sig. (2-tailed)	.000	.000	.260	.000	.000	.000	
	N	46	46	46	46	46	46	
Foreign Market Entry	Pearson Correlation	.937(**)	.934(**)	.204	.909(**)	.968(**)	.968(**)	1
	Sig. (2-tailed)	.000	.000	.174	.000	.000	.000	
	N	46	46	46	46	46	46	46

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

4.3. Regression Test

For additional analysis, Linear Regression was carried out to measure the hypothesised relationships among the variables and the extent to which independent variables influence the dependent variable.

Table 3. Coefficient Summary

Mo del		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	.052	.144		.363	.718
	Market Attractiveness	.203	.062	.204	3.257	.002
	Cultural Differences	.037	.096	.037	.382	.704
	Country Risk and Demand Uncertainty	-.038	.028	-.036	-1.364	.181
	Market Size and Growth	.133	.052	.140	2.561	.014
	Market Competitiveness	.323	.123	.321	2.618	.013
	Laws and Regulations	.331	.078	.332	4.219	.000

a Dependent Variable: Foreign Market Entry

The result of each hypothesis is shown in table 3. All results shown above measured with $\alpha = 0.05$. The results of the regression in the coefficients table (Table 3) revealed that Market Attractiveness (t=3.257, sig < 0.005) is found to be highly positive and significantly affects foreign market entry. These results strongly support H_1.

This result corresponds with the views of Kwon & Konopa, (1993), Simkin and Dibb (1998) and Morschett et al. (2009). They have revealed that market attractiveness plays a key role in the decision for foreign market entry.

The results of the regression in the coefficient summary also indicates that Cultural Differences (t=.382 sig>0.05) found insignificantly influence foreign market entry, which leads to reject H_2. This result is in inconsistent with the view of Rodríguez (2002), Hollensen (2011, 324), Quer, Claver, & Rienda, (2007), and Bjerke et al. (2005). The closest explanation for this result is that because of the huge number of foreign companies, and foreign employees, the cultural difference in Kuwait has become virtually non-existent and is not considered as key factor influencing foreign market entry.

The results of the regression in the coefficients table (table 3) also revealed that Country Risk and Demand Uncertainty (t=-1.364, sig>0.05) was also found to insignificantly affect foreign market entry. This result rejects H_3. This result is in inconsistent with the view of Jović, (2006, p. 119), Hollensen (2001) and Quer, Claver, & Rienda, (2007) revealed that the foreign market entry is influenced by the Country Risk and Demand Uncertainty.

The fourth hypothesis is revealed in the coefficient result which shows Market Size and Growth (t=2.561, sig<0.05) significantly affects foreign market entry. This result supports H_4. This result is in accordance with the view of Grafers, Schlich & Söderström (2006, 53), Koch, (2001), Hollensen, (2001) and Dahringer & Mühlbacher, (1991) who all claimed that Market Size and Growth have a positive influence on decisions for foreign market entry.

The coefficients summary also indicate that Market Competitiveness (t=2.618, sig<0.05) is found to significantly influence foreign market entry, which leads to accept and support H_5. This result is consistent with the view of Lewis & Richardson (2001), Bruhno and Schilt, (2001), Robinson and McDougall, (2001) and Tuppura et al. (2008) who all support the fact that Market Competitiveness will have a positive influence on decisions for foreign market entry.

Finally, the results of the linear regression in the coefficients summary table indicate that Laws and Regulations (t=4.219, sig<0.0005) are found to be highly and positively significant and influential on foreign market entry. This fact leads to accept and support H_6. This result is consistent with the view of De Búrca, Brown & Fletcher, (2004), and Hollensen (2008, 209.) who all support the fact that Laws and Regulations will have positive influences on decisions for foreign market entry.

5. 5. Conclusion

This study embarked tackling a gap in our knowledge of affects which influence businesses to take the strategic decision to enter foreign markets. Planning to enter the foreign market makes it imperative for marketers to study and carefully plan and then make courageous decisions.

Over a comprehensive literature review we proposed a conceptual research model to measure the external factors affecting foreign market entry. The hypotheses of our conceptual model are constructed based on the results of reviewing the current literature along with essential research achieved by the author.

In brief this study promoted the significance of the selected six factors affecting foreign market entry, including Market attractiveness, Cultural differences, Country risk and demand uncertainty, Market size and growth, Markets competitiveness, and Laws and regulations. These results, although not decisive, go with the more predominant research methods within the resource-based perception which concentrates on the external factors any business must consider before deciding whether to attend a foreign market or not . The research thus adds to the body of knowledge on global market entry.

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