Internationalization of businesses and selection of entry modes in other markets

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Abstract

The purpose of this study is to analyze the factors of foreign companies that have already entered Macedonia in any mode of entry by finding out the factors and motives that influenced their decision making while choosing the proper mode for that particular market.

As a research methodology for collecting initial data, a structured questionnaire is used with 28 variables as factors which influence decision making of the modes of entry into the foreign market. A statistical software was used in order to evaluate the variables used in the study. The raised hypothesis were tested using One Sample T-test. According to the obtained results, the variables political stability and the law on foreign investments seem to be as more important factors for companies that operate in Macedonia. Finally, companies need to analyze the internal and external factors from the environment in order to able to create strategies to operate in the domestic and international markets.

Key words: Foreign market; factors; motives; mode of entry;

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1. Introduction

The force of globalization has enabled and provided companies more opportunities for generating more revenues. Nowadays there are a lot of companies trying to grab the opportunities from location economies. Every country offers different advantages of production factors. Therefore, these companies profit from global efficiency because some countries offer financial incentives, in some countries there is a cheap labor force, and other production factors.

Becoming a company with international presence, it is very important to analyze factors and motives that make the company decide what market to enter and to what mode of entry (Zekiri, 2016). In many cases the mode of entry of foreign companies is decided on a great deal by many macroeconomic factors. The different modes of entry starting from exporting and finishing with FDI offer companies many opportunities for expansion.

Knowing factors that have an impact on the internationalization of companies is very important for Macedonia, because it might affect the mode of selection of any foreign company wishing to be installed in its market. Analyzing factors and motives of foreign companies and what influences them to enter the Macedonian market helps in creating and improving the existing climate for doing business in the country.

2. Methodology

This research had an objective to find out the main factors that influence foreign companies entering the Macedonian market. The paper in order to gather data used a quantitative approach by using a structured questionnaire for collecting the empirical data. Both types of data were used, primary and secondary data. Different second data sources were used as a secondary research, like textbooks, books, online open access articles, journals, and internet sources.

The questionnaire was sent to 60 companies that have entered the Macedonian market by different forms of investments. Only 44 companies replied to the questionnaire. In order to collect the data a period of 6 months was needed. Even though the structured questionnaire was anonymous still many companies refused to answer the posed questions and eventually did not reply to our requests.

The paper used One sample T - Test to verify or reject the hypothesis. Therefore, One Sample T –Test as a statistical tool is used to measure variables and to check whether a variable is different from a known value, or from the average of the population. SPSS as a statistical software and Excel were used for analyzing the data.

3. Literature Review

Literature review by many authors points out many factors that have an impact on foreign direct investments. Factors such as: the country hospitality for foreign companies, regulation of the market for products and the labor market, corporate tax rates and economic, and political stability, barriers to trade, tax policy, tax incentives, workforce, distance, infrastructure, human capital, size of the market, etc.

From the literature reviews market size influences companies in a great deal in their selection of the mode of entry because it offers many opportunities to different companies from different countries (Li and Yue, 2008). Generally countries with smaller markets are less attractive to FDI compared to countries with bigger markets.

In general, larger markets should receive more FDI inflows than countries with smaller markets. Countries that are stable economically and politically are more likely to receive more FDI inflows (Alesina et, al. 1996).

Once an entry mode has been chosen, the company has to decide the degree of its marketing involvement and commitment. Therefore, the decision should reflect a considerable study and analysis of market potential and company capabilities (Cateora and Graham, 1999). It is very crucial when operating in global arena to try not to make any differences that are culture related, which may impose a major risk between cultures. Businesses need also strategies for ensuring the resource allocation in the most effective way in a potential market (Zekiri and Nedelea, 2011). According to Hill et al., (1990) the mode of entry that companies choose has implications for how much resources the company must commit to its foreign operations, the risk that the company must bear, and the degree of control that the company can exercise over the operations on the new market.

It is very important for companies whether domestic or international, large or small, that want to conduct business without taking in

consideration the political environment of the country where they intend to operate (Cateora and Graham, 1999).

Any firm engaging in international marketing should also be aware of the importance of sovereignty to national governments and its consequences for global business (Keegan and Schlegelmilch, 2001). Thus, government involvements in business are related with making policies how best to promote the national interest (Zekiri, 2016).

Countries in transitional economies are attractive for foreign direct investment because of perspective markets, cheap work force and economic conditions (Avdalyan, 2012).

Foreign investments are heavily supporting developing and newly industrializing countries because such countries are relying primarily on foreign direct investment as capital inflows (Nennenkamp, 2002).

4. Data Presentation and Analyses

This part shows the collected data from the structured questionnaire about factors that have an impact on the mode of entry of FDI. In this part the hypothesis are tested.

4.1. Descriptive statistics

In this part, all the variables used in the questionnaire are shown as factors that have an impact on the mode of entry. Regarding factors that have an impact on the mode of entry, participants on the survey had to respond to the questions by selecting 1 as least important to 5 as most important.

Table 1: Factors that have an impact on the mode of entry of FDI

	Variables
	Political and Legal factors
PLF1	Country image
PLF2	Government stability
PLF3	Political stability
PLF4	The Law on Foreign Direct Investment
PLF5	Disputes solving
	Social and Cultural factors
SCF1	Language and tradition
SCF2	Cultural similarities and historical ties
SCF3	Level of education
SCF4	Social stability
	Economic and Market factors
EMF1	Economic stability
EMF2	Availability of cheap labor
EMF3	Expected market growth
EMF4	Technology transfer
EKM5	Availability of resources
	Financial factors
FF1	Stable exchange rate
FF2	Access to capital
FF3	Political and corporate tax

FF4	Risk diversification
	Geographic and Location factors
GLF1	Infrastructure (roads, ports, electricity, etc.)
GLF2	Access to regional and global factors
GLF3	Access to resources
GLF4	Communication infrastructure
GLF5	Closeness to neighboring countries
	Control and Return on Investment factors
CRIF1	Control of investments
CRIF2	Desired degree of return
CRIF3	Advantage being first in the market
CRIF4	Monopoly or strong market position

Table 1 shows all the variables used in the survey as factors that influence companies selecting to enter other markets by a mode of entrance.

4.2. One sample T-test

In order to analyze the hypothesis, One Sample T -Test is used by comparing values with the known constant. One Sample T -Test is used to measure whether a variable is different from the determined constant, or from the mean value of the population.

This test helps identifying the main factors that have an impact on the mode of entry in the Macedonian market.

4.3. Testing Hypothesis

Companies were expected to answer the structured questionnaire about factors that have an impact on their way of internationalization of their businesses. Thus, the value of the T-Test in this study is 3, where the

answers of companies can range as less important to most important. In this way, the hypothesis can be justified or rejected.

H1: "Political and legal factors play an important role in the modes of entry of companies in foreign markets"

One sample statistics show that the mean value of the variables, and their standard deviation, as well as standard mean error (table 6) the mean value from the answers of the questions from the variables PLF1, PLF2, PLF3, PLP4 and PLF5 is 3.62, which means that these factors play an important part concerning the modes of entry of companies into foreign markets, **i.e., μ > 3.**

Table 2: One Sample Statistics

	Nr.	Mean	Std. Deviation	Std. mean error
PLF1	44	3.20	1.069	.161
PLF2	44	3.57	1.021	.154
PLF3	44	3.86	1.025	.155
PLF4	44	4.00	1.201	.181
PLF5	44	3.48	1.151	.174

Source: Authors' calculation using SPSS

According to the table 2, results are with positive value, which means that political and legal factors have an impact on selecting the modes of entry into Macedonian market.

Table 3: One sample T-Test

Test value= 3						
					95% Confidence interval of the difference	
	T	Diff.	Sig. (2-tailed)	Mean difference	Lower	Upper
PLF1	1.269	43	.211	.205	-.12	.53
PLF2	3.693	43	.001	.568	.26	.88
PLF3	5.589	43	.000	.864	.55	1.18
PLF4	5.524	43	.000	1.000	.63	1.37
PLF5	2.750	43	.009	.477	.13	.83

Source: Authors' calculation using SPSS

It can be seen from T- test that all the political and legal factors are important for selecting the form of entry into Macedonian market. Table: 3 shows that the hypothesis is accepted.

Furthermore, the empirical results show that the law on foreign direct investment is as one of the most important factors in all modes of entry, whereas political stability as a second most important variable. For Greenfield, M&As and joint venture, the law on foreign investments is very important, followed by the variable dispute solving, the image of the country, and country stability. For other modes of entry, such as: export, license and franchise, as the main important factors are political stability and the law on foreign investments.

It is very interesting that for all modes of entry the image of the country represents as the least important factor that influence the mode of entry.

H2: "Social and cultural factors play an important role in the modes of entry of companies in foreign markets"

One sample statistics show that the mean value of the variables, and their standard deviation, as well as standard mean error (table: 4) the mean value from the answers of the questions from the variables SCF1, SCF2, SCF3, and SCF4 is 3.37, which means that these factors play an important part concerning the modes of entry of companies into foreign markets, **i.e., μ > 3.**

Table 4: One sample statistics

	Nr	Mean value	Std. deviation	Std. mean error
SCF1	44	2.95	.914	.138
SCF2	44	2.80	.823	.124
SCF3	44	3.84	.963	.145
SCF4	44	3.77	1.008	.152

Source: Authors' calculation using SPSS

According to table: 4, results are with positive value, which means that social and cultural factors have an impact on selecting the modes of entry into Macedonian market.

Table 5: One sample statistics

					95% confidence interval of difference	
	T	Diff.	Sig. (2-tailed)	Mean difference	Lower	Upper
SCF1	-.330	43	.743	-.045	-.32	.23
SCF2	-1.648	43	.107	-.205	-.45	.05
SCF3	5.792	43	.000	.841	.55	1.13
SCF4	5.083	43	.000	.773	.47	1.08

Test value = 3

Source: Authors' calculation using SPSS

It can be seen from T- test that all the political and legal factors are important for selecting the form of entry into Macedonian market. Table: 5 shows that the hypothesis is accepted.

From the obtained results the level of education as well as social stability is shown as the most important factors almost at all modes of entry, followed by the variable cultural relation and historical connections. For the modes of entry such as: greenfield, M&As and joint venture, the level of education is the most important factor, followed by social stability variable. The variable language and customs is seen as the less important factor for all modes of entry.

H3: "Economic and market factors play an important role in the modes of entry of companies in foreign markets"

One sample statistics show that the mean value of the variables, and their standard deviation, as well as standard mean error (table: 10) the mean value from the answers of the questions from the variables EMF1, EMF2, EMF3, EMF4 and EMF5 is 3.78, which means that these factors play an important part concerning the modes of entry of companies into foreign markets, **i.e., μ > 3.**

Table 6: One sample statistics

	Nr	Mean value	Std. deviation	Std. mean error
EMF1	44	4.00	.988	.149
EMF2	44	3.75	.811	.122
EMF3	44	3.80	.930	.140
EMF4	44	4.14	1.025	.155
EMF5	44	3.23	1.508	.227

Source: Authors' calculation using SPSS

According to table 6 results are with positive value, which means that social and cultural factors have an impact on selecting the modes of entry into Macedonian market.

Table 7: One sample test

Test value = 3						
					95% confidence interval of difference	
	T	Diff.	Sig. (2-tailed)	Average mean	Lower	Upper
EMF1	6.712	43	.000	1.000	.70	1.30
EMF2	6.138	43	.000	.750	.50	1.00
EMF3	5.676	43	.000	.795	.51	1.08
EMF4	7.354	43	.000	1.136	.82	1.45
EMF5	1.000	43	.323	.227	-.23	.69

Source: Authors' calculation using SPSS

It can be seen from T- test that all the economic and market factors are important for selecting the form of entry into Macedonian market. Table 7 shows that the hypothesis is accepted.

The obtained results from the survey reveal the transfer of technology as the most important factor in all forms, followed by cheap labor market and expected rise of the market. For the modes of entry such as: Greenfield, M&As and joint venture, technology transfer is seen as the most important factor, followed by access to cheap labor and expected rise of the market. For export as a form of entry, access to resources was seen as the most important factor.

H4: "Financial factors play an important role in the modes of entry of companies in foreign markets"

One sample statistics show that the mean value of the variables, and their standard deviation, as well as standard mean error (table: 8) the mean value from the answers of the questions from the variables FF1, FF2, FF3, and FF4 is 3.71, which means that these factors play an important part concerning the modes of entry of companies into foreign markets, **i.e., μ > 3.**

Table 8: One sample statistics

	Nr	Average mean	St. Deviation	St. Mean error
FF1	44	3.84	1.033	.156
FF2	44	3.61	1.166	.176
FF3	44	3.61	.970	.146
FF4	44	3.80	.930	.140

Source: Authors' calculation using SPSS

According to table 8, results are with positive value, which means that financial factors have an impact on selecting the modes of entry into Macedonian market.

Table 9: One sample test

					95% confidence interval of difference	
	T	Diff.	Sig. (2-tailed)	Average mean	Lower	Upper
FF1	5.400	43	.000	.841	.53	1.15
FF2	3.492	43	.001	.614	.26	.97
FF3	4.198	43	.000	.614	.32	.91
FF4	5.676	43	.000	.795	.51	1.08

Source: Authors' calculation using SPSS

It can be seen from T- test that all the financial factors are important for selecting the form of entry into Macedonian market. Table 9 shows that the hypothesis is accepted. According to results obtained, diversification of the risk is seen as the most important factor almost at all modes of entry, followed by the variable stable exchange rate and access to capital. For the modes of entry such as: greenfield, M&As and joint venture, diversification of the risk is seen as the most important factor, followed by access to capital, and stable exchange rate.

H5: "Geographical and location factors play an important role in the modes of entry of companies in foreign markets"

One sample statistics show that the mean value of the variables, and their standard deviation, as well as standard mean error (table: 10) the mean value from the answers of the questions from the variables GLF1, GLF2, GLF3, GLP4 and GLF5 is 3.71, which means that these factors play an important part concerning the modes of entry of companies into foreign markets, **i.e., μ > 3.**

Table 10: One sample statistics

	Nr.	Average mean	St. deviation	St. mean error
GLF1	44	3.84	1.180	.178
GLF2	44	3.55	.791	.119
GLF3	44	3.52	1.320	.199
GLF4	44	4.00	.964	.145
GLF5	44	3.66	1.098	.166

Source: Authors' calculation using SPSS

According to the table 10, results are with positive value, which means that geographic and location factors have an impact on selecting the modes of entry into Macedonian market.

Table 11: One sample test

Test value: 3						
					95% coincidence interval of difference	
	T	Diff.	Sig. (2-tailed)	Average mean	Lower	Upper
GLF1	4.727	43	.000	.841	.48	1.20
GLF2	4.574	43	.000	.545	.30	.79
GLF3	2.626	43	.012	.523	.12	.92
GLF4	6.877	43	.000	1.000	.71	1.29
GLF5	3.980	43	.000	.659	.33	.99

Source: Authors' calculation using SPSS

It can be seen from T- test that all the geographical and location factors are important for selecting the form of entry into Macedonian market. Table 11 shows that the hypothesis is accepted. The obtained results show that the infrastructure is the most important factor almost at all forms of entry, followed by the link with other neighboring countries. For the modes of entry such as: Greenfield, M&As and joint venture. Communication infrastructure is seen as the most important factor followed by closeness to neighboring countries.

H6: "Control and return on investment factors play an important role in the modes of entry of companies in foreign markets"

One sample statistics show that the mean value of the variables, and their standard deviation, as well as standard mean error (table: 12) the mean value from the answers of the questions from the variables CRIF1, CRIF2, CRIF3, and CRIF4 is 3.99, which means that these factors play an important part concerning the modes of entry of companies into foreign markets, **i.e., µ > 3.**

Table 12: One sample statistics

	Nr	Average mean	St. deviation	St. mean error
CRIF1	44	4.16	.680	.103
CRIF2	44	4.50	.699	.105
CRIF3	44	3.98	.792	.119
CRIF4	44	3.34	.713	.108

Source: Authors' calculation using SPSS

According to table 12 results are with positive value, which means that control and return on investment factors have an impact on selecting the modes of entry into Macedonian market.

Table 13: One sample test

					95% confidence of interval difference	
	T	Diff.	Sig. (2-tailed)	Average mean	Lower	Upper
CRIF1	11.306	43	.000	1.159	.95	1.37
CRIF2	14.238	43	.000	1.500	1.29	1.71
CRIF3	8.184	43	.000	.977	.74	1.22
CRIF4	3.170	43	.003	.341	.12	.56

Test value = 3

Source: Authors' calculation using SPSS

It can be seen from T- test that all the control and return on investment factors are important for selecting the form of entry into Macedonian market. Table 13 shows that the hypothesis is accepted. The desired degree of return of investments seem to be as the most important factor almost at all modes of entry, followed by the variable control of investments.

For the modes of entry such as: Greenfield, M&As and joint venture, desired degree of investment return and investment control seem to be as the most important factors. Whereas for other modes of entry, such as: license and franchise, as the least important factor seem to be strong position in the market as well as investment control.

5. Conclusion

The study is focused on analyzing the forms of entry and the factors contributing to the selection of the mode of entry into foreign markets in general, and in particular into the Macedonian market. Political and legal factors are very crucial for selecting the mode of entry. According to obtained results, the variables political stability and the law on foreign investments seem to be as more important factors for companies that operate in Macedonia. The social stability as well as the level of education are found to be the most important factors from the social and cultural variables. Furthermore, economic and market factors seem to be of very

importance for foreign companies operating in Macedonia, technology transfer, economic stability, expected market growth and low labor cost are the most important variables in this category.

For all foreign companies operating in the Macedonian market, a stable exchange rate and risk diversification are very important factors from the group of financial factors. The communication infrastructure, like: roads, ports, electricity, etc., are also very important. Concerning variables from the group of factors that belong to control and return on investment, the desired degree of return, control of investments and the advantage of being the first into the markets seem to be as the most important.

Finally, companies need to analyze the internal and external factors from the environment in order to able to create strategies to operate in the domestic and international markets. Companies can control the internal factors that are on their domain, but they cannot control factors belonging to the external environment. Their success and survival depend very much on how much they can adapt and adopt their strategies to fit with such environmental changes. Factor analysis help companies to assess their situation for entering new markets, and whether those markets are optimal for their objectives.

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