

ЭКОНОМИКА: ИСТОРИЯ, ТЕОРИЯ, ПРАКТИКА

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I.V. ONYUSHEVA,¹
PhD, associate professor,
professor of RAM, RANH.
Turan University¹

EXPLORING FOREIGN MARKET ENTRY STRATEGIES AS A WAY OF INTERNATIONAL BUSINESS EXPANSION

Abstract

The given paper is devoted to the exploring foreign market entry strategies as ways of international business expansion. Being in the situation of increasing globalization, many firms attempt to expand their businesses into foreign markets that confirms the relevance of the research issue. International expansion provides opportunities for the growth of the company, helps to increase competitiveness and facilitates access to new product ideas. However, providing a lot of opportunities, internationalization for a firm is a process associated with many risks, and without clear strategy the internationalization is unlikely to be successful. There are many important questions that need to be solved before entering a target market, including foreign market entry strategy selection. When entering a foreign market, a market entry mode should be selected, which is a vitally important decision for a small sized company. Choice of a proper entry strategy is a basic and imperative part of the vital choice a firm needs to make when investing abroad. In this article, it is considered in detail the conceptual research model of the key foreign market entry strategies in the context of their impact on the company's export performance and in consequence, the impact of international business expansion.

Key words: international business, business expansion, foreign market, entry strategies, export, investment, internationalization.

Being in the situation of increasing globalization, many organizations attempt to expand their businesses into foreign markets. Organizations enter global rivalries due to various purposes, for example, raising worldwide reputation, the establishment of long-term development, an increment of gainfulness, economies of scale and for other reasons, for example, filling of the internal market, power of rivalry in the inside market and weight of administrative principles and guidelines. In the global challenge, an appropriate and entry strategy ensures long-term market presence and prompts the accomplishment business competitiveness in global markets. The organizations that enter universal markets, in general, must choose the type of entry strategy and its impact on the organization's farthest foreign activity.

Thus, organizations work in progressively dynamic and fierce situations portrayed by serious competition, uncertain economic stipulations, quicker technological innovations and shorter item life cycles. Under these conditions, the effective presentation of new items into the market turns into a basic factor for the endurance and development of organizations. Several studies have examined the success or failure of products or services, including marketing and production, as a result of a specific introduction or launch strategy. Several scientists believe that apart from companies desire to reach foreign markets, increasing export output is their main concern. Entry strategy is among the most crucial and primary factors in export performance designation. Despite the fact that a focus has been put on the connection and impact of the entry strategy on organizations export output in the past, little research has been carried out on it.

International entry mode is significant in light of the fact that the accepted entry mode has huge connotations for performance. It determines if an organization has full command over the outside unit or needs to impart control to a partner. What's more, the accepted entry mode is hard to change, since it has long-term implications for the organization. Given its high pertinence, various empirical investigations have directed to the entry mode choice.

Internationalization is the way to expand information gathering in overseas markets and organizations. It was discerned that organizations start the process of internationalization by sending products to culturally comparative countries. Nonetheless, different specialists contend that the more extended organizations wait to initiate global projects, the more troublesome it will be to develop globally. Internationalization can be seen as a component of most organizations ongoing strategy. The fundamental contrasts among internationalization and different kinds of strategy are as per the following: first, when goods, services or assets are to be moved across country borders, it is necessary for organizations to choose the country where the transactions will take place. The choice of the method of conducting exchange operations in international markets by the organization is the strategy of entry into the foreign market. This paper focuses on entry strategy since one of the basic choices in that internationalization procedure is the decision of an entry strategy.

Entry strategy is the method utilized by an organization beginning to do business abroad. It is a Procedure that makes conceivable the entry goods of organization, innovation, human skills, the executives, or different assets into a foreign country. Numerous types of market entry strategy are accessible to organizations to enter global markets. In one classification, a distinction is first made between the regimes of equity and nonequivalence. Equity systems have companies, including wholly-owned entities and joint ventures, that carry on a certain stake in the business organizations involved. Non-equity systems do not include ownership and include exports or certain contractual arrangements like franchising or licensing. In 1982 Caves distinguished four essential approaches to extend globally, from the most minimal to the most elevated risk: 1) wholly-owned foreign subsidiaries; 2) strategic alliances; 3) licensing and franchising; 4) exporting [1].

Cateora and Graham concluded that import/export, wholly owned subsidiaries, partially owned subsidiaries, licensing, franchising, consortiums and a joint venture are the six main entry systems in the new market. This is expressed in the spectrum from the lowest risk-return and investment to the highest. By building a correspondence between the external risk of reaching the target market and the level of comfort risk of appetite and the level of, the company chooses a certain strategy. Two organizations may see various dangers as they assess a similar market and, in this way, pick diverse entry mode. Faced with the same risks, different companies may adhere to different methods of leveling the arising risks based on the level of resistance to risk [2].

The initial grouping of various universal entry mode is established on two separate attributes: 1) production capacity location; 2) the proportion of ownership in foreign investment that the organization needs. Foreign market entry may take place in two ways, depending on where the production facilities are located. The organization may export its goods to the target country either from production facilities outside the target country (exporting strategies), or the organization can transfer its resources to the foreign country in finance, human skills, technology and business, where they can be to consumers directly or in order to produce goods using local resources (non-exporting strategies). The second feature (ownership percentage) reflects these alternatives: wholly-owned, partially investment or none [3].

Export Strategies. Most organization choose to export as a strategic choice for a foreign entry mode that retains effort and resources while continuing to leverage global opportunities. Exporting can become a learning experience internationally. Many companies opt for export for their first mode of international entry. This is the easiest way to access foreign markets and the lowest possible risk. This requires the least allocation of equipment and has the lowest differences in country marketing programs.

An organization that uses export strategies usually enjoys some benefits, such as the speed of global market penetration, and does not require investment in the host country to establishing operations. In particular, direct export provides a low-risk business and a quick way to start international operation and meet demand and challenges. Therefore, the company and management interest in exporting alternatives is usually small. The classification is split into two categories of export strategies: export strategy direct and export strategy indirect.

Direct Export Strategy: In organizations focused on direct import, relationships arise between markets and foreign consumers. No matter the operations are direct, own or indirect, the export end result is similar. When exporting by foreign customers, companies use this strategy, in which business interacts with regional sales agents. Recognizing the commitments made to sell manufactured goods

in the target market, they are committed to the direct export strategy, which in turn places great demands on the level of international marketing experience. Experience, income, resources, reliable market information and so on is the advantage of this strategy, while the reverse strategy will require higher costs. The variability of direct foreign export methods is not limited to internal export facilities, mobile sales agents, export agents and sales offices.

Indirect Export Strategy: Without negotiating with foreign clients or companies, organizations with indirect participation resort to the services of intermediaries when participating in international projects. The organization sends its products through intermediaries to foreign customers in this approach. When selling a product in international markets without resorting to any special activities, companies use an indirect export strategy. The company does not participate in international marketing in a real sense in this strategy. This strategy is more widespread among organizations that recently opted for export. Types of indirect export are: export management organizations, commercial organizations, production and distribution collaboration (Piggyback Marketing), intermediaries and sales agents, and export cooperatives [1, p. 249].

Non Export Strategies: This means that the organizations manufactures its manufactured goods in other countries and sells them to international markets. The following forms of non-export approaches include.

In strategic alliances, organizations pool their resources or share them and expertise with other organizations and groups, and share the benefits or risks of beginning a new venture. The organization uses approaches such as licensing, franchising, contract manufacturing, and joint investment to reach international markets within this strategy.

Foreign licensing is a contractual agreement between a domestic licensor and a foreign licensee (usually the licensor has a valuable copyright, technical know-how, trademark, or organization name it gives to the foreign licensee).

International franchising functions similarly to licensing, but affects the field of commerce and distribution in the broader services sector. This form is particularly popular among SMEs, particularly among self-employed or micro-enterprises, especially within the European Union, due to the much lower start-up costs of such activities. The business enters the foreign market without any investment through licensing and franchising. The mutual investment comes when a company asks to share in a foreign company's stock.

A joint venture involves sharing equity and risks on an ongoing basis as well as involvement in management among partners establishing a long-term, profitable partnership. The benefits of the joint venture include saved capital and less limited resources for operations in foreign countries. The risks associated with the entry of the international market are also smaller and the business acquires some important resources, such as local knowledge and experience, through a joint venture. Joint ventures also minimize the risk of long-term investment capital exposure while maximizing the capital leverage invested.

Foreign Direct Investment: By creating a new corporation or buying an existing company, the company becomes the sole owner of the product manages operations in a foreign country. The creation of a subsidiary with 100% ownership, as an entry mode, allows you to conduct activities without the direct participation of the parent company in the country. The key benefit of the organizations foreign direct investment is the retained leverage over its goods ' technology, marketing, and distribution. The drawbacks of investment in Greenfield are typically complicated developing processes and high potential costs. Establishing a new wholly-owned company takes a long time, and is therefore not ideal for rapid penetration into foreign markets. The creation of the investment in Greenfield also requires the greatest contribution of know-how from all the alternatives for global market entry.

Entry strategy selection. Global development theories are widely used as the basis for evaluating the selection of international organizations for entry strategy. Several mono-disciplinary theoretical frameworks, such as Hymer's market imperfections theory, transaction cost theory, internalization theory, strategic actions and resource-based approach, have attempted to explain multinational organizations choice of an optimal mode of entry into the foreign market only from one particular perspective [4]. However, Andersen suggests that the entry strategy option for a company includes several considerations and that a single theoretical point of view is not sufficient to give the full report. To address this dynamic system of decision making of the entry strategy, it is naturally more

fitting to have an eclectic approach that compares different factors at the same time. Dunning is trying to integrate different theoretical frameworks into a diverse structure. In accordance with the eclectic model of Dunning, company's decision to enter a foreign market and the choice of mode of market entry (contractual resource transfer, direct investment or export) depends on having: 1) internalization benefits; 2) ownership-specific; 3) location-specific. Dunning's eclectic paradigm does not distinguish between a joint venture and a corporation with 100% ownership if the business decides to invest directly in a foreign country. Generally, the entry strategy selection includes two steps: 1) the location of the production facilities; 2) determining the extent of the company's participation in or control of the international subsidiary's operations.

In Step 1, a development or hard-service company chooses to export to and sell on the target international market. In Step 2, a development or hard-service company chooses forms of sharing or low involvement between full control or high involvement. Several studies have proposed that entry approaches can be distinguished with respect to resource commitments and control rates. Most sometimes competing factors often affect the entry strategy of a company's choosing. Influences shaping decisions in the entry mode can be differentiated for inside and outside influences. Outside factors include country target market factors, country target environmental factors, country target growth factors and home country factors. The considerations of the business product and the business resources are internal factors that affect the decision on the entry mode.

Further, the conceptual model founded on the above research has been presented and a model of entry strategy, export performance and international business expansion can be proposed, as illustrated in Figure 1.

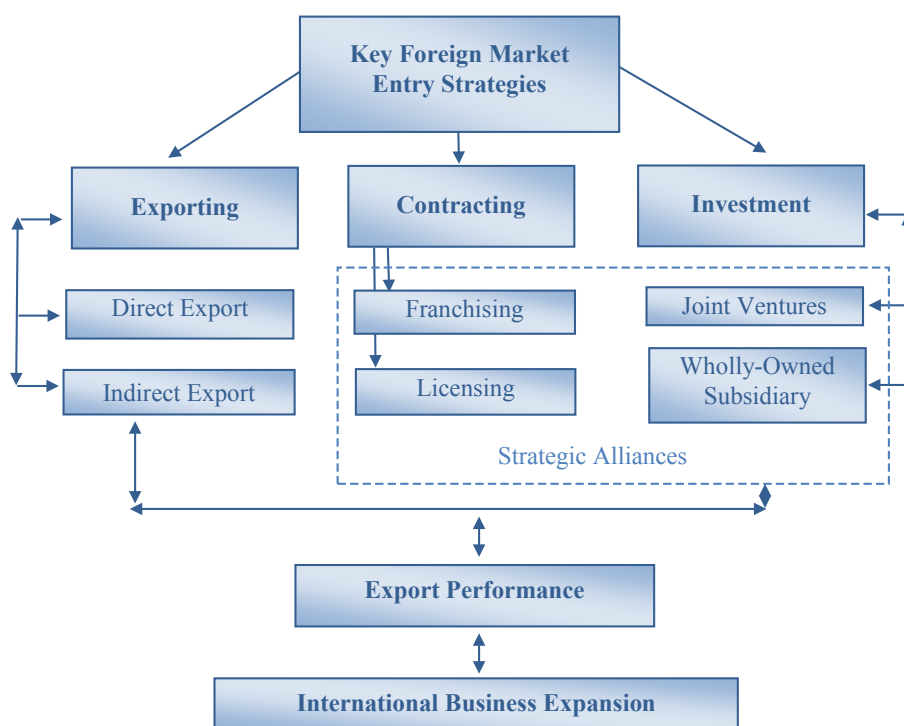


Figure 1 – Conceptual research model of key foreign market entry strategies in context of international business expansion

Note – Source: Compiled by the author on the base of [2–6].

This figure focuses on the relationship between export performance and entry strategies. In addition, most international business research studies regard international experience and the size of the organization as control variables. One of the main frequent subjects of research is the relationship between export performance and company size. In the literature there is general consensus that the scale of the organization is positively linked to the propensity of the company to export. Organization size

also affects the entry strategy. With the increase in the size of the company is directly proportional to the willingness to expand investment activity abroad, taking into account the costs and risks, according to the Horst paradigm. However, greater size means greater financial availability and administrative capital, making the creation of wholly-owned subsidiaries simpler. Accordingly, a large part of empirical research found that organization size is positively correlated with the degree of interaction the entry mode assumes [5]. Standardization, without the use of other methods, will lead to optimal results in relation to the international experience of the organization, no matter how experienced the organization. The probability of choosing the best place for products and using the right marketing strategy for an experienced international company, in conditions of environmental volatility, is highest. International business experience is a comprehensive complement to the firm capital. Relative business experience, also reflected in the total sales ratio, the number of foreign markets currently served and the awareness of the host countries, affects the entry mode choice. It is empirically proven that with the accumulation of international experience, the company's need for 100% ownership increases. Gaining experience through export, subject to limited international experience and lack of investment in stocks, will be a low-involvement model. A U-shaped relationship has been identified between the tendency to take part unilaterally and international experience according to Erramilli's writings [6]. In our previous discussion, we gave some reasons for that result. Company tends to favor a single ownership company as they gain vast experience in international marketing.

Moreover, the U-shaped phenomenon especially applies to soft services. When the market is culturally similar to their domestic market soft services must be based on the local market, unexperienced soft services are the most likely to take sole ownership when they first enter a foreign market. Fast and valuable international marketing expertise for soft services offers by sole ownership. As a comparison, the fact of hard services, including manufactured goods, is likely to follow a linear trend, exporting with inexperienced and sole ownership with extensive experience.

Entry mode selection becomes a key strategic decision for companies seeking to join global markets, since it will impact their future business performance significantly. In the background of manufacturing industries, market-entry approaches affect business efficiency. One of the major points of international marketing is the option of suitable entry strategies. Both methods have an impact on the efficiency and length of this, by deciding the process and allocating necessary and appropriate resources. The point of view of efficiency or profitability is determined by quality in the entry mode. Non-profit motivations, such as the acquisition of capital and expertise, or strategic moves against rivals, are believed to represent long-term profit.

In addition, some of the researchers suggest that entry strategies influence export output by assessing the level of control, risk level and share of the business in foreign markets and ending up with the company's success or failure. The entry strategy to global markets is certainly one of the key elements in the companies' global marketing strategies for winning in global markets, which plays a vital role in their business success.

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Андатпа

Бұл мақала шетелдік нарыққа шығу стратегияларын халықаралық бизнесті кеңейтудің тәсілі ретінде зерттеуге арналған. Күшейіп келе жатқан жаһандану жағдайларында көптеген фирмалар өз бизнесін сыртқы нарықтарға шығу арқылы кеңейтуге тырысады, бұл зерттеудің өзектілігін негіздейді. Халықаралық экспансия компанияның өсуі үшін мүмкіндіктер ұсынады, бәсекеге қабілеттілікті арттыруға көмектеседі және жаңа өнімдерге қол жеткізуді жеңілдетеді. Алайда көптеген мүмкіндіктерді ұсына отырып, интернационалдандыру фирма үшін – бұл көптеген тәуекелдермен байланысты процесс және нақты стратегиясыз интернационалдандырудың нәтижелі болуы екіталай. Сыртқы нарыққа шығу стратегиясын таңдауды қоса алғанда, нысаналы нарыққа шығудың алдында шешілуі қажет көптеген маңызды мәселелер бар. Сыртқы нарыққа шығу кезінде нарыққа шығудың тиісті режимін таңдап алған жөн, бұл компания үшін өмірлік маңызды шешімі болып табылады. Лайықты кіру стратегиясын таңдау фирманың шетелде инвестиция салу кезінде жасауы тиіс стратегиялық шешімнің сындарды және таптырмайтын құрауышы болып табылады. Бұл мақалада олардың компанияның экспорттық көрсеткіштеріне және нәтижесінде халықаралық бизнесті кеңейтуге әсер етуі контекстінде шетелдік нарыққа шығудың негізгі стратегияларының тұжырымдамалық зерттеу моделі егжей-тегжейлі қаралады.

Тірек сөздер: халықаралық бизнес, бизнесті кеңейту, шетелдік нарық, шығу стратегиясы, экспорт, инвестиция салу, интернационалдандыру.

Аннотация

Статья посвящена исследованию стратегий выхода на зарубежный рынок как способа международного расширения бизнеса. Находясь в условиях усиливающейся глобализации, многие фирмы пытаются расширить свой бизнес путем выхода на внешние рынки, что обуславливает актуальность исследования. Международная экспансия предоставляет возможности для роста компании, помогает повысить конкурентоспособность и облегчает доступ к новым продуктам. Однако, предоставляя множество возможностей, интернационализация для фирмы – это процесс, связанный со многими рисками, и без четкой стратегии интернационализация вряд ли будет успешной. Есть много важных вопросов, которые необходимо решить перед выходом на целевой рынок, включая выбор стратегии выхода на внешний рынок. При выходе на внешний рынок следует выбрать соответствующий режим выхода на рынок, что является жизненно важным решением для компании. Выбор подходящей стратегии выхода является критическим и незаменимым компонентом стратегического решения, которое фирма должна делать при инвестировании за рубежом. В статье подробно рассматривается концептуальная исследовательская модель ключевых стратегий выхода на зарубежный рынок в контексте их влияния на экспортные показатели компаний и, как следствие, расширение международного бизнеса.

Ключевые слова: международный бизнес, расширение бизнеса, зарубежный рынок, стратегии выхода, экспорт, инвестирование, интернационализация.