

# **INTI INTERNATIONAL UNIVERSITY**

## **MASTER OF BUSINESS ADMINISTRATION**

### **A STUDY OF INTERNAL FACTORS DETERMINING ORGANIZATIONAL CHOICE OF ENTRY MODE TO FOREIGN MARKETS**

**Author: DANA YERSEITOVA**

**Student No: I09004868**

**Supervisor: DATO PROF DR. IBRAHIM AHMAD BAJUNID**

**Submission Date: December 15, 2010**

**Ethics Number: IN270**

**Final Word Count: 15,332 words**

**Faculty of Business and Accountancy**

**Abstract**

*should be after acknowledgment*

This research investigates organizational internal factors determining the choice of entry mode to foreign markets. The internal factors investigated in this research were based on the precedent studies in a chosen field. The factors examined for the purpose of this research included organizational international experience, organizational degree of control, management's attitude towards risk and diversity in the organization. The study defines each of the factors and explains the relationship between those factors and the dependent variable of this study – choice of entry mode to the foreign market. The study revealed the items constructing variables to belong to various factors. Therefore, the research showed unpredictable results and the direction was changed in comparison to this proposed originally by the researcher. Nevertheless, the study achieved its aims of identification of factors influencing the choice of entry mode and methods of avoiding challenges in foreign market. In addition to that, this study with the aim of the factors analysis determined the factors that influence the organization's ability to create advantage of product line in foreign market.

In addition to that the research provides guideline for the further studies to be conducted in the field of strategic management and, especially, on the challenges associated with the company's entrance to foreign market in order to fill gaps in this broad field of study.

Key words: foreign markets, entry modes, internal factors.

*Weak in literature review - citation and bibliography/references  
- defining & forming in Abstract  
Clear objective and analysis part  
May improve in questionnaire set, unit of analysis, and sample of respondents with the results*

## Acknowledgements

First of all, I would like to thank my all family for the given opportunity to study abroad. I would like to express my appreciation especially to my grandfather. I dedicate this research to my grandfather, a person who supported me from the early childhood and have taught me most of my conceptions about this World.

I would like to express my sincere thanks to the supervisor of my research, Professor Dato Dr Ibrahim Ahmad Bajunid, for his enormous participative assistance to me in conducting this research.

This research is also impossible to be finished without the guidance of the Head of our Program, Dr Vikineswaran A/L Maniam, who is my second supervisor.

I would like to emphasize my honorable gratitude to Ms Syarifah Mastura Syed Abu Bakar for her thorough approach to help me to revise the work and for her valuable comments for the improvement of this research.

I express special thanks to Ms Yalini Easvaralingam for her great support and assistance in data analysis part of this project.

I would also like to express my gratitude to all lecturers of INTI International University who guided me throughout this exciting journey of the MBA program.

Finally, I am thankful to the participants of the questionnaire survey who made possible the process of data collection for this research.

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## Chapter 1

### Introduction

#### 1.1 Background of the Study

Nowadays, with the globalization trend moving across the planet, the competition between companies becomes more and more fierce. Thus, for a successful company to stay competitive and take a certain niche in the overall market it becomes extremely important to execute elements of strategic management planning approach to its everyday activities.

*Amia in References in the Bibliography*  
Oviat and McDougall (1997), as in Aspelund, Madsen, and Moen (2007), in their studies have mentioned the increasing phenomenon of firms that internationalize almost immediately after foundation. Therefore, from the previous studies in this field, we may observe the growing trend of going global among the organizations around the world.

#### 1.2 Problem Definition

Current intense globalization makes companies all over the world experience stiff competition. Companies that come from abroad and settle their businesses in other countries create competition to local ones as well as face difficulties in operating on the foreign market in another country.

A number of studies were conducted in the field of marketing and strategic management regarding organization's decision making process in entering a foreign market. However the majority of the researches focused on the study of general, external as well as internal factors affecting organization's strategy. This study will focus on the internal factors that arise within the organization while entering an international market. For that reason, it becomes important to

identify challenges faced within the organization in entering new markets in order to make it possible in future to prevent or overcome failure in entering new international market. Hence, there is a need in this study to understand internal organizational drivers influencing entrance of organization into foreign market and, as a consequence, to understand ways of avoiding difficulties associated with its adaptation in terms of strategic management planning. The insights and findings of this study will be useful as the number of unsuccessful foreign company adaptations may further be decreased.

The researcher hopes that the inside look into the company and challenges associated with entry strategy formulation will give an understanding of internal organizational processes of entry mode strategy formulation and coordinating actions between employees and managers of the company both aimed on successful adaptation in a new foreign market.

### 1.3 Research Questions

The following are the research questions for this study with the aim to elicit the in-depth findings generated by investigation of the research problem:

- 1) What are the internal factors that influence organization's choice of entry mode into a foreign market?
- 2) Which of the internal factors have the most influence on the choice of entry mode to a foreign market?
- 3) What are the possible methods of overcoming failure in entering foreign market?

### 1.4 Research Objectives

Below are the research objectives developed for this study with the aim of finding answers to the above mentioned research questions and serving as guidance in conducting of the study:

- i. To identify internal factors that influence an organization's choice of entry mode into a foreign market
- ii. To identify the strongest factor associated with organization's choice of entry mode into foreign market
- iii. To identify methods of overcoming of difficulties associated with company's entrance into a foreign market

### **1.5 Significance of the Study**

The researcher believes that the study would make it possible to provide assistance either for organizations that are willing to expand their businesses or organizations that already operate internationally. The study would cover problems arising from the entering into a new market and identify possible methods of overcoming or even avoiding them at all. The study will also be coherently connected to the cultural and ethical issues as global adaptation is impossible without taking into consideration local country's cultural background.

### **1.6 Research Assumptions**

For this study the researcher assumed that the respondents are all part of an organization that either has the intention to expand internationally or is already doing business abroad but is interested to obtain more relevant and useful information on the chosen topic. Moreover, the study will have no separation between age and gender as its primary goal is to investigate the behavior of organizations rather than the behavior of individuals. The researcher also assumed that this research will have to be completed in the duration of 15 weeks (one academic semester).

For the academic research to be conducted systematically, most commonly two basic approaches are used. Two such approaches are Descriptive and Causal. In order to perform the most relevant analysis for the better understanding of concepts, the Descriptive-Analytical basis of study was chosen.

## 1.7 Research Limitations

The allocated time period as well as the limited information available may create difficulties for the research to be conducted comprehensively in terms of design, sample and methodologies. In addition to that, the unavailability of the respondents in organizations may create problems in collecting information. The working time of respondents in organizations may also cause problems in obtaining data. Questionnaires for this study were distributed in four organizations that operate internationally. The office branches (as well as headquarters) of these companies in Kuala Lumpur and Cyberjaya cities were visited. The sample size obtained is relatively small which consists of 120 respondents. Moreover, the selection of the companies and regions to collect the information may be biased as the convenience sampling technique was used as the researcher selected the organizations which were likely to find people within the organizations who are willing to complete the questionnaires during the working day.

## Chapter 2

### Literature Review

*The definition of your topic deeply,*

For this research to be conducted, the existing literature related to the given field was examined in order to elicit main ideas, theories and definitions relevant for the study. The list of sources used to support arguments for this research is included in reference section. Additional materials used to broaden the mindset of the researcher are listed in bibliography section.

This chapter will be devoted to the review of literature on existing ideas, concepts and terminology on a chosen topic of organizations' choice of entry mode to a foreign market.

#### 2.1 The Increasing Trend of Rising Interest in the Field

Oviatt and McDougall (2005), as Zahra and George (2002), suggested that the term "international entrepreneurship" had firstly appeared in the article by Morrow (1988). They state that modern development of technology together with the awareness of opportunities on the part of the leadership importance pushed organizations to start of the exploration of foreign markets.

According to Oviatt and McDougall (2005), the increased interest in internalization is observed from the boosted amount of publications of Brokaw (1990), The Economist (1992, 1993), Gupta (1989), Mamis (1989).

A great theoretical groundwork was presented in a study of international new ventures, which was defined by authors as business organizations "that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt and McDougall, 2005).

The influence of organization's experience factor on foreign market entry behavior in the service industry was examined in the study of M. Krishna Erramilli from University of North Texas.

McGrath & MacMillan (1992) and Thomas & Mueller (2000) both refer to national culture in their studies. The authors also conducted a research on alliances and cooperative strategies. Zacharakis examined foreign market entry modes in 1997.

Kaliant Efrat (2008) from the University of Haifa in his research "Born Global Firms: The Impacts of Internal and External Factors on their Entry Modes and Performance" had emphasized the research on two internal factors which may affect the choice of entry mode. These factors are - strategic type and technological capabilities. Therefore, as we can observe, technological advances of organizations kept on the alert the researchers from late 1988's to current days.

Jody Evans (2002) from Manchester Metropolitan University Business School in her research "Internal Determinants of Foreign Market Entry Strategy" talk about the relationship between psychic distance and entry strategy. In addition to that, this relationship seems to be significant as it was also studied by Brouthers and Brouthers (2001). The author in her research explains the psychic distance as political, legal and economic environment, structure of the industry, business practices and language. The author determines cultural distance of countries as the level of the similarity of home and host markets (Evans, 2002).

Several researchers have identified different types of internal factors. They considered these factors as instruments of evaluation the decision-making process for choice of entry mode. Below are these factors explored by researchers.

Jaworski and Kohli (1993) have pointed out centralization of decision-making. Dosoglu-Guner (1999) mentioned about organizational culture. Kogut and Singh

(1988) identified firm size as a main factor. And Caves and Mehra (1986) noted organization's international experience.

Other internal determinants of entry strategy have also been identified earlier in the literature. Centralization of decision making (Jaworski and Kohli, 1993) and organizational culture (Dosoglu-Guner, 1999) have been identified as significant factors in determining a firm's strategy. As such it was assumed that they have a considerable influence on entry mode selection. In addition, literature on export has identified that international experience (Caves and Mehra, 1986) and firm size (Kogut and Singh, 1988) influence entry strategy.

From these previous studies, one of the main inference that may be made from findings is that where markets are perceived to be psychically distant from the home market an organization is more likely to adopt an entry strategy that requires less financial commitment and control (Gatignon, 1988).

A number of past studies in the fields of strategic management, marketing management and international marketing were examined. The existence of these studies starting from 1980 to present days proves the fact that there is an increasing interest in the study of organizational decision-making behavior when entering foreign markets.

The main concepts and ideas from the literature in this field are listed below in a table. These concepts and ideas are ordered in chronological order with the name of the author and the year of publication from the article first time appeared. This table will give a broad picture of the development of the global perception about the research topic.