An Inquiry into Success Factors Influencing the Choice of Foreign Markets

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Outline

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- Research Purpose.
- Research Method.
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- Findings.
- Conclusion.

Introduction

- ✓ Background.
- ✓ Justification of the Study.

Literature Review

- **Internationalization Process and International Market Selection**

- ***The economic approach*** assumes that firms are likely rational in their choice of foreign investments and that the decision-maker has access to perfect and complete information (Andersson, 2000; Buckley et al., 2007). The choice of market for foreign investment is a premeditated decision and motivated and led by the principal goal of profitability, thus, firms select the most profitable locations (Buckley et al., 2007).

The most known theories adopt the economic approach are Dunning‟s eclectic theory (Dunning, 1980, 1988), the international product life cycle model (Vernon, 1966) and the transaction cost approach (Coase, 1937; Johanson and Mattsson, 1987).

- ***The behavioral approach*** focuses on the influence of international experience of the firm on the speed and direction of succeeding internationalization. A central aspect in this school is the important role of organizational knowledge in the internationalization process (Clercq et al., 2005). The approach considers individual learning and top managers as important aspects in understanding international behavior of firms (Andersson, 2000).

Models that follow the behavioral approach are Ahroni‟s decision-making model (Aharoni, 1966), the Uppsala model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) and the innovation-related internationalization models (e.g., Cavusgil 1980; Reid, 1981).

- **Locational Determinants**

Quantitative factors are concerned with the cost of operating in a foreign country; fixed and variable costs such as cost of living, costs of setting up the foreign operation, utilities costs, labour and other related costs.

Qualitative factors included non-cost issues such as cultural, political, economic development, legal, climatic and geographic issues, in addition to foreign investment attractiveness and barriers and economic conditions of the country.

Research Method

- **Case Study**-Single case design (Yin, 2003). Two case studies from Saudi International manufacturing and service firms.

- **Data Collection Method**– In-depth personal interviews and follow-up telephone interviews with accessible and most knowledgeable senior executive, involved in international market selection decisions (Birnbaum, 1985; Papadakis et al., 1998).

Findings and Discussion

- Four major factors were found to be important to arriving at a beneficial foreign market choice:

- *International business experience* of the selected management team. Well-matched with the assumptions of the behavioral decision theory (Miller & Ireland 2005; Sadler-Smith & Shefy 2004) and addressed in foreign market selection (Agarwal & Ramaswami 1992; Buckley 1993).

- *The market knowledge* about the potential international markets. (Hui-mei, Hengchiang & Pratima 2005; Uppsala model by Johanson & Vahlne 1977).

Findings and Discussion (Continued)

- *In-house and external consultations* with international business experts. Earlier scholars assert that teams make the most effective decisions (DeSanctis & Gallupe 1987; Schmidt, Montoya-Weiss & Massey 2001). Likewise, participation and involvement of a firm's employees in strategic decision improve the comprehensiveness of strategy formulation actions in the firm (Topping & Hernandez 1991).

- *Identification of a trustworthy and internationally experienced manager* for the international operation (Greenberg 2003; Harvey & Novicevic 2001).

Conclusion