ASSESSING INTERNATIONAL MARKET ENTRY STRATEGIES FOR MEDIUM ENTERPRISES IN THE 21ST CENTURY

[1]Dibie, V.M., & [2]Nto,C. P.O

[1&2]Department of Marketing
College of Management Sciences
Michael Okpara University of Agriculture, Umudike,Abia State,Nigeria
Email: v.dibie@yahoo.com, ntochioma@ymail.com

Abstract: *This paper assessed international market entry strategies for medium enterprises (MEs) in the 21st century. On the basis of the outcomes the paper examined how and why MEs adopt specific strategies to get to their foreign markets of choice. The method of study adopted in the paper is review of related literature. From the literature reviewed, the paper among other findings, discovered: (i) that, in attempting to define MEs by different countries, there seem to be no standard definition across countries, in terms of number of employees and financial -base; (ii) that, in assessing international market entry strategies for MEs in the 21st century, existing strategies were only discussed generally. There were no observable efforts from the scholars to classify the strategies according to firm (business) industry or country; and (iii) that, in examining the specific international market entry strategies for MEs to get to their foreign markets of choice the emphasis of the scholars, in terms of associated benefits and risks, was on the MEs only. The associated benefits and risks of such strategies to host countries were not reasonably discussed. These findings have implications for international market entry mode to firms and host countries. As a basis for addressing the gaps observed in the reviewed literature, one of the recommendations of the paper is that; to help MEs better while choosing entry strategies to get to their foreign markets of choice, more effort should be made among researchers to classify strategies according to situations relating to specific firms, industries and countries.*

Keywords: *International Market, Entry Strategies, Medium Enterprises*

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INTRODUCTION

Small and medium enterprises (SMEs) have been defined in various ways by different countries. According to Industry Canada (2005), SMEs refer to businesses with fewer than 500 employees, while classifying firms with 500 or more employees as large businesses. Breaking down the SMEs definition, Industry Canada (2005) defines a small business as one with employees fewer than 100 (if it is a good producing business) or fewer than 50 employees for service based firms. A firm with more employees than these cut-offs but fewer than 500 employees is classified as a medium sized business. For Nigeria, the Federal Government of Nigeria through the Small and Medium Enterprises 'Equity Investment Scheme (SMEEIS) (2007) defines MEs as enterprises with a maximum asset base of N1.5b (excluding land and working capital) and with no lower or upper limit of staff. This is however subject to review by the Bankers' Committee from time to time.
MEs in this 21st century are not only interested in having business breakthroughs locally but are also critical about discovering new markets abroad, with every available opportunity, considering the enormous benefits associated with managing successful international business.

According to Erramili (1990) in Erramili and D'Souza (1993), studies have identified many factors that lead companies to invest in foreign markets. Some of these include expansion of markets, exploiting low-cost labour, having access to natural resources or gaining investment incentives in the host country. Meanwhile, entry mode has been considered an important issue in international business and is presumed to be having great impact on the successful expansion of multi-national enterprises (MNEs) overseas, (Wind and Perlmutter, 1997) in Nwiti, (2013). To eventually enjoy such benefits associated with being involved in international business, reputable SMEs in the 21st century are now making huge investments in diverse areas; especially in information gathering in relation with discovering strategies for successful entry into lucrative foreign markets. Among other information in this respect, they seek for specialized, targeted information about buyers in dispersed international markets, (Young and Javalgi, 2007). Connell (2002) has also argued that in the business - to - business market, there is ample justification for conducting international market research in support of the design, execution and interpretation of a wide variety of global marketing strategies. In trying to answer questions on how firms go to invest abroad, scholars have tried to investigate how and when firms choose certain entry strategies to get to their foreign markets of choice. Mwiti (2013) asserts that international entry mode research is relatively developed and has been growing for several decades in international business. Studying the entry mode according to Agarwal (1980) is very important in that firms interested in serving foreign, markets face a difficult decision with respect to the choice of entry strategy. Whether such firms going international are involved in retailing, wholesaling, manufacturing or services, they experience difficult situation at one point or the other in relation to choice of entry strategy. For example, there have been significant increase in the internationalization of retail activities in Africa, plunging the continent into a retail revolution (Dakora and Bytheway, 2014).

This has caused a trend of new retail space development in most African countries and international retailers (notably South African retailers) are, now competing for their share of the African markets. This recent development according to Dakora and Bytheway, (2014) has not only attracted South African retailers of all kinds to expand their operations further north into Africa but has also attracted the largest retailer, Wallmart, into the continent on a takeover deal with one of South Africa's largest retailers, Massmart. Despite this move by South African retailers to invest in the rest of the continent, stimulating foreign direct investment (FDI) and Intra-African trade, they have come under scrutiny. They face such scrutiny based on their contribution to the local economies of the countries they operate, thereby raising entry mode issues. Selection of overseas markets and entry modes lies at the very heart of any international strategy (Kobrin, 1976; Paliwoda, 1993; Simpson andKujawa, 19974; Wind and Perlmutter,1977). This is mostly true for manufacturing firms. Moreover, the importance of the relevant analysis and resulting decisions grows with increasing dependence of companies on international business for survival and growth (Kotch, 2001).

Root (1994) affirms that market entry strategies include decisions on:

i. the choice of a target product/market;

ii. the objective and goals in the target market;

iii. the choice of an entry mode to penetrate the market;

iv. the marketing plan to penetrate the market; and

v. the control system to monitor performance of the target market.

Although most works have tended to focus on manufacturing firms, a growing interest had recently developed in analyzing the peculiarities of service firms when it comes to adopting this strategic decision, (Brouthers and Brouthers, 2003; Ekeledo and Sivakumar, (2004).The choice of foreign markets entry strategy has been the focus of recent theoretical and empirical research in international business but mainly among multinational enterprises (MNEs). For medium enterprises (MEs) not much has been done. This paper aims at assessing international market entry strategies for medium enterprises in the 21st century. Several studies in recent times have been carried out in relation to identifying entry strategies into international markets (Mwiti, 2013). Anderson and Gatignon (1998) in a study identified seventeen entry strategies while Eramilli and Rao (1993) identified eleven. Also, the study carried out by Brouthers and Herbert (2007) in Nwiti (2013) identified sixteen different strategies. It is worthy of note here that the scholars have investigated and defined the entry strategies from different levels and perspectives. While most of the studies have focused on multinational enterprises (MNEs) and on foreign direct investments (FDIs) others have studied the local firms.

In the light of the above, the problem identified for which this paper would suggest solutions to at the end is that many medium enterprises (MEs) are interested in entering international markets but are skeptical about what to do, in terms of the specific strategies to adopt to get to their foreign markets of choice. It is against this background that this paper seeks to assess international market entry strategies for firms.

Hence the specific objectives of the paper include to:

i. assess international market entry strategies for MEs in the 21st century
ii. examine the factors that influence international market entry decisions for MEs in the,21st century; and

iii. Examine the benefits of international market strategies for MEs in 21st century

International Market Entry Strategies for MEs in the 21stCentury

International Market Entry Strategies is the method used by a company to start doing business in a foreign country (Shama, 2000). Entry strategy is an institutional arrangement that makes possible the entry of a firm's products, technology, human skills, management, or other resources into a foreign country (Karkkainem, 2005). Many forms of market entry strategy are available to MEs, to enter international markets. Wilkinson and Nguyen (2003) assert that one classification first distinguishes between equity and non-equity modes, emphasizing that equity modes have been the most popular, especially the exercise of full ownership of subsidiaries in foreign countries. Equity modes involve firms taking some degree of ownership of the market organizations involved. They include wholly owned subsidiaries and joint ventures. Non-equity modes do not involve ownership. They include exporting or some form of contractual agreements, such as licensing or franchising. Moreover, Caves, (1982) identifies four basic ways to expand internationally, from the lowest to the highest risk: (i) exporting; (ii) licensing and franchising; (iii) strategic alliance; and (iv) wholly owned foreign subsidiaries. In the consideration of Cateora and Graham (2002), there are six basic strategies for entering a new market: (i) export/import; (ii) licensing and franchising; (iii) joint venturing; (iv) consortia; (v) partially-owned subsidiaries; and (vi) wholly-owned subsidiaries. Generally, these represent a continuum from lowest to highest investment and concomitant risk return potential according to the authors.

Factors that Influence International Market Entry Decision for MEs in the 21stCentury

Basically, the initial classification of different international market entry modes is founded on two separate characteristics (i) the location of manufacturing facilities; and (ii) the percentage of ownership the firm desires in foreign investment. Entry into foreign markets according to Karkkainen (2005), can occur in two ways based on the location of the manufacturing facilities. The firm can export its products to the target country from production facilities outside that country (exporting strategies). Alternatively, the firm can transfer its resources in technology, capital, human skills, and enterprise to the foreign country, where they may be sold directly to users or combined with local resources to manufacture products for sale in local markets (non-exporting strategies). The second characteristics (percentage of ownership) offers three different options; none, partly or wholly owned investment which have been the most popularly entry medium used by MEs over the years. Please, see figure 1 for illustration and further explanation.

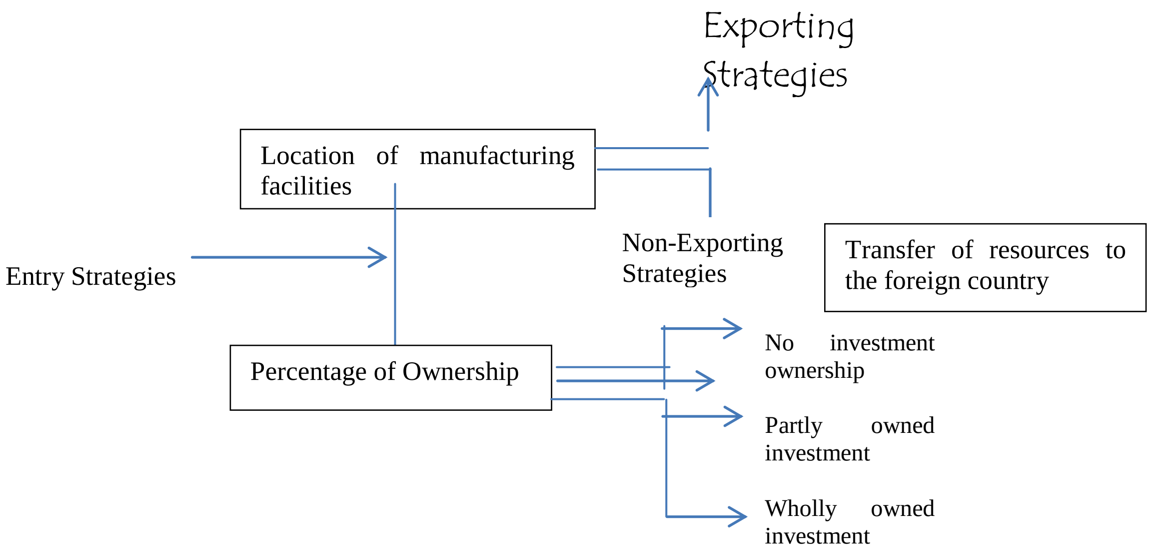

Figure 1: Basic Characteristics of International Market Entry Modes
Source: Adapted from Karkkainen (2005).

Benefits of Specific International Market Entry Strategies for MEs in the 21s'-Century

a. **Export Strategies:** Many firms adopt exporting for an international entry mode as a strategic alternative that maintains effort and resources while still taking advantage of foreign opportunities (Czinkota, Rivoli and Ronkainem, 1992), Exporting can become international learning experience (Root, 1994). Several firms choose exporting for their first international entry mode as it is the easiest and leas: risky way to enter foreign markets. It needs the least facility allocation and has the lowest changes in the country's marketing programme (Kotabe and Helsen, 2000; Onkvisit and Shaw, 1993). Export strategies are grouped into two categories, direct export and indirect export " strategies. These strategies and their benefits are highlighted as follows:

(i) **Direct Export Strategy:** In direct exporting firms are in inter relationships with foreign customers and markets. Albaum (2002) explains that different methods of direct exporting are export agents, mobile sales agents, sales branches, internal export departments and mail orders. Benefits for using this strategy include more sales, business control, easy access to market information, experience and specialization of the company in export. The only major drawback of this method is that it is costly but the benefits outweigh this drawback.

(ii) **Indirect Export Strategy:** In indirect exporting, firms participate in international business through popular middlemen (intermediaries) and do not deal with foreign customers or firms directly. Firms using this strategy send their products to foreign customers through the intermediaries in their country (Kotabe and Helson, 2000). Different methods of indirect exporting are: using commercial companies, using export management companies, cooperation in export and distribution (Piggyback marketing) and using export agents and export cooperatives (Albaum, 2002)

b. **Non Export Strategies:** Denghan, (2007) opines that non export strategies involves companies producing their export products in other countries and exporting them to international markets.

Types of Non-Export Strategies and their Benefits are Highlighted as Follows:

(i) **Strategic Alliance:** In a strategic alliance, firms pool or share their resources and expertise with other firms and the parties share the rewards and risks of starting a new venture, (Ling, Williams and Cuervo, 2005). Methods adopted under this strategy include licensing/franchising, contractual production and joint investment

(ii) Foreign Direct Investment (FDI): Companies using this strategy handle all production activities in a foreign country and own 100% of such companies. This can happen either by buying an active company or by establishing a new one (Greenfield Investment). When firms choose to setup wholly owned foreign subsidiaries as the entry mode, they are establishing operations in a foreign country without direct involvement of firms from that country (Ling, Williams and Cuervo, 2005). The core advantage of the FDI for the firm is the maintained control over the technology, marketing, and distribution of its products. This has been the most popular international market entry method by MEs over the years

Empirical Review

i. The study carried out by Nwiti, (2013) in Kenya: The study investigated the FDI entry modes of foreign manufacturing MEs investing in Kenya and their potential benefits. The key objective of the study was to ascertain the entry modes that foreign manufacturing MEs use when investing in Kenya, and their potential benefits. The sample size was thirty seven (37) foreign manufacturing MEs operating in Kenya. The respondents included the management of the MEs for they were deemed to be information rich. Primary data for the study were collected through the use of questionnaire administered to the respondents. Results from the study revealed that the most frequently used entry mode was the new venture establishment or Greenfield where the firms construct new facilities of production, research and development and distribution in the host country. Please see table 1 for details.

Table 1: Modes of Entry

S/N	Modes of Entry	Frequency	Percentage
1	New venture establishment	20	54.1
2	Joint venture	8	21.6
3	Merger	5	13.5
4	Acquisition	4	10.8
	Total	37	100

Source: Nwiti, (2013)

The findings agree with the author's study result since this was recorded as the most preferred mode choice as shown on the table. In term of the potential benefits, Nwiti (2013) explains, "in Kenya, with a booming population and where employment generation is a prime concern, any FDI which contributes to employment generation should be welcomed". On his own part, Hellensen (2007) had argued that the greenfield investment is the most desirable mode of entry since it creates employment in the .host country.

Discussion of the Strategic Importance of Entry Mode in International Marketing Practice

Entry Strategy and Business Performance: The choice of entry mode has become a crucial strategic decision for firms wishing to enter international markets, as it will have an important influence on their future business success (Peinado and Berber, 2006). In the context of manufacturing industries for example, Kirca (2005) notes that market entry strategies affect business performance as choosing the right strategies is one of the key points for success in international marketing practice. Ekeledo and Sivakumar, (1998) in their contribution to entry strategy and business performance, affirm that through the determination of the right strategies and allocating the essential and sufficient resources required, the strategy would not only affect business performance but also the duration of the performance. For this paper, the opinion is that a firm that is able to determine and classify strategies that conform with its own specific factors, those of the industry it belongs and those of the country the entry is planned; would record good performance as it enters international markets. Entry Strategy and Economic Development of Host Country: Studies have shown that specific entry mode strategies are more desirable than others for specific countries. Many countries tend to consider the internal benefits and risks associated with the different entry modes while formulating market entry policies for their countries.

They are seen to be more accommodating to firms with entry strategies that have potentials to contribute meaningfully to the development of their economies, one way or the other. In the study carried outs by Nwiti (2013), table 1, to investigate the type of FDI entry mode of the MEs operating in Kenya. Entry modes observed were Greenfield (new establishment), joint ventures, mergers and acquisitions. The most common mode of entry was new venture establishment or Greenfield(54.1%). According to Hellensen (2007) the Greenfield investment is the most desirable mode of entry since it creates employment in the host country. The second popular entry mode was the joint venture (21.6%). According to Tuisanem (2010), "joint venture investment facilitates acceptance to host country's capital and human resources which also gives the firm a local image". Mergers' or brown field was the third entry mode (13.5%),60% of the firms according to the author merged into Kenyan firms. Acquisition is 10.8%.

Acquisition as mode of entry is the least desirable mode of FDI, unless FDI is crucial to the success of the privatization of loss making public enterprises and provide fresh capital(Hellensen, 2007; Tuisanem, 2010)

Entry Strategy, Relationship Management and Economic Sustainability of Stakeholders: As firms aspiring to go international discovers entry mode strategies that are considered mutually beneficial to them and their host countries, relationships are not only established, but also nurtured and sustained for economic reasons. In this regard, a particular entry mode like greenfield may have an important influence on the future business of the firm (Peinado and Berber, 2006) and also help in creating employment in the host country (Hellenson, 2007).

CONCLUSION

Based on the critical review of literature, the conclusion of the study is that international market entry strategies for MEs in the 21st century are basically non-export in nature which are either equity based or non-equity based. On the one hand, popular equity based strategies include wholly owned subsidiaries (greenfield) and joint ventures where the MEs are required to exercise some degree of ownership of market organizations involved. On the other hand, non-equity based strategies include some forms of contractual agreement such as licensing or franchising. To further educate stakeholders more on the operations of MEs the following recommendations are suggested:

i. to make gathering and analyzing of statistical information about MEs, there is need for a standard definition and classification for MEs to be given. In this respect, more focused research studies in this area that would require the inputs from different countries should be worked out;
ii. to help MEs better while choosing entry strategies to get to their foreign markets of choice, more effort should be encouraged among researchers to classify strategies according to situation, relating to specific firms, industries and countries; and
iii. to assist countries in formulating their market entry policies, more research effort should be made in the area of discussing possible benefits and risks associated with specific entry strategies for different countries.

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