

# Presenting the Optimal Model of Benchmarking to Influence International Risks on Entry Mode into Foreign Markets

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## Abstract

Today, numerous companies put their efforts to develop their strategies in order to participate in foreign markets. The manner of entering into the foreign markets is relevant to the implementation of international strategy. Since choosing an appropriate approach enables the company achieves competitive advantage, companies are obliged to use their entire power and accuracy in the selection of the optimal entry and recognize the effective factors on it including international risk. Automobile industry as the locomotive of industry in developing countries including Iran can play an important and constructive role in developing the country. The firms that use development approach gradually enter international markets through the markets that are culturally and geographically similar to local markets. But in a systematic approach, firms select suitable markets regularly using the collection of criteria and used for selecting global market. Many lacks of comprehensiveness models have been presented and suggested by scholars for systematic evaluation and selection of foreign target markets so far. But because these models show a lot of inconsistencies in the adaptation with the decision making process of exporters, so in this research it is endeavored to present a comprehensive conceptual model in accordance with the decision-making process of exporters including evaluating economic, public, legal, competitive, cultural, demographic, and geographic environments and agency abilities. For building the model, the author's questionnaire distributed among the experts involved in Tehran province's automobile industries exports, and then a confirmed model ultimately presented using statistical technique of structural equation modeling analysis and it prepares the possibility to predict and decide for exporters.

## Keywords:

*International risk; foreign market; Iran Khodro*

## 1. Introduction

Today, the concept of trade has been developed through the international field. It is important to choose

an appropriate method in order to participate in the global markets. Each kind of method has its own advantageous and disadvantageous. The managers in the international field must pay too much attention in order to represent comprehensive plans and strategies for industrial and trade companies. If the companies develop their businesses, they would be able to participate in the global markets as a strategic method. Each kind of company needs an evaluation system in order to assess its performances.

This system also helps the company to determine its weak points. The enhancement of globalization and international competition influenced the managers to determine the strategic decisions. Strategic decisions are those decisions which are related to the target company and the abilities of the organization. When the company tends to participate in the foreign countries, it is necessary to recognize the market and its potential. The company also must be aware of the rules in the foreign countries and the amount of profit and risk. Of course, many countries can determine an integrated plan. In the current research, the researcher investigates the effective factors on the international risks through the process of participating in the foreign markets.

### 1.1. Research Questions

1. How is it possible to classify the effective international risks in the process of participating in the foreign markets?
2. Is there any relationship between the international risks and choosing the way of participating in the foreign markets?

## 1.2. Theoretical Framework

It must be some comprehensive alterations in the enterprises in order to present a better performance around the world. If the enterprises and the foreign markets interact with each other properly, they can develop their performances. There are two principles which lead to the enterprises' success as the following: government and market strategies. Those countries which are able to enhance their positions in the global markets would encounter with the varieties of economic opportunities. Global companies do their trade through different levels. Generally, these companies implement the following strategies in order to participate in the foreign markets: export, franchising, contractual production, concession lending, management contract, executive projects and direct foreign investment including common investment, strategic contracts and establishment of the company [1]. The primary decision is called strategic decisions. These decisions are determined through the current conditions in the country. It is necessary to recognize the strong and weak points of the companies in order to investigate their capabilities. Each kind of method has its own features. In fact, decisions will be determined for a specific duration of time. There is a direct relationship between the type of the strategy and the amount of company's success [2]. In this regard, it is important to recognize the effective parameters in this strategy. Actually, the researcher wants to assist the companies in order to have a better performance. The process of decision making is very important because of the two following issues: its dynamic nature and its effect on the varieties of variables [3].

## 2. Strategy

The definition of competitive field of each company is called strategy. This field includes objectives, policies, required plans, procedures, market orientation, strong and weak points, international competition with the strategic decisions and the fundamental objectives. The main purpose of the current study is determining the way of participating in the foreign markets [4].

## 3. Manner of participating in foreign markets

Strategic decisions are those primary decisions which are on the basis of participating in the market. When the company determines proper strategies it will achieve more profits and success. According to the statement of Sharma and Emily, the way of entering to the market helps the company in order to represent their products in other countries. In fact, this kind of selection contains choosing the place and even type of the control. The resources are situated in both local and foreign markets or even through the contractual agreement [5].

### 3.1. Effective Parameters in Manner of Participating in Foreign Markets

There have been different studies about participation in the foreign markets. According to the studies of Zhao, there are four groups of entering methods as the following: countries- orientation studies, industrial- orientation studies, organization- oriented and decision maker oriented studies. The Agraval model contains the following parameters: size of the company, international experience, and market capacity, investment risk, place factor, contractual risks and ownership benefits. In addition, the methods of entering to the markets are classified through the following aspects: exports, mutual investment, investment and lending authority [6]. Morcschett and Schu have been studied about the foreign aspects as the following: cultural gaps, market attractiveness, and legal environment, the competitive position of the host country, culture and the uncertainty of the host country [4].

## 4. Iran's Automotive Industry

Since 1957, the production of car has been increased relatively in Iran except the war period. Today, there are almost 20 factories in our country which produce and assemble the cars. In the early of 1991s our government established the base of producing the car's parts as well as the assembling of the European factories. Of course, most of these pieces don't have appropriate quality and many customers are dissatisfied using these parts. Iran's automotive industry is including the

following companies: Iran Khodro, Pars Khodro and Saipa. The mentioned shear is about 95%. The remained 5% is supplied through the imports. Most of the productions are licensed productions and provided by mean of the national ownership. The manufacturers must determine the required procedures about warranty and guarantee. Unfortunately, the manufacturers didn't represent appropriate services after sale. Each kind of car industry has three main objectives as the following: being a first selection for the Iranian consumers, becoming a global car manufacturer and cooperating with the famous car factories. Numerous planning must be determined in order to achieve the mentioned objectives. The sale network, comprehensive services, sustainable export market and the process of production with the national brand are encountered with the varieties of challenges as the following: the high cost of production because of the overhead costs, the lack of diversity in the products, inappropriate quality, the high consumption of oil and emissions, fast changes in the regulations, the lack of conditions for attracting the foreign capitals [7].

#### 4.1. International Risk

When the companies participate in the foreign markets, they encounter with the varieties of challenges and international risks. International risks are those challenges which are related to the limitations, losses and obstacles. Many scholars believe that there is a significance relationship between the strategies and the risk variables.

#### 4.2. Risk Derived from the Cultural Gap

Cultural gap refers to the similarities and differences among the local consumers and foreign consumers. This is an important point in this kind of strategy.

#### 4.3. Politic Risk of Host Country and the Source Country

Politic risk is derived from the uncertainty of the political stability. This kind of risk occurs during the political crises. These crises are related to the war, revolution and political protests. The diplomatic relationships between the two countries influences the way of participating in the market. Therefore, political

risk refers to both the host company and the source company.

#### 4.4. Transformation Risk

This kind of risk refers to the power of government in order to limit the product's free flow to the special country. This limitation is possible by means of the following procedures: controlling of the exchange rate, tax, reduction or appropriation of the current money, export limitations, import limitations and price control.

#### 4.5. Operational Risk

These kinds of risks are derived from the following aspects: marketing, funding, government intervention, intervention of the political pressure from some groups with common beliefs and interests.

#### 4.6. Ownership Risk

This kind of risk is derived from the uncertainty of government's procedures in relation with the process of controlling the company and its interests. Examples of mentioned procedures are as the following: confiscation, nationalization, localization and the ownership foreclose [8].

#### 4.7. The Risk Derived from the Marketing Infrastructure

Marketing infrastructure refers to the accessible methods in the market for selling, distributing, advertising, and advancing the products and services of company and results in two types of uncertainties. First, unfamiliarity with the structural elements of the infrastructure and second the lack of a structured and confident infrastructure that affect the risk.

#### 4.8. Natural Risk

Natural risk refers to the uncertainties derived from geographical conditions of the country. The possibility to occur natural disasters in the host country can be considered as one of the effective variables on the performance of the company.

#### 4.9. The Risk Derived from Industry Structure

Industry structure refers to its exclusivity or competitiveness. The effect of industry structure on risk and on the method of entry can be analyzed in two aspects. First, there is a high risk in very concentrated industries because rivals can have larger destructive effects on each other. Second, industry structure impacts on companies through limiting the new comer people and forming obstacles on the path of entrants and finally reducing competition among the companies.

#### 4.10. Competitive Antagonism

Competitive environment affects the marketing efforts of the company and its success to access the targeted market. Companies need to analyze the industrial structure that they are placed in and analyze their rivals based on competitive characteristics [9].

The risk derived from demand and market potential

The purpose of the risk derived from demand and market potential is the rate of the current and future demand in the considered foreign market.

#### 4.11. Customer's Taste

Customer tastes focused on the existing similarities/differences among the customer preferences in domestic and the targeted market.

#### 4.12. The Risk of Production Inputs

In case of the existence of the failure of market factors (such as raw materials of the components of human force and knowledge), the rejection of the host country and the problems derived from the uncertain quality of inputs, the risk of production inputs increased and international companies encouraged to work with local companies through capital participation in order to achieve complementary assets.

#### 4.13. Economic risk

Economic risk deals with the fluctuations of economic activities, exchange rate inflation, and interest rate. Change in large economic variables in the source

country usually results in the change in price and product in the domestic market [10].

#### 4.14. Legal risk

Legal restrictions reduce the collection of accessible entry methods of companies. Legal risk refers to the effective national and international rules on international business. Internationally, sanctions and environmental standards are such legal cases that affect the company decision in selecting the method of entrance.

#### 4.15. The Risk Derived from Management Experience

The perceived risk literature of management suggests that most of the managers believe that they can control or at least manage risk using their skill and talent. Meanwhile, the experience of international management is known as a scale from the ability of the company in controlling and managing the operations and it affects the selection of entry method.

#### 4.16. Responsibility Risk

Responsibility risk includes responsibility uncertainties related to destructive effects of production/process on the consumers and non-consumers of pollutions and so on [11].

#### 4.17. Executive Risk

Executive risk includes the company's ability in executing international contracts of credit uncertainty derived from the non-collectible of receivable accounts of behavioral uncertainties in which managers and employees may act due to their personal interests and the uncertainty of research and development which is related to the unknown results of *R & D* investments.

#### 4.18. Distributive Risk (release information)

The distributive risk is the risk of disclosing the secrets of the skills and the technology owned by the company for the potential and the actual rivals [12].

## 5. Research Method

Because two important subjects in behavioral science especially in management are first expressing the evaluation and measurement of variables (credit and reliability of the scale) and second the ability to describe high relationships among the variables, responding to the two following questions led the author to the modeling of structural equations according to the fact that the current research is practical in the aspect of purpose and the method of collecting data is descriptive (non-experimental) and correlation. The two questions are 1. How can we deduce the complex eminent relationships between the variables that cannot be directly observed with the indices having error possibility? 2. How can we evaluate the strength of the relationships among the variables? It is a complete model of structural equations and a mixture of path diagram and confirmatory factor analysis. The model of structural equations is used in researches that their main purpose is to examine a specific model of the relationship among variables and it required the adjustment of a model in the form of an eminent chart. On the other hand, LISREL model in its most general mode has formed for solving two major problems above in scientific deduction and it has two evaluation and structural equations models. The evaluation model determines how final variables or hypothetical structures are measured based on observable variables and how their credit and reliability is? The model of structural equations determines the eminent relationship among the final variables and describes the eminent effects and the value of the described variance [13].

## 6. The Conceptual Model of the Research

Economic environment: it includes criteria measuring the economic situation and its trend in two micro and macro levels. This environment is the indication of the ability to pay the price of the product and it analyzed depends on the type of the product (capital, durable consuming, and non-durable consuming) and the buyer (person or organization).

Public environment: it includes the criteria of domestic and international political environments and the public situation of the considered country and it

measures them, especially if the decision of investment is in the foreign country. Because this environment refers to the process of government policies whether in or outside the country, so according to the specific conditions of any country like sanctions, its study is very important. This environment also deals with public conditions including infrastructures and the atmosphere of the business of the considered country.

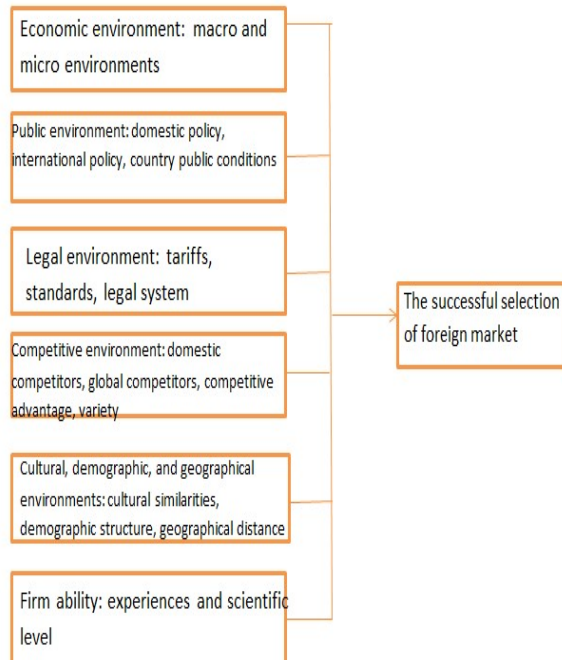
Legal environment: it deals with the base of establishment and the circumstance of the executive power and the current and governed rules on foreign countries that have different systems for establishing tariffs and taxes. The standards that should be observed by the producers and the bureaucracy of the imports in the target country necessitate the analysis of this environment.

Competition environment: it deals with the type and the rate the sale of products, market share, leaders, and local and global strategies. While other researchers did not refer to this environment, the analysis of this environment is necessary for the whole products and services. In the competition environment, domestic and foreign rivals have advantages such as the cost of transport, sense of nationalism, the known brand etc. that needed to be analyzed. The combination and the type of the existing products in the target country also is a good indication for meeting the need of the considered product.

Cultural, demographic, and geographic environments: it deals with the integration of religious, linguistic, behavioral commons, demographic combinations, and geographic distance and it is the product of the integration of these three environments that created the cause of these three environments to be less significant than other environments. Some of the firms arise the subject of representing their products relying on this environment and they supported by regional organizations; like SAIPA's success in Syria market which is the result of focusing on cultural environment.

Firm ability: it deals with the experiences and the knowledge of human resources and the method of their export activities, the economic consultations of the source country in the target country, knowing the target country's conditions, and the skill of the firm in

international marketing. These are ignored in most of the models that are studied by the others [14].



**Figure 1:** The conceptual model of successful selection of the foreign market

## 7. Conclusion

In this study, the indices of the evaluation and selection of foreign market automotive industry are implemented through their recognition considering primary studies and interviews. Consequently, the indices of public, legal, competitive, cultural, demographic, geographical environments and firm ability are confirmed as the indices of evaluation and selection of foreign market. The detailed description of the model and the indices of evaluation and selection are represented. The results of this study increased the knowledge and awareness of the author towards the effectiveness of each one of the indices for evaluating and selecting foreign market. Evaluating the strategic performance of entering foreign markets can give us a large amount of information about the situation of this important strategic decision. So if necessary, they take an action in this field with the faster and change. The

organization's success in the field of entry strategy for foreign must be insured in the field of the foreign markets.

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