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Factors of International Business Development Outside Domestic Market

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Abstract. In the process of globalization and the development of international business, the circumstances of multi-culturalism have become particularly relevant. Although cultural aspects have received a lot of attention in internationalization studies over the past decade, there is still room for research. The main purpose of the article is to study the factors of international business development, paying special attention to the analysis of cultural factors. The authors identified the success factors of the international expansion of specific enterprises to specific countries, among which the factors of executive engagement and the importance of the supply chain are also mentioned. An analysis of internationalization studies through the Vos Viewer tool showed that the role of culture should also be kept in mind when it comes to internationalization.

Keywords: International business, factors, domestic market, cultural factors, international expansion.

1. Introduction

International business is oriented to trade or production activity between partners, companies, citizens, or governmental organisations that cross borders of countries in different regions. This covers not only the movement of products but also investments and intellectual property such as patents, trademarks, technological knowledge, and copyright.

The academic literature on international business includes many suggestions for empirically capturing the extent of international business development (Muller et al., 2002; Sullivan, 1994 a). Different factors are divided into several groups (Annavarjula et al., 2000; Dorrenbacher, 2000; Sullivan, 1994 a, b):

1. Structural factors describe organizational elements important for international business operations (such as the number of outside countries operated, the number of affiliations abroad, and the number of foreign majority shares). As international business development is not always successful, assessing the structure of the international business is appropriate.

2. Output factors that reflect the performance of international business operations related to resources or the market (e.g., number of employees or share of foreign income). The results achieved by the company are related to capacity and show how well the company is performing its operation in foreign countries.

Studies focused on the development and expansion of international business are part of the process of internationalization. Much research has been done on internationalization, examining foreign direct investment, exports from the parent company to subsidiaries, organizational structures, diversification of the company's activities, and so on.

The process of internationalization in research is treated as the spread of business between countries. While in fact, the organization is taking some steps to do business abroad.

2. Factors of International Business Development

Even though international business development is highly tempting and recommended for large companies to be competitive, it meets high risks (Bromiley et al., 2015). International development is not always successful; often, several factors lead to the unsuccess or success of international development, but a set of different factors. Among the important factors for international development, the authors emphasize the involvement of managers (Koksal, 2014), listening to consumer packs (Ashley et al., 2015; Rosenbaum et al., 2015), the organization of the supply chain (Zinkewicz, 2007), the choice of the moment of development (Hamrick & Okrent, 2014), the right pace of development (Pierce et al., 2013).

Taking into account the characteristics of the country of activity expansion, undertakings preparing for international development should assess the following factors:

1. Growth of market potential. In case the market is small, the chances for the growth of the company's activity are small, and easy to start the process of internationalization, which leads to low risks and investments similar to exports. However, if the growth forecast for the destination market is optimistic, the business may revise its strategy and resources to start production outside.

2. The structure of the firm's sector is oriented in the destination country. Suppose there are few competitors and certain situations of oligopoly in the business sector. In that case, it is proposed to assess the possibility of acquiring an undertaking operating on the market as an option for the destination country.

3. The quality of infrastructure. A well-organized infrastructure promotes international trade to the country of destination (through direct sales channels or intermediaries) as a possible way of importing products and the possibility of increasing turnover. Such a way means low risk and the introduction of products abroad.

4. The existence of entry issues. In case of barriers to entry, the enterprise is not carrying out international trade since entry tax barriers will negatively impact product expenses and competitiveness. The firm, in such a case, has to choose the scenario of setting up the company in the country of destination and developing a product that is competitive and considered to have originated in the destination market, or it would have to choose the transfer of the license to the producers of the designated country.

5. Other characteristics of the destination country. The segmentation of customers with specific characteristics in a destination country allows you to create value for buyers through direct foreign investments or the formation of alliances with companies located in the focus market.

6. Political risks. In the destination country, firms should search for a business partner to shift experience in order to reduce risk in case of entry.

Depending on the characteristics of the domestic country, the selected method for entrance to the destination market will depend on:

- *Production costs.* If production costs in the home country are lower than in the destination country, it is advisable to use the method of sale of goods when the products produced in the home country are competitive outside it. Other vices, it is recommended for the firm to create manufacturing in the destination country. This method was a common case for Western businesses, moving their factories to countries with cheaper labour, usually to Asia, until the labour costs are not rising. After the crisis, the fall in production volumes and an increase in wages, for example, China changed the situation, and companies in certain sectors have been looking for other solutions. Therefore, before deciding on the relocation of production, better to examine the structure of the costs of enterprises operating in new markets.
- *The competition and market structure in the home country.* In case the firm originates from a sector with a small number of competitors, it is proposed to

select a quick market access method through acquisition or reliable partnership with local companies.

Depending on the particularities associated with the firm itself, the selected method of entry to the market could follow:

1. Size of the firm: bigger companies have higher technical abilities than smaller ones, which can enter foreign markets through international trade.

2. The capacity of the enterprise itself: these options affect the strategy of the move when it comes to international development (internationalization). Initially, the companies proposed to use entry, which minimizes the use of resources and takes up risks.

3. Application of intangible assets: trademarks, patents, know-how practices, etc. It is recommended to choose an entry strategy that allows the company to have more control over the use of such intangible assets in the destination market, for example, through foreign direct investments or the establishment of alliances ensuring higher control. For example, technology transfer is a way of entering foreign markets for companies such as Pascual Quality, which does not establish a production unit in a foreign country but has concluded agreements of technology transfer for the production of the yogurt, which does not require the establishment of divisions in the country.

4. A company that is very risk-averse must avoid important investments.

5. The goals of firms to be reached by internationalizing their activities. The firm could try to enter the destination country and achieve its goals. In case a firm plan to familiarize its activity with national demand, it could try exports. On the other hand, if the company seeks to understand consumer behavior, priorities in tastes, etc., then the capacity of marketing, research, and development or even production aimed at the needs of the foreign market is required.

Below are examples of the development of three companies to foreign markets.

Aldo moved to the U.S. in 1993 as advised by the consulting company McKinsey allowed it to quickly open the company own shops in the market (Strauss, 2010). Aldo was both taking its toll on the U.S. entertainment industry, resulting in a small market share. Thanks to a low-cost approach helping to reduce competitors, Aldo's budget for marketing was limited. To reach customers, Aldo bought spaces on billboards in every city where it advertised shoes. For example, in New York, a billboard was close to a fashion-trending city where it was communicated about Aldo as the main retailer for shoes. Due to low prices, Aldo got the image of a cheap seller. In addition, Aldo has tried to achieve that its shops are attractive to customers and create a fashion image (Strauss, 2010).

The company's designers keep up with the recent trends by checking street fashion and participating in main fashion exhibitions (Strauss, 2010). As the fashion and tastes of customers are updating, Aldo decided to change the assortment four times a year. Sales data is transferred to headquarters for one hour to indicate shoes with high sales that have to be replenished with supplies and products with poor sales that need to be stopped.

Carrefour applies a strategy in China which offers to sell consumables having low prices. To reach such a goal, Carrefour created a supply chain network that would meet the wishes of local customers. Carrefour purchases products from sellers located locally. Such helps keep the product fresh and reduces marketing expenses for the presentation of unknown items (Cambra-Fierro et al., 2011). Around 95% of products in Carrefour's Chinese shops are locally manufactured (HighBeam Business, 2004). Local supply has problems because suppliers do not ensure optimal stocks and understand the need to maintain high customer service. To solve these problems, Carrefour has developed training for these suppliers regarding effective supply chain practices and provided necessary equipment helping to manage inventory levels (Cambra-Fierro et al., 2011).

Carrefour was forced to adapt to the changes in Chinese buyers' behaviour in China. Carrefour built shopping centers in city centers, which were easily accessed by public transport. However, as customers needed to be changed in 2006, Carrefour switched to opening outlets in the suburb's main shopping centres (Cambra-Fierro et al., 2011).

The authors summarize the factors important for successful internationalisation by following examples of retail chains such as Carrefour, Aldo, and Nordstrom (see Table 1). All these chains focused on their customers and understood expectations. Carrefour stores had a range of products from the destination market or Aldo and Nordstrom had an assortment that their customers preferred. The slow expansion of Carrefour has been important to market perceptions, implying huge differences in consumer preferences in the Chinese market; Carrefour understood the wishes of consumers located in regions. Seeking to implement the local strategy, retailer Carrefour was looking for partners in the market and enabled store management staff to make decisions about shop transactions. Nordstrom has pursued the strategy of slow growth in Canada as it has also sought to understand Canadian consumers and their tastes better.

These firms focused on the development of supply chain solutions. Aldo selected a strategy oriented to the rapid change of products through a flexible and response-oriented supply chain that allows the retailer to identify the capabilities of suppliers all over the world. Carrefour helped suppliers develop processes and provided the equipment needed to cover critical operational needs. Nordstrom decided to replenish shops seeking to avoid inventory until it started to connect logistic transactions on its own in the Canadian market.

After expansion, retailers Carrefour and Nordstrom were ready to align strategies to meet customer needs. Carrefour had to move the location of Chinese stores to the suburbs, where small shops that matched the e-commerce concept opened.

In 2015 Spain company Mango introduced its strategy change to update collections for its stores every two weeks instead of 3 to 4 months, and in 2015 significantly increased production in Europe and Turkey. Mango, all more than 100 stores in Turkey are their own stores.

Mango started its online business very early and developed it strongly. Mango was one of the first Spanish fashion companies to start sales online in 2000, and in 2006 it developed a virtual store to present its collection online.

The company never built production activities on its own. The retailer develops products and concludes agreements with other manufacturing companies.

Mango invested in its supply chain aiming to improve the receipt of data and reach the speed of its response to the demand changes. Mango gradually raised the prices for its higher quality products to establish itself at the middle and high segment level. Its prices were higher than those of the Zara company, which is a direct competitor.

Table 1: Factors of international development in the retail sector

Enterprise	Headquarters	Enlargement country	Factors
Aldo	Canada	United States	○ Market analysis before market entry
			○ Low costs strategy
			○ Understanding the needs of customers – a wide range of local products
			○ Quick products' designing process
			○ Flexibility and response in the supply chain network
			○ The attention and high commitment of top managers
Carrefour	France	China	○ Understanding the needs of customers – a wide range of local products
			○ Slow development but concentrated geographical development
			○ Local supply
			○ Local management and involvement of business partners
			○ Training and/or training of suppliers
Nordstrom	United States	Canada	○ Understanding the needs of customers – a wide range of local products
			○ High service level
			○ Choosing a store location depends on the financial status of the customers
			○ Local management
			○ The attention and commitment of top managers
Mango	Spain	Turkey	○ Renewal of collections in a short period of time
			○ Early online shopping for the presentation of the collection
			○ Production near physical stores, contracts with business partners
			○ Development of the logistics system to ensure speed
			○ Diversified assortment, product quality, and average price segment

In the theory of international business, the OLI (Eclectic) paradigm is mentioned when it comes to international development.

The paradigm includes the equity, location, internalization (OLI) tiers into an assessment system that firms can use in the case of FDI. Foreign direct investment determines how many divisions the company will have abroad and in which countries.

The eclectic paradigm, also known as the OLI system, says that institutions avoid operations on the open market when the cost for performing them internally is lower. Such follows the theory of internalization, which was first mentioned in 1979 by Mr. J. Dunning.

Business is developing its value-creating activities outside the home market. There are several reasons to make this. First, companies can look for more attractive resources or new customers abroad when they can sell more outside than in their own country. Second, companies are looking for possibilities to increase the efficiency of operations via economies of scale.

Businesses could select different strategies to enter the foreign market. Each strategy has its advantages and disadvantages. Some popular methods include export, licensing, franchising, forming strategic alliances, joint ventures, merging with local firms, and greenfield investing. The last three methods demand cash costs and share capital investments and are considered certain FDI forms.

The Eclectic paradigm emphasizes the advantages of ownership, location, and internalization. Actually, the firms need to reach all three of them to succeed in FDI activities. A firm adopts an entry strategy aiming to absorb one or more such advantages.

Property advantage. The advantage of ownership includes appropriate management data and ownership of the firm. Trademark, copyrights, patent rights, and internal skills provide the business with this advantage. Thus, the advantage of ownership is usually treated as intangible assets. Like, such a strong trademark with a high reputation, technological advantage, and economies of scale.

These advantages are important to understand to get knowledge about customers. However, it should not be forgotten that foreign companies are under pressure in the destination countries.

Local advantage. The local advantage is the advantage that may be geographical location or cheap resources, special taxes, etc.

Companies could have comparative resources in a variety of countries, which are price and availability oriented. As a rule, the advantage of the place implies natural or produced resources.

Porter diamond is a tool used to highlight the advantages of the place. Firms should raise the question of any local advantages offered by the destination market. If there are no local advantages, companies are willing to maintain manufacturing at the origin market and, instead of FDI, select the export of products activity. Such shows the demand for products outside the national market. But if there are advantages, the company could carry out certain value chain activities abroad by granting licenses, franchises, or investing directly in the foreign market.

The OLI paradigm refers to a country like Luxembourg or New Zealand. However, the vast majority of prevailing studies focused only on the behavioral aspects of O and I international organizations. The specificities of determining the country of destination and their impact were almost entirely excluded from the field of international business research.

The country's role in the conduct of an international company and the choice of investment were examined and revealed the main aspects of the link between the country's choice and productivity.

International corporations have played an important role; therefore, rather than focusing solely on specific factors, the review could be expanded to cover local factors that have an important role in the company's competitiveness. It is essential to know mechanisms that promote the competitiveness in general, for which international business scientists have shown great interest in developing and implementing a viable strategy for multinational corporations.

The country's competitiveness is worth examining when assessing countries with similar characteristics competing in similar industries. It is better to group countries according to their particularities.

When it comes to the particularities of countries, the comparison of advantages is important, but even more important are the advantages of the nation, which M. Porter also emphasizes in the diamond model.

The advantage of internalization. Finally, internalization's advantages signal revising possibilities to manufacture products internally instead of concluding contracts with the 3rd party company. Sometimes it could be more efficient for companies to deliver manufacturing from another country instead of maintaining manufacturing within themselves.

The firm could select partnership agreements with local partners if it plans to transfer manufacturing. Even such agreements impact finance only if the partner can comply with lower price requirements.

Joint ventures with partners, the acquisition of firms, or their creation of those from zero through greenfield investments, are methods defined in the internationalization strategy constructed by the company.

Culture is an important local factor that helps characterize the competitive advantage of a country or nation.

In a globalised economy, the cultural factor also has to be considered. As more firms grow and the foreign market is opened to SMEs, international and intercultural terms play an important role, especially in understanding the target country's culture.

Cultural factors' role. From a business perspective, the culture is about what behavior is general and professional in one place compared to another. Business practices in a single country could vary from those taken by foreign firms. The recognition of cultural factors helps present companies in the target market in the best possible ways.

Communication has an important role in international business and could help to avoid failure during the entry into the target market. For example, it is common to share ideas among employees in countries like the U.S. or Germany. Still, in Japan, employees are generally not active in spreading internal ideas among themselves.

Another aspect to consider is the general customs, manners, and gests that are universally represented in concrete culture. Behavior may be common in single culture but can be different to a customer abroad. Intercultural communication can be challenging, but respect could help companies succeed internationally. Companies also need to be familiar with cultures.

Social equality is emphasized in the Scandinavian region, such as Sweden, so employees usually are in a fairly clear organizational hierarchy. This concerns communication and cooperation, which is usually the fundament of business. In Japan, respect for seniority is important and evident in the formed organization structure.

Therefore, different cultural approaches to management can make it difficult to define the roles of international teams. Therefore, the firms are aware of their cultural focus on target markets and proper organizational structure selection.

Workplace etiquette - is another thing firms need to know if their activity is international. It means that there are different approaches to working rules and regulations and working hours. While some employees might work longer hours because they focus on commitment, others of them might think that the extra hour of work shows a lack of efficiency and/or the lack of family or individual time priorities.

Works of Hofstede (1980), House et al. (2004), and Schwartz (1999) identify that the national culture factor refers to common collective values that make the various (national) human connections different or similar and provide the reasons why such differences exist. It is clear that geographical borders do not bind cultures, but they show the average values of national values, which can be compared between countries because the national culture is a form of various factors at the national level.

Because international business is associated with "business activity that crosses national borders or is carried out in a place other than the company's home country," as stated by Wright et al. (1994), national culture is one of the factors determining the decision making of international development, but the set of countries chosen for international development. A search of the Web of Science database with the keywords "internationalization," "international business," "national culture," and "management" provides a link between the publications found, which is shown in the figure below. Fig. 1 shows that culture is inseparable from international business development, and scientists pay great attention to this topic.

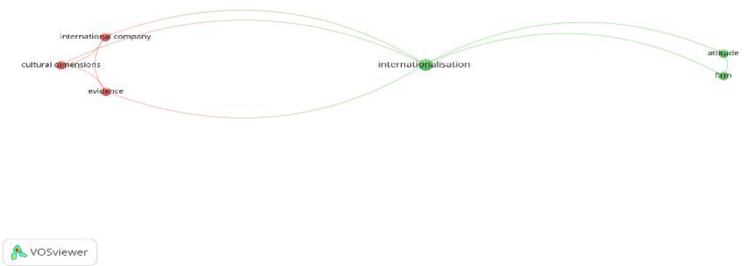

Fig. 1: Cultural dimensions in internationalisation research studies

According to the paradigm of cultural stability, many indicators such as political, economic, and social valid for society, as well as attitude, beliefs, and behavior valid for individuals, are culturally determined. However, the empiric research of Steel et al. (2010) shows that cultural changes happen more often than previously were indicated.

3. Conclusions

The growth of the international business over the past decades is considered one of the most significant trends in the world. International business encompasses various business organizations and activities, from secular corporations to cross-border networks of national ownership companies engaged in trade and mutually beneficial contractual and cooperation agreements.

In this study, the authors analysed the expansion of retail chain companies such as Carrefour, Mango, Aldo, and Nordstrom. The authors identified the success factors of the international expansion of specific enterprises to specific countries, among which the factors representing the commitment of top management to the expansion and the importance of the available resources are also mentioned. An analysis of scientific internationalisation studies discussing the expansion of companies abroad through the Vos Viewer tool shows that the role of culture should also be kept as a part of these studies.

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