PERSPECTIVES OF LATVIAN COMPANIES ON FOREIGN MARKET ENTRY MODES AND TURKEY AS A FOREIGN MARKET

Master’s Degree Thesis

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ÖZET

LETONYALI İŞLETMELERİN YABANCI PAZARLARA GİRİŞ TÜRLERİ VE YABANCI BİR PAZAR OLARAK TÜRKİYE PAZARINA YÖNELİK BAKIŞLARI

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Günümüzde, ülkeler arasındaki daha da geçirgen hale gelen sınırlar, işletmeleri operasyonlarını ülke dışına genişletmeyi düşünme yönünde cesaretlendirmekte; bu da “hangi pazar?” ve “pazara nasıl girerim?” türü soruları ortaya çıkarmaktadır. Bugün için uluslararası pazarlarda boy göstermek için çok sayıda fırsat olsa da, her bir başarılı yurtdışı deneyime karşılık dört başarısız girişim söz konusudur. Yabancı pazarlara giriş türlerine yönelik bilgi ve deneyim işletmelerin başarısında kritik bir önem taşımaktadır. Bu nedenle, yabacı pazarlara başarılı şekilde giriş için gerekli faktörlerin belirlenmesi bu çalışmanın temel amacını oluşturmaktadır. Araştırmacının Letonyalı olması ve Türkiye’de eğitim almasından dolayı, Letonyalı işletmelerin bir yabancı pazar olarak Türkiye’ye bakış açılarının yansıtılmasının da çalışmanın bir diğer amacı olmasına karar verilmiştir.

Çalışmanın amaçlarını gerçekleştirmek üzere, uluslararası faaliyette bulunan 121 Letonyalı işletme belirlenmiş, onlarla bağlantı kurulmuş ve araştırmaya katılmayı kabul eden 96 işletmeye online anket uygulanmıştır. Yabancı pazarlara giriş türleri üzerinde etkili olan faktörlerin arasındaki ilişkilerin tespiti, bu konudaki en önemli ve en az önemli görülen faktörlere ilişkin bilgi elde edilmesi, Letonyalı işletmelerin yabancı pazarlarda karşılaştıkları sorunların ortaya konulması ve Türkiye pazarına yönelik değerlendirmelerinin tespiti gibi konuların ele alınmasıyla bu çalışmanın ilgili literatüre katkıda bulunduğu düşünülmektedir.

Anahtar Kelimeler: Uluslararası İşletmecilik, Dış Pazara Giriş Türleri, Dış Pazara Giriş Türlerinin Belirlenmesindeki Faktörler

ABSTRACT

PERSPECTIVES OF LATVIAN COMPANIES ON FOREIGN MARKET ENTRY MODES AND TURKEY AS A FOREIGN MARKET

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Today, boundaries are much more permeable among countries, encouraging companies sooner or later come to consider opportunities to expand their business activities in foreign markets. This arises questions such as “what markets to enter?” or “how to be there?” Even though, opportunities and alternatives are abundant to be an international player these days, according to the statistics, for each successful foreign market entry, there are four failures. Being knowledgeable and experienced in selecting foreign market entry modes seem to be critical for business success. Thus, identification of the factors in successfully determining foreign market entry modes (FMEM) becomes the principal subject of this study. Since the researcher is from Latvia and studying in Turkey, reflecting Latvian businesses’ perspectives towards Turkey as foreign market in the light of topic was deemed necessary.

In order to reach the objectives of the study, 121 Latvian international companies were selected, contacted, and 96 of those participated in the study were interviewed. The study is believed to contribute to the relevant literature by discovering several dependencies between various factors and foreign market entry modes, collecting information on the most and the least important factors for entrepreneurs in deciding on the FMEM, and revealing the most common problems that Latvian companies are facing in their business operations abroad, and reflecting their perspectives on Turkish market.

Key Words: International Business, Foreign market entry modes, Factors in determining foreign market entry modes.

1/06/2017

ETİK İLKE VE KURALLARA UYGUNLUK BEYANNAMESİ

Bu tezin bana ait, özgün bir çalışma olduğunu; çalışmamın hazırlık, veri toplama, analiz ve bilgilerin sunumu olmak üzere tüm aşamalardan bilimsel etik ilke ve kurallara uygun davrandığımı; bu çalışma kapsamında elde edilemeyen tüm veri ve bilgiler için kaynak gösterdiğimi ve bu kaynaklara kaynakçada yer verdiğimi; bu çalışmanın Anadolu Üniversitesi tarafından kullanılan "bilimsel intihal tespit programı"yla tarandığını ve hiçbir şekilde "intihal içermediğini" beyan ederim. Herhangi bir zamanda, çalışmamla ilgili yaptığım bu beyana aykırı bir durumun saptanması durumunda, ortaya çıkacak tüm ahlaki ve hukuki sonuçlara razı olduğumu bildiririm.

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(İmza)

Anastasia Peshkova
(Adı-Soyadı)

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ABBREVIATIONS

IB	**:** International Business
EU	**:** European Union
GATT	**:** General Agreement on Tariffs and Trade
WTO	**:** World Trade Organization
WB	**:** World Bank
IMF	**:** International Monetary Fond
NAFTA	**:** North American Free Trade Agreement
MNC	**:** Multinational Corporation
TNC	**:** Transnational Corporation
GC	**:** Global Company
SME	**:** Small and medium-sized enterprises
FMEM	**:** Foreign Market Entry Modes
FDI	**:** Foreign Direct Investment

INTRODUCTION

Even though environmental conditions for businesses are relatively unfavorable in general and challenging today due to certain factors such as global crises, unstable economic circumstances, regional conflicts, etc., opportunities always exist, especially for better-managed companies. Many agree that the world has become a global marketplace. As boundaries among countries disappear, the entire world becomes a potential market for companies of any size. Therefore, companies sooner or later come to consider opportunities to expand their business activities into foreign markets.

There are several alternatives for entering to a foreign market (Foreign Market Entry Modes-FMEM) that can be preferred in respect to a company's capabilities. These modes include: direct exporting, indirect exporting, countertrade, licensing, franchising, management contracts, turnkey projects, joint venture, strategic alliances, portfolio investment, and foreign direct investment. In fact, for an inexperienced firm, it might be quite hard to make a right decision on the most appropriate entry mode. But this decision is one of the most crucial ones, which has very significant consequences on the firm's further growth abroad and even its survival. According to business reports, for every one successful foreign market entry, there are about four failures (Pla-Barber, Sanchez-Peinado, Madhok, 2010, p. 740). Hence, it can be inferred that there is a lack of knowledge and experience on selecting an appropriate FMEM. In order not to fail and make a right decision, there are several internal and external factors to consider. Therefore, it is critically important to be able to analyze these factors. Depending upon its critical importance, identifying the factors in determining foreign market entry modes becomes the central subject of this study.

Another significant issue addressed in the study is the trade relations between Turkey and Latvia. Along with the fact that the researcher is from Latvia, in July, 1994 the Republic of Latvia and the Republic of Turkey have bilaterally signed the Treaty on Friendship and Cooperation (Min. of Foreign Affairs of the Rep. of Latvia, 2016). On 4 April 2013 the "Latvia - Turkey Business Forum" was held in Riga, with the aim to increase the trade and investment volumes between two countries in five times by 2015 (haberler.com, 2013). However, recent trade statistics between abovementioned countries exhibit a decline. In general, the exports volume of Turkey to Latvia comprises only around 0,017% of Latvia's the entire imports (Central Statistical Bureau of Latvia, 2016).

In 2015 Turkey has exported goods to Latvia worth of $173,267. However, Latvia is only the 54th export partner of Turkey (Turkish Statistical Organization, 2016). Thus, it seems that trade projections for Latvia and Turkey were not realized.

Because of the reason mentioned in the previous paragraphs, it was decided to examine the potential of the trade between those two countries from the eyes of the potential and current investors. Because of several reasons, which are discussed in following chapters, it was decided to concentrate on the potential of Latvian side regarding increasing of trade volumes to Turkey.

The goal of the study is twofold: 1) to identify and clarify the factors associated with involving in foreign markets (such as underlying reasons for international involvement, set of factors affecting the selection of entry modes, information resources, etc.). 2) to learn more about Latvian business companies' (investors') level of knowledge and interests, perspectives and assessment on Turkish markets.

To accomplish the goals of the study, 121 Latvian international companies producing goods that are highly demanded by the Turkish market, were selected and contacted. 96 of those gave positive response and agreement to participate in the study. The study contributed to discovering several dependencies between different factors and foreign market entry modes, collect information on the most and least important factors for Latvian entrepreneurs in deciding on the FMEM and learn the most common problems that Latvian companies are facing in their businesses abroad. Besides, the study examines the existence of a potential towards increasing the trade volumes between Latvia and Turkey. In fact, the practicality and necessity of this study was confirmed by Latvian Embassy in Turkey, as in the form of official letter, which can be found in Annex 1. Therefore, the results of the research will be shared with the Embassies of Turkey and Latvia, as well as with the Ministries of Foreign Affairs of both countries.

The first chapter of the study provides the literature background on the areas related to factors of FMEM; details about each entry mode, examining its advantages and disadvantages; several internationalization theories and their applicability in nowadays business; problems and potential risks of doing business abroad. The second chapter provides the facts and figures on the trade relationship between Turkey and Latvia. It analyzes exporting and investments statistics in details between the two countries. The third chapter is related to the analysis and results of the study.

CHAPTER ONE

THEORETICAL BACKGROUND ON FOREIGN MARKET ENTRY MODES

The first chapter of the study provides the insights on the key issues related to the research. It provides the analysis of various researches, articles and books issued by the most popular European and American Professionals in International Business. The aim of this chapter is to provide the background information on the following subjects related to the research: latest trends in international business; reasons for companies to expand abroad; foreign market entry modes and their advantages versus disadvantages; factors in determining an appropriate entry mode as well as risks and possible problems, which may occur while doing business abroad.

1. Globalization, Internationalization and International Business: Definitions and their Roles

Today, the world we live in is united and different countries are getting more and more politically and economically interdepended on each other. This process is called as globalization. The former United Nations Secretary-General Kofi Annan once said "It has been said that arguing against globalization is like arguing against the laws of gravity" (Kofi Annan, 2016). So, we can understand that globalization is absolutely inalienable phenomenon of today's world. How globalization is defined? According to the Leslie Hamilton and Philip Webster, the authors of the book "The International Business Environment" globalization is defined as: "A process in which barriers (physical, economic, political, cultural), separating different regions of the world are reduced or removed thereby stimulating exchanges in goods, services, money, and people" (Hamilton, Webster, 2015, p. 6). So globalization creates a lot of new opportunities in external environment of businesses. The barriers between countries, which were creating a lot of difficulties for international business before, today are being removed. This process is alternatively called as liberalization (Hamilton, Webster, 2015, p.7).

Globalization influences businesses both in positive and negative ways. The positive sides are: possibility of new market opportunities; new suppliers for goods and services; lower production costs; higher selling prices and less costly labor (Hamilton, Webster, 2015, p. 9). These factors may create new opportunities for more prosperous and successful business in another country. A good example is a famous brand “Nike”, which has located its manufactories widely around developing countries, such as China, Asia, Latin America, in order to decrease production costs (Nike Manufacturing Map, 2016). Talking about the negative effects of globalization, these are: vulnerability and dependence on the events, happening in foreign countries such as crisis, wars, ecologic problems etc. Another threat is that a country, which has opened its borders towards foreign investors, may attract a leading foreign company, which may create a serious competition to the local brands (Hamilton, Webster, 2015, p. 11). Despite possible negative effects, the countries are anyways trying to be more involved into international trade and attract more foreign investments.

“International trade” and “international business” are used interchangeably. International trade refers to an exchange of products and services across national borders (Cavusgil, Knight, Riesenberger, Rammal, Rose, 2014, p. 6). Exchange of products is generally called as “imports and exports” between countries. Several other sources define international trade quite similar to the first source: as an exchange of goods and services between countries, which gives rise to the world economy (Heakal, 2016).

Daniels, Radebaugh and Sullivan define international business as “private or governmental commercial transactions between two or more countries made in terms of profit, sales, investments and transportation” (Daniels, Radebaugh and Sullivan, 2004, p. 9). Alternatively, it is defined as “trade and investment activities across the national borders” (Cavusgil, Knight, Riesenberger, Rammal and Rose, 2014, p. 5).

In brief, international trade is a part of international business; related just to imports and exports, while international business, besides imports and exports, is also related to international investments and transportation activities. With another words, international business is a wider term, which includes international trade.

International business has become a meaningful part in today’s economy. The European Commission states that it is an engine for global growth, which has a real impact on the day-to-day lives of people and businesses in Europe and around the world (European Commission, 2015). It is estimated that the increase in exports in amount of US$1 billion, creates more than 20 000 new jobs for people (Cavusgil, Knight, Riesenberger, Rammal, Rose, 2014, p. 8). According to the latest statistical data of the

World Bank, the amount of exports in the world is more than 19 trillion dollar. The amount of imports in the world is quite similar to exports (the World Bank Group, 2016). The United Nations statistics are showing that service sector in international trade lately has become the fastest growing tendency (UNCTAD, 2015). All the data is proving that nowadays countries and companies are looking forward to becoming international. This tendency is called as internationalization.

Internationalization is defined as the systematical tendency of companies to increase the international dimension of their business activities (Cavusgil, Knight, Riesenberger, Rammal, Rose, 2014, p. 5). According to the European Commission of finance and trade statistics, the most active countries in the world trade market are the EU, China, USA, Japan and Russia. China is actively growing and it might even become a leader (European Commission, 2015).

In order to make international business grow and develop, the leaders of developed countries have created organizations like the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). These organizations have set up: Free Trade Area, Custom Union and Common Market, which create the conditions to make trade between different countries as easy as possible (WTO, 2016). The description and aims of these organizations are following:

- **Free Trade Area:** the members of it remove tariffs and quotas on goods from the members of area and decide on their own tariffs on imports from non-members of area (example: NAFTA).
- **Custom Union:** is an agreement to remove trade barriers between its members and (unlike FTA) to impose a common external-tariff on imports from non-member countries (the EU Custom Union).
- **Common Market:** is an agreement when its members agree on free movement of labor, goods and capital among its members (the European Union). (WTO, 2016).

According to the scheme of countries' economic integration - the biggest level of economic integration is: Political Union (example, USA). It is decreasingly followed by Economic Union (the EU), Common Market (EU single market), Customs Union (Eurasian Custom Union) and Free Trade Area (NAFTA) (Hill, 2011, p. 30).

The other important organizations, helping to organize better the international trade are the International Monetary Fund and the World Bank. The organizations were established in 1944 by 44 nations in order to maintain international monetary system and promote economic development. Nowadays, organizations have about 188 country-members and they became important players in global economy (Driscoll, 2016). The World Bank, as one of its responsibilities considers helping developing economies with low-interest loans, in order to build infrastructures. IMF helps national currencies losing their value to stay stable (Driscoll, 2016).

2. Reasons to Enter a Foreign Market

There are several reasons why companies are so actively getting involved in the international business. First of all, modern technological, economic and political progresses created valuable opportunities for development of internationalization. Progress in technology, telecommunications, propagation and improvement of the Internet united all countries of the globe together. Moreover, due to the Internet, nowadays there are hundreds of online-shops, which allow customers to get the newest trends from any country in the globe. For example: “Amazon.com”; “eBay.com”, “AliExpress.com” etc. The Internet allows to sell goods anywhere in the globe, so it’s a good business opportunity (Neelankavil, Rai, 2015, p. 7). Development of all business supporting services has made a big step ahead as well. Nowadays, various financial operations are easily done on international level. Also possibility of creating credit agreements, insurances and other financial services make the decision about making business abroad more realistic (Daniels, Radebaugh, Sullivan, 2004, p. 15).

Recently it has been observed a fast economic growth in emerging economies in countries like Brazil, China, Check Republic, India and South Korea. This has resulted in the middle-classes buying capacity growth, which accordingly created a potential for successful foreign brands to enter these countries and sell their goods there. By time, this development leads to formulation of various international trade organizations, which stimulate the reduction of trade barriers among different country-areas (Neelankavil, Rai, 2015, p. 9). As a result, all this steps create a huge potential for all the entrepreneurs to become players on international trade arena.

Besides favorable external conditions for making a step towards internationalization, some companies may face also problems at local market, which may become a motive for moving abroad. In some sources they are named as “reactive reasons”. The “reactive reasons” generally are as following:

Saturated domestic markets: in many developed countries the markets got very saturated with competing companies, producing similar products, so it doesn’t make any reason to open the same business there (Neelankavil, Rai, 2015, p. 12).

High competition in local market: when local markets are getting saturated with competing companies, it is good for the consumers, since the prices are decreasing, but it is a dangerous situation for the small businesses. The managers of these companies have to make a decision to stay and “fight” for the place at local market or to look for the new markets overseas (Neelankavil, Rai, 2015, p. 13). One more dangerous situation happens when competition is created by foreign companies, which are using lowered prices in order to win a new market and attract the customers. This approach is defined as “dumping”. For that reason almost every country has signed the anti-dumping agreement, which limits foreign companies’ freedom in price politics (WTO, 2016).

Besides the “reactive reasons” to start business abroad, there are also more positive reasons, like the desire for grow and development. The companies, which are successful in their local markets, are starting following the strategies, which would make them growing internationally. Authors Neelankavil and Rai list these reasons, why these companies would go abroad:

- Possibility of earning higher profits;
- New opportunities and growth;
- New ideas about products, services and business methods;
- Development of better service for key customers, who relocated abroad. (Neelankavil, Rai, 2015, p. 14)

It is especially related to “B to B” models, when the factory changes its location, suppliers may follow it too, in order not to lose a partner. The list of the positive reasons if followed by:

Need to develop "economies of scale" in sourcing, production, marketing and R&D. The idea of economies of scale is that the more firm produces, the cheaper is its production cost. So, the more markets a company expands into, the more products it needs to produce, which accordingly makes the production costs reduced. The same idea comes with sourcing, marketing activities and R&D.

Possibility to invest in an advantageous relationship with a foreign partner. It is a big chance to find a reliable and successful partner abroad with whom various business organizations are possible to make, such as joint-venture projects, project alliances exporting agency. If a company has established a good business connection with a partner abroad – this is a reason for most of entrepreneurs to think of expanding abroad.

Lower production costs in a foreign country. In different countries the tax systems are changing. For example, in Latvia there is a business profit tax, but not in Dubai (World Tax, 2016). Respectively, it makes Dubai more attractive for investments and production, than Latvia. Also in different countries salary systems are different. For example, a worker in Volkswagen plant in Germany have to earn $25 per hour and works in average 35 hours per week, but the same worker in China earns $2-3 per hour and works 45-48 hours in a week (Neelankavil, Rai, 2015, p. 14). These differences allows for big companies to relocate their production units in the places, where it is cheaper and more profitable to produce. It is not surprising that most of the global brands have their production factories in China, Malaysia, Indonesia and others similar countries.

3. Types of International Companies

As soon as a company starts any its business activity abroad, it is called as international company. But in the literature, there are several classifications of types of international companies. Here are the classifications and definitions:

International Company - is a company of any size that has any kind of business operations outside the country of its origin. Generally it enters to a foreign market by exporting (Neelankavil, Rai, 2015, p. 11).

Multinational Corporation (MNC) - is a company that has entered different foreign markets mostly by foreign direct investments. It has offices in different countries and a centralized head office. Sometimes MNC is called as Multinational Enterprise. (Cavusgil, Knight, Riesenberger, Rammal, Rose, 2014, p. 14).

Transnational Corporation (TNC) - is an international company owned and managed by different nationals. As example, “Unilever” is a joint holding of British and Dutch managers. The biggest difference of TNC from MNC is that it doesn’t consider any country as its national home, when MNC does have its head office in a home country. The TNC are more likely to follow the strategy of decentralization, where the decisions will be made locally, not from a headquarter (WHO, 2016).

Global Company - by general characteristics looks like MNC, but it integrates its foreign units and focuses its marketing strategies on a global scale. A good example is Coca-Cola or Microsoft (Huebsch, 2016).

Today, lots of small and medium sized companies (**SMEs**) from their establishment are following a globalization strategy. SMEs generally prefer exporting to expand internationally. Today this type of companies makes the majority of businesses in many countries. According to the European Commission SME’s represent 99% of all businesses in the EU (European Commission, 2017). One type of SMEs is a “born-global firm”, which means a newly established company that initiates international business activity very early after its creation and moves rapidly into foreign markets (Cavusgil, Knight, Riesenberger, Rammal, Rose, 2014, p. 14). That type of SMEs is found mainly in advanced and emerging economies.

4. Preparative Steps Before Entering a Foreign Market

When a company is ready to expand its business activity into a foreign market, it is a time to make many serious researches and decisions on where to enter, when to do it and what will be the best way to do it (Hill, 2011, p. 470). There are several recommended steps helping to make the right decision.

4.1. Which foreign market to select?

In order to understand which country is the most suitable to start a business activity abroad, it is necessary to conduct a market research. Unfortunately, international business research is very expensive to organize and also not all the time the quality of data can be reliable. In developed countries data reliability problems are rare, but in developing countries it happens often (Neelankavil, Rai, 2015, p. 85). But this is necessary to do, if a company doesn’t want to fail. A company has to create its own “country attractiveness rate”. According to Alan Zimmerman and Jim Blythe the factors of country attractiveness can be divided into “Macro” and “Micro” factors. So, the “Macro” factors are all about a country situation: its economic condition, demographic situation, political and legal environment, technological development, social and cultural environment (Zimmerman, Blythe, 2013). The name of such research is PEST analysis, which includes analysis of political, economic, social and technological background of a country (Glowik, 2016, p. 24). In some researches additionally are added ecological and legal factors. That analysis is named – PESTEL (Glowik, 2016, p. 24). An alternative to that research is called S.E.E.L.E. analysis, which covers an analysis of society, ecology, economy, law and expertise of a country (Glowik, 2016, p. 25). Another analysis, which also is actively used in order to estimate the attractiveness of an appealing foreign country, is called CAGE analysis. The key focus of this analysis is on the four parameters: cultural distance, administrative distance, geographic distance and economic distance (Ghemawat, 2007, p. 50). The main benefit of this analysis is that it can be helpful while thinking about entering a country with different culture, religion or the one, located in another mainland.

As “Country attractiveness micro factors” is meant all data about countries’ local markets. It is important to know everything about customers (key segments and purchase criteria), market size, competition there and product acceptance (Zimmerman, Blythe, 2013, p. 91). To the list of factors should be added also the currency convertibility research, countries intellectual property protections and environmental concerts (Manzella, 1997).

These factors help to define the most suitable country for business internationalization. When there are several potential markets selected, it is necessary to evaluate potential costs, benefits and risks and according to these considerations, choose the most appropriate market (Griffin, Pustay, 2007).

Additionally, before entering a foreign market Hill recommends to decide on which scale it will be done. Entering a market on a large scale (big amount of product pieces) can be too risky, while entering a market on small scale gives an opportunity to study a market better. Additionally, Hill states that there is no certain recommendation for a business in which the best way it can enter a market. In any possible way there are its own benefits and risks. In a following chapter different possible foreign market entry modes will be explained and compared to each other (Hill, 2011, p. 475).

4.2. When to enter a foreign market?

After a country has been selected, it is necessary to plan what time to enter there. Hill, Schilling, and Jones mention advantages and disadvantages of entering a market at early stages. It is called as “first mover” - a feature of a company to be first to offer a product in a market (Hill, Schilling, Jones, 2016, p. 220). Among the advantages of being first mover are: winning the first customers segment and building up brand loyalty, possibility to increase sales quickly and, learning better the customers, exploring distribution channels and new technologies, which, as a result, help to lead in the market (Hill, Schilling, Jones, 2016, p. 220). However, there are also some disadvantages of being first mover, which need to be considered. First of all, being first mover, means introducing something new to the market. This demands big marketing costs. Late market entrants would not have to make so many expenses, since the product will be already introduced to market. Second, being first mover creates very big risks for doing a mistake, which late entrants would be able to know about and learn on it (Hill, Schilling, Jones, 2016, p. 221).

5. Modes of Entering a Foreign Market

After the decisions on a foreign country and a specific time of entrance have been made, it is necessary to decide on a proper foreign market entry mode, which is defined as “an institutional arrangement, by which a firm gets its products, technologies, human skills or other resources into a foreign market” (Wild, Han, Wild, 2010, p. 380).

There are five most common choices of entry: exporting, licensing, franchising, joint venture or wholly owned subsidiary in a foreign country (Hill, Schilling, Jones; 2016, p. 262). Wild, Wild and Han present three categories:

- Exporting and countertrade;
- Contractual modes: licensing, franchising, managements contracts, turnkey projects;

- Investment modes: wholly owned subsidiaries, joint ventures, and strategic alliances (Wild, Han, Wild, 2010, p. 382).

5.1 Exporting

The basic and easiest way to make a step abroad for a firm is to do exporting. There are several reasons why companies choose exporting:

Expand Sales. For some firms going abroad with exports, means increasing the amount of productions, which is a way to achieve economies of scale.

Diversify Sales. Exporting creates several sales channels, which help to coordinate the amounts of sales and cash-flow. When in one channel sales are decreasing, cash-flow from another channel can save the situation.

Gain Experience. Firms are using exporting as a low-cost and low-risk way of gaining international experience and “trying” a foreign market (Wild, Han, Wild, 2010, p. 385).

Compensate for Seasonal Demands. In case the seasonal products are not bought in one country, export would be a chance to keep sales during all year long (Tekel, 2015).

Prolong a products life-cycle. If in one market the life-cycle of product is finishing, it can be renewed in a new market (Tekle, 2015).

Selling Excess Products. When there are some products left, they can be sold in another country by same price, thus there is no need to sell them discounted in a local market (Tekle, 2015).

According to Hill, Schilling and Jones, exporting has two main advantages: avoiding big costs of establishing a production manufactory abroad and possibility to do economies of scale (minimize a production cost, because of a big production amount). But exporting has several drawbacks either. For instance, if a company plans to export its goods to a country, where it is cheaper to produce them, then it becomes not reasonable to do it. A very good example of it is “Apple”, which moved its productions into Asia, because of low-cost and quality workers. Apparently, it was cheaper to produce these goods there directly, than organize exporting transportations from USA.

Second, export transportation costs can be very high, especially, if the trade is between different continents (Hill, Schilling, Jones, 2016, p. 264). In this case again it might be reasonable to consider opening a subsidiary in that country. In some countries, there are very high tariffs and taxes, that is why, export costs can be double high. Finally, doing export can be risky, because of not knowing local markets characteristics (Tekel, 2015). Thus, there can be mistakes in marketing. For these reasons, it is recommended to hire local marketing team, but still there is a problem of trust. There is no guaranty that hired marketing agents would do the job in a right way and will be really loyal. A problem is that a firm doesn't really have a control over that work. The solution can be opening a subsidiary in that country and creating companies own marketing team, which will cooperate at the local level (Hill, Schilling, Jones, 2016, p. 266).

There is a **Four-Step Model**, which helps to develop the export strategy in a successful way. As a first step, it is recommended to identify a potential market, by doing a deep research. It is important to focus only on one or few markets (Wild, Han, Wild, 2010, p. 380). As a second step, it is necessary to match needs of market with abilities of a firm. A company has to determine if it is capable with satisfying the needs of a market or not. As a third step, it is recommended to initiate meetings with potential local distributors and buyers in order to build trust and a good communication. In this stage some possible cultural differences might be realized and should be overcome. This is an important moment for structured negotiations about the future business. As the last step, it is necessary to clarify all the export objectives for at least first three years (Wild, Han, Wild, 2010, p. 381). These steps are helpful in export process planning.

In exporting, as a foreign country entry mode, there can be different degree of involvement. Generally, the bigger and more powerful a company is the more experience it has and the more it is able to organize its export business without anybody's help. On the contrary, small companies, because of luck of experience, generally need a help of some intermediaries. There are two types of exporting: *Direct Exporting* and *Indirect Exporting* (Delaney, 2016).

If an export is done without any subsidiaries help, then it is considered as **Direct Export**. On the other hand, if a company uses help of another firm in its export activities, this process is called as Indirect Exporting (Wild, Han, Wild, 2010). Direct Exporting is officially defined as a practice, by which a company sells its products directly to buyers in a target market, but Indirect Exporting is defined as a practice, by which a company sells its products to intermediaries, who then resell to buyers in a target market (Win, Han, Win, 2010, p. 382). Direct Exporting demands higher investments, better market research, more responsibilities and much higher risks, but on the other hand, it creates a possibility to get a higher potential return from investment and better control (Delaney, 2016). In order to organize Direct Exporting activities, there can be: an independent export manager; a whole sells department, a sells subsidiary in a foreign country or can be formed a sales brunch abroad (Delaney, 2016).

Indirect Exporting on the contrary creates less risks, but also less return from investment, because of payments to the intermediaries. Generally, small businesses prefer to start their international activity by doing Indirect Exporting with a help of: sales agents, export managements or export trading companies. Polish International business specialists Adamik, Zakrzewska and Matejun define a special form of Indirect Export - “piggybacking”, which indicates cooperation of several firms in a similar lane of business in exports, where a large company often gives smaller company assistance in their foreign distribution channel (Adamik, Zakrewska, Matejun, 2011). In order to find an appropriate export partner in another country, there are several special websites like “globaltrade.net”, which contain information about export professionals from all around the world (Witters, 2011). Thus, an Indirect Exporting replaces all the responsibilities of export procedures on an assigned export professional in a desired country.

Most of governments support exporting and are interested in its increase, because exporting develops macroeconomic of a country. Thus, governments provide various supportive activities for all the interested companies. Very popular are the services of a **freight forwarder** – a specialist in all export related activities, such as custom rules, tariff schedules, shipping, and transportation fees (Wild, Han, Wild, 2010, p. 385). Additionally, different organizations are ready to assist entrepreneurs in this work. For instance, in Latvia there is a very popular website called www.exim.lv, which collects all the necessary information and contacts, helping in organization of export and import activities in Latvia (Exim, 2016).

Despite the risks, exporting is considered to be the lowest, compared to other foreign market entry modes. Yet, there is some risks associated (Delaney, 2016). Exporters might face a problem of not receiving payment for their delivered products, same as importers are scared that after they make a purchase the delivery won’t come.

Others possible risks can happen during transportation, on boarders, while dealing with documentation and misunderstanding of laws (Witters, 2011). In order to minimize the risks of non-payment, there are several special documents needed, these are:

- **In advance payment**: Importer pays in advance before shipment. It is generally made financial transaction between two banks.
- **Documentary collection**: Type of export financing when a bank acts as intermediary without accepting financial risk.
- **Letter of credit**: Importer's bank issues a document stating that bank will pay the exporter, after fulfilling the terms of contract.
- **Open account**: An exporter ships merchandise and bills the importer for its value (Wild, Han, Wild, 2010, p. 386).

Griffin and Pustay are also mentions one more form of exporting: *Intracorporate Transfers*. It is the sale of goods by a firm in one country to an affiliated firm in another country. In other words, a firm is having its small filial in another country and thus the export procedures are getting done much easier and safer via one company. Around 40% of sales in U.S. are Intracorporate Transfers. An example can be Ford Factories' productions, where in production of one car there are several factories, located in different countries, involved (Griffin, Pustay, 2007, p. 315).

5.2. Countertrade

Countertrade is not a very popular foreign market entry mode, but still an existing one. It means selling goods or services that are paid for with other goods and services (Tyler, 2010). Generally, this type of trade involves commodity and agricultural products. In the beginning of 2000's, Countertrade became quite popular way of trade, because of weakening currencies in some Asian and Latin American countries. So one of the main reasons, why a company may prefer this type of entry mode, is a shortage of convertible currency in the country. Today approximately 130 countries around the world, mostly third-world countries, are taking part in Countertrade (Brady, 2014, p. 300). An example of countertrade: the Malaysian government purchased 20 diesel electric locomotives from General Electric against the supply of about 200,000 metric tons of palm oil over a period of 30 months (Farooq, 2013).

There are several types of Countertrade:

- **Barter:** exchange of goods and services without any money.
- **Counterpurchase:** is a sale of goods and services to one country by a company, which obligates in future to buy a specific product from that country.
- **Offset:** is an agreement between two foreign companies, stating that they will purchase from each other unspecified product, but the financial amount of purchase is clear.
- **Switch trading:** is type of countertrade, when one company sells to another an obligation to make a purchase in a certain country.
- **Buyback:** is export of industrial equipment in return with production, produced by this equipment, usually creating long-term relationships between the companies (Wild, Han, Wild, 2010, p. 390).

Thus, Countertrade is a recommended way of international trade, which countries actively use in times of no money and in order to make the balance of payments positive (Tyler, 2010). A risk of Countertrade is that currency values of different products can be changing by times. Thus, in many cases long-term Countertrade can be uneconomic (Tyler, 2010). To sum up, Countertrade is a good opportunity for marketers to do trade in crises times.

5.3. Contractual entry modes

In most of the cases, when a company has intangible products, it often prefers contractual foreign market entry modes. The examples of intangible products are: patents, trademarks, copyrights, goodwill, brand name etc. (Decker, 2014). A company just cannot use Export or Countertrade in order to enter a foreign market, thus contractual entry mode is the most preferable one. Another important reason to prefer contractual agreement for a firm is a lack of major financial investment and a possibility to escape from tariff and tax payments, which usually exporters pay in order to entry through other countries boarders (Wild, Han, Wild, 2010, p. 385). The main types of contractual entry modes are: Licensing, Franchising, Management Contracts and Turnkey Projects (Keillor, Kannan, 2011). In the next chapter each of contractual entry modes is described in details.

5.3.1. Licensing

Licensing is a practice by which a company, which has any intangible property, grants to another firm a right to use that property for a specified period of time in return of royalty payments, based on percentage of the licensee's sales revenue (Decker, 2014). A company, which grants a property, is called as "licensor", and a company, which buys it, is called as "licensee". The types of licensing can be: patents, copyrights, special formulas, designs, trademarks, brand names, process technologies. Licensing generally is used between manufacturing firms. There is also a term "cross licensing", which means exchanging intangible properties between companies by using licensing agreement (Wild, Han, Wild, 2010, p. 386). A successful example of licensing is a company "Xerox", which licensed its xerographic know-how to Fuji. In return Fuji got a royalty fee equal to 5 percent of the net sales revenue. The license first was granted for 10 years, but because of a big success it was prolonged several times more (Paul, 2011).

The most important advantage of licensing is that a licensor doesn't have to pay development costs and be responsible for all risks, possible while opening a company in foreign market, because all this is done by licensee. Thus, a company with licensing can enter even politically unstable country with little risks (Decker, 2014). That is why licensing is a recommended foreign market entry mode for the company, who has some special technologies or a famous brand name, but who doesn't have a big budget. Second, licensing is good for companies, who wish to participate in foreign market but are prohibited to do this by barriers of investment in a particular country (Hill, 2011, p. 250). Third, licensing can reduce the likelihood that a licensors product will appear on the black market – illegal trade of goods like computer software, films, music industry etc. As a last advantage, if a licensee is hard-working and successful, it might upgrade existing production technologies, which could be a good opportunity for a company for its development too (Wild, Han, Wild, 2010, p. 387).

Licensing has certain disadvantages. One the most significant disadvantage is that a company cannot really control the activity of licensee in a foreign country. Licensing allows to a licensee to set up its own business structure. In case, if this business doesn't go well, the company's reputation would be damaged either (Decker, 2014). So, if a company is really looking forward expanding to a foreign country, Licensing could be a bit risky, because of this factor. Second, if a company is willing to be active in several countries, it has to grant its license to several licensees, which can create big competition between them. It is an unwilling situation for licensees (Worth, 2015). Another possible problem is a risk caused by technological know-how license. It is very hard to control it, after it has been granted as a license. There's a risk that a licensee can suddenly become more successful than a licensor (Wild, Han, Wild, 2010, p. 388).

Generally, licensing contract is made for five-ten years. In case any of these problems has happened, it is not that easy to stop the contract. Luckily, in order to minimize this risk, a cross-licensing agreement has been issued (Wild, Wild, Han, 2010, p. 388). The idea of this agreement is that a licensee is paying to a licensor not only royalty payment, but also is sharing its valuable know-how. In this case there is a guaranty, that in case a licensee violates licensing contract, licensor can do the same.

5.3.2. Franchising

The concept of franchising is quite similar to Licensing. According to Hill "Franchising is a service-industry version of licensing, which involves much longer commitments". With franchising the firm licenses its brand name to a foreign firm in return for a percentage of the franchisee's profits" (Hill, 2011, p. 257).

With a franchising a company sells intangible property to another company, with strict rules about how the business should be made. A company which sells its property is called franchisor, and a company, which buys it, is called franchisee. The franchisor usually helps its franchisee to lead and make business. Similar to licensor, franchisor receives a royalty payment from franchisees revenue (Hill, 2011, p. 257). Comparing to licensing, franchising creates more control over a business. It creates strict guidelines of product quality, management duties and all the marketing activities. Franchisor requires ongoing assistance from franchiser (Shane, 2013). Franchising is generally preferable between service companies. In addition to transfer of property, franchisers often offer their franchisees a startup capital, management training, location advices, advertising assistance etc. (Wild, Han, Wild, 2010, p. 390). Thus, comparing to licensing, when licensor cannot influence a business of its licensee, in franchising, franchiser controls and directs all the development of franchisees business. Researching the top lists of franchisers, it finds out that most of them are American companies. Here are the World top 10 Franchises: McDonalds, Subway, KFC, Burger King, Pizza Hut, 7 Eleven, Wyndham Hotels and Resorts, InterContinental Hotels and Resorts, Hilton Hotels and Resorts and Marriott International (Top 100 global franchises, 2016).

One of the biggest advantages of franchising is that a firm, by selling its franchise, is relieved of costs and risks of opening a business abroad. Thus using a franchising strategy, a firm can easily become a global brand. So it's a low-cost, low-risk foreign market entry mode (Hill, 2011). Franchising allows managers controlling the work of its franchisees, thus, it is a good advantage that would help managers to follow their business strategy (Shane, 2013). Another important advantage is that franchisers can benefit from cultural knowledge and professionalism of local managers (Wild, Han, Wild, 2010, p. 390). This is very important in entering very unfamiliar country. So, it can be concluded, that franchising could be better than licensing, since it provides better control over a business.

There are also some disadvantages of this entry mode. Even if franchising provides more control over business than in licensing, still the owner of a franchise cannot control every day activities of its franchisee. A franchisee pays big royalty fee to a franchisor for its business concept. But a franchisee has all the rights to do business and sales independently (Shane, 2013). Other problem is that if a franchisor creates an advertising campaign, some of franchisees can "use it": they don't pay money for ad, but still the customers are getting attracted to the brand. In case if a franchisor wants to innovate something in its business, he cannot do it freely. He has to talk over this idea with all the franchisees first and get to common agreement (Shane, 2013).

If a franchises brand name has a positive reputation, all franchisees should serve just to improve it. To help a franchisor following the brand's quality, generally, a company has to establish a local subsidiary in a foreign country, which would do the control of all franchisees working there (Hill, 2011, p. 260). For instance, McDonalds has one Master McDonalds franchisee in every country where is has several franchisees. The Master franchisee is controlling the other brunches in the same country in terms of quality and service standards. A need to open such a subsidiary is considered as franchising's drawback, since it requires a big investment. Also it is quite hard to control a very big amount of franchisees, located in different places around the globe (Hill, 2011, p. 260).

Another difficulty is that franchisees might not keep the promise they made at the beginning and would perform their business in a way, threatening a positive reputation of a company. This is a risk, and to prevent it, it is necessary to predict these moments in a contract. Due to all these possible drawbacks, a world-famous coffee chain "Starbucks", while entering a new foreign market, uses only one of three options: direct investments, licensing or joint ventures. It refuses from franchising, because it doesn't want to trust a business to an individual operator (Griffin, Pustay, 2007, p. 330).

In case if a firm wants to become a franchisee and enter any foreign market, the biggest advantage would be that it would buy a ready, successful and most probably a well-known brand. But there are important disadvantages, like payments for buying a franchise, which are too high. In business there works a principle: the bigger a franchiser, the bigger are its fees. Generally, franchisors fee changes from \$50,000 to \$1,000,000 (Kuratko, 2016, p.161). For a franchisee, to buy a well-known franchise requires a lot of money. First of all - a franchise fee, then investment in building a store itself and afterwards a royalty payment every period (amount from 5-20% of revenue) (Kuratko, 2016, p. 161). Another important difficulty for a franchise is a regular quality control. Franchisor has to trust and control its franchisee very well, in order to keep the same quality level. The idea of a quality control from a franchisor may keep a franchisee under stress.

Despite big costs of buying a franchise, there are many entrepreneurs who prefer franchising to start their business. Main reason is that it provides a ready and a successful business product. Franchising sector is developed a lot. For instance, in the USA there is a web platform called: International Franchise Association, which works like social network and besides all necessary facts about franchising, it provides information about franchisors selling their franchisees as well as about buyers, ready to buy them. This organization is the biggest worldwide and contains information about 780,000 franchise establishments that support nearly 8.9 million direct jobs, \$890 billion of economic output (IFA, 2016). This website proves that the idea of franchising is still very popular today and many entrepreneurs prefer exactly this model.

5.3.3. Management contracts

Recently, management contracts have been a popular trend, which means a contract where one company supplies another firm with managerial expertise for a specific period of time (Wild, Han, Wild, 2010, p. 393). A company in return is compensated by a payment, based on a sales volume. Such contracts are common between public utilities sectors of developed or emerging markets. Generally there are two types of knowledge which can be transferred: some specific technical managers or business development managers (Decker, 2014). Here are some examples of management contracts, which are the most common:

- Hotel Management contracts;
- Construction Management contracts;
- Property Management contracts;
- Artist Management contracts (Hanks, 2016);
- Association Management contracts;
- Sports Facility management;
- Food Service management (Ashe-Edmunds, 2016).

Management contract definitely has several benefits. This is the least risky way of entering a foreign market, since there are no financial investments (Decker, 2014). Second, this is a chance for a government to improve its economy. For instance, the government of Kazakhstan has made a management contract with a group of international companies “ABB Power Grid Consortium” in order to manage its national electricity system. As a result, the company has paid all the wages, owned by government, to the workers in electricity sector and has invested around $200 million into infrastructure during the first years of agreement (Wild, Han, Wild, 2010, p. 394). As another advantage, a government uses management contracts with international professionals in order to develop skills of local workers and managers (Salmon, 2008).

Management contracts may create some disadvantages as well. First, sending a manager to another country can endanger his health, so it is risky for a company (Sharan, 2008, p. 29). Second, sending a skilled manager to another company may be risky, since managers in that company can later become very strong competitors, after learning all the secret techniques (Sharan, 2008, p. 29). Generally, management contracts lose its power in average after several years, after a local talent has been raised.

5.3.4. Turnkey projects

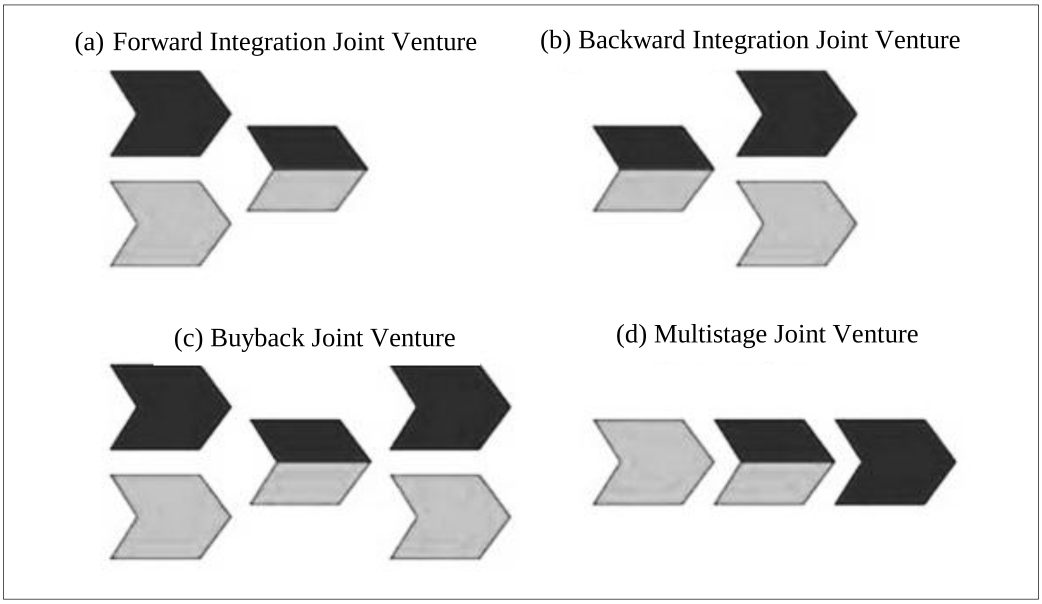
Turnkey project is a type of contractual agreement, when a company designs, constructs and tests a production for its client. In other words, turnkey project is a build-operate-transfer project, which one firm completes for another (Wild, Han, Wild, 2010, p. 395). This type of agreement is generally made between companies (B to B contracts), which may help each other in developing their businesses. For instance, a café agrees with a design company about building up its inside design. Turnkey projects are mainly made between local companies, but also can be done with international ones, and it can serve as a first step towards international business (Sharan, 2008, p. 30). Turnkey projects are often used when a construction part of a project is more complex than operational part. That type of contracts involves a fixed price (Gupta, 2015). One of the main advantages of turnkey projects is that it allows a company to concentrate only on its core competence and thus be more productive. Second, this kind of agreements can be used when a country restricts the inflow of foreign capital (Gupta, 2015). For instance, many oil exporting countries don't allow foreign companies to make a direct investment in oil industry. The only chance for those companies to enter this industry is just via turnkey projects.

Additionally, turnkey projects allow governments to deal with complex infrastructure by contracting with world's leading companies (Sharan, 2008, p. 31). As disadvantage, can be said that turnkey projects are very popular between governmental projects, thus political reasons and meaningful contacts play very important role in competition for that type of project (Wild, Han, Wild, 2010, p. 395). Second, turnkey projects can be risky, and since dealing with a partner firm, it can end up by creation of a future competitor (Wild, Han, Wild, 2010, p. 395). Thus, companies, with unique know-how prefer not to enter into such projects.

5.4. Joint venture

Join venture is an establishment, which is jointly owned by two or more independent companies in order to achieve a common objective (Hill, 2011, p. 265). The participants of joint ventures can be: private companies, government agencies or government-owned companies. Each participant might contribute anything valuable like managerial talent, marketing talents, market access, special technologies, financial investment, some important R&D results (Wild, Han, Wild, 2010, p. 397). Recently joint venture has become very popular way of entering a foreign country, since it has a lot of advantages. The percentage of capital ownership in a joint venture can be different, but in most cases the capital share is 50/50%. The bigger the share is the tighter a control is from a company. Joint ventures can be created as a short time project, or can be made as a long-run project, depending on projects' goals (Gupta, 2015). There are four main joint venture configurations existing. They are illustrated in an Outline below.

Exhibit 1. 1. *Joint Venture Configurations*



Source: *Wild, Wild, Han, 2003, p. 389*

Forward Integration Joint Venture is established when two companies decide to invest in downstream business. For example, two household firms open a retail outlet together in a developing country.

Backward Integration Joint Venture is established when two companies, working together, decide to separate and start their own businesses. In other words, two companies move to upstream business activities. For example, two steel manufacturers form a joint venture to mine iron ore.

Buyback Joint Venture outlines joint venture, when its inputs and outputs are provided by each of partners. It is often used when in production is required an economy of scale, but a company cannot achieve it by itself. The example is joint venture of Chrysler and BMW in order to build a small car engines.

Multistage Joint Venture outlines a joint venture that features downstream integration of one partner and upstream integration of another. For instance, a joint venture of a sports goods manufacturer with a sports goods retailer are joined in order to establish a distribution company, which would compete with local distributors (Wild, Han, Wild, 2010, p. 397).

Joint venture as a foreign country entry mode has a lot of advantages. First, it is a perfect way to learn everything about a foreign market without big risks, since a local partner does all the necessary work. Second, all the business development risks and costs are divided with a local partner, which helps not to get bankrupt in hard times (Gupta, 2015). Thus it is a wise entry mode in cases when large investments are needed and in situations of political or social instability. Also joint venture can be a way to learn everything about a market before making more serious step of direct investment (Wild, Han, Wild, 2010, p. 398). Third, in many countries joint venture is the most welcomed entry mode, because it gives a guarantee that a local partner-company would take care of national values and at the same time for an entering partner it is a good chance to enter a desired country, which is too concerned about nationalism ideas (Hill, 2011, p. 275). Joint venture is the most recommended solution for entering countries, where a wholly owned foreign investment is not allowed (Gupta, 2015). Forth, in some cases, by joint venture a company can access to a foreign partners' large international distribution network, which would be a big step towards global business strategy (Wild, Han, Wild, 2010, p. 398).

As for the drawbacks of joint venture, first, there is a risk of a conflict that may happen between partners. Beamish and Lupton are underlying that there are very likely to happen problems, because of cultural differences of partners (Beamish, Lupton, 2009). The most likely situation of conflict can happen, when the share ownership in a company is 50-50 percent (Wild, Han, Wild, 2010, p. 399). Then two partners have equal right, which consequently can create conflicts. The solution of this is to divide shares as 51-49 percent.

5.5. Strategic alliances

There are companies that wish to cooperate on international level, but still don't want to create an independent firm. In this case a relationship is formed, whereby several independent companies cooperate to achieve some goals. This relationship is called as strategic alliance. Sometimes in such alliances, each partner is buying a portion of other companies stock, thus, decreasing a chance of conflict situations later (Wild, Han, Wild, 2010, p. 399). In some sources, strategic alliances are considered to be a part of joint ventures, but in some – as a separate entry mode. The biggest difference of strategic alliance from joint venture is that partners have their own autonomy in business. But to achieve a success in alliance the partners should integrate deeply on strategic level, tactical level, operational, interpersonal and cultural levels (Zamir, Sahar, Zahar, 2014, p. 31). Alliances can be formed as single alliances and multi firm alliances, additionally one company can be involved in several different alliances at the same time. Here are some examples of famous strategic alliances. In 1996 "Starbucks" partnered with "Pepsico" in order to produce, bottle and distribute a drink "Frappucino". But with "United Airlines" "Starbucks" has made an alliance in order to distribute its coffee during a flight to passengers. An alliance between two companies "Hewlett Packard" and "Disney" was made in aim to create one of the most technologically advanced attractions of Disney's Park called "Mission" (Czaja, 2016).

Strategic alliances have several meaningful advantages. Many of them are quite the same as strategic alliances, since these entry modes quite resemble. First, in alliances companies are sharing a cost of international investment project. Second, such alliances help to reduce competence, because partner companies are specializing on their strength sides (Zamir, Sahar, Zahar, 2014, p. 32). So it is an opportunity for a company to enter a new foreign market with minimized risks, small costs and benefits from a partner company. The biggest problem of strategic alliance is that is can create in future serious competitors between partners (Wild, Han, Wild, 2010, p. 399). For instance, one of the partners might be joining such alliance only in purpose of learning better a foreign market, in order to launch its products there in future. Thus, there is a big potential for a conflict between partners. To prevent it is recommended to make professional and official contracts and also to be very careful while choosing a partner. The success of an alliance depends on correct partner's selection, building a right structure of alliances work and management.

5.6. Foreign market investment modes

The foreign investments are the second largest driver of capital transfer between countries after exports and imports (Hamilton, Webster, 2015, p. 129). Comparing to all previous entry modes, foreign investments are considered to be the most risky and costly, but the most profitable entry modes. The foreign investment is generally divided into two categories:

- Foreign Indirect Investment;
- Foreign Direct Investment (Hamilton, Webster, 2015, p. 130).

5.6.1. Foreign indirect investment / portfolio investment

The foreign indirect investment is sometimes called as portfolio investment. It is an activity of buying financial assets, such as foreign stocks or bonds issued by government, companies or currency. The profit from stocks is called "dividends". Everyone, who owns stocks in a company, is called as "shareholder". The role of shareholder in a company is not meaningful. He has no voice in company management and he can sell his shares easily (Pyi, Taw, 2015). In 1990s indirect investments were increasing rapidly by 20 percent every year, helping to integrate the financial markets (Hamilton, Webster, 2015, p. 131).

There are several advantages of FII. First of all, comparing to the foreign direct investment it is less risky, because you are buying a certain amount of shares in a successful company. Second, this allows you to get profit without actually being involved in a daily stressful routine of the company's activity, because it is possible to have any influence in a company only in case of buying high amount of shares (Hamilton, Webster, 2015, p. 132). Lastly, many countries allow taking credits on beneficial conditions to its foreign portfolio investors. Thus, portfolio investment is a good start for creating conditions for bigger investments in future (Investopedia, 2017).

5.6.2. Foreign direct investment: Brownfield and Greenfield investment

The foreign direct investment is a process when residents of one country acquire ownership of foreign assets in purpose of controlling it (Moosa, 2002). According to another definition, it is an establishment, acquisition or production facility increase of a company in another country (Hamilton, Webster, 2015, p. 135). The most important difference between FII and FDI is that in the last one, managers have the right to control their business, while indirect investment just gives an ownership of some stocks / shares in a company. FDI is also named as wholly owned subsidiary, because a firm owns 100 percent of stocks (Wild, Wild, Han, 2010, p. 402).

According to Hill, while talking about foreign direct investment, it is important to understand the difference between the flow of FDI and the stock of FDI. The flow of FDI refers to the amount of FDI undertaken over a certain period of time. But the stock of FDI refers to the total value of foreign-owned assets at the given time. Additionally, it is often mentioned about the outflows of FDI, which refers to the investments going out of a country, and inflows of FDI, while talking about investments flow into a country (Hill, 2011, p. 290).

Researching the reports of the United Nations about the changes of the World's FDI, it can be stated that there were around 90% changes made worldwide in laws according to the FDI during past years, in order to increase its amounts and create favorable environment for it (UN, 2015). The formation of the World Trade Organization in 1995th year has liberalized FDI, especially in service sector. Service sector was the most vulnerable, because it was quite risky to export foods, drinks, because it could get unhealthy for consumers (WTO, 1996). There are many examples, of FDI in service and food sector, such as "Starbucks", "McDonalds", "Pizza Hut" etc.

There is an obvious dependency: the greater the investment is into an economy, the more likely it is to grow in future (Hill, 2011, p. 301). The cases with developing countries, becoming suddenly the most popular destinations, are proving it.

Foreign Direct Investment usually is divided into two: *Greenfield investment* and *Brownfield investment* (Hamilton, Webster, 2015, p. 132). **Greenfield investment** means establishing completely new production facilities in another country. **Brownfield investment** means purchasing already existing production facilities, in other words called "acquisition" (Hamilton, Webster, 2015, p. 132). The Brownfield investment can involve minority stakes (from 10 till 49%), majority stakes (50-99%) or full outright stakes equal to 100% (Hill, 2011, p. 303). Hill states that the majority of cross-border investments are made in form of acquisitions or brownfield investments. However, he points out that this situation changes according to the factor whether the country is developing or developed. In developed countries there are potentially more firms, which can be acquired, than in developing countries (Hill, 2011, p. 303).

The impact of foreign investment can be seen on economic situation of a country. Thus, it is worth researching these impacts. The main benefits of a country, receiving foreign direct investment inflows are: new capital, more new working places, positive balance-of-payment effects, positive effects on competition (Hill, 2011, p. 305). One of the most significant effects is the inflow of a meaningful amount of foreign capital. New capital increases the balance-of-payments of a country, which means the possible economic growth.

Second, the FDI brings with it innovative technologies and skillful managerial resources, which might help to improve all working team's level and increase productivity (Hill, 2011, p. 305). Additionally, foreign investment creates new working places directly, when a foreign company employs local citizens, and indirectly, as an amount of jobs increases for local suppliers and other supporting industries. Nowadays, most of the countries create promotional campaigns in order to attract investors. Even if foreign companies become serious competitors at a local market, it is a likely situation, because raising competition may stimulate the productivity growth, innovations, and economic growth (Hill, 2011, p. 307).

6. Advantages and Disadvantages of Foreign Market Entry Modes

The Table below brings up a more detailed view on the core advantages and disadvantages of each entry mode.

Table 1.1. *Advantages and Disadvantages of Foreign Market Entry Modes*

FMEM	ADVANTAGES	DISADVANTAGES
Exporting	- Low costs - Gradual market entry - Collection of knowledge about market - No restrictions, which can be in FDI	- Possible big tariffs - Difficulties in logistics - Potential conflicts with distributors
Licensing	- Low financial risks - Low-cost way to learn better about potential market - No tariffs, NTB's, FDI restrictions - Licensee provides knowledge about local market	- Limited market opportunities - Dependence on licensee - Potential conflicts with licensee - Can create a future competitor - No global strategic coordination
Franchising	- Low financial risks - Low-cost way to access potential market - No tariffs, NTB's, FDI restrictions - More control than with licensing - Franchisee provides knowledge about local market	- Limited market opportunities/profits - Dependence on franchisee - Potential conflicts with franchisee - Can create a future competitor
Management Contracts	- Focus firms resources on its area of expertise - Minimal financial exposure	- Limited potential returns - Risk to share knowledge and techniques to contractee
Turnkey Projects	- Focus firm's resources on it area of expertise - Avoid long term operational risks - Used a lot in countries, where FDI is restricted	- Financial risks - Construction risks, like delays, supplier problems - Lack of long-term market presence
Joint Venture / Strategic Alliance	- Access to local partners knowledge - Decreased costs of development and risks - Politically acceptable in most countries	- No control over technology - No chance to engage in a global strategic coordination
FDI's	- Potential of high profit - Control over operations - Acquisition of knowledge about local market - No tariffs and NTB's - Protection of know-how - Ability to do global strategic coordination - Ability of location/experience economies	- High financial and managerial investment - High political risk - Possible restrictions on FDI - Managerial complexity

Source: *Griffin, Pustay, 2007, p. 334; Hill 2011, p. 483*

While entering into a foreign market, every firm has to overcome the so called "Liability of Foreignness", which reflects informational, political, cultural disadvantages a foreign company faces, while competing with local firms in a host country (Griffin, Pustay, 2007, p. 335). However, a well prepared firm will be able to overcome it with minimum losses.

In order to assist in deciding on a suitable foreign country entry mode, J. Dunning (1988) has created a so called OLI framework, which is an abbreviation for:

- Ownership Advantages;
- Location Advantages;
- Internationalization advantages (Dunning, 1988).

By the ownership advantages is meant a situation, when a company has some know-how technology. In this case, it is recommended choosing investment modes, since it allows tight control over the business, which is necessary in this situation. If a company has a famous brand name, than contracting modes (licensing or franchising) could be more suitable, because these modes provides a certain level of control, but at the same time are less risky and costly than FDI (Dunning, 1988, p. 2).

By location advantages are meant all economic and non-economic factors, which are considered, while choosing a host country. In case, if a home country has better conditions, than a host country, it is better to use exporting as an entry mode, because otherwise it will be too costly to do business there. On the contrary, when a host country has better conditions for making business, than investment modes or contractual modes could be more suitable, because this investment may potentially bring big revenues. In case if a country has high tariffs, investment modes can be more economical way of entry mode, since doing export may be too costly. Also a meaningful role plays geographical location of a host country. For instance, Turkey is a perfect gateway for western companies to many Asian and Caucasian countries (Dunning, 1988, p. 4).

Internalization advantages mean the core advantages of a company. A good example are pharmaceutical companies, which often use licensing for going abroad, since direct investment and R&D costs are too high for medical products. For them it is much easier to contract any foreign company or sell license to them, than do a costly research in every new market. Generally, companies, which are following globalization strategy, prefer FDI's, which give them the whole control over business. A good example is "Starbucks" or "Ford Company" (Dunning, 1988, p. 5).

Later, Matthews (2006) created another framework which is more relevant to today’s business conditions. The framework is called LLL, which is an abbreviation for linkage, leverage and learning. The LLL framework is reflecting the internationalization process of companies from emerging countries. The main idea of the framework is that these companies, due to being not well familiar with foreign markets, generally prefer joint ventures and partnerships in order to internationalize since it is less risky. The linkage helps for a company take an advantage of sources, knowledge and benefits of a partner company. By time, a company is making a leverage of resources and getting more knowledgeable about making operations in another country. The learning process is divided into organizational learning (how to make the operations more effective) and economic learning. By this experience the companies are getting prepared for being more independent on a foreign market (Matthews, 2006).

Hill (2011) states that lots of businesses still prefer the FDI, comparing to the exports or licensing, while entering a foreign market. And this is where the question mark raises, because FDI, comparing to the exporting or licensing, is considered to be the most expensive and risky. It is expensive, because it needs to acquire or establish a new business abroad. It is more risky, because it involves big investments in another country, where the rules are completely different. If a firm is doing the FDI for the first time, it is very likely that it might do very costly mistakes too (Hill, 2011, p. 481). Sometimes, organizing export is quite expensive. It is necessary to consider transportation costs and possible high taxation systems in a foreign country. It is especially related to low-weight products, which can be easily produced in any place. Transporting them to far distances can be more expensive, then producing them in another country. Additionally, in some countries export taxes and quotas are too high, which again makes it more reasonable to manufacture these products abroad (Hill, 2011, p. 481). Some countries are increasing the import taxes by purpose in order to attract more FDI’s. Thus, it all depends on a type of product, a geographical location and political regime of a country. When there is a balance between these factors, than exporting can still be recommended as the least risky FMEM.

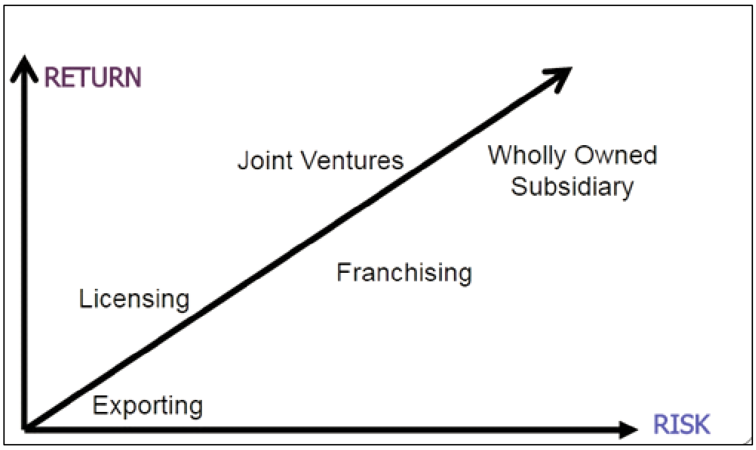
7. The Factors in Determining Foreign Market Entry Modes

Griffin and Pustay (2007), indicate that there is generally a trade-off between four main factors regarding which entry modes to choose:

- Level of a risk a company is ready to face;
- Necessary resources to enter to a foreign market;
- Potential rewards a company wants to gain;
- The level of control a company is willing to have (Griffin, Pustay, 2007, p. 334)

Thus, managers who are thinking of expanding their business abroad, first have to answer to these questions and understand how big budget they have, how big risks they can face, how much control they want to do and how big revenues do they expect to receive. The Exhibit below demonstrates the connection between a level of risk and the amounts of return, which can be gained by different foreign country entry modes.

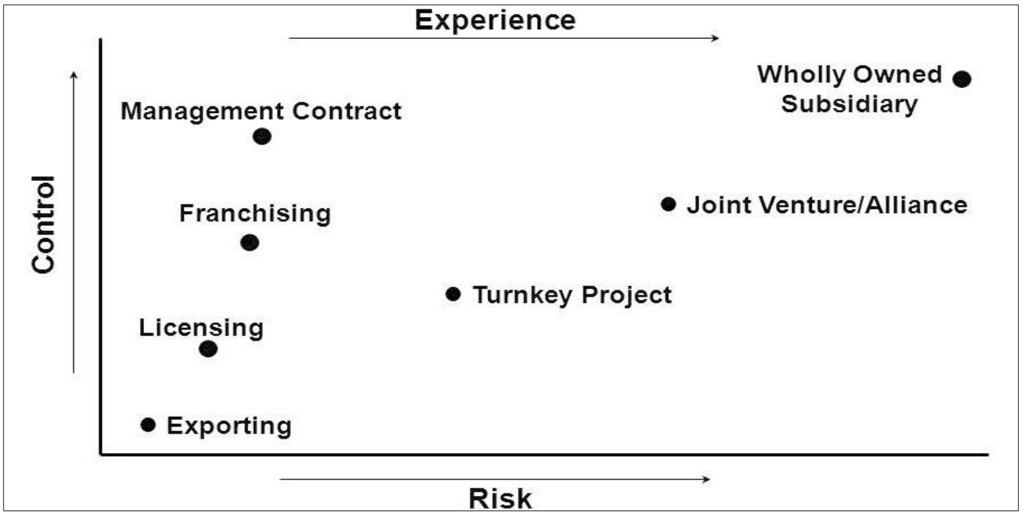
Exhibit 1.2. *Risk and Return of International Market Entry Modes*



Source: *Hines, 2010, p. 18*

According to the Exhibit, it is obvious that exporting has the lowest risks, but also not big returns. While the wholly owned subsidiary promise high returns, but the level of risk increases dramatically. After exporting, the least risky entry mode is licensing, followed by franchising and joint venture consequently. The amount of investment necessary for different entry mode is also growing the same way: from the least amount needed to do exporting, till the biggest amount necessary for a wholly owned subsidiary. This table helps to find the most appropriate relation between risk and amount of investment. Another table, mentioned in a book of professors John Wild, Kenneth Wild and Jerry Han, describes the evolution of entry mode decisions. It is different from the previous table, since it shows the relationship between level of risk, level of control and the experience on foreign market.

Exhibit 1.3. *Evolution of the Entry Mode Decision*



Source: *Wild, Han, Wild, 2010, p. 402*

As seen from the exhibit, the least risky entry mode is exporting. So, if a company wants to face the lowest risks, then it should start with exporting. The only drawback is that the level of control in exporting is also the lowest. A little bit more risky, but with a higher control level is licensing. Franchising increases risks comparatively a little bit more, but it gives also better control over business, than in licensing and exporting. With relatively similar risk level, but comparing to exporting, licensing and franchising, with the highest control level is management contract. All levels of risk in the previous entry modes could be described as relatively low. Relatively middle level of risk is in turnkey project. Although, it allows a bit more control then franchising and management contracts do. Joint ventures and strategic alliances, according to the table, allow middle level of control but are quite risky. And the most risky entry mode is “wholly owned subsidiary”, same as shown in a previous exhibit. But also it provides the highest level of control over the business, then any other entry mode. Additional criteria is the level of experience, which shows that if there is enough experience and knowledge about a foreign market, then wholly owned subsidiary (or FDI) could be made. If there is no experience about new market, then exporting or licensing can be the most recommended entry modes, because they are less risky. To sum up, the most risky, but providing the highest level of control over business entry mode, is foreign direct investment. The least risky, but with the lowest degree of control is exporting.

Kumar and Subramaniam suggest a table, which helps to make decision on an entry mode and shows the characteristics of various modes of entries.

Table 1.2. *Characteristics of Various Foreign Market Entry Modes*

	Exporting	**Contractual Agreement**	**Joint Venture**	**Acquisition**	**Greenfield Investment**
RISK	Low	Low	Moderate	High	High
RETURN	Low	Low	Moderate	High	High
CONTROL	Moderate	Low	Moderate	High	High
INTEGRATION	Negligible	Negligible	Low	Moderate	High

Source: *Kumar, Subramaniam, 1997, p. 67*

The table basically describes the similar comparisons, which are shown in previous tables, the only differences that it also includes new variables: returns and integration. According to the level of returns, the biggest ones are expected in doing acquisition or FDI. Relatively low returns are with exporting or contractual agreements (licensing and franchising). The Table below shows factors to be considered to make the hard decision on appropriate FMEM. First of all, the size of a company matters. The less is its size – the less capital it has for expanding abroad and the less risks it can take while doing this. The most appropriate FMEM for such a company would be exporting or licensing. If a company is a big manufacturer and it develops very fast and has a way bigger amount of free capital - than it can afford bigger risks and get involved in foreign investment (Hollensen, 2008, p. 206). Remarkably that many international business professionals nowadays recommend for SMEs exporting FMEM, as it is the best combination of risk-capital-profit and it can be more reliable first step towards internationalization.

Table 1.3. *Internal and External Factors on FMEM decision*

INTERNAL FACTORS	EXTERNAL FACTORS
Size of Company	Foreign Market's Size
Product's Characteristics / Service	Foreign Market's Competition
Firm's Growth Strategy	Foreign Country Risks
Previous International Experience	Geographical Distance
	Psychological (Cultural) Distance
	Trade Barriers

Source: *Goodluck, Wineaster, 2016, p. 96; Hollensen, 2008, p. 206*

The products' characteristics also play very important role in this decision. If a company produces tangible products, which are easy to transport and present for a foreign market, than exporting would be the first and easiest step for internationalization. But, in case if a company produces services, than licensing, franchising, joint venture, management contracting would be more recommended for going abroad. It is highly recommended to decide on licensing or franchising if a company has unique/innovative technology (Letto-Gillies, 1996). Of course, if a company knows a foreign market very well and can take some risks, than foreign direct investment would be the best option to do it, since it will open a chance for bigger profits and development. Although, this could be made as a second step, in case if any of Contracting FMEMs brought successful results (Goodluck, Wineaster, 2016, p. 98).

In some cases, a proper modes' selection may depend also on a company's specific development vision. A good example is "Starbucks", which goes internationally by doing explicitly Foreign Investments, since it allows control over the quality of coffee and service. But this factor could make a big importance only for already successful and well-known brand. Sometimes previous international experience can have its meaningful role. Logically, the more international experience a company has - the bigger risks it is able to take. With other words, the better experience abroad - the bigger financial involvement a company would make in a certain country (Hollensen, 2008, p. 208). Thus, in order to decide on a suitable FMEM, a company should first of all understand its own capacities, experiences, strengths and weaknesses.

After analyzing all the internal factors it is necessary to analyze also external factors, characterizing a potential country of interest. First of all, it is important to understand how far is a country located, how much culturally different it is and how many complicated trade, political, economic and other barriers it has. Accordingly, if a company does not have much knowledge on the countries specifics and has no previous experience there before, it is recommended to start conquering it by smaller steps, like export modes, licensing, franchising or management contract (Goodluck, Wineaster, 2016, p. 102).

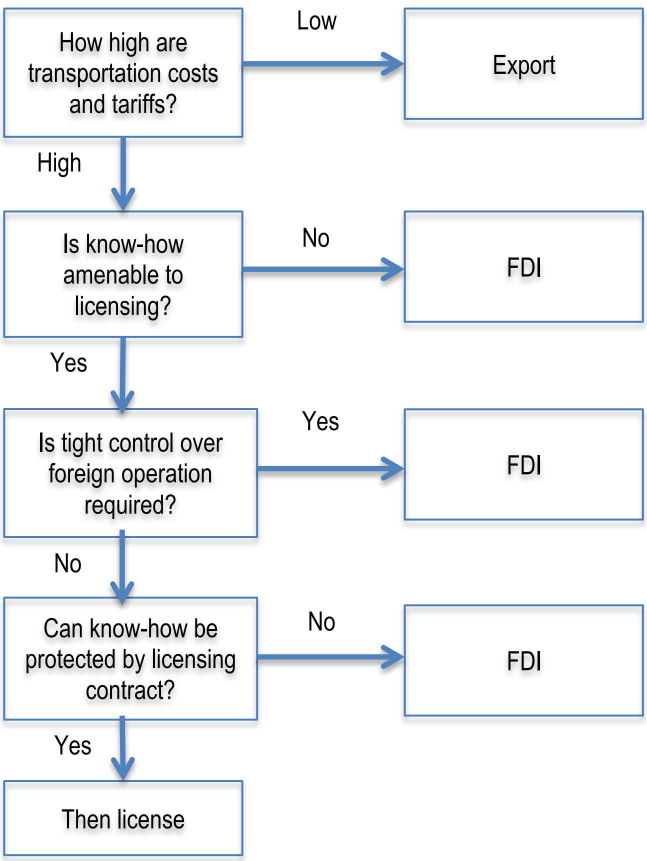
It is also important to analyze the foreign market. If a market is small, than it is better to enter it with less financial involvement, since it does not guarantee big incomes. Accordingly, if a foreign market is large, diverse and promising, than a company can consider more meaningful involvement there, like joint venture, strategic alliance or direct investment (Hollensen, 2008, p. 208). Also it is recommended to examine the competition level on an interested foreign market. If a competition is very high, it is better to start with smaller steps in order to understand if the competition is beatable.

8. The Main Theories of Foreign Market Entry Mode's Selection

There are several theories explaining which FMEM is better to select depending on a specific situation. The Internationalization theory explains why managers prefer more FDI over licensing (Hill, 2011, p. 256). According to this theory, licensing has three drawbacks. First, licensing may end up giving away valuable technological secrets to a potential foreign competitor. Selling a license means selling the key points of success to another firm. This can be risky. The second drawback is that licensing doesn't give a right to control manufacturing, marketing and sales strategies of a licensee in another country. A licensee pays a royalty fee to the company and by this it gets its own freedom of business development. The last problem can occur, when the competitive advantage of a firm is based more on management possibilities and a strong working team, then some production techniques. By this, firm gets into a risk of not showing itself same successfully as in a domestic market (Hill, 2011).

In sum, many companies may prefer FDI to go abroad instead of licensing, when they have very valuable know-how, when a firm wants to have a very good control over all the activities abroad and when a firm has special management skills, which cannot be taught or licensed. Hill offers a decision framework, which helps to understand which better suits to a company FDI or Licensing. The next Exhibit demonstrates the decision framework between contractual and investment modes.

Exhibit 1.4. *Decision Framework Between Contractual Modes or Investment Modes*

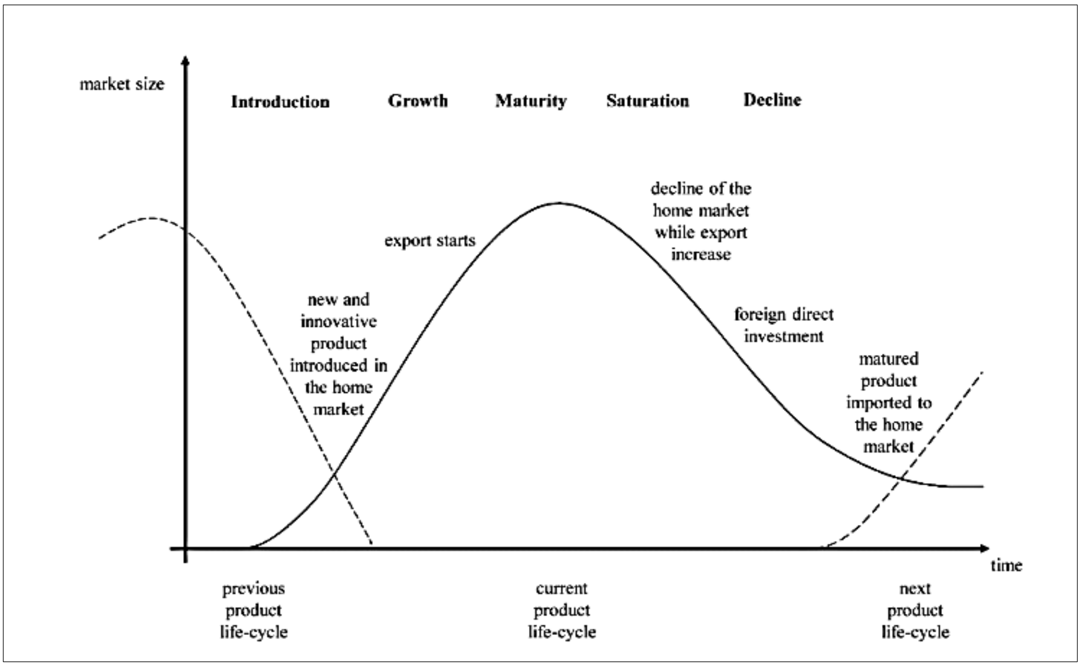


Source: *Hill, 2011, p. 258*

The Exhibit provides a logarithm of decision making between FDI and contractual modes, like licensing, franchising, management contract or strategic alliance. According to the exhibit, if the transportation costs to a foreign country are relatively low, it is recommended to choose exporting. If the transportation costs are high, then it is better to choose between licensing or FDI. If a firm has special know-how amenable to license, which can be protected by licensing contract and if a company doesn't care much about controlling foreign subsidiary, then a company can choose any contracting modes for its internationalization. In other cases, it is more recommended to choose FDI, because it will provide full control and bigger incomes.

Another renowned theory of business internationalization, which helps to understand the advantages and disadvantages between different FMEM is Vernon’s Life Cycle Theory. An American economist Raymond Vernon introduced the theory in 1966. The idea of the theory is that the entrance of a product into a foreign market depends on the products life-cycle’s position in domestic country. It is demonstrated in the next exhibit.

Exhibit 1.5. *Selection of a FMEM according to a product's life cycle position*



Source: *Glowik, 200, p. 18*

As it is demonstrated in the Exhibit, a new and innovative product first has to become highly demanded in a home-country. When the demand for the product starts to grow rapidly in domestic market, foreign customers start to demand for it too. So this is the moment when the exporting of a product can begin. While the export sales are increasing, the home sales start to slow down. When the products life-cycle is going down actively, there becomes a right moment for doing a foreign direct investment into another country. As a result, the production of the innovative product step-by-step moves abroad, while in the home country a new innovative product is starting its life-cycle

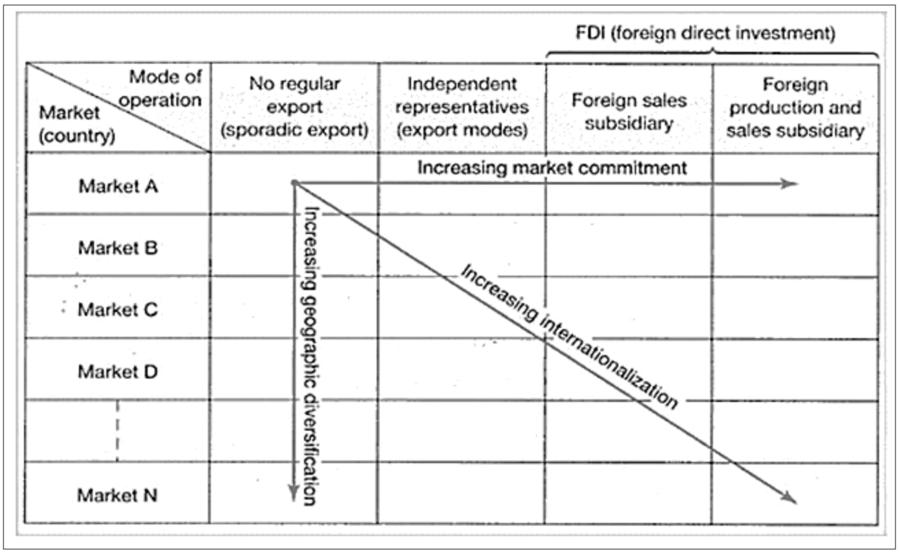
(Glowik, 2009, p. 18). Vernon's theory of products life-cycle was very welcomed in 1970s, but nowadays the times are quite different. And also this theory was good for those years, because in that time the USA was the most innovative country, which was usually generating new ideas to the market. Today the USA is not the only country like this. Also, the globalization makes companies to expand foreign markets at the beginning of product's life-cycle, because of a big competition around the globe. But still the idea of Vernon's theory is popular nowadays, and is cited in many publications and scientific researches about entry modes.

Another theory about internationalization process is the Uppsala Internationalization Model. The model was created by Johanson and Vahlne in 1977. The idea of this theory was very popular in 80s, but nowadays, the theory is still one of the most cited in business research papers. The model shows four main steps of entering a foreign market:

Step 1: No regular export activities;
Step 2: Export by independent representative (export mode);
Step 3: Establishment of a foreign subsidiary;
Step 4: Foreign production and manufacturing (Johanson and Vahlne, 1977, p. 24).

According to the model, a company first starts its actions with exports to learn a new market better. Then, if the business goes well, a company increases its commitments in a foreign market and eventually, starts doing FDI. Additionally, the theory states that a company first enters the neighbor countries and by time, increases the physic distance of their investments. The Uppsala Model is graphically shown in the following exhibit.

Exhibit 1.6. *The Uppsala Model: Internationalization of a firm*



Source: *Johanson, Vahlne, 1977, p.25*

The exhibit demonstrates how the level of internationalization of a company is increasing. The level of foreign market commitment is increasing by developing from exporting till FDI. Additionally, a company is more likely to start internationalization from the neighboring countries and by collecting the experience there, grow up to further countries. As a result, the more foreign markets a company acts in and the higher is its commitment there, the bigger is an index of internationalization. Of course, the Uppsala model has a lot of drawbacks relatively to nowadays. First of all, it doesn't consider any contractual entry mode. Second, today there are many companies, which follow globalization strategy right after its creation (Zohari, 2012).

These methods, theories and advices from different international business professors indeed are quite helpful in choosing a foreign market entry mode, although, according to the business history reports, for every one successful foreign market entry there are about four fails to do that (Pla-Barber, Sanchez-Peinado, Madhok, 2010, p. 740). Thus, there is no any certain solution for each certain case. Anyhow, the variety of different entry modes can be helpful in order to choose the most suitable one for a company.

9. Problems and Risks of Entering a Foreign Market

Although internationalization has many chances to make business more successful and profitable, still there are serious risks. Cavusgil, Knight, Riesenberger, Rammal and Rose has named four main risks, which may occur during the internationalization:

Cross Cultural Risk – cultural, national, mentality and psychological differences between home country and another country. Various mentalities create diverse types of behaviors, which sometimes might be surprisingly different. The difference in language is also very crucial. For example, there are some phrases, which are popular in one language, but they cannot be translated directly and understood in another language. One standard advertisement text cannot be simply translated to different languages. The same advertisement must be rewritten according to mentality of a nation (Cavusgil, Knight, Riesenberger, Rammal, Rose, 2014, p. 182). Otherwise there will be a miscommunication, which would bring the advertisement campaign to failure. Religion can be another important issue. The basic example can be made about pork, which Muslim people don't consume. So it would be totally illogical to try to sell it in the Muslim countries. Additionally, different nationals have different shopping behaviors, working hours, cultural holidays. So before going to a new market it is essentially to study its mindset, traditions and culture (Cavusgil, Knight, Riesenberger, Rammal, Rose, 2014, p. 183).

Country Risk – all the issues related to trade barriers, political and legal differences, bureaucracy and business organization in a specific country. It is important to be familiar with political, economic and legal environment of a foreign country. A foreign country's internal and external politics are very important, because it says about stability and openness towards foreign cooperation. Legal system is very important as well. In some countries the law system is very welcoming for foreign investors, while in some countries it is very demanding and selective. Another meaningful thing is: bureaucracy and corruption level in a country. The more complicated it is – the harder it is to organize all the documentations related to opening a firm there. According to a global agency "Transparency International", which every year creates the list of countries with the highest and lowest corruption level, the least corrupted country in 2015 was Denmark, but the most corrupted country Somalia (Transparency International, 2015). Thus, it is a very important issue to make a research about, while deciding on a suitable foreign country for making a business activity there.

Currency (financial) Risk – all the issues related to foreign currency and its changeability / vulnerability. Working with another country means to be involved into international financial transactions. That is why is important to follow the currency rate changes. When the deal is about million dollars every small change in currency rate means a lot (Cavusgil, Knight, Riesenberger, Rammal, Rose, 2014, p. 190).

Commercial Risk – all problems, related to selecting a right strategy and positioning on a foreign market. It is important to choose the right strategy of entering a foreign market, tactics and actions. If the plan is not good enough, it can lead to bankruptcy soon. The occasion of choosing wrong strategy may happen in domestic market too, but when same mistake happens in international market – the price of mistake is much higher. Additionally, it is necessary to research competitive environment carefully. It is important to find a products competitive advantage, which will be in price, quality, innovations, technologies, marketing or any other characteristic (Daniels, Radebaugh, Sullivan, 2004, p. 11).

Beninatto (2013) mentions five most typical mistakes done while operating in another country:

1. **Translation errors**. It is very important not just to translate words into foreign language, but correctly send a meaning of the text.
2. **Failure to localize**. Despite translating marketing materials to foreign language, it is necessary also to do localization. For instance, a corporate color of a company, can symbolize something very bad in another country.
3. **Wrong marketing strategies**. Each country has its own special characteristics, thus the standard marketing strategy can never work to all the markets.
4. **No local sales representation**. It is obvious that clients interested in a product may have a need to ask some questions to sales representatives. If they would need to call abroad, that would create negative feelings to them. Everybody prefers to solve a problem on a local level.
5. **No market entry plan**. It is always a big mistake not to have a specific plan about entering a new market.

CHAPTER TWO

ECONOMIC AND BUSINESS RELATIONSHIP BETWEEN LATVIA AND TURKEY

This chapter includes the details on economic and business relationship between Turkey and Latvia within last decade. It reveals the trade and investment statistics and demonstrates those visually, by which it is able to get the understanding of the current situation in trade relationship between these two countries.

1. Economic Background of Latvia

Officially, the Republic of Latvia was found in 1918. It is located in Northern Europe and is one of the three Baltic States. The capital of Latvia is Riga. Latvia has been a member of the European Union since 2004. The official currency in Latvia is Euro. The population of Latvia is 2 million people. The official language is Latvian (MFA, 2016). Latvia is a democratic parliamentary republic, with the current president Rajmonds Vejonis. Latvia is a member of the United Nations, European Union, Council of Europe, NATO, IMF and WTO, which makes it open towards international cooperation and projects (MFA, 2016). Besides being a part of the EU, which assumes a free trade zone, Latvia is also a part of the Schengen Area, which gives the right to its citizens to move freely around the EU. In 2016 Latvia became a part of OECD (MFA, 2016).

According to the IMF, the GDP nominal in 2015 was $27.822 billion (IMF, 2015). By the European Commission’s statistics, in 2014 Latvia has had the second fastest growth in the EU (Eurostat, 2014). According to the statistics of the Bank of Latvia, foreign direct investments in Latvia have been growing rapidly, reaching by 2016 the amount of EUR 13.4 billion (LIAA, 2016). The biggest investors to Latvia are Sweden, Germany and Malta. The biggest sectors of foreign investments are: financial and insurance activities, agriculture, forestry, fishing and real estate (LIAA, 2016).

Activity of Latvia in foreign trade has increased after becoming a member of the EU. According to the latest data, the amounts of exports of Latvia are 833.84 Million EUR. Unfortunately, the amount of imports is bigger - 1025.83 Million EUR. This makes the balance of payments negative: - 192.00 Million EUR (Latvia Exports, 2016). The biggest sectors of exports are: machinery and mechanical equipment; wood productions;

metals and prepared foods stuffs. And the most of exports are done to: Lithuania, Estonia, Russia and Germany (LIAA, 2016). The most developed sectors for imports are machinery and mechanical equipment, mineral products, products of the chemical industries, metal productions and prepared foods stuff. The most imports are coming from: Lithuania, Germany, Poland, Russia and Estonia (LIAA, 2016).

2. Business Forms in Latvia

Despite the fact that there are several standard foreign country entry modes, like exporting, contractual modes or investment modes, in every country there can be different registration names for foreign companies. According to the information, published in Investment and Development Agencies of Latvia website, in Latvia there are following business forms:

Individual Merchant - this type of company is registered if: the annual turnover of a firm exceeds EUR 284 600; the economic activities performed conform to those of a commercial agent or a broker; the yearly turnover exceeds EUR 28 500 and the natural person provides employment for more than five employees (LIAA, 2016).

Limited Liability Company (LLC) - is a closed business entity, whose capital consists of the total amount of the shares, which cannot be traded publicly. Shareholders are not obligated to stay in Latvia, although the board members of firm must be reachable by the registered address of a firm. The capital of a LLC is divided into shares and the liability of shareholders is limited according their investment. The minimum share capital of a LLC is EUR 2 800, but a LLC may have less share capital if it has no more than five members. Share capital may be tangible or intangible. The administrative institutions of a LLC are: the shareholders, board of directors and the supervisory council (if such has been formed). It generally takes about one week to organize an LLC and it costs about EUR 170 (LIAA, 2016).

Join Stock Company (JSC) - is a business entity whose equity capital consists of the total amount of shares in the company’s stock. The shares can be closed or opened for public. Minimum capital for JSCs is EUR 35 000. JSCs are managed by shareholders, supervisory councils and boards of directors. Only shareholders make decisions concerning: annual accounts, use of the profit from previous year’s activities, election and recall of council members, auditors, JSC controllers and liquidators and perform other activities. It costs EUR 356 to register JSC (LIAA, 2016).

Partnership - is a business entity in which two or more members have united on the basis of a partnership agreement in order to gain profit under the joint company name. According to the Commercial Law there are two forms of partnership: general and limited partnerships. The main difference between the two forms is that general partnership has unlimited liability for the partnership's debts, but limited partnerships have limits to the amount of capital contributed. Partnerships are established by agreements and there are no requirements for minimum capital. Partnerships' profit or losses are distributed at the end of the year in proportion to the amount of capital contributed by partners. It costs EUR 143 to register partnership (LIAA, 2016).

Branch and Representative Office - is an organizationally independent part of a company that can carry out economic activities, but is not treated as a legal entity. Each branch has its head office, which is an official company. Representative offices, similar to branches, are not independent legal entities, which cannot perform economic activities and their functions are limited to market research, promotion of the parent company and other limited marketing activities. It costs EUR 29 to register a branch (LIAA, 2016).

3. Economic Background of Turkey

Officially, the Republic of Turkey was found in 1922. It is located in Western Asia with a part in Southeast Europe. The capital of Turkey is Ankara, while Istanbul is the biggest city. The official language is Turkish. The population of Turkey is 79 million people. Turkey is a member of following organizations: UN, NATO, OECD, OSCE, OIC and the G-20, which also makes it open for various international activities. Additionally, Turkey is a member of EEC and the EU custom union. Turkey is a parliamentary representative democracy, with the current president Recep Tayyip Erdogan (Turkish Facts and Statistics, 2016).

Turkish economy is considered to be emerging, which means: promising very big potentials in future (IMF, 2011). Currently, according to the latest data (April, 2016) the GDP index of Turkey is equal to $811.94 Billion (Turkey GDP, 2016). Turkey has made free Trade Agreements with Albania, Bosnia Herzegovina, Chile, Croatia, EFTA member countries (Switzerland, Norway, Iceland and Liechtenstein), Egypt, Georgia, Israel, Jordan, South Korea, Macedonia, Malaysia, Mauritius, Montenegro, Morocco, Palestine, Serbia, Tunisia (Investment Support and Promotion Agency, 2015).

The amount of foreign investments to Turkey was equal to $14, 5 billion by the end of 2016 and there are 46,756 companies in Turkey with the foreign capital (Investment Support and Promotion Agency, 2016). The biggest sectors for foreign investment inflow are agriculture, industrial sector and manufacturing (Investment Support and Promotion Agency, 2016).

The export value at the end of 2015 was $144 billion and the major export markets are: Germany (9.3%); UK (7.3%); Iraq (5.9%); Italy (4.8%); USA (4.4%) (Investment Support and Promotion Agency, 2015). Turkeys' major exports sectors are: textiles, automotive: iron and steel, white goods, chemicals and pharmaceuticals (Turkey Exports, 2016). The imports value is $207 billion and the main import sources are: China (12%); Germany (10.3%); Russia (9.8%); USA (5.4%); Italy (5.1%). The main import sectors are: machinery, chemicals, semi-finished goods, fuels and transport equipment (Turkey Exports, 2016). According to the latest data, the amount of exports by April 2016 was $12811.28 Million, and the amount of imports was $17757.76 Million. This makes quite negative results of balance of payments: - $4950.00 Million (Turkey Exports, 2016).

According to the IMF reports, by the end of 2013, Turkey was the world's 16th largest economy (and Europe's 6th). And by the forecasts it will be in the world's top 10 biggest economies by 2023 (UK Trade and Investment, 2016). There are currently 145,000 Turkish entrepreneurs operating in Europe, employing 627,000 people and running €63 billion worth of businesses (UK Trade and Investment, 2016).

4. Business Forms in Turkey

According to the information provided by the Turkish Embassy in London, there are several business forms in Turkish market. These are the following:

Agents - local professional, who sells foreign products under your control. The advantage is that the person knows market well and it is the fastest and easiest way to build a market share (Turkish Embassy in London, 2015).

Distributors - resells products to make its own income and cannot be controlled. This type of business is also preferred when a foreign company doesn't want to establish its own subsidiary abroad (Turkish Embassy in London, 2015).

Limited Liability Company - this type of business is more chosen by small or middle sized companies. In order to establish it is required YTL 5 000. The amount of shareholders can be between 2 to 50 (Turkish Embassy in London, 2015).

Joint Stock Company - in order to establish it YTL 50 000 is required and there must be at least five shareholders. The shareholders' liability is proportionate to the capital paid. T takes up to two weeks to register it (Turkish Embassy in London, 2015).

Liaison Office – that type of offices can be opened by foreign nationals, but commercial activities cannot be carried out from such offices (Turkish Embassy in London, 2015).

Branch - in order to open a branch in Turkey the company must gain permission from the Turkish Ministry of Commerce and Industry. Before applying to open a branch the company must assign a fully authorized representative, who must be a resident in Turkey. Only the foreign companies, which capital can be divided on shares can open a branch in Turkey (Turkish Embassy in London, 2015).

The forms of business in Turkey are quite similar to those in Latvia. The only differences are in capital amounts and registration procedures.

5. Statistics on Investments Between Turkey and Latvia

In order to have a better understanding about business activity between Latvian and Turkish entrepreneurs, it is necessary to analyze the trade and investment statistics and data.

5.1. Latvian investments to Turkey

The first statistics to discuss are the investments, which Latvia has made into Turkey. The statistical department of Latvian Bank is providing the following data:

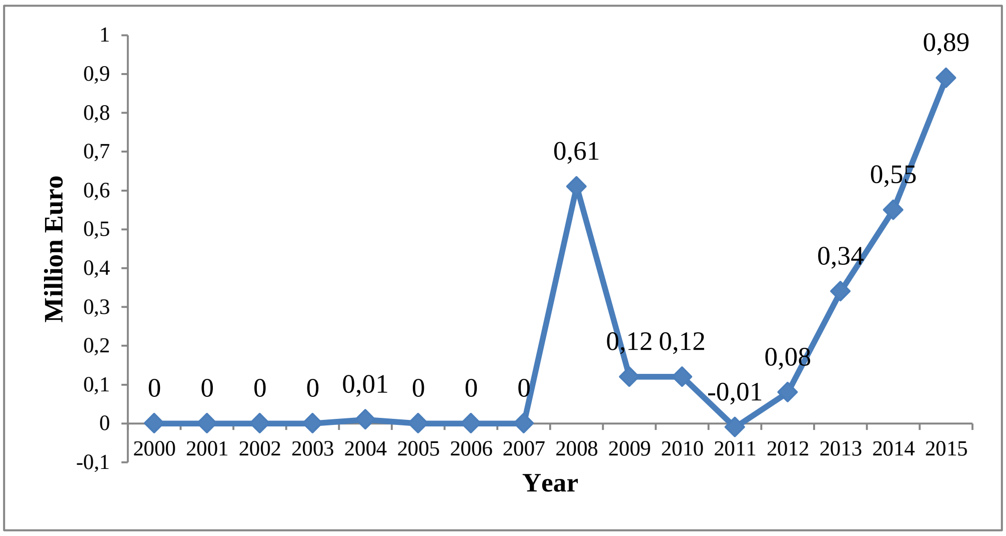
Table 2.1. *Latvian Investments to Turkey according to the Bank of Latvia*

Year	Amount of Investment (Million EUR)
2000	0,00
2001	0,00
2002	0,00
2003	0,00
2004	0,01
2005	0,00
2006	0,00
2007	0,01
2008	0,61
2009	0,12
2010	0,12
2011	-0,01
2012	0,08
2013	0,34
2014	0,55
2015	0,89
Total	**2,71**

Source: *Statistical Department of the Latvian Bank, 2016*

As it is seen in the table, active investment has started after 2008. All the investments together make 2, 71 Million Euro during 15 years, starting from 2000 and finishing by 2015. The Exhibit below is demonstrating the dynamics of investments.

Exhibit 2.1. *Latvian Investments to Turkey according to the Bank of Latvia*



Source: *Statistical Department of the Latvian Bank, 2016*

The Exhibit demonstrates how the investments from Latvia have suddenly grown in 2008. Later there was a decrease in investments again, and in 2011 the investments amount became even negative. But after 2011 the amount of investments started to grow and by 2015 it has reached 0,89 million Euro.

Interesting point is that Turkish side about Latvian investments into Turkey is showing totally different data. According to the statistics of the Central Bank of Turkey, the available data about investments is following:

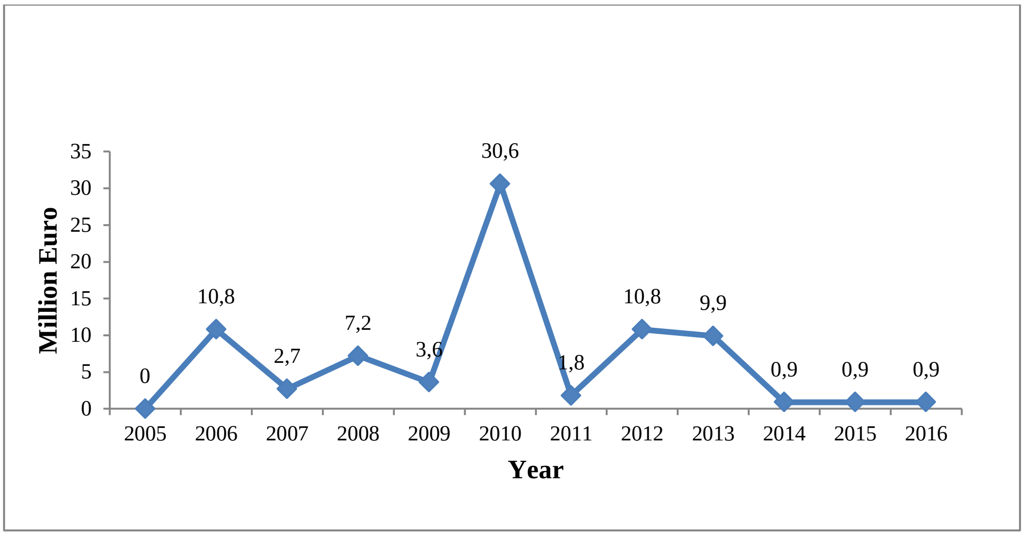
Table 2.2. *Latvian Investments to Turkey by Turkish Central bank*

Year	Amount of Investment (Million EUR)
2000	0,0
2001	0,0
2002	0,0
2003	0,0
2004	0,01
2005	0
2006	10,8
2007	2,7
2008	7,2
2009	3,6
2010	30,6
2011	1,8
2012	10,8
2013	9,9
2014	0,9
2015	0,9
2016	0,9
Total	**80,1**

Source: *Statistical Department of Turkish Central Bank, 2016*

Although, the data is available only starting from 2005 year, it is obvious from the Table, the numbers provided by the Central Bank of Turkey are much higher than the ones provided by the Latvian Bank. In the first Table the total amount of investments Latvia has made to Turkey is equal to 2, 71 Million Euro, but in the second Table - 80, 1 Million Euro. The Exhibit below is demonstrating this difference visually.

Exhibit 2.2. *Latvian Investments to Turkey by Turkish Central Bank*



Source: *Statistical Department of Turkish Central Bank, 2016*

According to the data, the investments from 2005 till 2010 were quite high and the decrease has started after 2011 and resulted in very small figures by 2015 and 2016. Comparing to the first Exhibit, the dynamics of investments are very different too. In the first Exhibit, the investment amount is increasing, starting from 2007 by today; in the second Exhibit the situation is seen quite opposite. There is no information yet to comment on this difference.

Considering the data provided by the Latvian Bank, it could be calculated the share on Latvian investments to Turkey, comparing to the all investments it makes around the globe. Taking the data of 2015 year, the total amount of investments Latvia has made around the globe was 1 129.44 Million Euro. The amount of money Latvia has invested in Turkey was 0, 89 Million Euro, which makes only 0, 0008 part of the all investments. Despite this, according to the United Nation Reports, Turkey is 22nd the most attractive spot for investors around the globe, and the 1st in Western Asia Region (Hurriyet Daily News, 2015).

5.2. Statistics on Turkey's investments to Latvia

According to the Statistical Department of the Bank of Latvia, lower is provided the data of Foreign Investments, which Turkey has made to Latvia during the last 15 years.

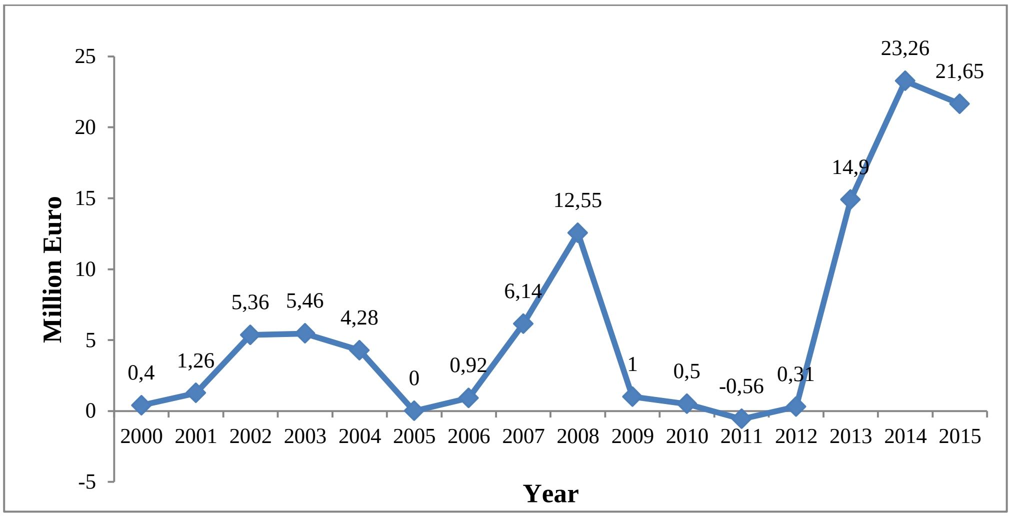
Table 2.3. *FDI of Turkey to Latvia*

Year	Amount of Investment (Million EUR)
2000	0,4
2001	1,26
2002	5,36
2003	5,46
2004	4,28
2005	0
2006	0,92
2007	6,14
2008	12,55
2009	1
2010	0,5
2011	-0,56
2012	0,31
2013	14,9
2014	23,26
2015	21,65
Total	**97,43**

Source: *Statistical Department of the Bank of Latvia, 2016*

The total amount of Foreign Investments, which Turkey has made to Latvia, is obviously much bigger than that Latvia made to Turkey. The dynamics of the investments are shown on the graphic below.

Exhibit 2.3. *FDI of Turkey to Latvia*



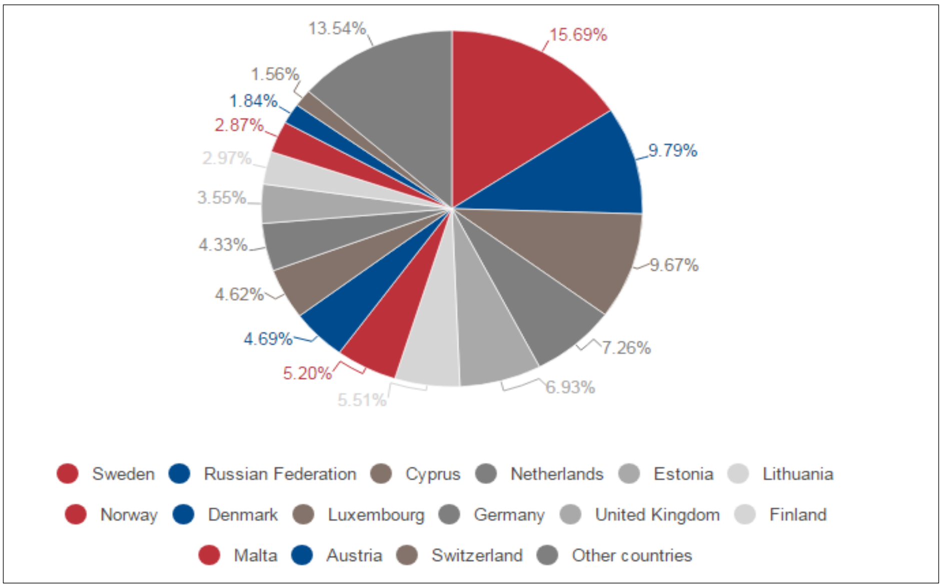
Source: *The Statistical department of the Bank of Latvia, 2016*

According to the Exhibit, it is obvious that since 2012 till today, the amount of investments that Turkey is making to Latvia has been growing. From 2009 till 2012 there was a period of a big decline, when in 2011 the amount of investments became even negative (-0, 56). As it can be seen from the graphic, the data has been always changeable, with its ups and downs. It can be concluded, that there was no stable investments from Turkey to Latvia.

5.3. Place of Turkey among the other countries investing to Latvia

Although, the total amount of investment Turkey has made to Latvia is almost 98 Million Euro, Turkey still cannot be named as a big investor to Latvia. According to the FDI inflow statistics of a famous Latvian investor agency LIAA, here is the chart, showing biggest investors to Latvia:

Exhibit 2.4. *FDI in Latvia by Country of Origin at the End of 2016*



Source: *LIAA, 2016*

As it is seen in the Exhibit, Turkey is not mentioned among the meaningful investors to Latvia. Turkey is considered to be just the 31'st largest investor to Latvia, according to the statistics of the Bank of Latvia (Bank of Latvia, 2016).

6. Exports Statistics Between Turkey and Latvia

The data on foreign market investments can be very different from exports statistics. It all depends on a country's economic development and financial activity of entrepreneurs. That is why, in order to get a better understanding of the business activity between two countries, it is recommended to separate exports from investments.

6.1. Exports from Latvia to Turkey

Provided by Latvian Central Statistics Database there is data about export activities from Latvia to Turkey over the period from 2000 to 2015 years. The data is provided in a Table below.

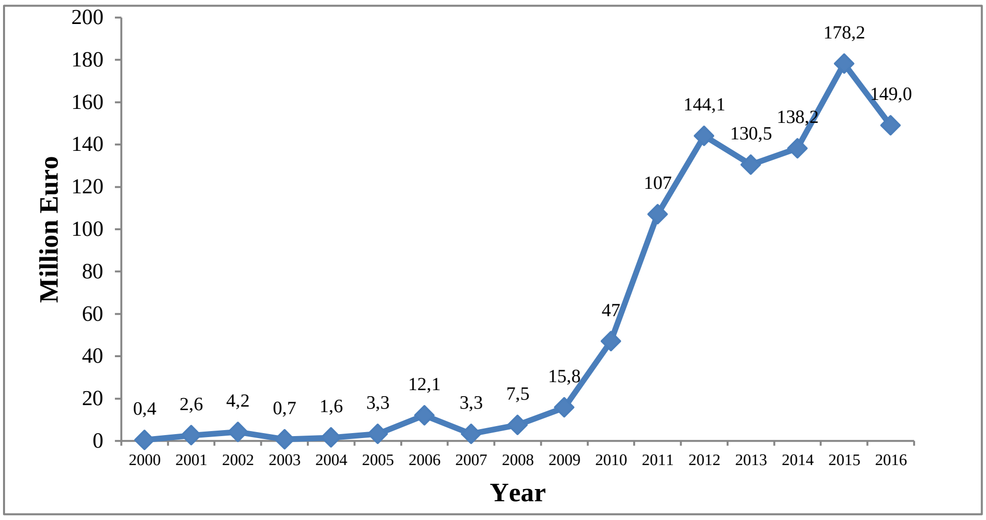
Table 2.4. *Exports from Latvia to Turkey*

Year	Exports (Million EUR)
2000	0,4
2001	2,6
2002	4,2
2003	0,7
2004	1,6
2005	3,3
2006	12,1
2007	3,3
2008	7,5
2009	15,8
2010	47,0
2011	107,0
2012	144,1
2013	130,5
2014	138,2
2015	178,2
2016	149,0
Total	**945,5**

Source: *Central Statistical Bureau of Latvia, 2016*

As it can be seen from the Table, exports from Latvia to Turkey have been regular and relatively in a big amount. The total amount of exports is equal to 833, 2 Million Euro, which is much more than the total amount of investments Latvia has made to Turkey (2, 71 Million Euro). So it can be concluded, that Latvian businessmen for entering Turkish market prefer more export entry modes rather than direct investments. The Exhibit below visually demonstrates the dynamics of exports changes.

Exhibit 2.5. *Exports from Latvia to Turkey*



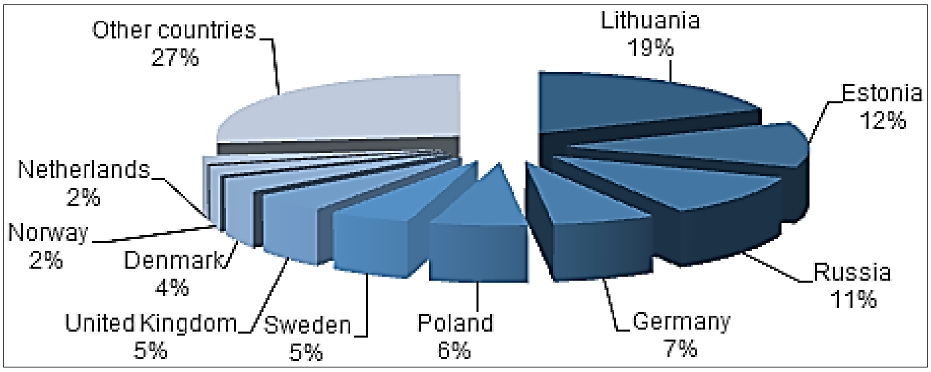
Source: *Central Statistical Bureau of Latvia, 2016*

As it can be seen in the Exhibit, in the latest year Latvia has decreased its exports to Turkey dramatically: from 178 Million Euro up to 36, 7 Million Euro. The reasons for that might be recent political instability in Turkey. Analyzing the graphic also is important to state the fact that from 2009 up to 2014 years there was a dramatic increase in export sales from Latvia to Turkey.

6.2. Exports from Latvia to different countries

Comparing with the whole export activities of Latvia during the same period of time, the amount of exports to Turkey makes just around 0,017% from all export amounts (Central Statistical Bureau of Latvia, 2016).

Exhibit 2.6. *Latvian Exports by countries in 2014*



Source: *Central Statistical Bureau of Latvia, 2015*

As it can be seen in this graphic, Turkey is not listed between the biggest exports destinations of Latvia. This means, that there is a potential for trade increase. The main sectors of exports are metal productions, mineral products, animal products and wood products (Latvian Bank, 2016).

6.3. Exports from Turkey to Latvia

According to the data of the Statistical Organization of Turkey, below is listed the latest data of exports from Turkey to Latvia.

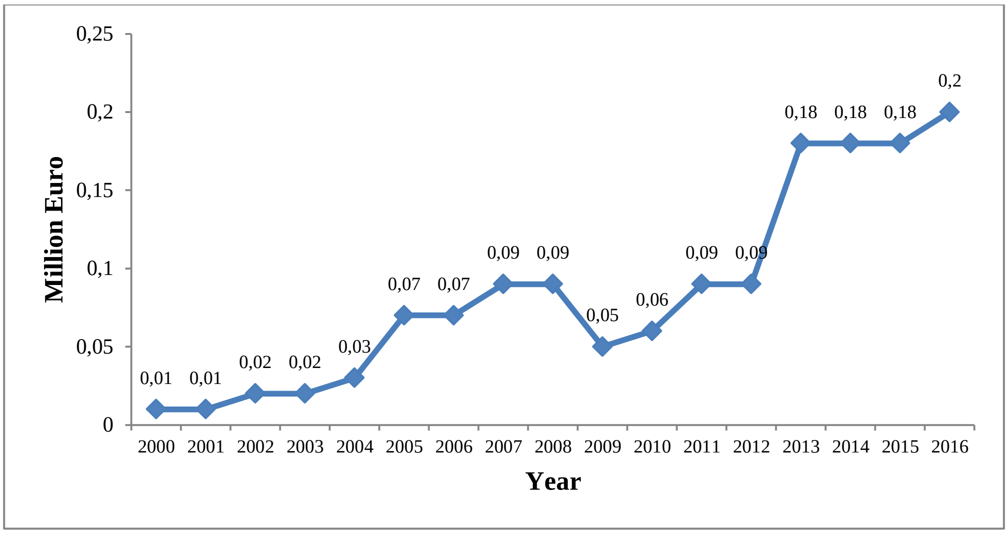
Table 2.5. *Exports from Turkey to Latvia*

Year	Exports (Million EUR)
2000	0,01
2001	0,01
2002	0,02
2003	0,02
2004	0,03
2005	0,07
2006	0,07
2007	0,09
2008	0,09
2009	0,05
2010	0,06
2011	0,09
2012	0,09
2013	0,18
2014	0,18
2015	0,18
2016	0,2
Total	**1,44**

Source: *Statistical Organization of Turkey, 2016*

As it can be seen in the Table, during the latest 16 years, there has been regular export activity from Turkey to Latvia. The Exhibit below demonstrates the dynamics of the export development. As it is seen in the Exhibit, the export amount was periodically increasing. The most active years in exports were between 2012-2015 years. Unfortunately, in the last year there is a decrease in exports from Turkey to Latvia (From 0, 18 Million Euro to 0, 09 Million Euro).

Exhibit 2.7. *Exports from Turkey to Latvia*

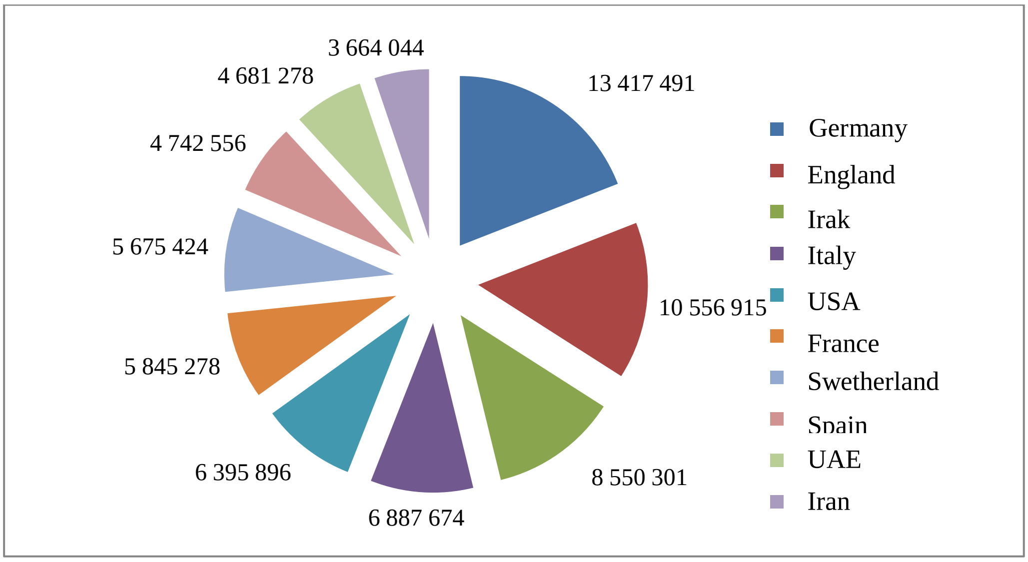


Source: *Statistical Organization of Turkey, 2016*

6.4. Exports from Turkey to different countries

The amount of exports Turkey does to Latvia is not really meaningful. Below are the most popular countries for Turkish exports. Unfortunately, Latvia is not among them.

Exhibit 2.8. *Export from Turkey to Different Countries*



Source: *Statistical Organization of Turkey, 2016*

Main products that Turkey exports to Latvia are industrial products, textile products, jewelry, mineral oils, machine-made carpets, central heating boilers, radiators, packing materials and cables (MFA, 2011).

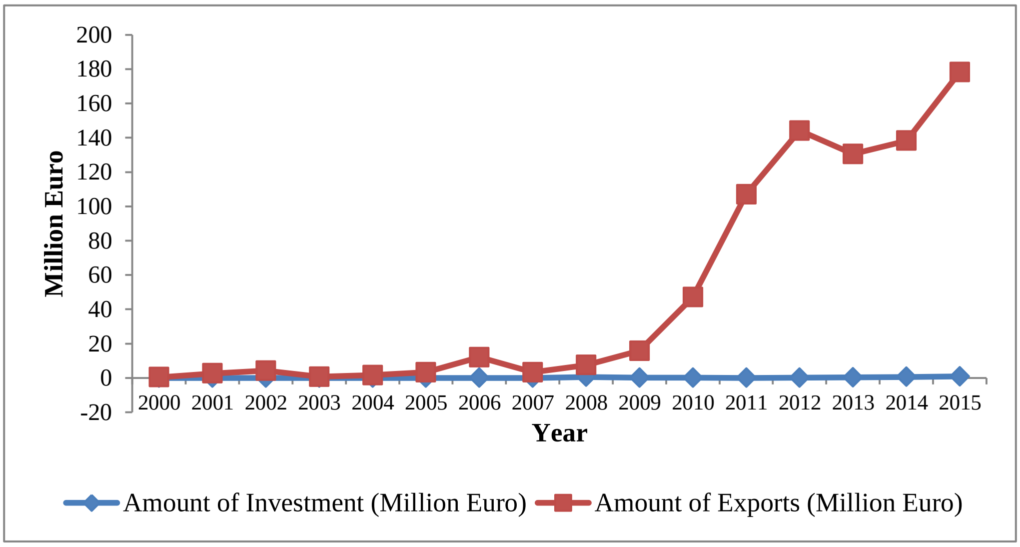
7. Comparative Analysis of Exports / Investments between Latvia and Turkey

The below listed graphics are visually demonstrating which modes are more preferred by Latvian and Turkish entrepreneurs for making business in each other's markets.

7.1. Exports and investments of Latvia to Turkey

Comparing the data about investment and exports that Latvia has been doing to Turkey during past 15 years, it can be seen that the amount of exports is exceeding the amount of investments made within the same timeframe. The exhibit below provides a visual demonstration.

Exhibit 2.9. *Comparison of Investments with Exports from Latvia to Turkey*



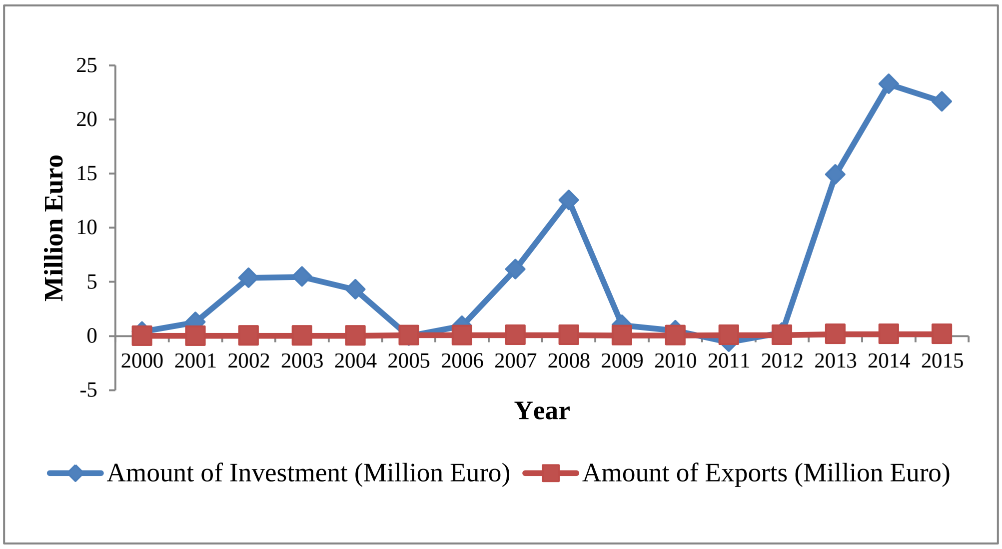
Source: *Central Statistical Bureau of Latvia, 2016*

As it can be seen from the Exhibit, the amount of investments that Latvia has made to Turkey is several times lower than the amount of exports.

7.2. Exports and investments of Turkey to Latvia

Comparing the amounts of investments with the amounts of exports of Turkish companies to Latvia, the situation shows to be opposite. The graphic below demonstrates it.

Exhibit 2.10. *Comparison of Investments with Exports from Turkey to Latvia*



Source: *Statistical Organization of Turkey, 2016*

As it is seen from the exhibit, the amount of investments Turkey has made to Latvia is several times bigger than amount of exports. The situation is completely opposite to the Latvian, which has mainly exports to Turkey. It can be concluded that Latvian companies generally enter Turkey with less risky entry modes like exports, while Turkish companies mainly prefer investment modes for entering Latvia.

In brief, the statements of Latvian and Turkish presidents said during mutual visits about the good potentials for developments are still need to be implemented in reality. As it can be seen on the Exhibits, the levels of trade and investments between the countries are not at the desired level. Additionally, analyzing the provided data can be concluded that Latvia is more active in exports to Turkey, when Turkey has much bigger amount of FDIs to Latvia rather than exporting.

CHAPTER THREE

EMPIRICAL STUDY FOR IDENTIFYING THE FACTORS IN SELECTING FOREIGN MARKET ENTRY MODES: THE PERSPECTIVES AND EXPERIENCES OF LATVIAN COMPANIES

Chapter three provides the details of research design and implementation phases of the study, presents and discusses the findings, and articulates on the implications.

1. Problem

The first chapter has discussed the importance of distinguishing the differences among various foreign market entry modes, as well as the ability to analyze the factors in determining which FMEM suits the company the most. According to the related studies, for each successful foreign market entry, there are four failures (Pla-Barber, Sanchez-Peinado, Madhok, 2010, p. 740). Consequently, it implicates that there is a lack of knowledge on the different FMEM and their selection process. This was the main motivation for the research.

On the other hand, since the researcher is Latvian, it was an urging interest to evaluate Latvian and Turkish business relationship as an extended object of the research. After reviewing several studies on this topic, it was concluded that the leaders of the two countries were interested in improving trade relations between those two countries. As a matter of fact, on 4 April, 2013 the “Latvia - Turkey Business Forum” was held in Riga, where an authority from Turkish side said that the organization’s goal was to make the trade and investment volume between two countries 5 times more by the year 2015 (haberler.com, 2013). However, most recent reports on export and investment data statistics indicate this goal was not reached even partly. Moreover, even a decline in some of the data was observed (Central Statistical Bureau of Latvia, 2016; Turkish Statistical Organization, 2016). This problematic situation seems to well deserve to study and discover the reasons behind it.

2. Object of the Study

As pointed out in the problem statement, rates of mistakes made during the selection process indicate the incomplete body of knowledge and experience on selecting appropriate FMEMs. In order to reach an optimum decision, there are several internal and external factors to consider. And, it is critically important to be able to analyze these factors. Finally, low level of trade volume between Latvia and Turkey waits to be looked deeper into.

The object of the study is twofold: 1) to identify and clarify the factors associated with involving in foreign markets (such as underlying reasons for international involvement, set of factors affecting the selection of entry modes, information resources, etc.). 2) to learn more about Latvian business people's level of knowledge and interests, perspectives, and assessment on Turkish markets.

3. Research Questions

To accomplish the first object of the study, answers of the following questions were gathered, frequency tables created, and commented.

1. What are the top 3 foreign countries where they are most active currently?

2. What are five the most important reasons of their involvement in international business?

3. What are most important factors while selecting a potential foreign market for their investments?

4. What are the most preferred information resources regarding a potential foreign market?

5. How do they indicate their level of knowledge on the alternative FMEMs?

6. What FMEM do they prefer?

7. What are the main reasons why they prefer a specific type of investment?

8. How do they prioritize the critical political, economic, social, technologic factors while deciding a FMEM?

9. What are the most problematic experiences they had while doing business abroad?

To accomplish the second object of the study, answers of the following questions were gathered, frequency tables created, and commented.

1. What is their companies' current business involvement in the Turkish market?

2. Do they have adequate information on the business potential of Turkish market?

3. How do they describe the current economic, political, social atmosphere of Turkish market for their company's investments?

4. Do their companies have any interest in entering Turkish market?

5. Which FMEM do they consider in order to enter Turkish market?

6. What do they think should be done to increase the trade volume between Latvia and Turkey?

4. Limitations

The results of the survey are quite satisfying, since it was possible to find out the answers to all the research questions. However, the results have limitations. The most important one is that Latvian companies are quite small and the number was not that much significant in order to make any general judgments on the factors, important in FMEM selection. For instance, the level of knowledge about all types of FMEM in any other country could be better or worse than in Latvia. The same way the most preferred factors of determining FMEM as well as certain preferences in entry modes might be different from to country to country.

5. Population and Sampling

Initially, it was planned that the sampling of the research will be Latvian firms operating in Turkey and Turkish firms, operating in Latvia. According to the data, which was received by special request from Enterprise Register of Latvia "Lursoft", in 2016 there were 150 companies having Turkish capital (Lursoft, 2016). According to the Ministry of Economy of Turkey, in 2015 there were 37 companies with Latvian capital in Turkey (Ministry of Economy, 2016). It was planned to reach each company individually by phone or emails in order to gather the data. However, after contacting all the companies from the list, it turned out that in both countries 90% of the companies are whether closed out or not existing at all.

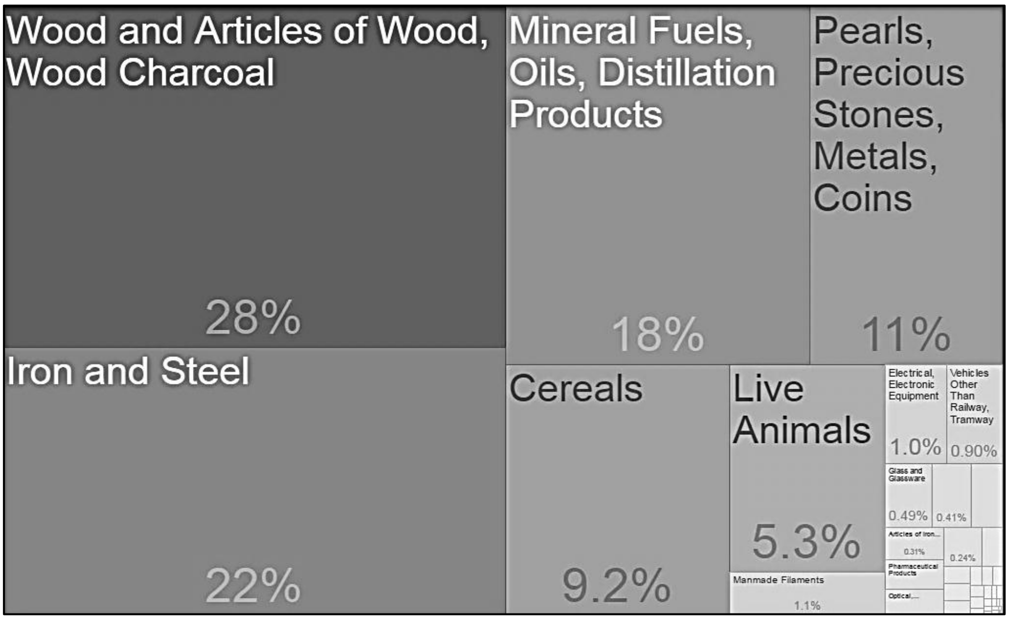
Because of this reason, there was a necessity to change a focus of the research towards exporting. Considering the fact that the exports from Latvia to Turkey are more intense, compared to Turkish side, the focus was diverted to the Latvian entrepreneurs. However, after receiving the data from the Latvian companies register, it turned out that there are only 40 companies in Latvia, which are exporting their production to Turkish market (Latvian Export, Import Directory, 2016). This number of respondents would not be enough for constructing an empirical study.

Consequently, by examining the statistics on what Turkey imports from Latvia, it was observed that on the Turkish market there is demand for the following goods:

- Wood products;
- Metals (Iron and Steel);
- Chemical Products;
- Agricultural Raw materials;
- Live animals (United Nations database on international trade, 2017).

The exhibit below demonstrates the share of each of products category in the imports' volume.

Exhibit 3.1. *Turkey's Imports from Latvia*



Source: *United Nations database on international trade, 2017*

High demand for all these products means that there is a potential for Latvian companies, operating in these fields, to expand their business in Turkish market. According to the Latvian Import and Export Directory there are 121 Latvian companies operating in these fields (exim.lv, 2017). Eventually, these 121 respondents (Latvian companies) became the participants of the research.

6. Data Gathering

An online survey was sent to the corporate e-mails of the 121 respondents. The survey questions were based on the theoretical background of the main topic: factors in determining FMEM. Each of the survey questions highlights one of the aspects of the topic. As a result, 21 questions were considered enough to obtain the comprehensive understanding of the issues in question (Appendix 2).

Before the survey study was made, there were two pilot studies implemented. These pilot studies helped to reveal several uncertainties and helped to improve the final version of the survey.

The online survey of 21 questions was sent individually by emails to all 121 relevant companies. The corporate emails of these companies were used. Emails were followed by an official Letter from the Embassy of Latvian to Turkey, showing the importance of the research and motivating respondents to participate in the survey.

However, in the first round, only 65% of the responses were received. Some companies had to be reached by phone, in order to request them to participate in the survey personally. It was very helpful, because one of the most typical problems was that the email address, mentioned in the Latvian Import and Export Directory, was not active anymore.

As a result, out of 121 participants in total it was possible to receive 96 responses. 14 companies responded that they do not have time or interest to reply, and the other 11 did not respond at all.

The collection of the data all together lasted for 3 months. Some of the companies replied very fast, but some of them had to be reached by phone and asked personally to participate in the survey. Therefore, the timeframe of collecting the data was relatively long.

7. Analyses

As soon as the responses were received, they were re-coded in order to use the SPSS statistical analysis program. In SPSS program the Frequency, Correlation and

Correspondence analyses were used mainly. The final results were illustrated by the graphics, in order to give a visual demonstration of the findings.

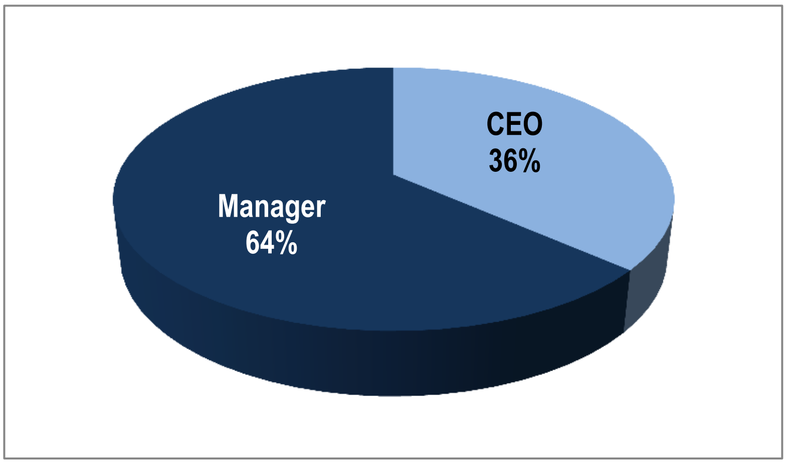
8. Findings

Under this heading, findings of the research are presented, starting from the demographic characteristics of the responding companies.

8.1. Respondents' position in the company

The aim of this question is to define how many of the respondents are the CEO's of the companies and how many are managers.

Exhibit 3.2. *Respondent's Position in the Company*

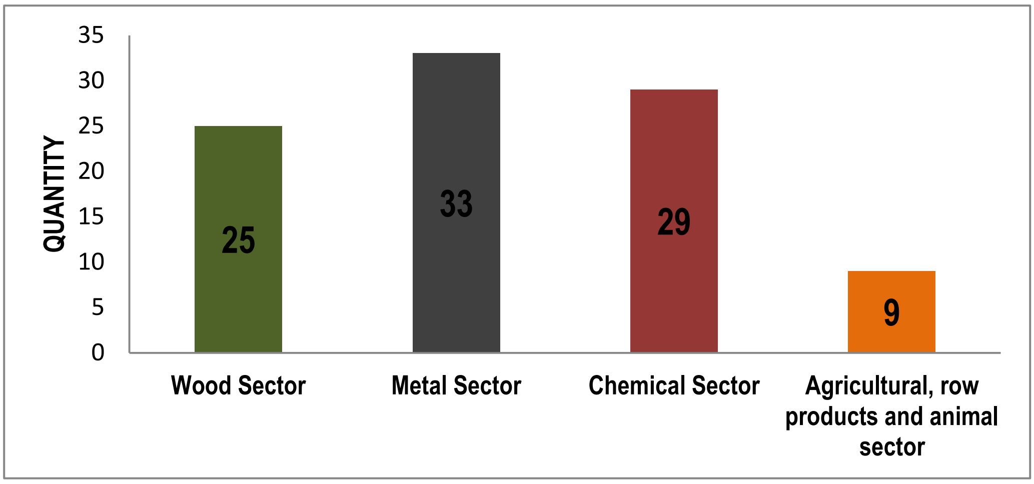


According to the results, 36% of the respondents are the CEO's of companies, while the majority – 64% of the respondents are general / sales / production managers. It can be concluded that participants altogether have enough knowledge to answer the survey questions.

8.2. The Sectors

According to the findings, the majority of the responding companies (33 companies) participating in the survey are operating in the metal production sector (e.g. producers of steel, metallic details, machinery parts. 29 of the respondents operate in chemical sector (e.g. producers of various chemical substances, distillation products and oils, as well as pharmaceutical goods). The third category of respondents is wood and wood articles producers (25 companies). The least represented sector is agricultural, row products and live animal sector – 9 of the respondents.

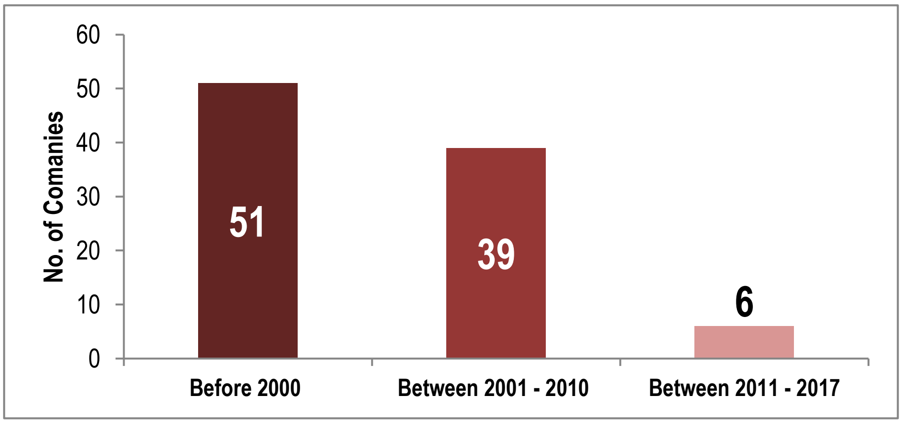
Exhibit 3.3. *Sectorial Division of the Companies*



8.3. Year of establishment

This question demonstrates how many years each responding company has been in operation, meaning how long experience it has.

Exhibit 3.4. *Year of Establishment*



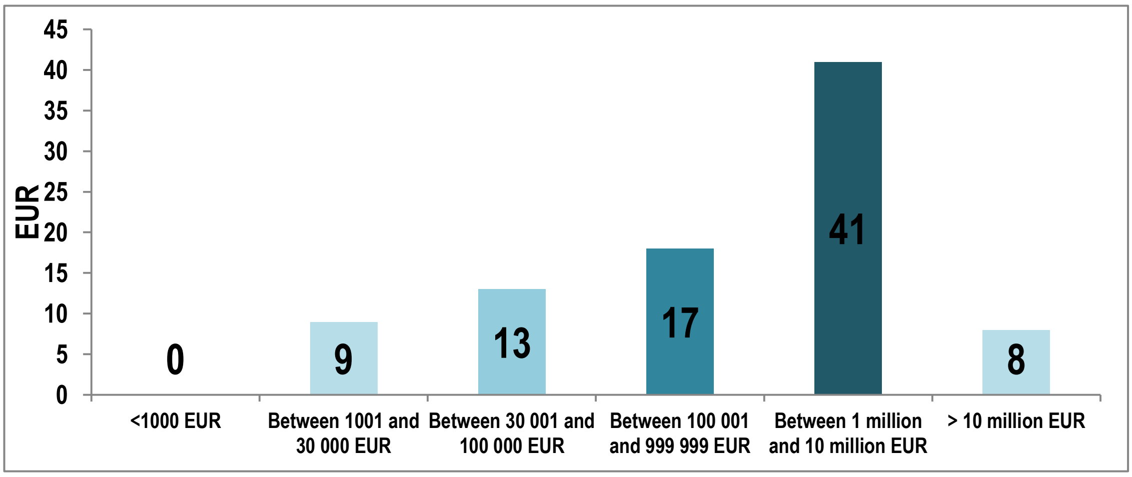
As it can be seen from the Exhibit, the majority of the companies (51 companies) are founded before year 2000, which means that they have more than 17 years of experience and in average 25 years of experience of working in the market. There are 39 companies, which were established between 2001 and 2010 year. This category of companies has in average 10 years of experience of working on the market.

The last category has the least amount of respondents – 6 companies, which were founded after 2011 year. This means that they have in average around 3-5 years of experience. To conclude, almost all of the respondents have at least 10 years of working experience.

8.4. Total sales

According to the data obtained, the majority of responding companies (41 companies) annually are selling their production for 1 to 10 million EUR, which is relatively high result for Latvian business statistics. 17 of the respondents have their total sales between 100 000 and 1 Million EUR; 13 of them between 30 000 and 100 000 EUR, and 9 of the respondents have their total sales between 1 000 and 30 000 EUR. Surprisingly, 8 of the respondents marked their amount of total sales as higher than 10 million EUR. Remarkably, that these respondents have minimum 10 years of experience in business, which is seen from the previous question.

Exhibit 3.5. *Total sales (in Euro)*

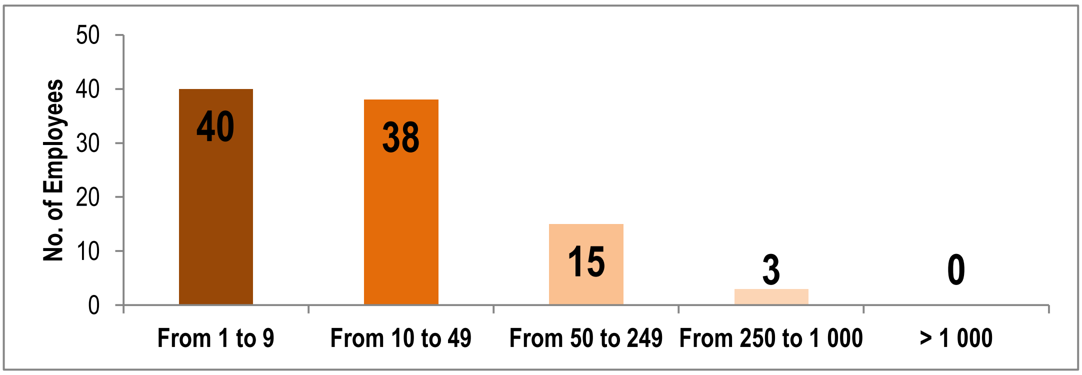


Eight of the respondents did not reply anything to this question. In sum, the financial situation of the majority of respondents can be counted as quite stable and successful and the average amount of total sales is around 1 Million per year.

8.5. Number of employees

As it is clearly seen from the Exhibit 3.6, the majority of the respondents (40 companies) are very small ones, having less than 9 employees. 38 companies have 10 to 49 employees. 15 companies have from 50 to 249 employees.

Exhibit 3.6. *Number of Employees in the Participating Companies*



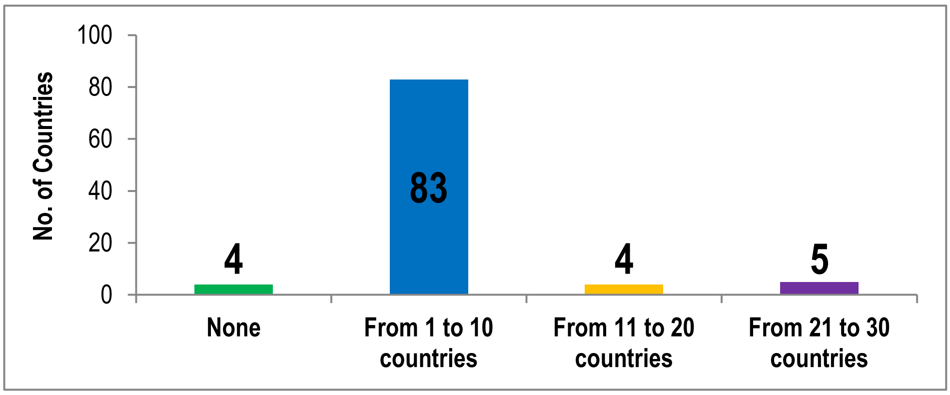
Only three responding companies stated that they have more than 250 employees. None of the respondents replied to have their amount of workers more than 1 000 employees.

8.6. Number of foreign countries exported

Most of the responding companies (83 companies) are active in less than 10 foreign countries. Four of the respondents replied that at the moment they are not active abroad. Some of them mentioned that it is due to the financial conditions.

Four other respondents, on the contrary, mentioned that they are active in more than 10, but less than 20 foreign countries. Five of the respondents said that they are active in more than 21 foreign countries.

Exhibit 3.7. *Numbers of Foreign Countries, were exported*



In sum, it is clearly seen that almost all the respondents are active in less than 10 foreign countries, which does not show them to be very actively involved in the international business. However, again comparing to the general statistics in Latvia, almost all of the companies are SMEs, which do not have financial resources to become a multinational company.

8.7. Top 3 foreign countries where respondents are operating

Since Latvia is a member of the EU, it has the most beneficial conditions to do business with EU countries. Thus, it can be assumed, that the top destinations for Latvian business's internationalization are the EU countries. In fact, the survey data proves it.

Table 3.1. *Top 3 Priority Foreign Country to Expand Business*

	1st Priority		2d Priority		3d Priority	
	Frequency	**Percent**	**Frequency**	**Percent**	**Frequency**	**Percent**
EU Member Country	64	66,7%	57	59,4%	50	52,1%
Post-Soviet Country (Not EU member)	23	24,0%	17	17,7%	13	13,5%
Turkey	1	1.0%	0	0%	1	1,0%
Any other country	4	4,2%	6	6,3%	6	6,3%
None	1	1,0%	1	1,0%	1	1,0%
Missing	3	3,1%	15	15,6%	25	26,0%

As it can be seen from the table, the most popular destination for expanding business for Latvian entrepreneurs are the countries of EU. This is easily explainable due to beneficial conditions for doing business in any EU member country. Getting through each individual response, it was observed that the most popular countries from the EU were mentioned as following: Germany, Sweden, Estonia, Lithuania, Poland, Finland, Norway and UK.

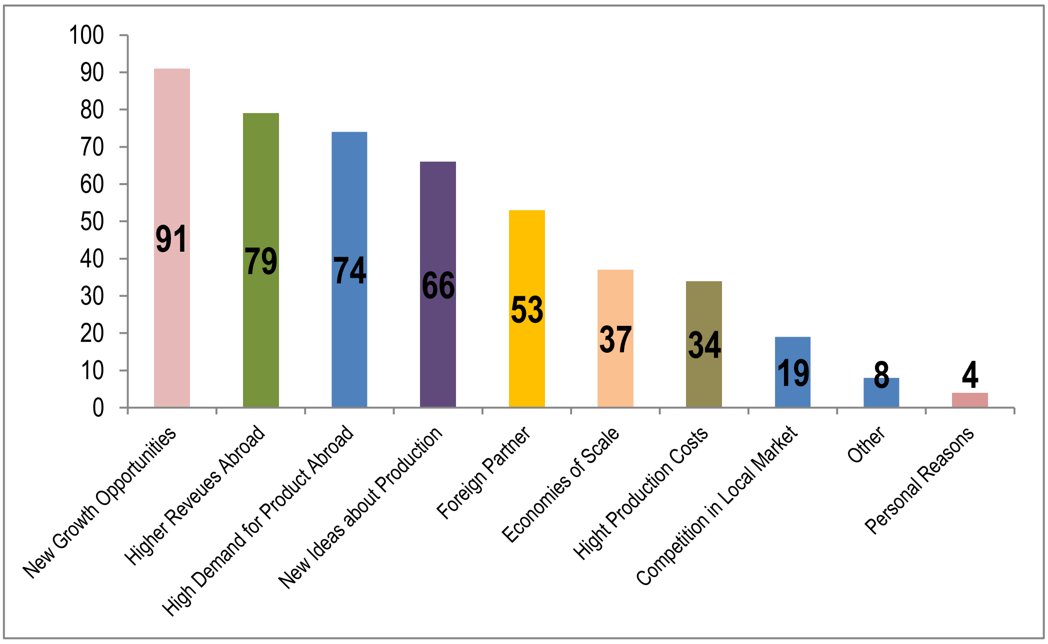
The second most popular destination was marked as Post Soviet countries, which are not members of the EU. Among these countries the most popular destination was Russia, followed by Ukraine and Belarus. The third popular category is any other countries in the world and within that group the most popular responses were: USA, Japan and China.

Turkey was mentioned two times within Top 3 countries, by respondents operating in metal and chemical sectors. It means that between the respondents there are two companies, which are closely cooperating with Turkish market.

8.8. The most important reasons to expand business abroad

The most important reason that motivates Latvian companies to expand into foreign markets is search for new growth opportunities. The second important reason is seek for higher revenues. The third reason is high demand for a product abroad.

Exhibit. 3.8. *The Most Important Reasons to Expand Business Abroad*



The other chief reasons follow as "desire to get new ideas about production abroad"; "the fact of having a reliable partner abroad"; "idea to make the production as economies of scale" (the more produced – the cheaper it can be sold).

As the least important reasons to expand business abroad were selected: “competition on the local market”, “other” and “personal reasons”. Apparently, Latvian market is not over saturated in order to become the main motivator for firms to look for their customers abroad. The personal reason was mentioned the least among the reasons.

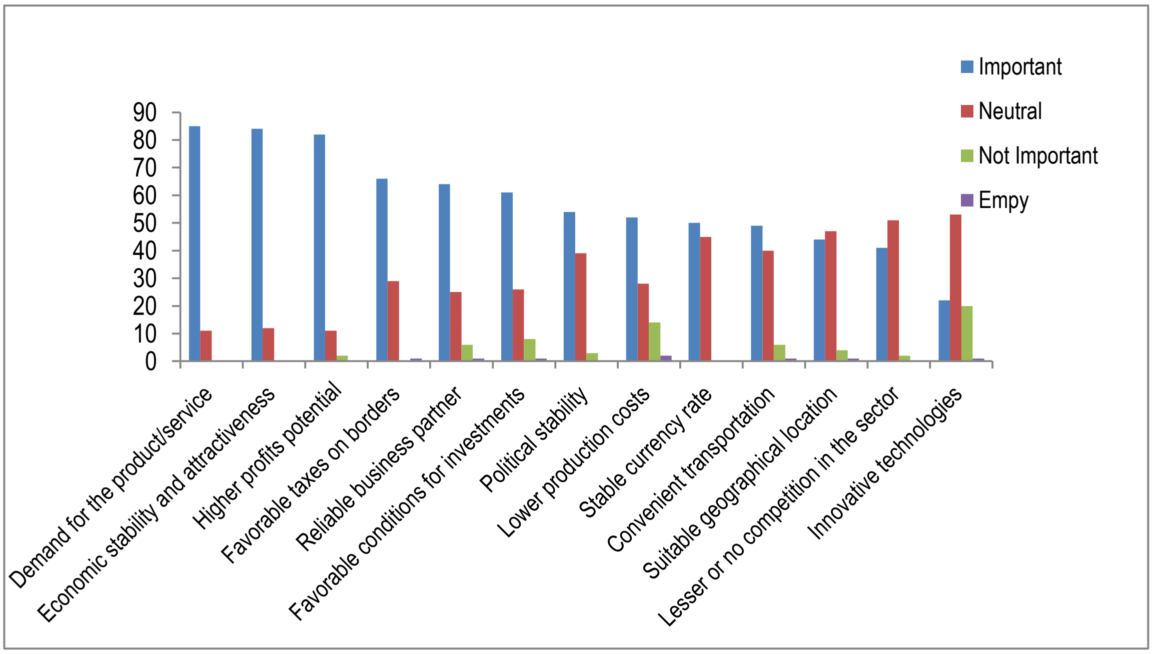
Respondents indicating the “other” cited the followings: “Our growing strategy”; “better customers potential abroad”; “better debtor situation abroad”; “problem that local market is too small”; “small demand for our production”; “very high taxes which is hard to pay”. As it can be seen, many firms are not satisfied with Latvian market, saying that it is too small or that producing here is quite problematic.

In sum, it can be stated that for Latvian companies, it is quite problematic to do business in Latvia and if they see the demand for their production abroad – they consider it as a good opportunity to develop their business.

8.9. The importance of factors while selecting a foreign market to expand business

There are several various factors, which can affect a company while it is selecting a foreign country, where it wants to expand its business. The Exhibit below shows the relative importance of these factors.

Exhibit 3.9. *Importance of Factors in Foreign Market Selection*



As it can be seen from the Exhibit, there are three most important factors, which almost nobody marked as "Neutral" and none marked as "Not important", but most of the time as "Important". These factors are:

- Demand for the product/service;
- Economic stability and attractiveness;
- Higher profits potential.

All the three factors absolutely deserve taking the first place. Because also according to the theoretical background analysis, these are the priority factors. So if a foreign market identifies the demand for an exact product, the country itself is economically attractive for doing business there and expanding business there promises good financial possibilities – the majority of respondents would definitely select this country to do business there.

The factors listed below are considered to be in the middle group, which means that still most of the respondents counted those as important factors, but around 30% marked those as neutral ones:

- Favorable taxes on borders;
- Reliable business partner;
- Favorable conditions for investments;
- Political stability;
- Lower production costs.

The following group of factors almost equally shares the voices of being important and neutral factors:

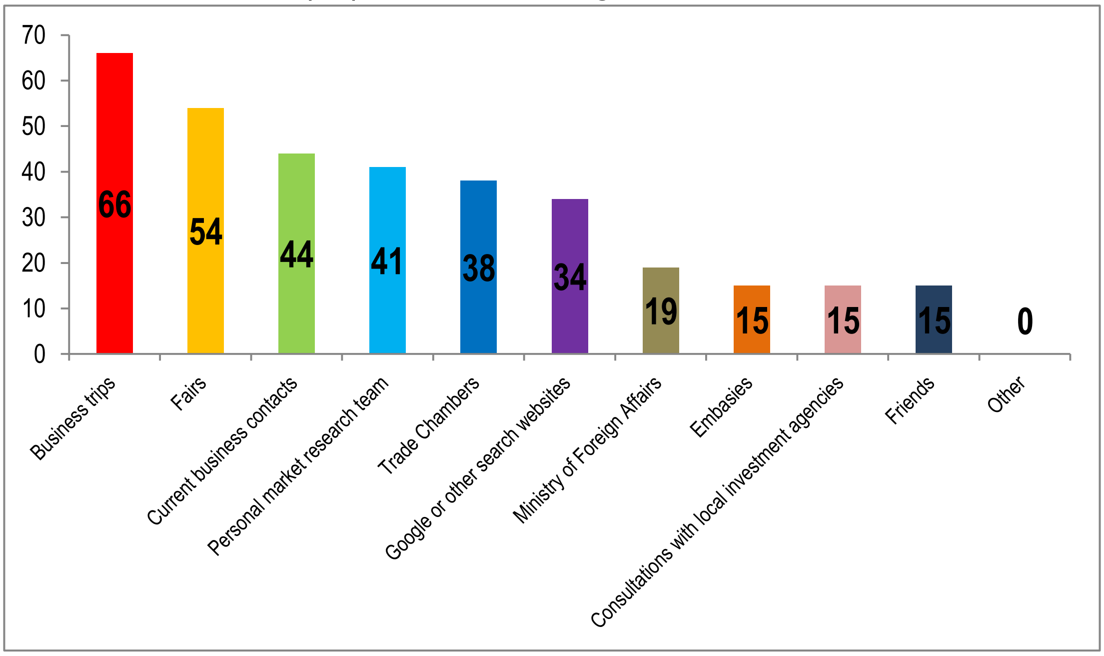
- Stable currency rate;
- Convenient transportation;
- Suitable geographical location;
- Lesser or no competition in the sector;
- Innovative technologies.

The least popular factor voiced is "Innovative Technologies", which has received the biggest amount of "Neutral" or "Not Important" options. Thus, apparently it can be assumed that Latvian producers are the followers of traditional ways of production and are not actively following the innovations.

8.10. The most preferred information resources about a foreign country

According to the respondents, the most popular source of information about a foreign market is personal business trips. The least important source is consultations with Local Investment agencies and friends. The graphic below visually demonstrates all the information sources according to their level of importance for the respondents.

Exhibit 3.10. *Sources of Information on Foreign Countries*

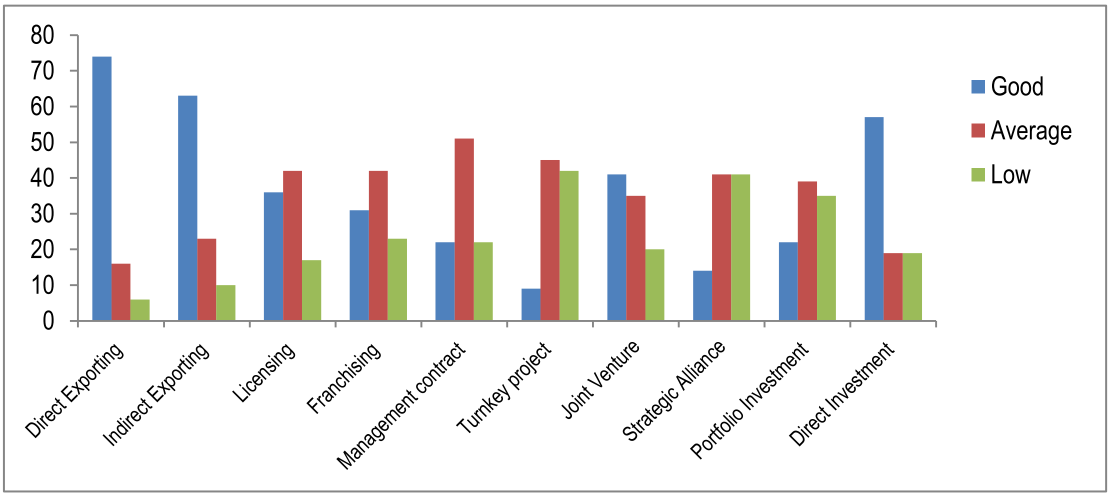


It can be concluded that the majority of respondent businesses rely on their own power and prefer personal business trips, business fairs, making personal business contacts or research. Surprisingly, that consultation with embassies and investment agencies did not become popular responses.

8.11. Level of knowledge about Foreign Market Entry Modes

This question helps understand the general level of knowledge of respondents about all possible foreign market entry modes. The Exhibit below visually demonstrates how respondents stated their level of knowledge as “Good”, “Average” or “Low”.

Exhibit 3.11. *Level of Knowledge of FMEM*



According to the Exhibit it is easily seen that the most well-known FMEMs are: Direct Exporting, Indirect Exporting and Direct Investment modes. Relatively quasi-better known modes are: Join Venture, Licensing and Franchising. All the other entry modes such as Management Contract, Turnkey Project, Strategic Alliance and Portfolio Investment are known relatively lesser by the majority of respondents.

To sum up, it can be concluded that from 10 the main foreign market entry modes, the respondents are well familiar only with 5 of them. Thus, 4 of the possible FMEM are not well-known. Consequently, it can be assumed that if the entrepreneurs will learn more about different types of FMEM, the involvement of companies into international business can grow.

8.12. FMEM that a company prefers for entering a foreign market

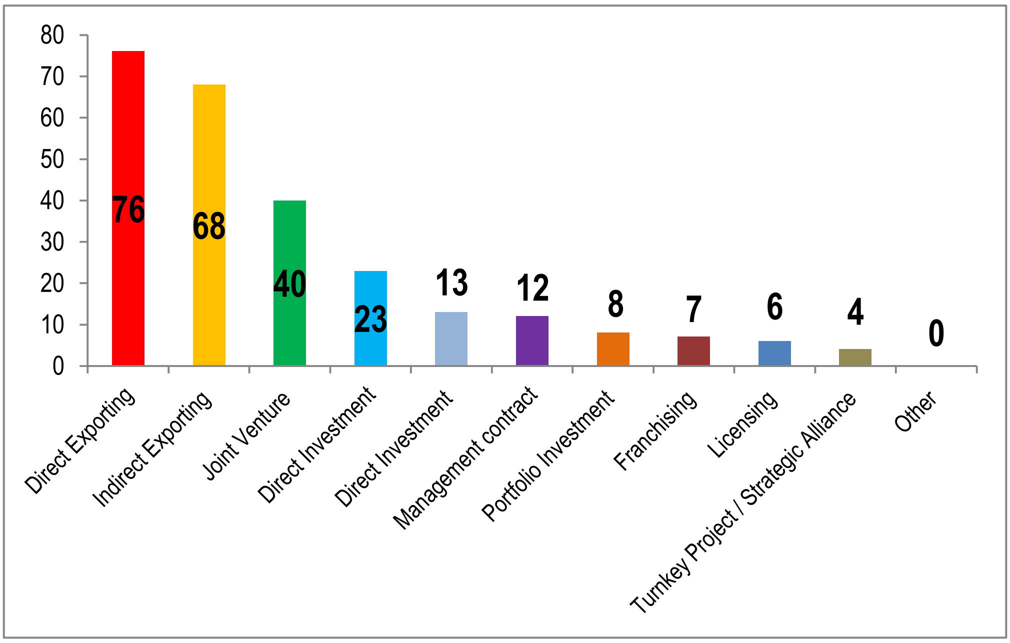
This demonstrates which foreign market entry modes the respondents are using in their business activity. As it can be seen on the exhibit below, the first three most preferred FMEMs are:

- Direct Exporting;
- Indirect Exporting;
- Join Ventures.

Comparing this with the results of a previous question, it can be seen that these are the most well-known entry modes. This result is logical and consequent.

The investment entry modes have an average priority. This can be explained with the fact that the most of the companies are SMEs.

Exhibit 3.12. *FMEM Preference*



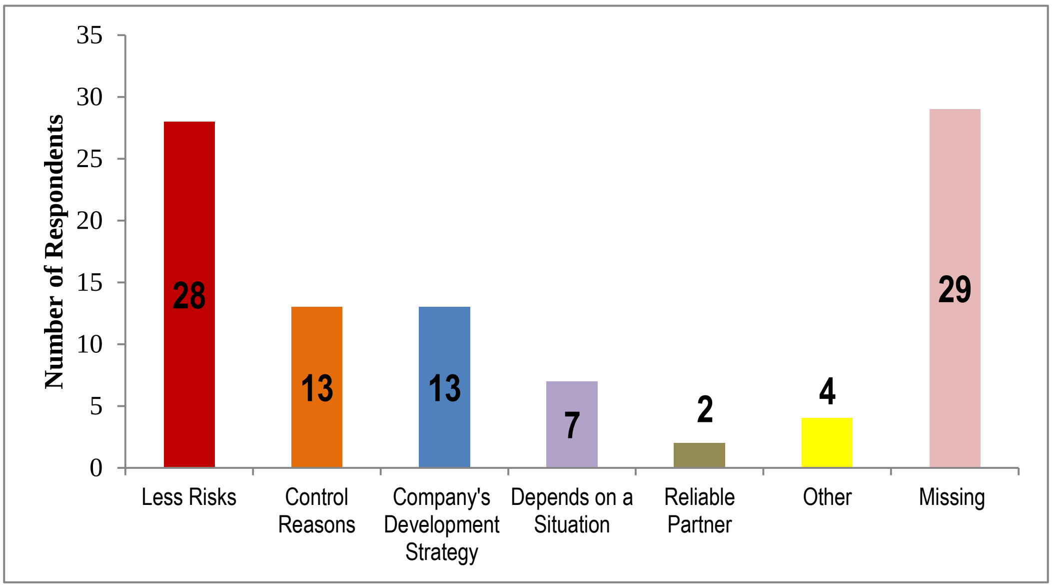
The respondents did not preferred licensing or franchising very much. It can be explained by the fact that apparently the productions do not have any specific or innovative technologies, which could be licensed or franchised abroad.

The least preferred entry modes are turnkey project and strategic alliance. But considering the fact that in the previous question these were the least known entry modes, it can be assumed that they are not preferred due to lack of knowledge.

8.13. Reasons behind the FMEM preference

This was an open question, which was inviting respondents to give an explanation if there is any more particular reason, why do they prefer exactly the previously market FMEM. Unfortunately, 29 of respondents did not give any reply to this question. But from the rest of the responses it was possible to analyze and generalize the replies in order to get the general idea of the issue.

Exhibit 3.13. *Reasons behind the FMEM preference*



The majority of respondents (28 companies) explained that they do not want to take big risks while doing their business abroad. That is why they prefer less risky FMEM, like exporting or join venture.

13 of the respondents explained that for them it is very important to have a good control over the business. That is why they prefer the entry modes, where they can have a control over the business abroad.

13 respondents explained that their choice of FMEM depends on their own global development strategy and vision. And 7 of them answered that the choice generally depends on the situation that is why they prefer several different FMEM.

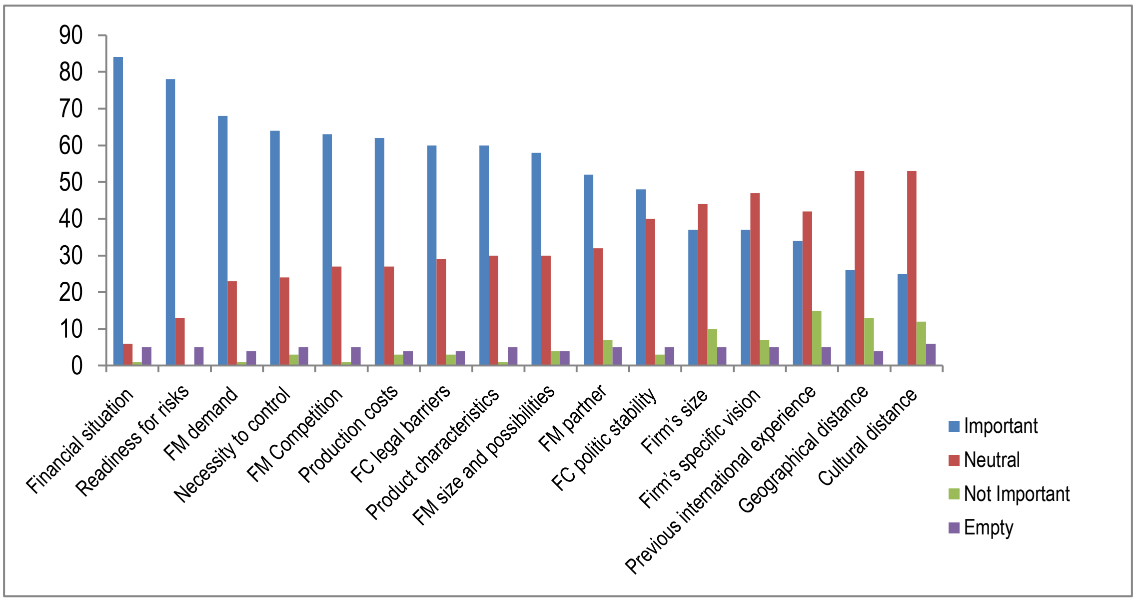
2 of the respondents mentioned that for them it is important to have a reliable partner abroad. If they do have one, then they can organize indirect exporting or join venture in another country.

4 respondents explained their preference by some other reasons, like: “selecting most profitable entry mode”; “depends on business volume and if it is not big it is better to prefer direct exporting; “If a country has many factories, which produce our product - we are not interested to invest, buy someone’s company, or to open a local representative there”; “depends on experience”.

8.14. Prioritizing the importance of the factors while deciding on a FMEM

This question can be referred as a central one of the survey. It demonstrates all possible internal and external factors, which are important in determining FMEM. The respondents had to evaluate each of the factors as: “Important”; “Neutral” or “Not Important” in their own view. The question reveals, which are these factors, which matters the most for Latvian entrepreneurs while determining a foreign market entry mode in order to expand business in another country. It has to be admitted that respondents could mark as “Important” as many factors, as they wanted.

Exhibit 3.14. *Prioritization of Importance of the Factors on a FMEM*



The first noticeable observation is that each of the factors was marked as “Important” in at least 15 cases. However, there is one factor which was not marked as “Not Important” any of the times. This factor is “Readiness for Risks”.

To sum up the results, the three the most important factors of FMEM for Latvian entrepreneurs are:

- Firms’ financial situation;
- Readiness to face the risks;
- Foreign markets’ demand.

It is an interesting observation that the factors, which collected the biggest number of “Neutral”, are:

- Previous International Experience;

- Geographical Distance;
- Cultural Distance.

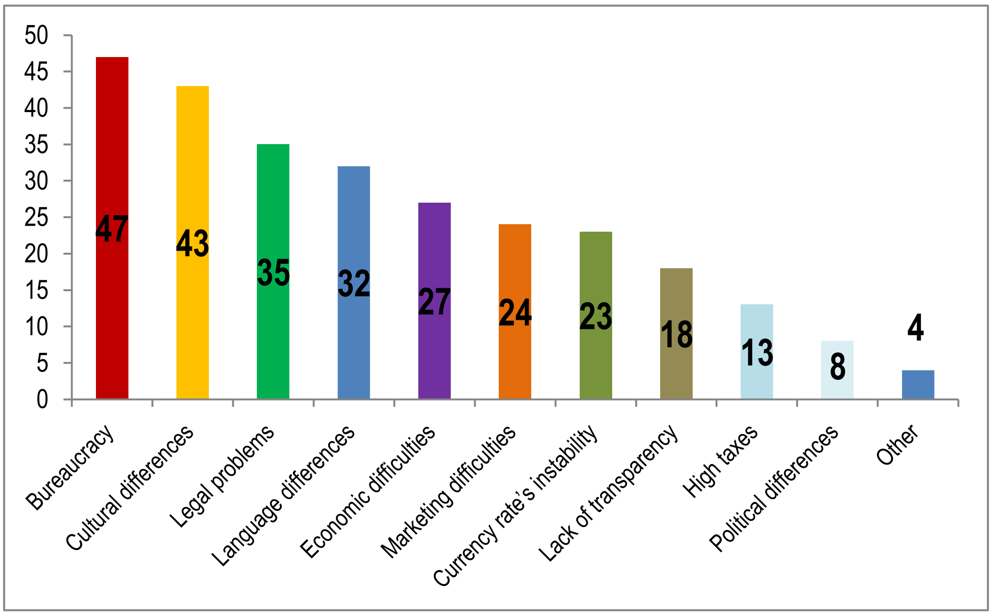
Hence, it can be concluded, that if a country is economically attractive and has a demand for a product - it's geographical of psychological (cultural) difference does not play that important role. Surprisingly, the factor "previous international experience" did not get that many responses.

8.15. The most problematic experiences while doing business abroad

The majority of responses indicate top three problematic issues of doing business abroad are:

- Bureaucracy;
- Cultural Difference;
- Legal Problems.

Exhibit 3.15. *The Most Problematic Experiences Abroad*



It is an interesting observation that according to the previous question, all these three external factors resulted among the least important factors in FMEM selection. However, this question demonstrates them as the biggest problematic issues a company is facing abroad. It can be assumed and recommended that the entrepreneurs should consider these factors as more important ones, before they are planning to expand business abroad.

As the least problematic issues in a foreign market were mentioned “political differences” and “others”. In the “others” the following responses were mentioned:

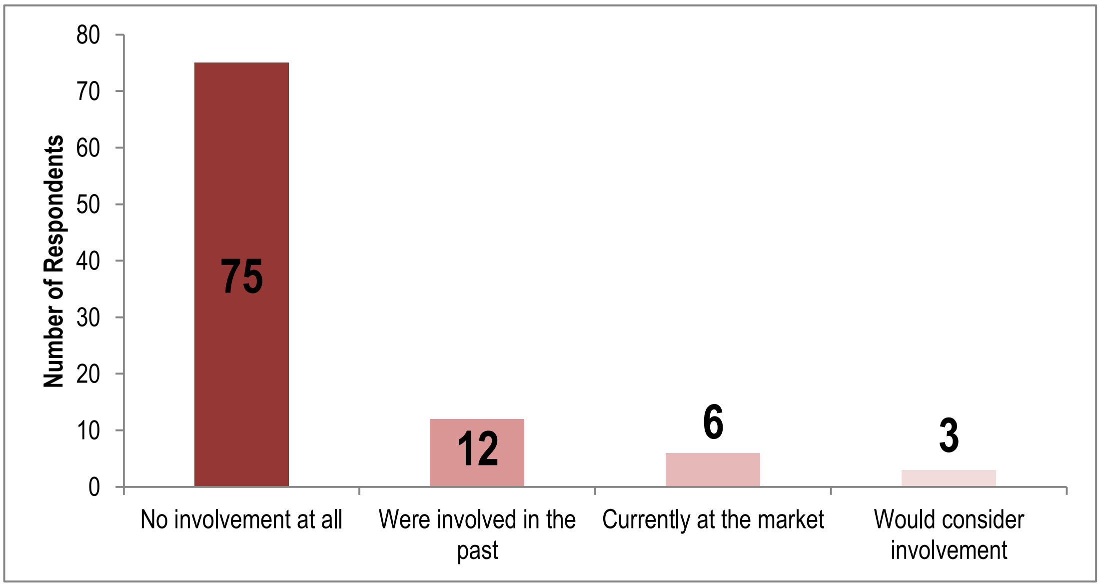
- “Do not have any problems abroad”;
- “Bureaucracy, sales managers unwillingness to do some change”;
- “Cultural differences, economic difficulties, lack of knowledge”.

8.16. Business involvement in Turkey

As it was discussed previously, one part of the research will be devoted to study a business potential of Latvian companies in exporting their goods to Turkey. In order to find this out, several questions were asked to respondents.

This question helps to reveal the relationship between the firms and Turkish market at the moment of research.

Exhibit 3.16. *Current Involvement in Turkish Markets*



According to the majority of responses, 75 of the companies have no involvement at all in Turkish market. Since it is the vast majority of the respondents, it identifies the fact that there can be a potential interest of these companies in joining Turkish market in the future.

12 of the respondents said that they were involved in the market in the past, but not anymore. Apparently due to the crisis or any other factors, these companies temporarily could have escaped form the Turkish market. However, these firms still can be considered as potentially interested in renewing business again.

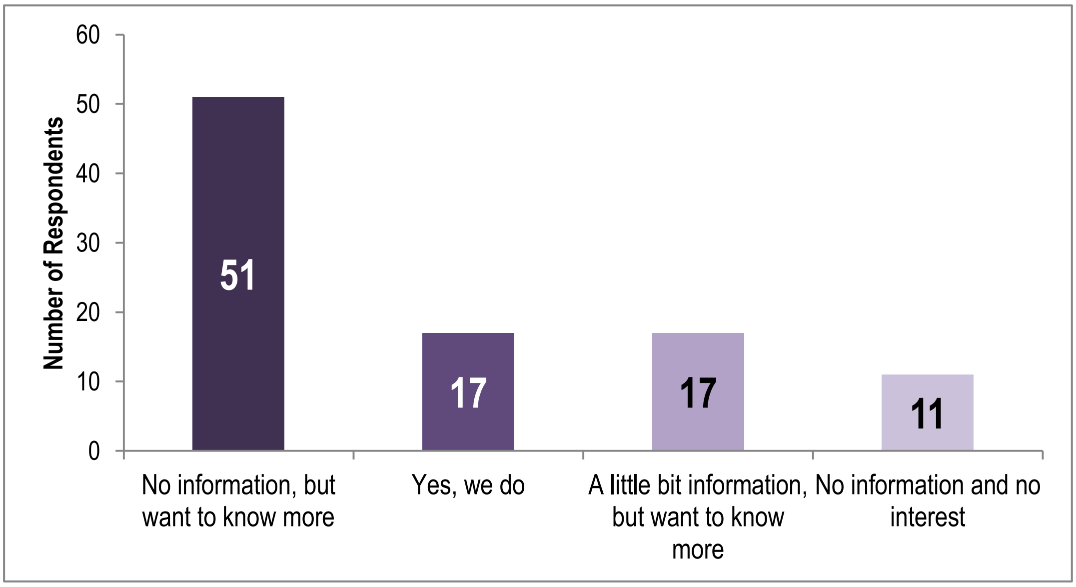
6 respondents said that they are currently operating in Turkey. But 3 of them said that they would like to consider the involvement in Turkey as soon as possible.

In brief, it can be stated that almost 19% of respondents have experience in Turkish market. However 80% has no experience and any previous relation with Turkey.

8.17. Level of information on the business potential of Turkish market

This question needed to be asked in order to find out if Latvian firms have enough of information about business opportunities in Turkey. Since 80% of companies do not have business activity in this market, potentially as reason to this can be lack of information.

Exhibit 3.17. *Information about Business Potential of Turkish market*



As it can be concluded from the responses, the majority of companies (51) have no information about opportunities in Turkey; but they are interested in knowing more. 17 of the respondents said that they have a little of information, but they also want to know more. Thus, around 70% of the firms are interested to know more about business possibilities in Turkey.

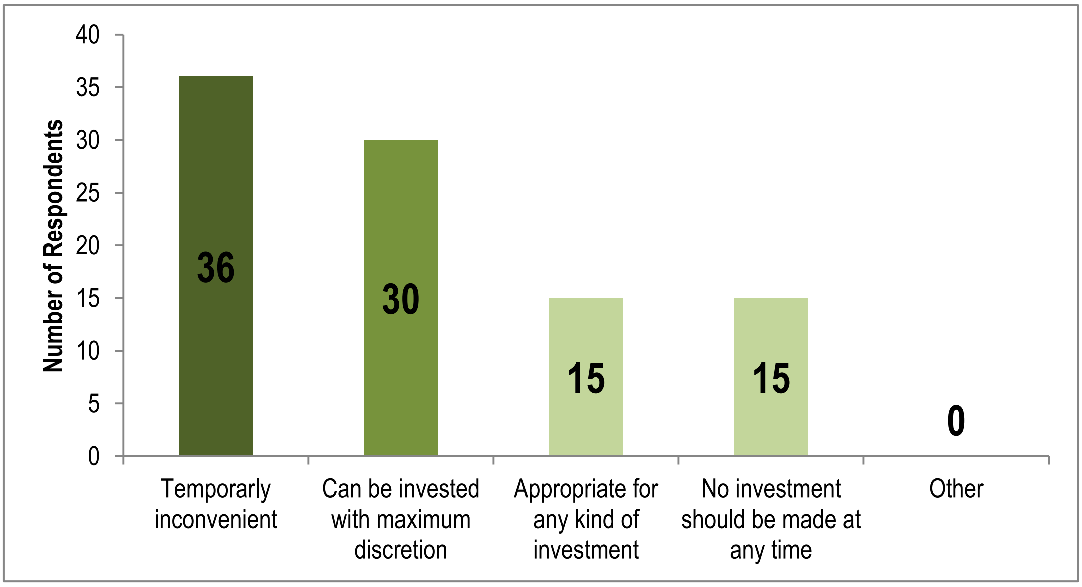
17 of the respondents stated that they do have adequate information about business in Turkey and 11 of other respondents said that they are not interested at all in discovering it.

To conclude, 70,8% of Latvian firms have interest in knowing more about business opportunities in Turkey. This is quite a big number and it shows that there is a meaningful business potential.

8.18. Assessment of the current economic, political, social atmosphere of the Turkish market

The majority of respondents (36 companies) find their company temporarily inconvenient for investments in Turkey. However, still there remains a chance in considering this market in future.

Exhibit 3.18. *Assessment of Attractiveness of the Turkish Market for Latvian companies*



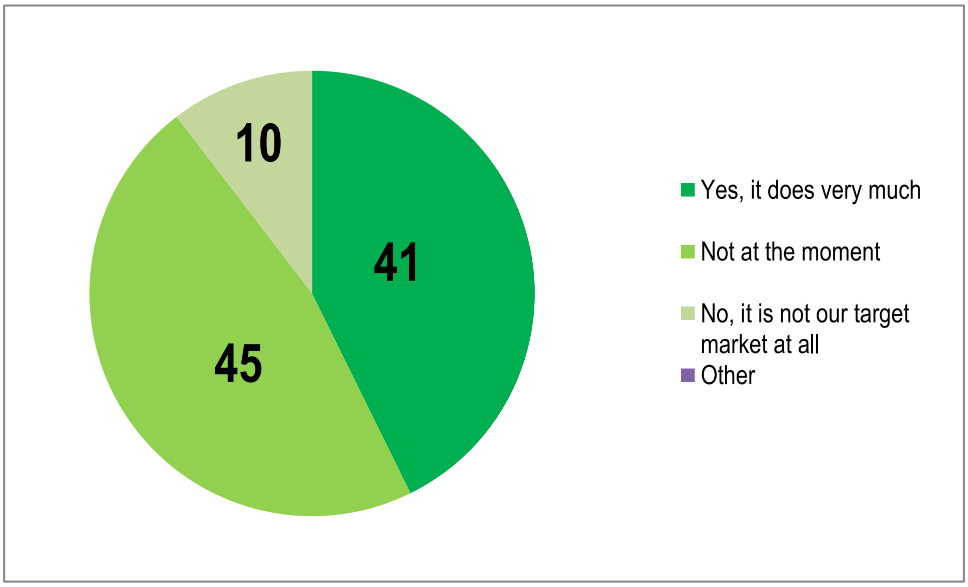
15 of respondents sharply responded that no investments could be made at any time. Meanwhile, 15 respondents replied that this market is appropriate for any kind of investments. 30 of the responding companies replied that they would consider investing in Turkey only with maximum discretion.

To sum up, only 15% out of all the respondents said that they are not interested in expanding their business in Turkish market. 46,9% of respondents are interested in considering their investments in Turkey. 37,5% are temporarily inconvenient for investments, but still could consider this possibility in future. It is a high result, which indeed confirms a high potential of Latvian companies to expand their business in Turkey.

8.19. Interest in entering Turkish market

According to the responses of the survey, 41 responding companies have very big and serious interest in entering Turkish market. 45 companies would consider entering Turkey, but not at the moment. 10 of respondents sharply said that this is not their target market.

Exhibit 3.19. *Interest to Enter Turkey's Market*

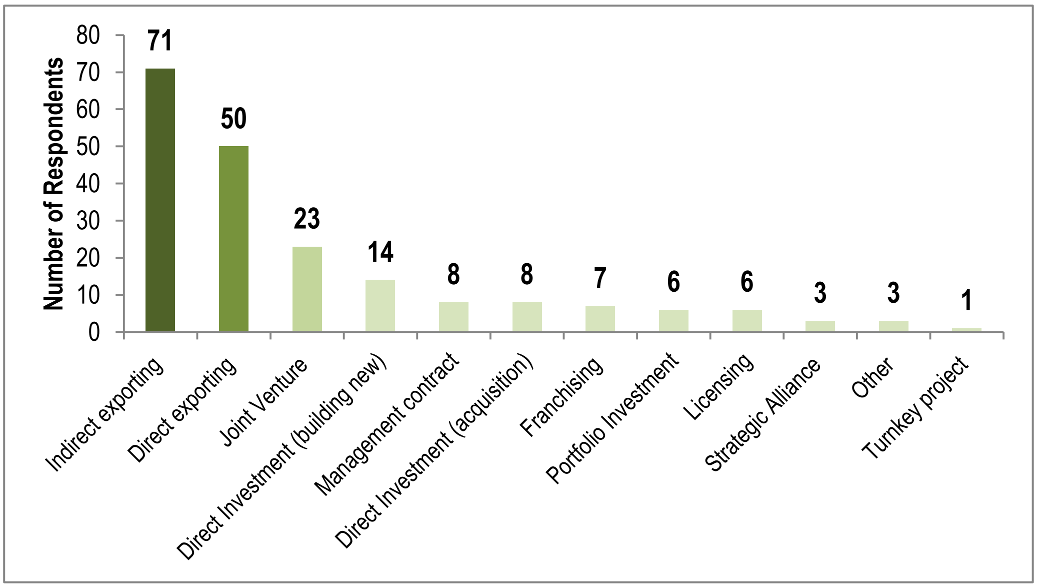


In sum, there is a very positive conclusion to be made: the potential in increasing the trade volumes from Latvia to Turkey indeed is very high.

8.20. Preferred FMEM to enter Turkish market

This question is helpful in order to estimate which would be the most preferred foreign market entry modes for Latvian companies regarding entering Turkey.

Exhibit 3.20. *Preferred FMEM to Enter Turkish Market*



According to responses, the majority of respondents said that they would prefer Indirect exporting for entering Turkish's market. It is interesting to admit, that in the previous similar questions the first place was always taken by Direct Exporting. Thus, probably, Latvian entrepreneurs are worried about difficulties regarding cultural, political, language and legal barriers. That is why they would prefer to have a reliable partner in Turkey to organize the business safer.

The other two popular responses were: "Direct Exporting" and "Join Venture". The other types of foreign market entry modes collected relatively low votes.

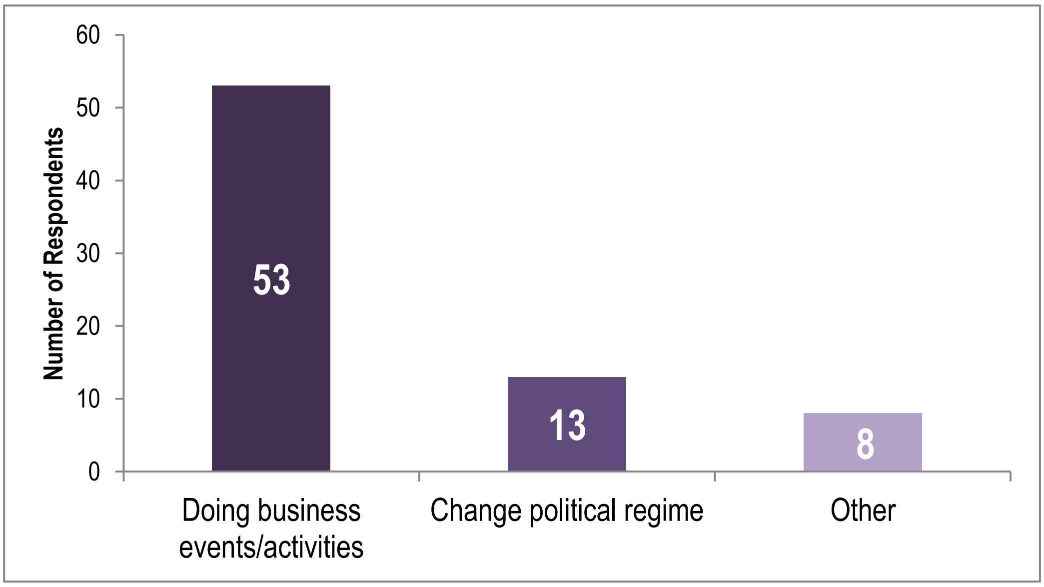
8.21. Suggestions to increase the trade volume between Latvia and Turkey

This is an open question, which brings up several ideas and opinion on what could be really improved in Turkey's Latvian business relations. It reveals if there is any problem, which do not allow businessman to enter the market so actively.

Since the question was an "open" one, all the responses were examined and added into the common groups in order to analyze them easier. Unfortunately, this question has 22 empty responses, probably due to the necessity to write something.

Thus, as the most common idea (71,6%) was the problem of lack of information about business possibilities and business organization from Turkish side. As suggestions, respondents offered to organize some more business forums, business fairs and visits. Due to different culture and lifestyle, some of the respondents find Turkey as culturally very different, which brings up many uncertainties while deciding which country to select for business expand.

Exhibit 3.21 *Suggestions to Increase Trade Volume between Latvia and Turkey*



Second, some of the respondents were mentioning that they are concerned about political changes happening in Turkey at the moment. Thus, these uncertainties were preventing them from entering this market soon.

The other opinions, given to this question were: “lack of good cooperation”, “necessity to present Turkey as a reliable business partner”, “the situation and legislation must be discussed on the EU level, because Latvia has not much freedom for making this kind of activities”, “organizing common business meetings and potential discussions”.

To conclude, it can be clearly seen that many Latvian companies have an interest in entering Turkish market, but they do not have enough of information about this market’s specifics and, apparently, have a fear of not knowing this country’s characteristics very well. The problem must be solved on the political level by organizing several descriptive business forums, visits and informative presentations.

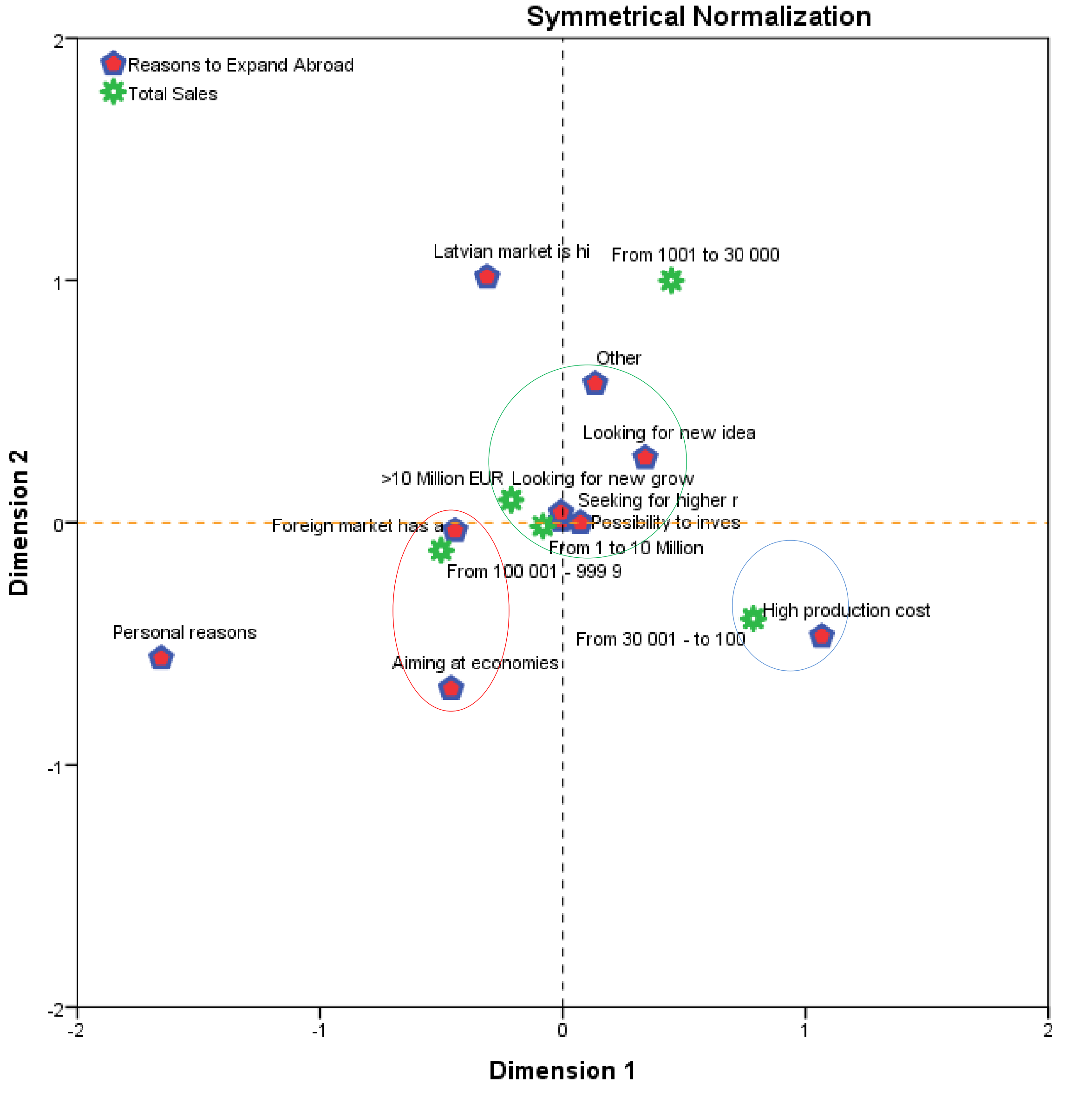
9. SPSS Analyses to Estimate Relationships between Various Variables

By using the Correlation and Correspondence analyses, it was possible to estimate some interesting relationships between several variables. The exhibits and their analyses are demonstrated below.

9.1. Relationship between the reasons to expand business abroad and amount of total sales

During the research, a question has arisen if there is any relationship between the reasons, which motivate a company to expand its business abroad, and the amount of total sales it gets. In another words, if the reasons to expand business abroad are changing by the increase of a company's level of sales volume. With the SPSS Multi-Dimensional Correspondence analysis it was possible to construct an exhibit, demonstrating the relationship between the variables.

Exhibit 3.22. *Relationship between the Reasons to Expand Business Abroad and Total Sales*



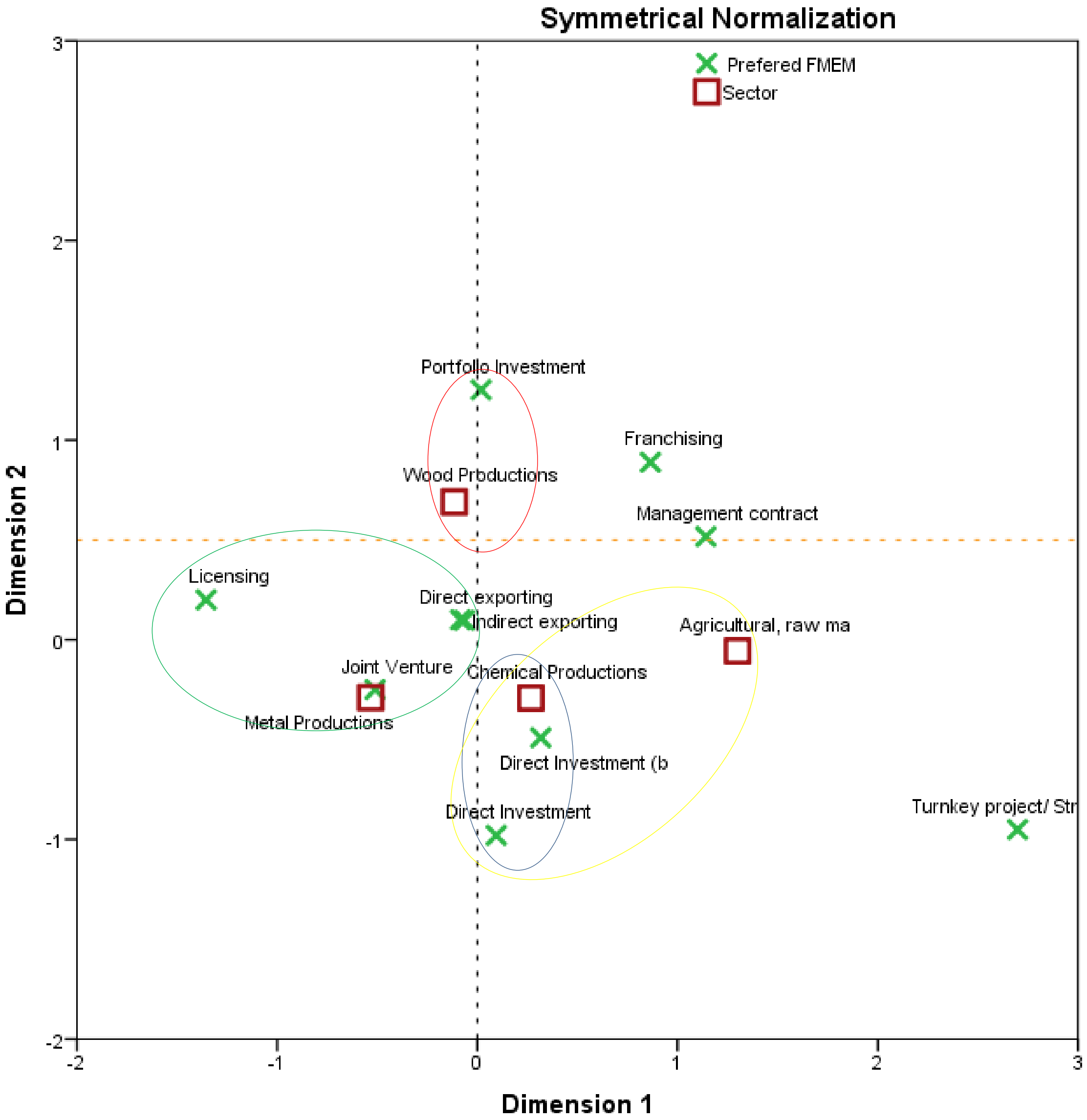
As it can be observed from the Exhibit, the companies with smaller amount of total sales (30 000 – 100 000 EUR) are motivated to look for business opportunities abroad due to "High production costs at the local market". These reasons are called as "Reactive reasons". At the same time, companies with relatively bigger amount of total sales (100 000 – 1 Million EUR) are motivated to expand business abroad when there is a meaningful demand for a production in a foreign market or if a company is following the strategy of "economies of scale". The richest category of respondents (> 1 Million EUR) as the reasons to expand business abroad mentioned "Looking for new ideas", "Looking for new growth opportunities", "Seeking for higher revenues", "Possibility to invest in advantageous relationship with a foreign partner". All these reasons are referred as business development reasons.

Thus, it can be concluded, that there is a visible relationship between the level of total sales of a company and the reasons, which are motivating it to expand business abroad. The companies with less revenues often expanding business abroad due to difficulties they are facing at the local market (like competition, high production costs). The companies with higher revenues are more successful at the local markets. Therefore they are expanding abroad because they want to develop and grow their business.

9.2. Relationship between preferred FMEM and a sector of a company

During the research another inquiry raised – to test if there is any real relationship between the foreign market entry mode a company prefers and a sector, where it operates. The Exhibit below visually demonstrates the relationship between these two variables.

Exhibit 3.23. *Relationship between Preferred FMEM and Sector of a Company*



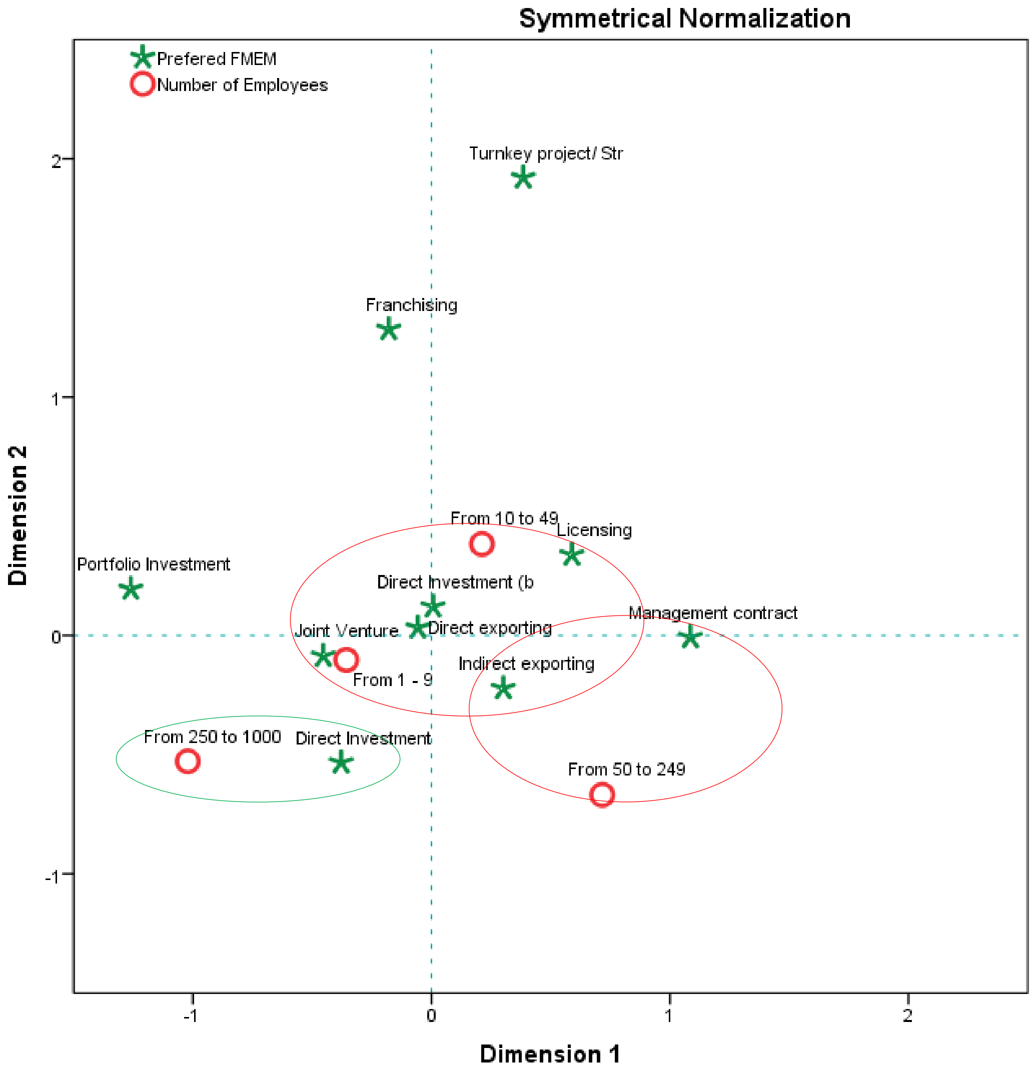
Following the observations from the Exhibit, it can be concluded that there is a relationship between foreign market entry modes preferences and a sector a company works in. Thus, companies operating in metal sector prefer mostly less risky entry modes, like joint venture, direct/indirect exporting and licensing. Firms, operating in wood and chemical sectors prefer more risky entry modes, like portfolio investments, direct investments (Greenfield/Brownfield). Companies operating in agricultural, raw material and live animal sector prefer the most diverse entry modes like management contracts, direct investments and both direct/indirect exporting.

In sum, it can be concluded that the selection of an appropriate foreign market entry mode might depend on the specifics of a sector a company works in. In some sectors – all entry modes can be suitable, while in some sectors only specific entry modes can be recommendable.

9.3. Relationship between preferred FMEM and a size of a company

Similarly to a previous test, it was compelling to test if there is any relationship between preference of an entry mode and a size of company, which is defined by the number of employees. The Exhibit below demonstrates the relationship between these two variables.

Exhibit 3.24. *Relationship between Preference of FMEM and Size of a Company*



As it can be observed from the Exhibit, SME type companies (having less than 250 employees) prefer very diverse types of entry modes, including the direct investments. According to the theory, SMEs are generally selecting the least risky entry modes. However, this exhibit proves us that some of these companies are also courage enough to enter a foreign country with direct investments.

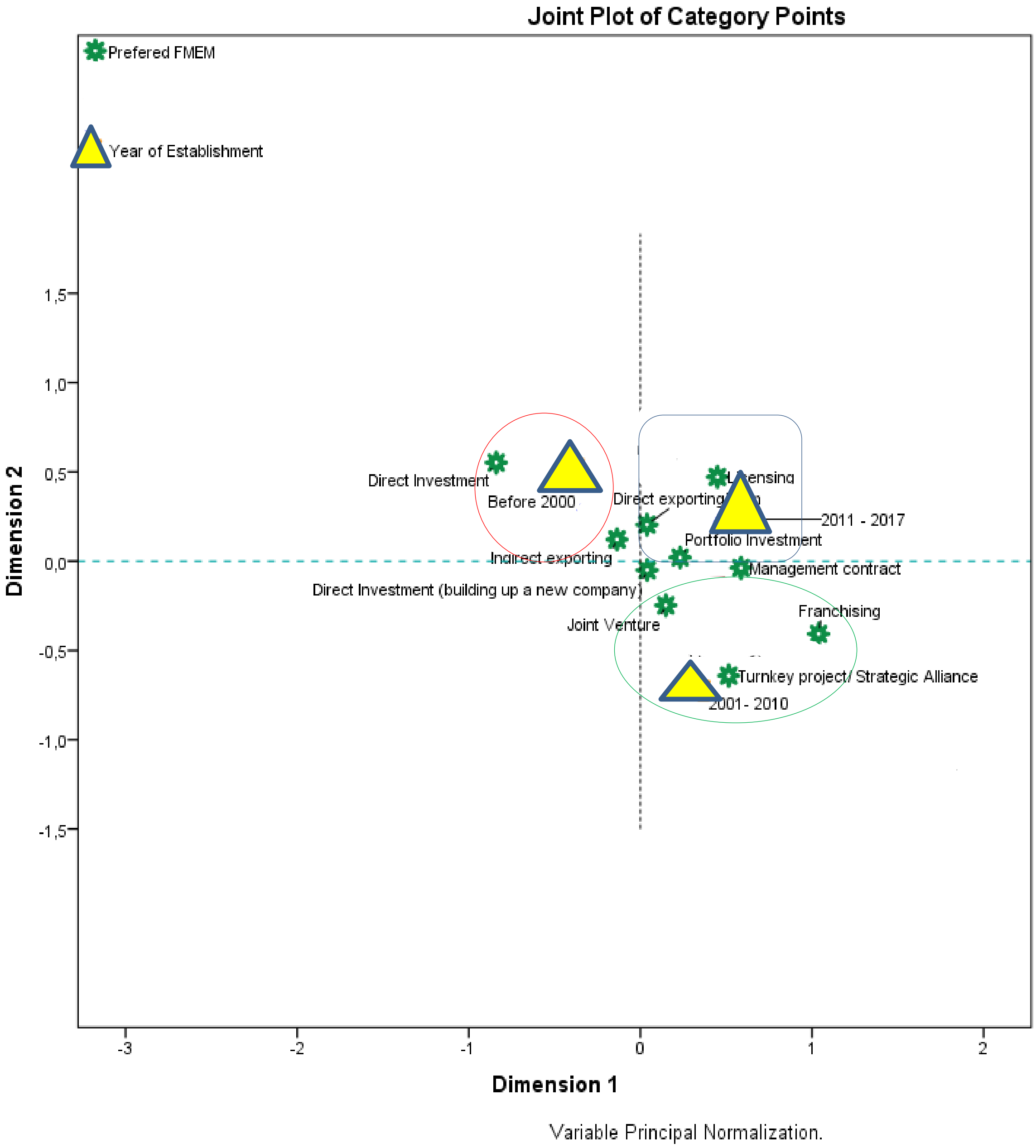
Remarkably, the category of respondents with the biggest number of employees strongly prefers direct investments. It can be logically explained by the fact that the bigger company is – the bigger is its confidence against risks.

In sum, it can be assumed that selection and preferenc4es on foreign country entry mode can depend on the size of a company. The bigger is the size – the least risky entry modes a company considers.

9.4. Relationship between preference of FMEM and year of company's establishment

Following the previous tests, it was also necessary to check if there might be any relationship between the preference of a foreign market entry mode and a year of a company's establishment. The exhibit below visually demonstrates the relationship between the two variables.

Exhibit 3.25. *Relationship between preference of FMEM and year of establishment*



As it can be concluded from the data of the Exhibit, the least experienced (youngest) companies generally are selecting not risky entry modes, like licensing, direct exporting, and portfolio investments.

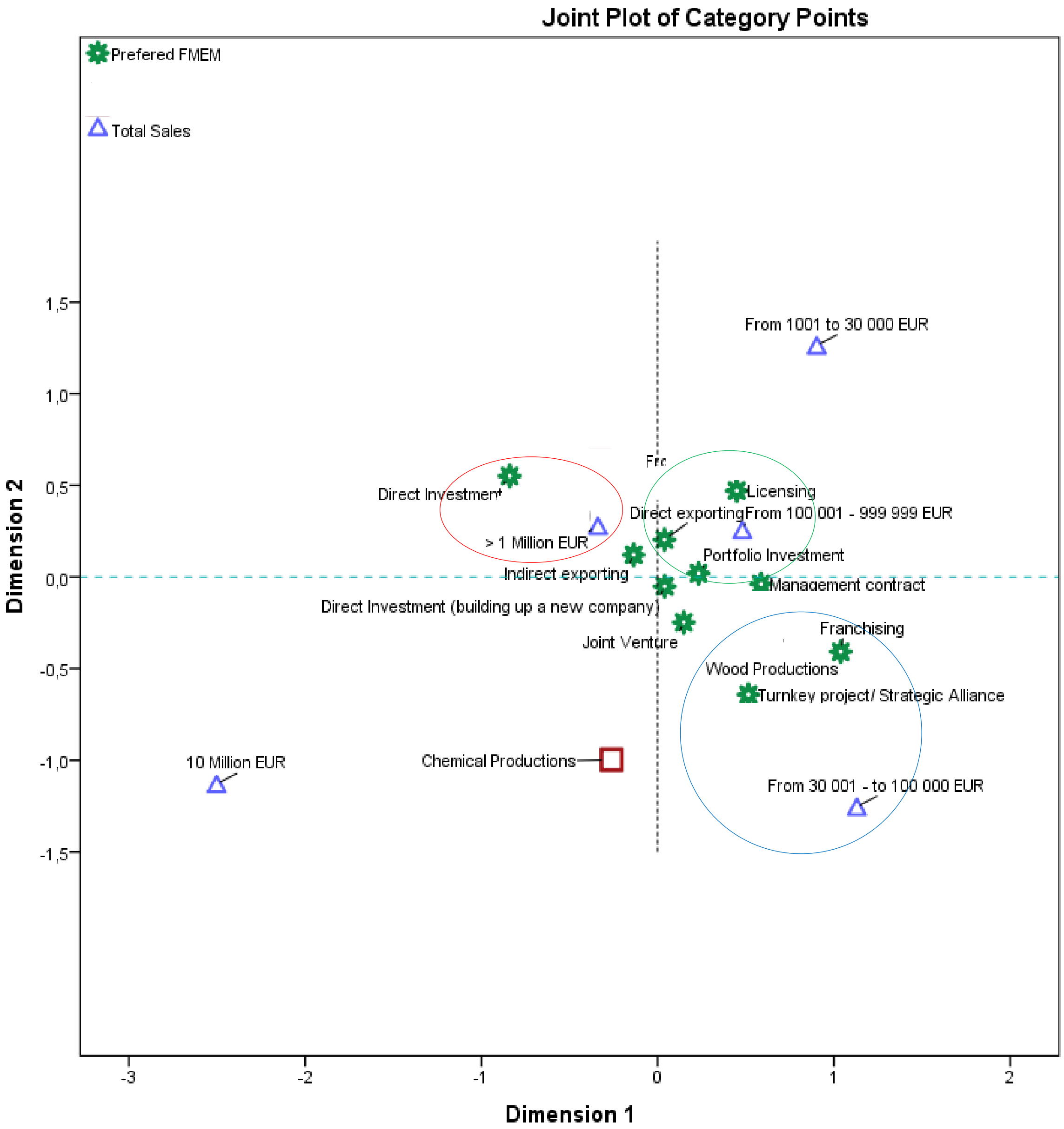
Relatively older companies (middle category from 2001 – 2010 years) prefer a bit more risky entry modes, like contracting ones. e.g. turnkey projects, joint ventures and franchising. Finally, the oldest companies (founded before 2000 year) mostly prefer direct investments.

Thus, it can be concluded that there is a positive relationship between these two variables. The older and more experienced a firm is – the more risky entry modes it can consider.

9.5. Relationship between preference of FMEM and the amount of total sales

The exhibit below demonstrates if there is any relationship between the preferences on entry modes and the amount of total sales.

Exhibit 3.26. *Relationship between Preferred FMEM and Total Sales*



As it can be observed from the Exhibit, there is also a relationship between the selection of FMEM and the amount of total sales. Thus, the respondents, having the highest amount of total sales are most actively selecting direct investments. The respondents having the amount of total sales less than a Million, but more than 100 000 EUR are selecting diverse entry modes like licensing, direct exporting, portfolio investments. These modes are a bit less risky, comparing to the previous ones.

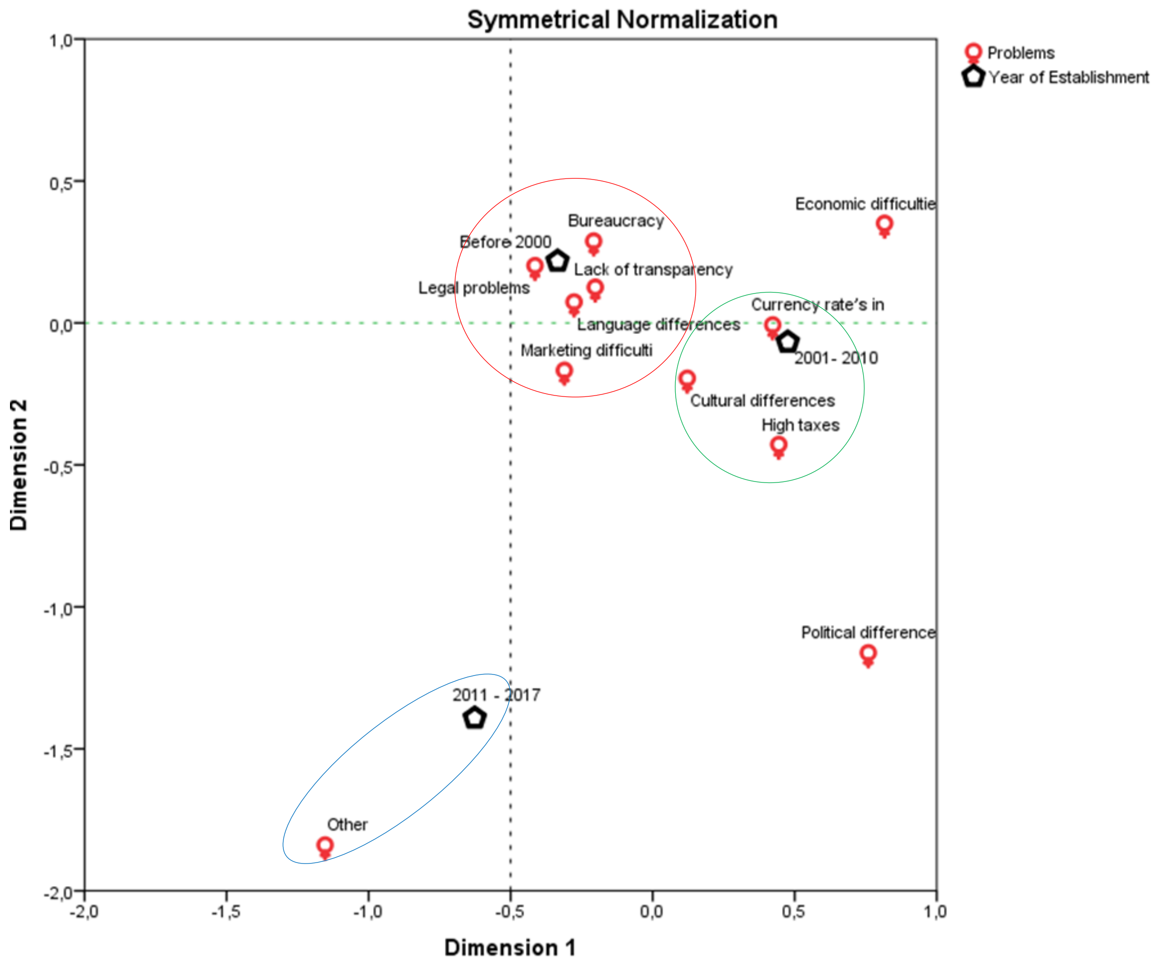
Companies having total sales from 30 000 to 100 000 EUR are mostly preferring turnkey projects, strategic alliances and franchising. These entry modes are the also relatively not risky.

Thus, it can be concluded that there is a positive dependency between the two variables. The higher is amount of total sales the bigger and more risky involvement in the foreign market a company can afford.

9.6. Relationship between problems while doing business abroad and a year of establishment (level of experience) of a company

Besides the certain dependencies between the characteristics of a firm and preference of a FMEM, it was also observed a possibility of a relationship between the problems a company can meet abroad and the year of its establishment. The results are visually demonstrated in the exhibit below.

Exhibit 3.27. *Relationship of Problems Abroad on the Year of Establishment*



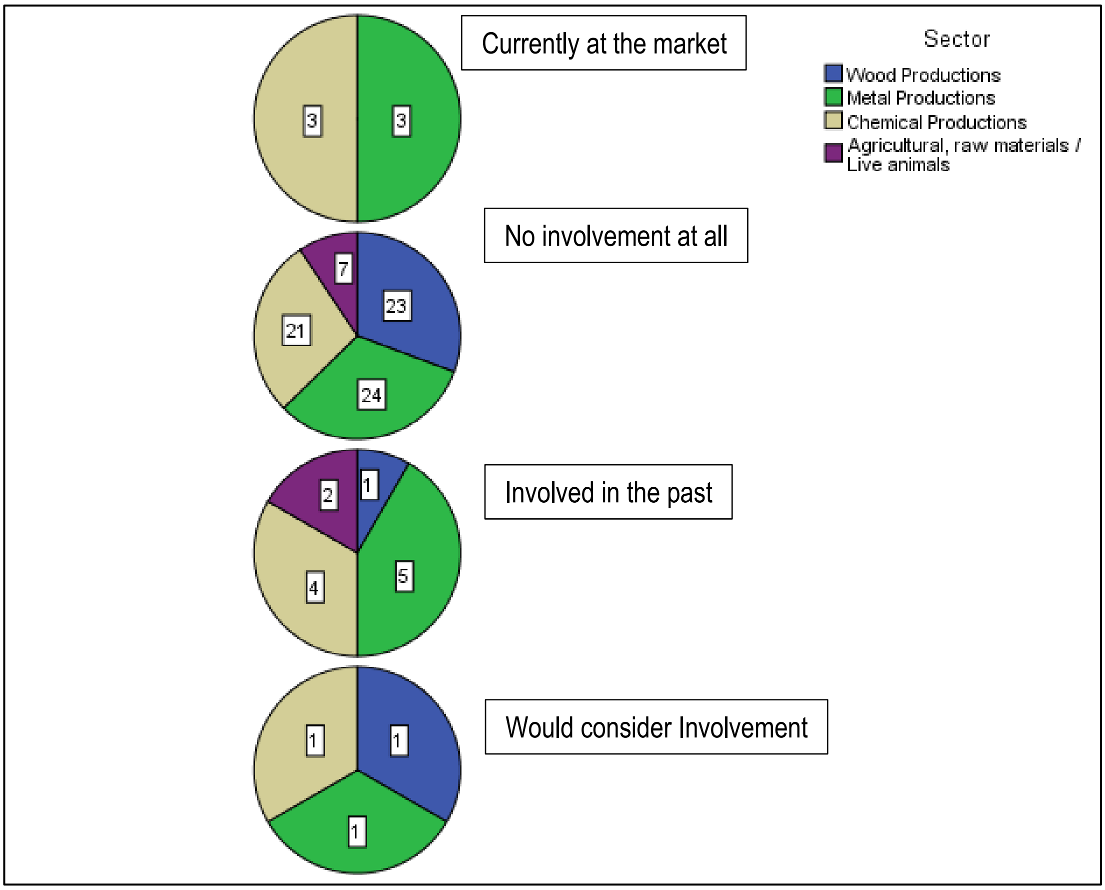
As it can be observed on the Exhibit, there is a very obvious relationship between the variables: the youngest companies have mentioned the least amount of problems (only one), while the oldest category of companies (established before 2000 year) has mentioned 5 different problems. The middle category of companies has mentioned 3 problems as the most typical ones.

Thus, it can be concluded that there is a positive relationship between the age of a company and the amount of problems it has experienced while doing business abroad.

9.7. Relationship between the involvement on the Turkish market and sector of a company

By using the SPSS Correlation Analysis it was possible to demonstrate which sectors of responding companies are currently presented on the Turkish market. The exhibit below demonstrates it.

Exhibit 3.28. *Current Involvement on Turkish Market by Sector of Companies*

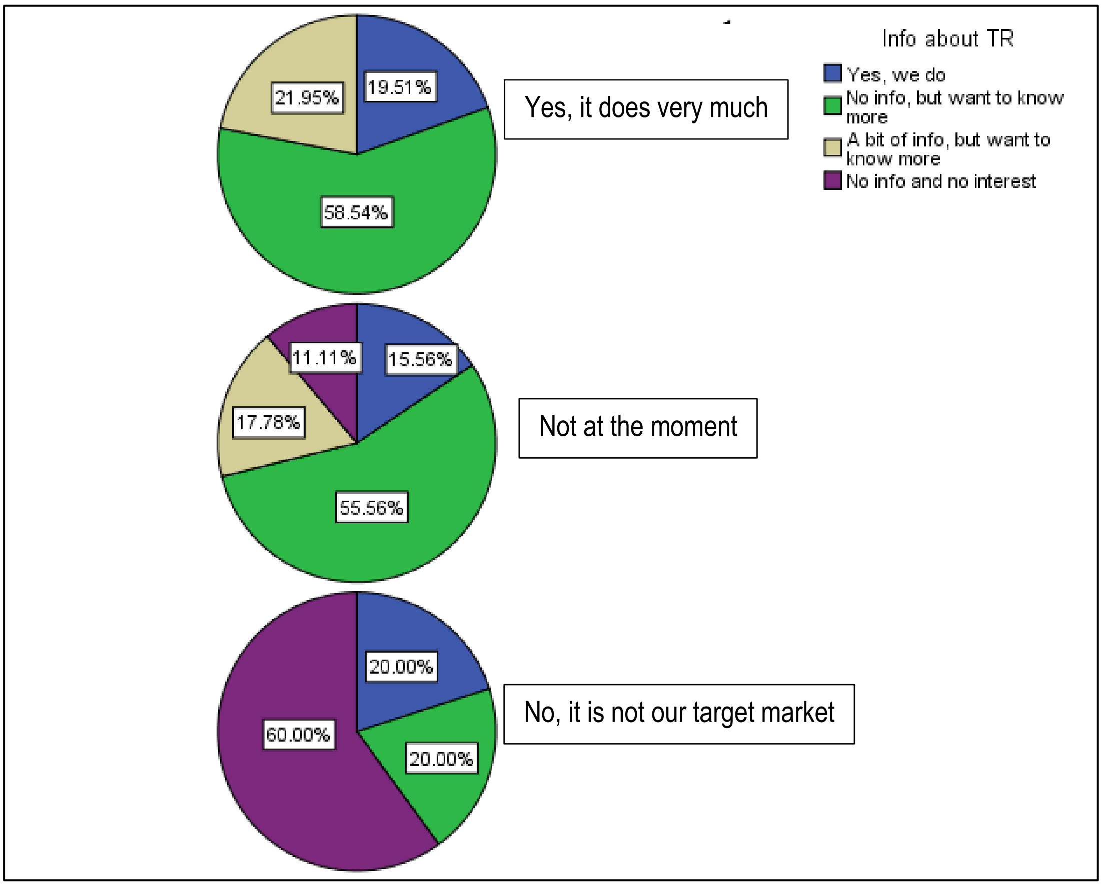


As it can be seen on the Exhibit, currently on the Turkish market there are three companies from chemical sector and three companies from metal sector. However, all the sectors were represented on the Turkish market in the past. By time, the companies operating from agricultural sector and wood sector have abandoned the Turkish market.

9.8. Relationship between interest to enter the Turkish market and the level of information about it

Following the previous Exhibit, which has demonstrated that not all the sector of companies are currently presented on Turkish market, it became compelling to test if the companies, which are interested to start their business in Turkey, have enough of information about the market. The exhibit below visually demonstrates the findings.

Exhibit 3.29. *Interest to Enter Turkey and the Level of Information*



As it can be observed on the Exhibit, from the whole number of respondents, who are willing to enter Turkey at the moment, 58% have no information at all and 22% have a bit information, but necessary to learn more. To sum up – 80% of the companies, which are willing to enter Turkish market mentioned the lack of information about it. It can be assumed that if these companies will not get convincing information they will remain passive and ignore the opportunity to expand their business to Turkey. Thus, there is a necessity to organize some informative events.

CONCLUSIONS AND RECOMMENDATIONS

Since, nowadays, majority of companies is familiar to internationalization process, it is compelling to examine the perspectives of businesses on entering the foreign markets and the way they process it. This study does that by putting Latvian businesses into the focus. Additionally, a second part of the research was devoted to evaluation of Turkey as a potential foreign market for Latvian entrepreneurs. It is observed a recent decline in international trade statistics between Latvia and Turkey. Therefore, the study was actively supported by the Latvian Embassy in Turkey.

To conclude the results of the study, Latvian companies are generally the SME type of international companies (with less than 250 employees), having in general from 5 to 20 employees, and operating in generally from 1 to 10 foreign countries. The most common region for internationalization of Latvian firms is the EU countries. This is easily explainable due to the liberalized market for all the EU member countries. Besides the EU countries, Latvian firms are active on the Post-Soviet countries area, especially in Russia, Belarus and Ukraine.

As the main motivation for the Latvian entrepreneurs to expand their business abroad is to seek for new growth opportunities; possibility of higher revenues on a foreign market, as well as existence of a real demand for a product on a foreign market. It is remarkably that the reasons: “competition on a local market” and “high production costs on a local market” were not selected often. However, according to the theory on international business, these reasons are considered to be the most common motivators for companies to expand abroad. This leads to a conclusion that the Latvian markets in question are not saturated yet.

When Latvian entrepreneurs estimate which country suits them most to expand their business, the most important factors to consider are: the existence of an essential demand for a product there and a possibility of high profits; economic stability of a country itself and favorable taxes. Remarkably, the least important factor to consider is the level of innovative development of a country.

It is not an easy process to identify an appropriate partner-country for business relations. In order to do this complicated researches are needed. For the Latvian entrepreneurs the most common sources of information are: business trips; participation in business fair; the existing business contacts as well as a help of personal market research team. This leads towards a conclusion that Latvian business people do not prefer to trust to various investment agencies and generally rely on their own knowledge and experience. In fact, this is very common for the North Europeans' individualistic mentality.

There are ten different foreign market entry modes existing, allowing a firm to select the most appropriate one for its internationalization. However, according to the study, Latvian entrepreneurs are well familiar only with half of them. There is a lack of knowledge about the following FMEMs: management contract, turnkey project, strategic alliance and portfolio investment. It can be assumed that popularization of these entry modes can positively influence companies' activity on the international level.

The most preferred foreign market entry modes for Latvian business people (in less popular order) are: direct exporting, indirect exporting and join venture. However, considering the previous findings it can be assumed that these FMEMs are the most selected ones due to the lack of knowledge about the other existing entry modes. The main criteria for making a preference between various foreign market entry modes is a level of risk. According to the findings, the least risky foreign market entry modes are most preferred by Latvian entrepreneurs. Probably, it can be also explained due to the fact that these companies are generally small or medium sized ones.

There are various internal and external factors available, which are generally analyzed during a consideration of the most suitable FM entry mode. Following the finding of the study, for Latvian entrepreneurs the most important factors are: current financial situation of a company; readiness to face the risks; level of products' demand on a foreign market and necessity to have a good control over the business. Thus, the level of involvement in a foreign market depends on these factors mostly. It is interesting to observe that the factors "previous international experience"; "the level of geographical and cultural distance" are marked among the least important factors while deciding on an appropriate FM entry mode.

Doing business in a foreign country is quite challenging since various problems may occur. According to the Latvian business people, the most problematic experiences for them are: bureaucracy; cultural differences and legal differences. It is interesting to highlight, that the factor "cultural differences" is listed among the least important factors in determining FMEM, according to the previous findings. Thus, it can be assumed, that considering better this factors may help to avoid some potential problems. These are the main findings on the attitude of Latvian entrepreneurs towards entering a foreign market and selecting the suitable entry mode. The further findings cover the evaluation of Latvian business people of Turkey as a potential foreign country to expand the business.

According to the findings, there are very few companies from the respondents, which are involved in any business activity in the Turkish market at the moment. The majority of companies do not have any business relations there. However, the further findings showed that the vast majority of the responding Latvian companies do not have enough of knowledge and information about the general characteristics and business possibilities on the Turkish market. This might be the main reason for the low level of involvement in this market. This assumption is approved by the further findings, showing that, in fact, almost half of the respondents replied that they are very interested in expanding their business in Turkey. Only 10% of the participants identified no interest in Turkish market, while the remaining part of them said they might be interested in entering Turkey later, but not at the moment. This is a very significant result, which actually identifies that there is a high possibility of increase of the level of international trade between Turkey and Latvia.

The majority of Latvian companies, interested in entering the Turkish market, would prefer “Indirect Exporting” as an entry mode. Most probably, due to the geographical, cultural and political differences, Latvian business people assume that having a local representative, helping to arrange the exports procedures, would prevent them from potential difficulties and mistakes.

There are several compelling relationships that were tested and proved by SPSS analyses. Thus, it was observed that the reasons for entering a foreign country are changing according to the level of total sales a company makes. The companies having large sales volumes are expanding their businesses abroad in order to develop and grow the business, while companies having relatively less sales volumes are generally expanding business abroad due to reactive reasons caused by difficulties on the local market.

It was observed that selection of an appropriate foreign market entry mode may depend on a sector a company works in, a size of a company, a year of company’s establishment and the amount of total sales. The bigger is the size of a company, the older (more experienced) it is and the higher are the total sales – the deeper and riskier involvement it may have in a foreign market.

In sum, it can be concluded that all the research questions led meaningful findings on the perspectives of Latvian entrepreneurs on foreign market entry modes, as well as demonstrated that there is a high potential in improvement of business relations between Latvian and Turkey. The findings are estimated to be worthy to be shared with authorities of Latvia and Turkey. There is a possibility that the findings can be helpful in order to make Latvian companies more active in the international business and improve the business relations between Latvia and Turkey.

Since it is observed a significant lack of information about all the possible foreign market entry modes, it can be assumed that providing various informative activities can motivate entrepreneurs to get more involved in the international business. Additionally, it might help to prevent the failures caused by the wrong strategy of entering a foreign market. This informative support can be made from the local authorities, since the increase of the level of exports and imports improves the economy of a country.

According to the majority of the responding Latvian companies, the biggest barrier for their business involvement into the Turkish market is a lack of information on possibilities there. 70% of the respondents suggested organizing informative events, business forums and fairs, which would bring together the business people from both countries and, therefore, help to negotiate the possibilities for cooperation or internationalization. To sum up, it can be expected that following the recommendations can improve the level of international business activity of Latvian companies.

This study was supported by the Embassy of Latvia in Turkey. Therefore, these results will be shared with the Embassies first of all. Secondly, by the help of Embassies these results might be shared with Ministries of Foreign Affairs or Trade Chambers of two countries. It is assumed that with a proper help, this business potential can be transformed into a real business, which might bring up successful results, improve the trade statistics and eventually - the economic relations between Latvia and Turkey.

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APPENDICES

Appendix 1

LATVIJAS REPUBLIKAS VĒSTNIECĪBA TURCIJAS REPUBLIKĀ

EMBASSY OF THE REPUBLIC OF LATVIA IN IN THE REPUBLIC OF TURKEY

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No. 4.7.3. – 177 Ankara, 6 June 2016

In recent years, the relationship between Latvia and Turkey has become closer and trade between both countries has become more intense.

Therefore, the Embassy of Latvia to Turkey attaches a particular importance to the thesis paper "The Factors in Determining Foreign Market Entry Modes: The Empirical Study on Turkish and Latvian Companies" by the Anadolu University student Anastasija Peskova. We believe the results of the research will be useful in further developing the Latvian-Turkish trade relations as well as it could be a reliable source of information for investors of both countries.

Jānis Beķeris
Charge d'affaires

Appendix 2

The Survey

Dear respondent,

This questionnaire aims to gather data about how Latvian biggest companies are prefering to enter a foreign market. Additionally, it aims to collect the information about the attractiveness of Turkish market for Latvian investments.

The research is conducted by a student of Graduate School of Social Sciences, Anadolu University. It will take just about 5-10 minutes to complete the survey.

Please be sure that the participants and their responses are strictly confidential and the findings will be used only for scientific purposes. Results will be shared with the participative companies upon their request.

Thank you very much for your genuine answers to the questions!

1. Your Company Sector:

2. Year of Establishment:

3. Total Sales (in Euros):

4. Your position in the company:

5. Number of employees working in your company:

- 1-9 employees
- 10-49 employees
- 50-249 employees
- 250-1000 employees
- >1000 employees

6. Number of foreign countries to which you export your products/services:

- None
- 1 - 10 countries
- 11 – 20 countries
- 21 – 30 countries

7. Top 3 foreign countries where you are active the most:

8. What are five the most important reasons of your involvement in international business?

- Latvian market is highly competitive
- High production costs in Latvia
- Seeking for higher revenues
- Looking for new growth opportunities
- Foreign market has a high demand for the product/service
- Looking for new ideas about products, services and business methods
- Aiming at economies of scale (whereby unit costs decrease because of larger volume of production)
- Possibility to invest in an advantageous relationship with a foreign partner
- Personal reasons (marriage, family member, health condition etc.)
- Other:

9. Please prioritize importance of the following factors while selecting a potential foreign market for your investments: (Not Important, Neutral, and Important)

- Economic stability and attractiveness
- Political stability
- Favorable conditions for investments
- Favorable taxes on borders
- Innovative technologies
- Lower production costs
- Higher profits potential
- Demand for the product/service
- Stable currency rate
- Lesser or no competition in the sector
- Suitable geographical location
- Convenient transportation
- Reliable business partner

10. Please select your mostly preferred information resources regarding a potential foreign market?

- Personal market research team
- Ministry of Foreign Affairs
- Embassies
- Trade Chambers
- Consultations with local investment agencies
- Business trips
- Current business contacts
- Fairs
- Google or other search websites
- Friends
- Other:

11. Please indicate your level of knowledge of the followings: (Low, Average and Good)

- Direct exporting
- Indirect exporting
- Licensing
- Franchising
- Management contract
- Turnkey project
- Joint Venture
- Strategic Alliance
- Portfolio Investment
- Direct Investment

12. Please indicate which foreign market entry modes you prefer?

- Direct exporting (without local representative)
- Indirect exporting (with local representative)
- Licensing (selling license to a local firm)
- Franchising (selling franchise to a local firm)
- Management contract (sending some people of your management abroad)
- Turnkey project/ Strategic Alliance (international production team to work on a specific project)
- Joint Venture (partnership with locals)
- Portfolio Investment (buying shares)
- Direct Investment (acquisition of existing company)
- Direct Investment (building up a new company)
- Other:

13. Please explain the main reasons why you prefer these types of investments?

14. Please prioritize the importance of the following factors while you decide on a foreign market entry mode? (Not Important, Neutral and Important)

- Firm’s size
- Firm’s financial situation
- Product characteristics
- Previous international experience
- Production costs
- Firm’s specific vision and strategies
- Foreign market size and growth possibilities
- Foreign market’s demand
- Foreign market’s competitive environment
- Foreign country politic stability
- Foreign country legal barriers
- Cultural distance
- Geographical distance
- Suitable foreign partner
- Necessity to have a full control over business
- Readiness to face financial or failure risks

15. Please indicate the most problematic experiences you had while doing business abroad?

- Cultural differences
- Language differences
- Political differences
- Legal problems
- Economic difficulties
- Currency rate’s instability
- Lack of transparency
- Marketing difficulties
- Bureaucracy
- High taxes
- Other:

16. Your company’s business involvement in the Turkish market is:

- Currently, we are in the Turkish market
- No involvement at all
- Involved in past but not at the moment
- Other:

17. Do you have adequate information on the business potential of Turkish market?

- Yes, we do
- No information, but want to know more
- A little bit information, but want to know more
- No information and no interest
- Other:

18. Please choose the most correct statement to describe the current economic, political, social atmosphere of Turkish market for your company’s investments:

- Appropriate for any kind of investments

- Can be invested with maximum discretion
- Temporarily inconvenient
- No investment should be made at any time
- Other:

19. Does your company have any interest in entering Turkish market?

- Yes, it does very much
- Not at the moment
- No, it is not our target market at all
- Other:

20. Supposing your company has all the resources to invest in Turkish market and the business conditions are favorable, which foreign market entry modes would you consider?

- Direct exporting
- Indirect exporting
- Licensing
- Franchising
- Management contract
- Turnkey project
- Joint Venture
- Strategic Alliance
- Portfolio Investment (buying shares)
- Direct Investment (acquisition of existing company)
- Direct Investment (building up a new company)
- Other:

21. In your opinion, what should be done to increase the trade volume between Latvia and Turkey?

CURRICULUM VITAE

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