

THE CRITERIA FOR CHOOSING AN EXPORT STRATEGY OF ENTERPRISE*

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Mazorenko O. V. The Criteria for Choosing an Export Strategy of Enterprise

The article is concerned with substantiation of the criteria for choosing the enterprise's export strategy. The enterprise's entry into foreign markets requires a strategic approach, as such solutions require the use of additional resources, are characterized by different levels of risk and set the trajectory of the enterprise's development. Therefore, the research is aimed at a theoretical substantiation of the list of criteria for choosing an export strategy and elaboration of a matrix of compliance criteria for the various export strategies of enterprise. The types of export strategies of enterprise are defined, the factors influencing the choice of strategy are considered. As a result of the use of content analysis, the most significant factors for choosing the enterprise's export strategy are defined. Also, the indicated factors are grouped as external, internal, and factors of export image. The carried out analysis of the factors of choice of the enterprise's export strategy allowed to form a correspondence of the indicated criteria to different types of export strategies of enterprise, as well as to describe the degree of manifestation of each factor characteristic of one or the other one export strategy. Conclusions on the need to take into account the internal capabilities of enterprise, conditions of the external environment, as well as the features of each export method in the process of deciding on the type of export strategy of enterprise are summarized.

Keywords: export strategy, factors, direct exports, indirect exports, hierarchical strategies, contract strategies, export method.

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Мазоренко О. В. Критерії вибору експортної стратегії підприємства
Стаття присвячена обґрунтуванню критеріїв вибору експортної стратегії підприємства. Вихід підприємства на закордонні ринки потребує застосування стратегічного підходу, адже такі рішення потребують використання додаткових ресурсів, характеризуються різним рівнем ризику та задають траєкторію розвитку підприємства. Тому метою дослідження є теоретичне обґрунтування переліку критеріїв щодо вибору експортної стратегії та розробка матриці відповідності критеріїв різним експортним стратегіям підприємства. Визначено види експортних стратегій підприємства, розглянуто фактори, що впливають на вибір стратегії. У результаті використання контент-аналізу визначено найвагоміші фактори для вибору експортної стратегії підприємства. Також зазначені фактори було згруповано – зовнішні, внутрішні, фактори способу експорту. Проведений аналіз факторів вибору експортної стратегії підприємства дозволив сформулювати відповідність зазначених критеріїв різним видам експортних стратегій підприємства, а також описати ступінь прояву кожного фактора, що характерний для тієї чи іншої експортної стратегії. Узагальнено висновки щодо необхідності врахування внутрішніх можливостей підприємства, умов зовнішнього середовища, а також особливостей кожного способу експорту в процесі прийняття рішення щодо типу експортної стратегії підприємства.

Ключові слова: експортна стратегія, фактори, прямий експорт, непрямий експорт, ієрархічні стратегії, контрактні стратегії, спосіб експорту.

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Мазоренко О. В. Критерии выбора экспортной стратегии предприятия

Статья посвящена обоснованию критериев выбора экспортной стратегии предприятия. Выход предприятия на зарубежные рынки требует применения стратегического подхода, так как такие решения требуют использования дополнительных ресурсов, характеризуются различным уровнем риска и задают траекторию развития предприятия. Поэтому целью исследования является теоретическое обоснование перечня критериев выбора экспортной стратегии и разработка матрицы соответствия критериев различным экспортным стратегиям предприятия. Определены виды экспортных стратегий предприятия, рассмотрены факторы, влияющие на выбор стратегии. В результате использования контент-анализа определены наиболее значимые факторы для выбора экспортной стратегии предприятия. Также указанные факторы были сгруппированы – внешние, внутренние, факторы образа экспорта. Проведенный анализ факторов выбора экспортной стратегии предприятия позволил сформировать соответствие указанных критериев различным видам экспортных стратегий предприятия, а также описать степень проявления каждого фактора, характерного для той или иной экспортной стратегии. Обобщены выводы о необходимости учета внутренних возможностей предприятия, условий внешней среды, а также особенностей каждого способа экспорта в процессе принятия решения относительно типа экспортной стратегии предприятия.

Ключевые слова: экспортная стратегия, факторы, прямой экспорт, косвенный экспорт, иерархические стратегии, контрактные стратегии, способ экспорта.

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Today, internationalization, an increase in the volume of international operations and extension of international relations among enterprises in different geographical areas have become an everyday reality for modern companies. At present, geographical expansion is one of the directions of their growth and development. Entering new markets allows enterprises to expand the circle of consumers, customers, and partners as well as achieve greater production and growth volumes.

The decision on entering an international market is very important for the enterprise, it involves the need to choose a new direction of activity, and therefore it should be well-grounded. For this purpose, it is necessary to analyze the enterprise's environment, activities, possible sales market; formulate alternative plans, etc. Thus, when entering into foreign markets the enterprise should apply a strategic approach, since such decisions require additional resources, are characterized by different levels of risk, and set the development trajectory of the enterprise. A foreign market entry strategy is a comprehensive plan. It defines the goals, resources and policies that will guide international operations carried out by the enterprise over the future period. This determines the urgency of the problem of choosing foreign market entry strategy of the enterprise.

Problems related to entering international markets are studied by a number of domestic and foreign scientists and practitioners. Thus, the typology of market entry strategies and modes are considered by the following authors: V. Lomiichuk, T. Tsyhankova, M. Belu, S. Hollensen, M. Kotabe, K. Helsen, O. Mazorenko [1; 2; 4; 6; 8; 9]. It should be noted that works of V. Lomiichuk, S. Hollensen, B. Khadka, O. Mazorenko [1; 6; 7; 9] deal with classification of entry strategies, present a detailed description of each method of entry of products into a foreign market. In researches of V. Lomiichuk, M. Belu, S. Hollensen [1; 4; 6], advantages and disadvantages of different market entry modes are considered. Despite the fact that entry modes have been sufficiently studied, today the issue of justifying the choice of foreign market entry strategy for the enterprise with consideration of different factors remains open.

The *aim* of the article is to theoretically justify the list of criteria for choosing foreign market entry strategy and develop a matrix of compliance of the criteria with different market entry modes of the enterprise.

The analysis of [6; 9; 10] showed that all types of exports are divided into direct and indirect exports, which provide different market entry strategies – direct and indirect export modes (export agents / distributors), contractual modes (licensing, franchising, joint venture, contract manufacturing), investment / hierarchical modes (sales subsidiaries, greenfield investments, transnational organizations, etc.). The choice of foreign market entry strategy is very important for the enterprise, since it is the chosen entry mode that export activities of the enterprise and development of its competitiveness in foreign markets depend on.

S. Hollensen, B. Khadka, S. Akande, Ye. Smorodina [6; 7; 10] consider three rules to make decisions on choosing entry mode, which were suggested by Franklin R. Root: the naïve rule, the pragmatic rule and the strategy rule.

According to the naïve rule, the company “uses the same entry mode for all foreign markets. This rule ignores the heterogeneity of the individual foreign markets” [6]. The most popular is the pragmatic rule. The company uses an effective entry mode for each foreign market, usually with a low level of risk. One of the advantages of the pragmatic rule is profitability [7]. The most reasonable approach is the strategy rule. “This approach requires that all alternative entry modes are systematically compared and evaluated before any choice is made. An application of this decision rule would be to choose the entry mode that maximizes the profit contribution over the strategic planning period subject to a) the availability of company resources, b) risk and c) non-profit objectives” [6]. As experience shows, small and medium-sized enterprises most often use the naïve or the pragmatic rule to make decisions, we recommend using the strategy rule, which enables obtaining a reasonable decision through applying an analytical approach.

The choice of foreign market entry strategy for the enterprise depends on a number of factors. However, there is no single list of them. Let us consider the approaches of various authors to determining criteria for choosing market entry strategy of the enterprise.

T. Tsyhankova, B. Khadka, S. Akande [2; 7] single out two groups of factors influencing the choice of entry strategy: external and internal ones. S. Carter [5] proposes a list including 14 criteria for choosing market entry strategy. S. Hollensen [6] considers the following groups of factors: 1) internal factors; 2) external factors; 3) desired mode characteristics; 4) transaction-specific behavior.

Internal factors relate to the internal environment of the enterprise, while external factors relate to the external environment of the enterprise [7]. “There are different degrees of control, risk and flexibility associated with each of these different market entry modes” [6]. Behavior-related criteria follow from the theory of transaction costs, which implies that to choose entry mode it is necessary to understand how the enterprise will organize its activities with other companies in the foreign market [10]. In addition, S. Hollensen [6] singles out factors that have positive influence and those that have negative influence.

As a result of analyzing works [2–6; 8; 10], factors that influence the choice of foreign market entry strategy of the enterprise are determined, namely:

- ✦ characteristics of the product/service;
- ✦ enterprise resources;
- ✦ intensity of competition;
- ✦ corporate policy;
- ✦ size of the market and its potential;
- ✦ government policy;
- ✦ geographic and cultural environment;

- ✦ financial and price parameters of the market
- ✦ size of the enterprise;
- ✦ international experience;
- ✦ degree of risk;
- ✦ demand uncertainty;
- ✦ trade barriers;
- ✦ characteristics and number of relevant intermediaries available;
- ✦ control;
- ✦ flexibility;
- ✦ production factor;
- ✦ external environment factors;
- ✦ goals of the enterprise;
- ✦ expenditure on export;
- ✦ tacit nature of know-how.

“A firm’s choice of its entry mode for a given product/target country is the net result of several, often conflicting, forces. The need to anticipate the strength and direction of these forces makes the entry mode decision a complex process with numerous trade-offs among alternative entry modes” [6].

To compile the list of the most significant factors, we used the method of qualitative content analysis. As a result, the weight of each criterion was calculated based on the analysis of a certain literature sample. The results of the content analysis of the criteria for choosing foreign market entry strategy of the enterprise are shown in *Tbl. 1*.

The carried out theoretical and content analysis made it possible to form an original approach as to the typology of factors that influence the choice of foreign market entry strategy of the enterprise (*Fig. 1*).

The list of criteria includes those that according to the results of the content analysis turned out to be significant (weight > 0.05). Also, these factors were broken down into external, internal factors, entry mode characteristics. Let us consider the selected criteria and their influence on the choice of foreign market entry strategy in more detail.

Internal factors include: size of the enterprise, product characteristics, availability of international experience and sufficient resources. Moreover, the enterprise’s resources, as a rule, depend on the size of the enterprise. Thus, small enterprises have fewer assets and resources, which will become a negative factor in the international competition with resident enterprises and large exporters. Therefore, the larger the size of the enterprise, the more complex entry modes it can choose with the least risk [6]. However, large enterprises may have limited resources, therefore, this criterion is highlighted separately. International experience shows the company’s ability to integrate into a new market. With an increase in the experience, the company becomes more confident in its ability to manage foreign operations and make greater profits in the international market reducing risks and uncertainty. Experienced enterprises want to make direct investments

and not use the simplest entry modes [7]. Product characteristics, namely, uniqueness and physical, price, service characteristics of the product distinguish the enterprise products from those manufactured by its competitor [10]. Product characteristics also affect the choice of distribution channel due to the fact that products are very different in their characteristics, and use and sales operations can differ significantly as well [6].

Table 1

Results of the content analysis of the criteria for choosing foreign market entry strategy of the enterprise

Criteria	Weight
Characteristics of the product/service	0.101
Size of the market and its potential	0.087
Size of the enterprise	0.072
International experience	0.072
Enterprise resources	0.058
Intensity of competition	0.058
Geographic and cultural environment	0.058
Degree of risk	0.058
Control	0.058
Flexibility	0.058
Expenditure on export	0.043
Characteristics and number of relevant intermediaries available	0.043
External environment factors	0.043
Financial and prices parameters of the market	0.029
Demand uncertainty	0.029
Trade barriers	0.029
Goals of the enterprise	0.029
Tacit nature of know-how	0.029
Corporate policy	0.014
Government policy	0.014
Production factor	0.014
Total	1

Among external factors that influence choosing foreign market entry strategy, size of the market and its potential, intensity of competition and geographic and cultural environment are singled out. The size of the market and its growth rate is a key factor affecting the choice of foreign market entry strategy. If the size of the market is larger, there is a great potential for its growth. As a rule, exporting products to small markets is characterized by low risk and uncertainty while entering a larger market of a large country with a rapidly growing market and vast resources requires more control and resources [7]. The level of competition in the export market affects the choice of entry mode and, in general, the decision on entering this market. High intensity of competition indicates less profitability and effi-

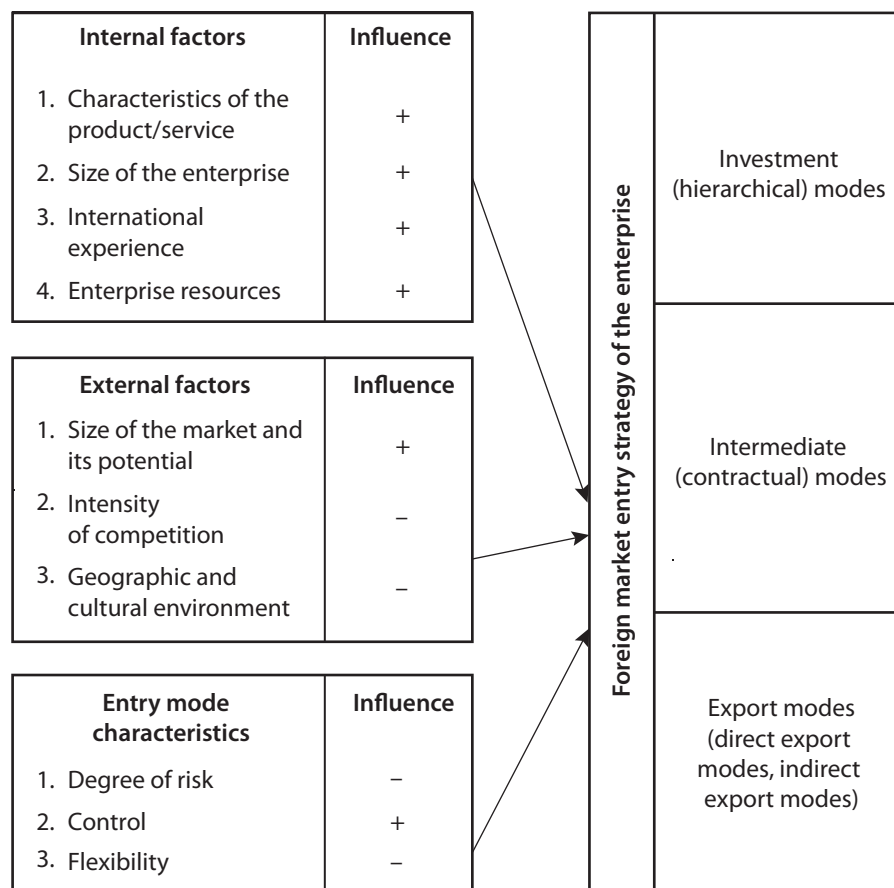


Fig. 1. Factors influencing the choice of foreign market entry strategy of the enterprise

Source: developed by the author.

ciency of operations in the market. “Hence, other things being equal, the greater the intensity of competition in the host market, the more the firm will favor entry modes (export modes) that involve low resource commitments”. The geographic and cultural environment makes it possible to assess the socio-cultural differences between the exporting country and the host country. If the sociocultural differences between countries, such as language, traditions, technology, educational level and skill level of personnel, are the same or similar, it is advisable for the enterprise to choose direct or indirect export modes or enter a joint venture. The greater the “cultural distance” is, the greater the uncertainty is. This provides high flexibility at low resource commitments. As stated in [7], if the enterprise prefers choosing hierarchical modes in this situation, it will lose its time and resources.

To choose foreign market entry strategy, it is necessary to take into account the specifics of each of the entry modes, which are characterized by different levels of risk, flexibility and control. The risk is associated with instability in the political and economic environment and may affect the prospects for the development of the enterprise in the export market. In general, the greater the risk factor is, the less the desire of enterprises to take on greater commitments to invest re-

sources in the respective country (or region) is. It is also worth constantly assessing the degree of risk, as it changes over time [8]. Depending on the chosen foreign market entry strategy, the degree of control of the enterprise over operations in the foreign market varies. Control is often closely associated with the level of resource mobilization. Thus, entry modes with minimal resource commitments, such as indirect export mode, provide little or no control over the conditions under which a product or service is sold abroad. Contractual modes require observing the compliance to quality standards. Joint ventures also limit the degree of managerial control over international operations and can be a source of significant conflict when the goals and objectives of partners differ. Hierarchical modes provide the most control but require significant resources [6]. The degree of flexibility offered by various alternative entry modes is very different. Given their nature, contractual modes tend to provide very little flexibility. “When major exit barriers exist, wholly owned subsidiaries are hard to divest and, therefore offer very little flexibility compared to other entry alternatives” [8].

According to S. Hollensen [6], the growth in each factor positively or negatively affects the general export opportunities of the enterprise, determines the choice of one or another export mode. Therefore, the higher the level of competition, the greater the sociocultural dis-

tance and the degree of risk and flexibility is, the more simple entry mode should be chosen by the enterprise to enter international markets.

The carried out analysis of factors for choosing foreign market entry strategy of the enterprise made it possible to trace the relation of these criteria to various types of entry modes of the enterprise as well as to describe the degree of manifestation of each factor typical of a particular entry mode (*Tbl. 2*).

The selected criteria are characterized by the following levels of factor manifestation – low, medium, high. The indicated levels of the factors are sufficient for an effective implementation of a particular foreign market entry strategy.

simultaneously use more than one entry mode for various types of products, markets, etc. ■

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Table 2

Matrix of relation of the factors to alternative entry modes of the enterprise

Factors/criteria	Foreign market entry modes		
	Export modes (direct export modes, indirect export modes)	Intermediate (contractual) modes	Investment (hierarchical) modes
Characteristics of the product	expensive products	products expensive to transport	high-tech and multi-component products
Size of the enterprise	small	medium-sized	large
International experience	low	medium	high
Enterprise resources	low	medium	high
Size of the market and its potential	low	medium	high
Intensity of competition	high	medium	low
Geographic and cultural environment (degree of difference)	high	medium	low
Degree of risk	low	medium	high
Control	low	medium	high
Flexibility	high	medium	low

Source: developed by the author based on [2; 6; 8].

CONCLUSIONS

Thus, as a result of the study, the criteria for a reasonable choice of the type of foreign market entry strategy of the enterprise have been singled out and systematized. It is proved that the most important factors when choosing entry mode are external, internal factors and entry mode characteristics. Various entry modes – export modes (direct, indirect export mode), contractual or hierarchical modes – are characterized by different levels of criteria. Taking into account the relation of factors to entry modes will allow enterprises to choose the most effective foreign market entry strategy.

It is not possible to say unequivocally which foreign market entry strategy is the best, since there are many factors that influence this choice. Therefore, the enterprise should take into account its internal capabilities, external conditions as well as the characteristics of each entry mode when deciding on the type foreign market entry strategy. It should be noted that the enterprise can

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