

THE MOTIVATING FACTORS FOR ENTERING INTO FOREIGN MARKETS-THE CASE OF REPUBLIC OF MACEDONIA

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Abstract

The purpose of this study is to analyze the most important motives that make companies consider while operating out of their borders into other potential markets. It will also analyze the factors of internal and external environment. Therefore, the goal of this research is to analyze the motives and factors of foreign companies that have already entered Macedonia in any mode of entry by finding out the factors and motives that influenced their decision making while choosing the proper mode for that particular market.

As a research methodology for collecting primary data, a structured questionnaire was used with 13 variables-motives for the internationalization of businesses. The SPSS software is used in order to analyze these variables. Cronbach Alfa is used for checking the internal reliability of variables. According to this analysis the following factors: international knowledge and experience of the company, identification of international opportunities, following competitors, international and competitive nature of the industry /the firm are considered as the most important motivating factors for the internationalization of businesses. While the following factors: economic stability, social stability, political stability, infrastructure, access to capital, and the level of education influence the modes of entry for companies that entered the Macedonian market.

Keywords: *Foreign capital, motives, factors, entry modes*

JEL Classification: *F2, F13*

I. INTRODUCTION

The need for internationalization and business expansion in order to generate more profits has been accelerated by the intense globalization. This condition has led companies to consolidate, to move their capital, labor and knowledge in locations that offer economies from global efficiency. As a result, today there are a number of companies that perform activities in many countries and in many markets, and companies who persist to gain a foothold in new markets.

The upward trend of globalization and internationalization of companies has caused businesses to continue developing and seeking ways in which these companies will exceed the boundaries of their domestic markets and to compete in other international markets.

It is very important while selecting the mode of entry in other regions or markets to consider all motives and factors which determine the way companies will perform at those particular international markets. Selecting the mode of entry, like; exporting, licensing, franchising, merging with another company, etc., opens great opportunities for expansion of the business, for increasing profits and helping to develop national economies.

For the Macedonian economy in transition for more than 15 years, it is important to know the factors that directly affect the choice of the mode of entry of foreign multinational companies that want to operate on the Macedonian market. This will also help domestic companies on their way of internationalization, strengthening them and taking them to the global market.

In this context, factors from the external environment, like: macroeconomic politics of the country, factors of political stability, business policies, the judiciary, eliminating corruption, as well as the specific problems that the country faces for the EU and NATO adherence, are factors of stability that the country is required to secure them. These factors represent strategic objectives for attracting foreign direct investments.

Analyzing and understanding these factors helps improving the business climate in the country, which leads to more investments of foreign companies in the country. Thus, it helps the host country on increasing economic growth, opening new employment opportunities, foreign currency inflow, and improving the current account of the country.

1.1. Objectives of the Study

This paper tries to analyze and find out the most important motivating factors that have an impact on the foreign entry capital. Thus, the paper will try:

- To analyze motives that are important for foreign companies, and;
- To find out the most important motives that have an impact on foreign companies while deciding to enter foreign markets.

1.2. Research Questions and Hypothesis

The study tries to answer the following research questions:

1. What are the most important motives for internationalization of businesses?
2. What factors have an impact in selecting the mode of entry into the foreign markets, and especially in the Macedonian market?

The study will also try to answer the following hypothesis:

Ha: 1 Motivating factors have an impact in internationalization of businesses.

II. LITERATURE REVIEW

2.1 Motives for foreign capital entry in the Macedonian market

The classic model of the determinants of FDI starts from the research work of Dunning with the OLI paradigm, which provides a comprehensive analysis based on ownership, location, and internationalization. The literature identifies regulatory and non regulatory motivators of the determining factors of foreign direct investment (Fedderke & Romm., 2006). The factors also include the country openness for FDI, regulation of the market for products and the labor market, corporate tax rates and economic stability.

Some previous reports of FDI show two sets of factors as being very important while determining factors for FDI: factors of gravity, such as, distance, size of the market and the factors such as, infrastructure and human capital. Geographical proximity, barriers to trade, tax policy, tax incentives, workforce and regional integration have a considerable effect. The factor of gravity explains much the inflow of FDI in transition countries, including the countries of Southeast Europe. The policy and institutional environment is also important for foreign direct investment (Demekas, D.G., et al., 2005).

Duran (1999) researched the FDI determinants in South Africa during the period 1970-1995. He found out that the factors such as, size of the market, rise of the market, domestic savings, country performance, trade openness and macroeconomic stability are promoter variables for FDI.

Bevan and Estrin (2000) explored to find out the determinants of FDI inflows in transition economies (CEE) by analyzing the following factors: country risk, labor expenses, market size and the factors of gravity from 1994 to 1998. They found that the risks of the country are influenced by the development of the private sector, industrial development, currency reserves and corruption.

Garibaldi et al, (2002) analyzed 26 transition economies of Eastern Europe including the Soviet Union from 1990 to 1999 FDI and portfolio inflows. They found out that the fundamental economic standards such as market size, fiscal deficit, inflation and exchange rates, risk analysis, economic reforms, trade openness, availability of natural resources, barriers of investment and bureaucracy are main determinants of FDI inflows.

The study of Nonnenberg and Mendonça (2004) found the following factors as market size, growth rate of the production, availability of skilled labor, attracting foreign capital, country risk, and market of shares being significant determinants of FDI. In this context, Nunez et al, (2006) analyzed the countries of Latin America, and they found that variables: market size, openness of the economy, infrastructure, macroeconomics, wages, human capital, and natural resources as determinant factors of FDI during the period from 1991 to 1998.

From the literature review, the following factors are key determinants of foreign direct investment:

2.1.1 Market size

In general, larger markets should receive more FDI inflows than countries with smaller markets. Market size is typically measured in GDP per capita. Domestic market size is a vital determinant because of the resources and competencies available to companies from different countries (Li. J & Yue. D. R., 2008).

According to Chandler (1990) a large home market provides a major advantage for U.S. firms in the aircraft, automobile, computer, and pharmaceutical industries. Larger markets, by accommodating a larger number of firms, are likely to have more market leaders that are supposed to be more successful in these larger markets rather than in smaller markets (Arora & Gambardella 1997).

2.1.2 Economic stability and growth

Countries with stable macroeconomic conditions, with high sustainable growth rates should receive more FDI than countries with unstable economy. There is a correlation between economic growth and political stability. On the one hand, an unstable political environment may reduce investment and the speed of economic development (Alesina et., al. 1996). Furthermore, Hoffman R. C. (2014) in his research found out that a country's business climate is an important predictor of foreign firms' expansion into that country. The political instability significantly reduces economic growth, both statistically and economically (Aisen A., & Veiga F. J., 2012).

2.1.3 Labor cost

Higher labor costs results in producing products with higher cost, and is expected to limit the inflow of FDI. So, there is a close link between the cost of labor and FDI inflows. Global efficiency in production activities allows companies to reduce overall production costs through access to low-cost labor.

2.1.4 Infrastructure

Well established and quality infrastructure is the main determinant of FDI inflows. On the other hand, the country that has the ability to attract foreign direct investment, tries to stimulate the improvement of the infrastructure. The Global Competitiveness Report of the 2010 World Economic Forum values the competitiveness of 133 economies and has rated as the second basic pillar infrastructure (World Economic Forum 2010).

2.1.5 Trade openness

Trade openness is considered as one of the key factors of FDI inflows, since much of FDI is export-oriented, and can also require and import substitutes and capital goods.

2.1.6 Appreciation of currency

The strength of a currency or exchange rate is used as an indicator of the level of inflation and the purchasing power of firm that plans to invest.

2.1.7 Gross capital formation

In a transition economy, improving the investment climate helps attracting greater FDI inflows, which translates into higher gross capital which in turn leads to greater economic growth. From the literature and available data from UNCTAD, determinants of FDI in general and the determinants of FDI in transition countries in Eastern and Central Europe, and in the emergence of FDI inflow in Macedonia the following motives have a key role: the process of privatization, labor market, undertaken reforms for attracting FDI, aligning the reforms with the EU as a member state for adherence, regional economic integration, the abolition of tariffs, quotas and other barriers to trade, and improving infrastructure.

2.2 The Effect of FDI on Macedonian economy

The role of FDI in explaining economic growth in developing countries is of a great empirical and theoretical interest. FDI represents one of the most important generators of investment and growth in many countries, including developed countries and developing countries, as well as countries in transition. The inflow of foreign direct investment in these countries generates positive effects on economic growth, productivity and employment. Businesses need strategies for ensuring the resource allocation in the most effective way in a potential market (Zekiri J., Nedelea A., 2011).

Researchers wonder whether there is a relationship between FDI and economic growth. Most of them believe that there is a positive argument that FDI serve as a catalyst for economic development. FDI also provides a necessary transfer of knowledge and technology, creating new jobs, increasing the productivity and competitiveness of companies, and providing access to new markets.

Borenshtein et al., (1998) examined the relationship between growth and foreign direct investment. They analyzed 69 countries that comprise the OECD, Latin America, and several African countries, over two decades, 1970-79, and 1980-89. They found that FDI has a crucial positive impact on economic growth in host countries. They concluded that human capital and foreign direct investment have complementary effects (Borensztein & Lee., 1998). Human capital with foreign capital contributes to economic growth. Therefore, the impact of FDI on the economy of the host country can be different depending on the level of human capital development, and may even be negative in a country where this level is low.

FDI provides some necessary resources for Macedonia on its path of development. It provides capital, technology, managerial skills, entrepreneurial skills, job opportunities, and brands. These are essential for developing countries to industrialize, to develop and create new jobs. As a result, Macedonia recognizes the potential value of FDI and efforts to liberalize investment and promote FDI through promotions to attract investors from different countries.

There is no consensus yet about the steady state and dynamic effects of foreign investment on growth. While some studies claim that the impact of foreign direct investment for growth are very heterogenic in all countries with an open economy and in countries with trade regime (Wasantha, 2003).

On the positive side, the inflow of FDI provides economic benefits by increasing competitiveness among companies, which results in better products and services. Furthermore, it allows bringing technology and innovation, and ultimately reduces the number of unemployment. On the negative side, the continuing increase in foreign direct investment and globalization, have adverse consequences for development, such as job loss, human rights violations, political unrest, financial instability, environmental degradation, and increase on the cultural tensions.

Researchers and economist accept the fact that when considering all factors for FDI benefits and costs, they conclude that FDI benefits outweigh the costs.

III. METHODOLOGY

The main purpose of this paper is to identify motives that have an impact on foreign entry capital in other markets. The paper used both types of data, primary and secondary. The primary data was collected through a structured questionnaire. Whereas, secondary data was collected from books, textbooks, online articles, journals, etc.

Gathering of data was done through a structured questionnaire of 44 different companies operating in Macedonia on FDI basis. The quantitative method is one of the safest methods for data collection because it takes more respondents and as such the obtained results can be generalized.

Out of 125 questionnaires sent only 55 responded positively, and 9 are not valid because they did not answer all the questions. The data collection took place in duration of 3 months. Many companies did not want to answer the questionnaire. But, they were also informed that this research is only for academic purposes and their information will be kept in anonymous and there would be no abuse of personal data.

One sample T - Test is used to test the hypothesis. One Sample T -Test is used to measure whether a variable is different from the determined constant, or from the average of the population. ANOVA is used to check if variables differ between themselves or are identical. The statistical tools SPSS and Excel were used for data analysis.

IV. DATA PRESENTATION AND ANALYSES

This part includes a systematic presentation of data obtained from the survey about the motivating factors that have an impact on companies deciding to enter foreign markets.

4.1 Descriptive statistics

This section shows the empirical results obtained from the research about the firms entering the market. It also shows the results of the motives for internationalization, and the factors that have significance in the selection of the modes of entry into foreign markets in general, and in particular in the Macedonian market. The questionnaire companies responded to consists of two parts. The first part deals with company data and the second part consists of 13 variables or motives that contribute to the internationalization of companies.

Table: 1 shows the distribution of frequencies and the percentage of responses to the questionnaire based on business sectors of companies.

Table: 1 Business sectors of companies

	Frequency	Percentage
a) Production	16	36.4
b) Services	28	63.6
Total	44	100.0

The obtained results from table 1 show that 36.4 % of the participants that answered the questionnaire belong to the production industry, whereas 63.6 % from the service industry.

Table 2 shows the distribution of frequencies and the percentage of responses to the questionnaire based on the size of the companies.

Table: 2 The size of companies

	Frequency	Percentage
a) 1-9	2	4.5
b) 10- 19	5	11.4
c) 20- 49	3	6.8
d) 50- 249	15	34.1
e) over 250	19	43.2
Total	44	100.0

The obtained results on table 2 show that 4.5 % of the respondents are from companies with 1-9 employees, 11.4 % with 10-19 employees , 6.8 % of 20 to 49 employees, 34.1 % with 50 -249 employees, and finally 43.2 % of the participants are the companies having over 250 employees.

Table: 3 shows the distribution of percentage frequencies and the percentage answers based on the mode of entry of companies in the beginning on the Macedonian market.

Table: 3 The mode of entry in the beginning on the Macedonian market

	Frequency	Percentage
a) Export	3	6.8
b) License	6	13.6
c) Franchise	9	20.5
d) Joint venture	8	18.2
e) Merger & Acquisition	13	29.5
f) Greenfield investment	5	11.4
Total	44	100.0

The results from the table 3, show that 6.8% from the answers of participants are companies that entered in the beginning with export, 13.6% with license, 20.5% with a franchise, 18.2% with joint venture, 29.5% with merger and acquisition, and about 11.4% of companies with Greenfield investments.

Table: 4 shows the distribution of percentage frequencies and the percentage answers based on the present mode of engagements of companies.

Table: 4 The present mode of engagement

	Frequency	Percentage
a) Export	9	20.5
b) License	7	15.9
c) Franchise	9	20.5
d) Joint venture	6	13.6
e) Merger & Acquisition	9	20.5
f) Greenfield investment	4	9.1
Total	44	100.0

From the obtained results in table 4, it show that 20.5% from the answers of participants are companies in present mode of engagements with export, 15.9% with license, 20.5% with a franchise, 13.6% with joint venture, 20.5 with merger and acquisition, and about 9.1% of companies with Greenfield investments.

4.2 The motives for internationalization

The motives for internationalization of firms in the manufacturing and the service sector are shown below. The figures show the comparison of internationalization motives of companies that are in production and in the service sector. For better understanding the tables, the variables are decoded as it is shown on table 7. The respondents are supposed to answer by selecting 1 to 5.

Least important 1 2 3 4 5 Most important

Table: 5 The motives for Internationalization

Variables	
M 1	Company’s international experience and knowledge
M 2	Company size
M 3	Small domestic market
M 4	Identification of a specific international opportunity
M 5	International nature of product/industry
M 6	Existing business links
M 7	Favorable economic climate for investment
M 8	International contacts and sales leads
M 9	International and competitive nature of the firm’s industry
M 10	Protecting host market from competition
M 11	Geographical Proximity (Closeness)
M 12	To avoid tariff barriers
M 13	To follow competitors



Figure: 1 The motives for Internationalization

According to figure 1, the results show that motivating factors are higher than in companies in industries of production. The most important motivating factors for internationalization process of companies in the service industry are:

- M1* = Company’s international experience and knowledge with 4.5
- M5* = International nature of product/industry with 4.3
- M6* = Existing business links with 4.3
- M7* = Favorable economic climate for investment with 4.3
- M9* = International and competitive nature of the firm’s industry with 4.3
- M13* = To follow competitors with 4.

Whereas, the most important motivating factors for internationalization process of companies in the production industry are:

- M5* = International and competitive nature of the firm’s industry with 4.5
- M2* = Company size with 4.1
- M4* = Identification of a specific international opportunity with 3.9
- M9* = International and competitive nature of the firm’s industry with 3.8

4.3 One Sample T-Test

The main purpose of analyzing the primary data collected through a structured questionnaire is to answer the questions of the survey that include findings about the determining factors that contribute to the internationalization of businesses, as well as the possible factors that have a significant role in selecting the mode of entry into the Macedonian market.

Empirical findings will help us to learn about the role of motivational factors for the internationalization of the businesses and the factors that contribute to determining the mode of entry. The analysis of the data of this study is made in two steps, the preliminary and the main analysis. The first part of the analysis is to check the internal security of the results in order to determine the reliability of the results.

This is checked by cronbach alpha which is used to measure the internal consistency of the variables. This statistical tool is used to see whether the variables between themselves produce the same result. It measures whether several items that are proposed to measure the same construct produce the same results. A commonly accepted rule is that the α 0.6-0.7 shows acceptable reliability, while 0.8 or higher indicates better reliability

One Sample T -Test is used to measure whether a variable is different from the determined constant, or from the mean value of the population. The T-test shows whether a variable differs from a certain constant. Regarding the motives for the internationalization of businesses, companies need to respond to the questions by selecting factors that are important for the internationalization of their businesses. They should select from 1 (least important to 5 (most important).

4.5 Cronbach alpha for motives of internationalization

Kronbach alpha is used to measure the internal consistency of the variables, which in this case are the motives for internationalization. This statistical tool is used to see whether the variables between themselves produce the same results. It measures whether several items that are proposed measure the same value or construct. A commonly accepted rule is that α 0.6-0.7 shows acceptable reliability, while 0.8 or higher indicates better reliability.

Table: 6 Cronbach alpha- Validity statistics

Cronbach alpha	Cronbach alpha based on standardized items	Nr. of items
.640	.628	13

According to Table 6 , the results of Cronbach alpha of 13 variables from motives of internationalization is .640 , which is higher than the threshold .60. The results indicate good internal consistency of the variables or factors.

Table 7 shows the ANOVA used to test the mean of the group. This test groups differences, and it is also used to compare the mean of the population to find out more about the significant differences between groups.

Table: 7 ANOVA- Variance analyses

		Sum square	dif	Mean square	F	Sig
Between		107.600	43	2.502		
Inside	Between items	68.343	12	5.695	6.317	.000
	Residual	465.196	516	.902		
	Total	533.538	528	1.010		
Total		641.138	571	1.123		
Mean = 3.76						

Table 7 shows ANOVA used to test the equality of the middle of the group. The results show that the P-value is less than 0.05. So when P- value is less than 0.05 then it is less likely that the null hypothesis is correct. If the P- value is less than 0.05 or 0.01 than it corresponds to 5 % or 1 % chance of rejection of the null hypothesis . According to the results obtained from the table, where P- value is .000, it can be concluded that there are significant differences between groups or variables.

4.6 Testing the hypothesis

Companies are expected to respond to the listed motivational factors for internationalization of business considering them as more important or most important. So, the value of T-test in our study is 3 and the responses by the companies can be divided as the least important and as more important. In this way the author can specify the zero hypothesis and the alternative hypothesis. If the factors are greater than the hypothetical value which in our case is 3, then it can be presupposed that the factors are important and more important, and that there is a correlation between the motivating factors and internationalization of business.

Nul Hypothesis **Ho: $\mu \leq 3$** “There is no relation between motivating factors and the internationalization of businesses” .

Alternative Hypothesis **Ha: $\mu > 3$** “Motivating factors have an impact on internationalization of businesses”.

One sample statistics show the mean value of variables, as well as their standard deviation, and standard error mean.

Table: 8 One Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
M1	44	4.2	0.765	0.115
M2	44	3.73	0.949	0.143
M3	44	3.32	0.857	0.129
M4	44	3.8	0.954	0.144
M5	44	4.34	0.713	0.108
M6	44	4	0.964	0.145
M7	44	4	0.988	0.149
M8	44	3.82	0.896	0.135
M9	44	4.09	0.741	0.112
M10	44	3.34	1.275	0.192
M11	44	3.45	1.13	0.17
M12	44	3.2	1.44	0.217
M13	44	3.64	1.203	0.181

One Sample T -Test is used to measure whether variables or factors that are motives for internationalization differ from certain constant, or from the average value of the population. In our study the average mean value is 3. Thus, T-Test shows whether a variable differs from certain value or constant.

Table: 9 One Sample T-Test

One Sample T-Test						
	Test Value = 3					
					95% Confidence interval of the difference e	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
M1	10.446	43	0	1.205	0.97	1.44
M2	5.083	43	0	0.727	0.44	1.02
M3	2.464	43	0.018	0.318	0.06	0.58
M4	5.529	43	0	0.795	0.51	1.09
M5	12.467	43	0	1.341	1.12	1.56
M6	6.877	43	0	1	0.71	1.29
M7	6.712	43	0	1	0.7	1.3
M8	6.055	43	0	0.818	0.55	1.09
M9	9.76	43	0	1.091	0.87	1.32
M10	1.774	43	0.083	0.341	-0.05	0.73
M11	2.668	43	0.011	0.455	0.11	0.8
M12	0.942	43	0.351	0.205	-0.23	0.64
M13	3.51	43	0.001	0.636	0.27	1

According to Table 9, the results are with positive values, which means that meaning that the motivating factors influence the internationalization of businesses. The results of Table 2 show that the zero hypothesis is rejected. From the T - test can be concluded that all 13 motives of internationalization of businesses play a motivating role in the internationalization of business in the Macedonian market.

V. CONCLUSIONS

There are many motives for companies when they decide to enter a foreign market. The study is based on literature review presenting some general factors or motives that impact companies in their decision to enter foreign markets. including four categories of internationalization drivers that motivate firms to establish themselves abroad. So, market characteristics, resources, efficiency, infrastructure, knowledge and experience, and the business climate are considered as important motives for expansion.

This study revealed that there are seven motivational factors as the most important that have an impact on companies in their internationalization process in the Macedonian market. According to the proposed model, the factors are mainly internal, such as: knowledge and experience, competitiveness, business networks, opportunities, and the character of the industry. Beside these factors, the size of the company, as well as the business climate of the host country are also important.

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