# Literature review: barriers to internationalization

# Critical Literature Review: Barriers to Internationalization.

## Introduction:

Every (Brown, 2008) business organization functioning in any market whatsoever has growth and diversification as an objective which intent to attain high level of profitability and fulfilling social obligations in the process. An objective as such is in all clarity defined at the very stages of incorporation of the business organization. This aim and objective assist a firm in achieving its pre-set desired goals. Business entrepreneurs functioning at a local and national level perceive internationalization as a step towards achieving global recognition, maximization of profitability through high volume of sales and a higher market share at a local, national and international level in comparison to their competitors.

Another aspect (Brady, R. H. 1973) which needs to be noted is the fact that the highly competitive, generally non-monopolistic, consumer oriented market scenario constantly demands businesses to be innovative in terms of not only the manufactured product but also the modes of expansion and growth adopted for survival in the market. Internationalization here again is a strategy adopted by several firms to survive, grow and compete without which their sole existence could be threatened. Internationalization adds a high degree of credibility to the product in the home country and this result in boost in the sales in the home country as the level of consumer trust is increased on account of the fact that the product sold is functioning in the international market.

But the process of internationalization(Brady, R. H. 1973) is not devoid of complexities. When a business organization is in the process of internationalization of its product, the organization is attempting to market the product in an international market where in the consumer tastes and preferences are dictated by a certain lifestyle they lead on account of differing standards of living, cultural influences, and availability of substitutes and constantly transitional trends and fashions.

Besides the basic consumers in the international market, other factors such as governmental rules and regulations regarding entry into international markets, trade and tariff issues, political factors, currency valuation and many more problematic issues could pose barriers for a business organization to internationalize.

The barriers to Internationalization (Genck 1973) could be for the purpose of comprehensive analysis is further bifurcated into A) Internal Barriers.

B) External Barriers.

## In-depth Analysis:

The following internal factors could pose barriers to Internationalization of business:

## Lack of Motivation:

Lack of Motivation (Gore, S. K 2006) at different levels of a business organization could pose a barrier to internationalization of the business organization. Entering into a foreign market requires a highly motivated team of professionals working at different hierarchical levels in the business organization. The Research and Development department, marketing, sales, production, promotion, finance and accounting and the other entire concerned department should work in proper co-ordination of each other with high motivational levels in pursuit of a common business strategy of entering the international market. Lack of motivation on the part of any one particular department could pose a barrier to internationalization as their lack of motivation could lead to product failure overseas.

## Inadequate Market Research:

The concept of internationalization (Irwin, 1970) of business is in all essence to make the organization’s product or service available in a foreign land. Prior to internationalization, it is a pre-requirement to carry out in-depth market research about the commercial feasibility of launching the product or rendering a service in an international market. Inadequate qualitative and quantitative research on a primary and secondary level could lead to the failure in the sales of the product and subsequently the growth of the organization in the international market. Hence, incomplete and inaccurate market research could pose a barrier to internationalization. For the sake of exemplification, a soft drink company or a garment manufacturer should conduct market research directly or through market research agencies in the foreign country about the consumer preferences in terms of the product, price and other aspect before internationalization to avoid failure.

There is a (Levitt, T. 1999)need to identify the competition in the foreign market. The established competitors with large existing market shares could pose barriers to internationalization.

Adequacy of market research should comprise of the following:

There should be sufficient screening on a preliminary level for international market offering lucrative opportunities.

In-depth assessment should be carried out of industry market potential.

The potential demand for the organizations' products should be identified with.

Sales forecasting to a high level of accuracy should be made about the international market prospects.

The market share of the company should be rightly assessed.

## Adaptation:

Post conduct of sufficient (McGill, 1975) market research, the entrepreneur need to ascertain to what extent he or she needs to make the product or service to be rendered adaptable to international market. Lack of adaptability in the product could lead to product failure and subsequent investment losses for the entrepreneur who would not only fail to establish himself in the international market as lack of product adaptability would pose a barrier but the loss of funds in the project could be substantial enough to make his home country operations suffer. Consequently the effects of such barriers could affect the standing and continuance of the business organization.

Adaptation to consumer needs should be focused on the following:

Products (Murray, 1975)should comply with the foreign market requirements.

There should be modification made in techniques adopted for promotion of the products especially through advertising. Consideration based on language, cultural beliefs and environment and law of the land should be made while adopting promotional strategies.

There is a need to make adjustments in the pricing of the product taking factors such as transportation costs, taxation policies of the foreign country, exchange rate issues etc.

Establishment of a (Newman 1975) proper distribution system is necessary. The organization could sell directly to the final consumer through set up of an outlet or sell through agents in international market. Depending on the product and the availability of funds, the organization has to set up a distribution network. Lack of a good distribution network could pose a major barrier to internationalization.

## External Factors posing barriers to Internationalization:

## Culture Barriers:

Culture poses a major (Olive, 1975) external barrier for business organization which strategizes to internationalize. Culture and cultural practices influences the consumption pattern of the consumers the world over. A business organization planning to market their product in the international market has to make a detailed analysis in terms of their product and the level of its acceptability with respect to prevalent cultural tradition without provoking the cultural sensibilities of the consumers. To make provision for an illustration, an Indian firm which intends to market food products in the Arab countries such as Dubai would have to make sure that pork should not form a part of their available product variety. The inclusion of such products could sensationalize the issue leading to legal and social complications for the organization marketing such products. (Roberts, M. J. 1975)The food chain giant Macdonald was confronted with severe outrage in India when it was rumored that beef was utilized in their food product lines. Cow being holy to the Indians, cultural and religious sensibilities was hurt and eventually it led to MacDonald's withdrawing certain product lines. Particularly, Asian and Arab nations pose cultural barriers to certain products in context to internationalization.

## Legal Barriers:

Legal barriers (Satow, 1975) form a major de-motivating factor for firms that plan on strategizing to internationalize. The government of certain countries impose legal impediment or incorporate trade restrictive legalities for firms. This is done with intend to protect the national and local industries or businesses form facing severe competitions from multinationals which are heavily funded. The American Multinational companies which constantly internationalize create severe competition for local industries which have limited funding capacity and when faced with such competition tend to go in a state of dissolution which ultimately leads to economic imbalances and instability. Laws related to volume of trade, infrastructural legally permissible provisions etc. constitute legal barriers for business organizations to internationalize in certain countries.

## Economic Barriers:

## Tariff and Trade Barriers:

Internationalization accelerates the number of the availability of the product for consumers domestically to choose from. Since the availability of substitutes is large, there is a considerable dip in the price of commodities on account of increased competition. Hence tariffs are imposed on imported goods which add on to the cost. This is done primarily to protect infant industries within the country from declination. This (Savas, E. E., 1975)strategy of the government is termed as Import Substitution Industrialization (ISI). It is utilized by many developing economies where in there is levy of heavy taxes by way of tariffs on imported goods and in the process a domestic market is created for locally or nationally produced goods and providing cover for those industries from being wiped out of the commercial scenario. The other positive aspect of high tariffs for developing nations is the fact that it reduces unemployment and dependency on agriculture. But the negative aspect is that is poses a barrier for many businesses to internationalize.

## Non-Tariff Barrier:

Non-Tariff barriers (Gaedeke, R. M. (1977), such as quotas, embargoes, sanctions, quotas and other restrictions pose barriers to internationalization. These barriers are frequently used by countries which are large and developed. These are barriers to trade which are set up and take a form other than a tariff. This is way barrier employed with intent to control the trade of one economy with the other. Nevertheless, any form of barrier to internationalize causes economic losses which prove to be a de-motivational factor for businesses which plan to venture into that business arena.

## Subsidy:

Subsidy presents itself (Lovelock, Christopher H., ed. (1977), as a barrier to internationalization as the subsidy provided by a government to domestic businesses enables them to reduce their cost. This helps them compete with business organization which have internationalized. Subsidy provided by the governments could be in the form of raw material subsidy, financial subsidy which could be low interest short term and long term loans, subsidy in setting up the business. Subsidy leads to low input costs and with a considerable profit margin the product is available at a cheaper rate than the imported products. This poses a great barrier for business to internationalize in countries where the governments put forth barriers in the form of subsidies.

## Political Barriers:

Political barriers (Henion, Karl E. (1976), are often posed by warring nations. Lack of political peace creates a sense of hostility between nations and trades between those nations are primarily affected. Internationalization could be banned out rightly or political influences over governmental regulations could be imposed to restrict trade. Political unrest between U. S. A. and the U. S. S. R. during the cold war period resulted in complete disruption of trade between these countries. Hence political barriers are the worst perceived barriers to internationalization.

## Conclusion:

In conclusion, barriers to (MacStravic, Robin E. (1977), internationalization though prevalent the world over, does not prevent business organization from venturing into the process of internationalization. Any business organization when internationalizes its operations attains a high amount of credibility in the local, national and international market owing to its operations and services globally. The sales of the product accelerate in the domestic markets when consumers locally or nationally learn about the fact that the product is sold in the international market. The product achieves a certain stature which appeals to the consumers all the more. Internationalization is a strategy which when formulated by business decision makers needs to focus on all the key areas which present barriers and multiple strategies should be so formulated to battle those barriers. Business houses such as Sony Corporation, Adidas, Nike, Macdonald's, Levis and many more have internationalized their products despite the barriers and are successfully catering to the global market. Their global base over the last few decades has emerged so strong that turn annual turnover amounts to billions of dollars on account of internationalization despite political, social, cultural and governmental barriers.

If one we to comprehend the objective of medium and small sized (Nickels, William G. (1978), business then we could infer that these barriers especially external could prove to be de-motivating factor and a hindrance for internationalization. The funding capacity of firms of such structure might not have the funding capacity to overcome barrier posed. In the event of them attempting to internationalize, they may incur heavy losses to extent that not only their international venture may suffer but their basic existence in their domestic market could be threatened on account of bankruptcy.