# Barriers of entering a foreign market

Finance, Market

Going abroad with our business has been the talk of theglobalizationage. In this global society, there are growing reasons of why we should expand our business to foreign markets. First, companies are like continuously growing organisms. It cannot exist without the search of growth or of potentials of growth.

This is why mangers cannot afford to live in the illusion that their local markets will be sufficient to sustain the need for continuous growth (Khan, 2005). Second, having an established business overseas will strengthen companies' financial safety significantly by offsetting domestic seasonal fluctuations.

Third, expanding to foreign markets is an excellent choice for enhancing companies' market shares. Fourth, with the extensive promotion of globalization and US' effort to combat trade protections, there are significantly more enhanced facilities to support foreign investments today compare to a decade ago. In short, entering foreign markets is an important and contemporary discussion subject (Zacharakis, 1996). However, managers have also realized that the decision to internationalize market shares contains considerable amount of risks and barriers.

Some of the most recognizable barriers are cultural and language barriers, environmental issues, political issues, etc. In this paper, we are detailing those barriers and providing case examples to strengthen the arguments. II. Barriers of Entering a Foreign Market II. 1. Cultural and Language Barriers In this discussion, we will start with what is probably the strongest factor that influences expansion to foreign markets. Managers have long accepted that in internationalization considerations, differences between homecultureand the culture of foreign countries are significant.

Culture is a complex term. It consists of various factors like languages, religions, social norms etc. Thus, companies generally spend considerable portion of their time learning about the culture of the foreign target markets. This is also true whether managers decided to establish new firms in foreign markets or collaborating with foreign partners. Studies also indicated that cultural issues influence the manner in which companies perform their international expansion. Firms generally increase their commitment in investing to a particular foreign target market in predictable stages.

First, they will use export agents to learn about the country's culture. This type of foreign investment will change along with time and enhanced knowledge about local culture of the target market. II. 2. BusinessEnvironmentBarriers The local business environment has also been an influential factor that strongly affects foreign expansion activities. For instance, companies can have the problem of not having the sufficient good image in a society that has local preferences. Reputation is the issue resulted from the local business environment condition of several markets with local preferences.

Some consumers have more confidence or tendency to purchase local products rather than foreign made. Despite the extensive marketing efforts performed by foreign companies to take away local market share, they still lagged behind local products, even ones with less marketing budget. II. 3. Political and Government Regulations Barriers Other barriers are political in nature. Governmental policies can create enormous effect on company's success orfailurein entering foreign markets. China is the most apparent example of this premise.

The Chinese markets have been closed from foreign investors for decades before a massive governmental revolution created opportunities for foreign investment. The government opens chances for FDI inflow. Furthermore, supports foreign investment by means of incentives, property rights protections, etc. Afterwards, economic records indicated that the country has been experiencing one of the most rapid growths in the world, with an average annual GDP growth percentage of 10% for the last decade. In short, governmental policies have significant importance in international expansion.

III. Several Cases from 2001-2006 In this paper, I will provide several examples of cases involving foreign entry barriers mentioned above. Despite the similar nature of barriers in each cases, each country has their own tendency of foreign trade barriers. III. 1. Entering Indonesian Markets Indonesian is seen as one of the most economically potential markets in Asia today. Its abundant amount of human resources and cheap labor has been considerable attractions for international investors since the country recovered from its economic crisis.

Nevertheless, the country is recorded to have several issues that might hamper international investment toward local markets. First, in terms of governmental policies, the country is still enacting several import and export restrictions to protect local consumers and to ensure that local necessities are fulfilled before foreign investors could take a share of the market. This could mean higher tariffs, longer bureaucracy, etc. Second, the country has a unique set of culture.

Cultural analysts and foreign managers operating in local markets described the country as being comfortable in doing things their own way and refuse to have it challenged (Forrest, 2001). The importance of physical presence of superiors, the lack appreciation toward punctuality and therespectfor age and seniority is several of many things that must be learned about Indonesian culture before entering local markets. Learning informal business etiquettes are often as important as learning formal ones, or sometimes more important.

For example, there is a significant cultural practice in Indonesia when commonly, Indonesian managers tend to hire their relatives and friends regardless their competences. This situation is inappropriate for Australian or American companies since they consider it as nepotism (Dowling & De Cieri, 1989). III. 2. Japanese Firms Entering US Markets In the case of Japan companies' expansion to US markets, the case lies in condition of US' business environment. Most US consumers prefer national products rather than foreign ones. This creates significant challenges for Japanese companies targeting US markets.

Some Japan companies perform large marketing effort to facilitate their presence in US local markets. However, as mentioned previously, some of these efforts did not work as planned. Locals could still easily take control of the market share. This is identified as the barrier of reputation. The study of Japanese companies who enters US market revealed that some Japan companies chose collaboration with local brands in order to win local preferences rather than performing endless marketing campaigns that could have weak effects (Chen, 2003).

Concerning the decision making, for example, Japanese managers tend explore the roots of problem before making a particular decision. In contrast, American managers are likely to adopt straightforward approach (judgmental behavior) that is much efficient than Japanese approach but less effective. Following link, inform the practice of Japanese culture in terms of big typhoon etc (http://www. brovision. com/) and http://www. mccombs. utexas. edu/research/ciber/executivevideotapes. asp. sss

In foreign countries, for instances, Japanese companies like Toyota and Honda that realize their HR practices are unacceptable by non-Japanese culture may come up with an unfortunate solution by hiring employees under distinct employment categories that lack of job security (Hersey, 1972). III. 3. United States and China In the recent case of United State’s commerce department and the government of China, another foreign trade issues caused by local business environment appear. US Department of Commerce’s assistant secretary stated that China has been using technical regulations as a barrier of trade barriers.

This is done by imposing certain quality standards that would effectively band certain products from entering the Chinese local markets. US department of commerce are currently fighting to oppose this type of trade barriers using diplomatic means (‘ United States’, 2005). Bibliography Chen, Shih-Fen. Zeng Ming. 2003. ‘ Japanese Investor’s Choice of Acquisition vs Startup in the US: The Role of Reputation Barriers and Advertising Outlays’.

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