ISSN: 3066-9847
Review Article

Science Set Journal of Economics Research

International Risks Affecting on the Method of Entry of Banks to Foreign Markets

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Submitted: 31 October 2023 **Accepted:** 06 November 2023 **Published:** 14 November 2023

https://doi.org/10.63620/MKSSJER.2023.1016

Citation: *Citation: Taleghani, M., Taleghani, A. (2023). International Risks Affecting on the Method of Entry of Banks to Foreign Markets. Sci Set J of Economics Res, 2(3), 01-05.*

Abstract

Companies and financial institutions are seeking to increase their share in world markets and earn more profit. The action also has disadvantages due to benefits. Internationalization has benefits, such as unprecedented increase in attracting foreign investment, expand trade volume and variety of international transactions and fast and growing transfer of absorption of technology that leads to the profitability of companies.

Commercial even in a simple and traditional form has risks. With the development of trade at the global level, these risks tend to take a more complex form. After a detailed analysis of potential risks, companies and financial institutions can choose a way to enter the international market which, with high profits, has minimal risk.

Basic objective of this study was to evaluate the international risks of Zafar and others and identify the impact of these risks on the way of entering Iranian banks to foreign markets.

Keywords: International Risks, Foreign Markets, Zafar & et al Model.

Introduction

With the increasing development of information and communication technologies and the emergence of globalization, various organizations and companies try to adapt to global changes and enter global markets and benefit of the advantages that of globalization has for them. In the meantime, banks and financial institutions that are the economic pillars of any society, spared no effort to globalization and try to make its structure more flexible and use markets that are outside their border [1].

Companies and financial institutions are one of the basic principles for the exchange of goods and services. Banks with tools such as letters of credit, guarantees . . . are the main part in the exchange of goods in today's world. However, banks for their presence in other countries also face risks. Understanding the risk in selecting a way of entry for foreign markets are effective.

Foreign banking are means to connecting and using of dynamic, deep, rich, broad and rich commercial and financial markets of world. Without the knowledge and mastery of foreign banking techniques cannot use existing advantage properly or take action to create them.

With the increasing globalization and competition at the international level, managers are faced with complex strategic decisions. Most of the decisions are about the choice of method of entry into foreign markets and the risks involved at international level [2].

International Commercial and its Benefits

International marketing in its simplest form is the marketing of goods and services in more than one country, including exports of goods and services from one country to another and may include an institution that both production and marketing are carried out in more than one country without the goods crossing borders, and in some cases due to the nature of the enterprise or institution may include the production and marketing of goods in a country.

At its most complex form, international marketing is planning and communication within international borders in order to achieve individual and organizational objectives. International marketing in various forms refers to activities such as trade in the fields of import and export, and management contracts [3].

International Marketing is a business function activity for the purpose of planning, pricing, promotion, directing the flow of goods and services to customers or consumers in more than one country for the sake of profit [4].

International marketing is to do business to deliver goods and services of a company to customers or consumers in more than one country, for the purpose of profit [5].

International marketing is like an art than science. To succeed in the art of international marketing, it is necessary to have a background in its basic scientific principles; So that with the help of these principles, consumers are policy makers and have enforcement activities in thinking and planning of international marketing [3].

Marketing and international business generally include the following benefits:

1. A larger volume of products can justify the heavy investment on very advanced equipment for mechanized production methods and this in turn will lead to increased efficiency.
2. Competition and a wide range of markets could lead to specialization of labor division, and this will benefit everyone. Potentially this competition will lead to lower costs and prices and economic growth can be sustained.
3. It makes good use of new technology research and development.
4. The opportunity to provide balance when the sales decrease in a region and compensate for it by increasing sales in other regions.
5. Derivation advanced marketing methods through global continuous contacts in the global markets.
6. The increasing competitiveness of the global multinational companies in domestic markets [6].

Method of Entry to International Markets

Entering the international market is one of the important decisions that is taken at company. When the company can enter the international market is an important issue that should be carefully considered [3].

When a company decides to enter the international market, it must specify your entry strategy. In fact, a company may use various ways to enter different countries' markets, because each country has its own requirements [4].

Non-capital approach / Export: export is a way with the least risk for entering foreign markets. Sales through exports, has the lowest allocation of resources and minimal changes on the company's internal applications. The currency of export is more than any other method of market entry [7].

Export is done in two ways of direct or indirect. Indirect exports are common among companies with a fresh thinking of exporting. Also, exporters are facing with a lower risk. In direct exports, more investment and higher risk, allowing more profit. Any company can operate in four different ways to do direct export. Create export sector in the country established a sales office or a branch of company in the abroad, having sales representatives in foreign countries and a representative or distributor in abroad [8].

Method of joint cooperation: Joint investment, in addition to contributions by the partners, to reduce the political and economic risk, compared with when a company decides to buy a company in another country, faced less legal and cultural barriers [4].

In this way, foreign investors with local investors establish a new company to produce and supply goods or services. This method is chosen for economic and political reasons.

Joint investment provides the following benefits:

1. It will be more profitable for foreign investors.
2. Foreign investors have more control over the production and management of joint companies.
3. The foreign investor has more experience in the international market and will take more profit in the future.
4. The use of technology, capital and human resources of foreign companies.

Disadvantages of Joint investment are as follows:

1. The need to financial and non-financial investment
2. more risk in partnership

Four different types of joint cooperation are:

1. Joint cooperation through specific concession (licensing)
2. Contract Manufacturing
3. Co-management contract (Management Contract)
4. Cooperation as joint ownership

Method of foreign direct investment: Any investment by private companies or individuals in countries other than their home that is done is foreign investment. Foreign investment, mostly by the private sector in the form of multinational companies (MNEs or MNCs) and has been referred to as capital private flows [9].

Several definitions of foreign direct investment are presented. According to UNCTAD, foreign direct investment is investment involving a long-term economic relation and represents the stable benefits and control of economy unit that is resident of a country (the parent company) on the economic unit resident in another country (subsidiary firms' mother).

It seems that the distinction of foreign direct investment from other foreign investments is that foreign investors need considerable influence in the management of the firm. Finally, foreign direct investment can be described as a kind of investment in a country other than the country of origin and the goal is stable benefits at firm which implies that the investor will be sure to follow the control of the management of firm [9].

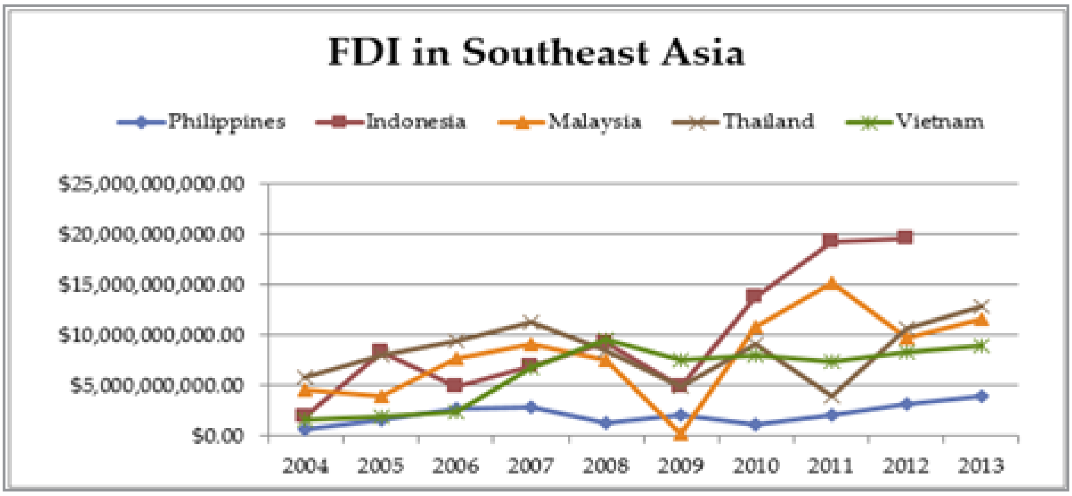

Figure 1: Foreign Direct Investment in South-East Asia Bank (Carson, 2014, p45)

Factors Affecting the Choice of Method of Entry to International Markets

The decision about selecting strategies for entering international markets, on the one hand due to the complex and dynamic nature of the method of entry, and on the other hand due to the impact of different variables on it, is complex and dynamic. Moreover, due to time and resource constraints of companies, it is not possible to examine all variables. Therefore, it is essential to identify the strategic variables for determining international market entry strategies [10].

Risks of Entering to Foreign Markets in Zafar & et al Model

The model of Zafar & et al is as follows:

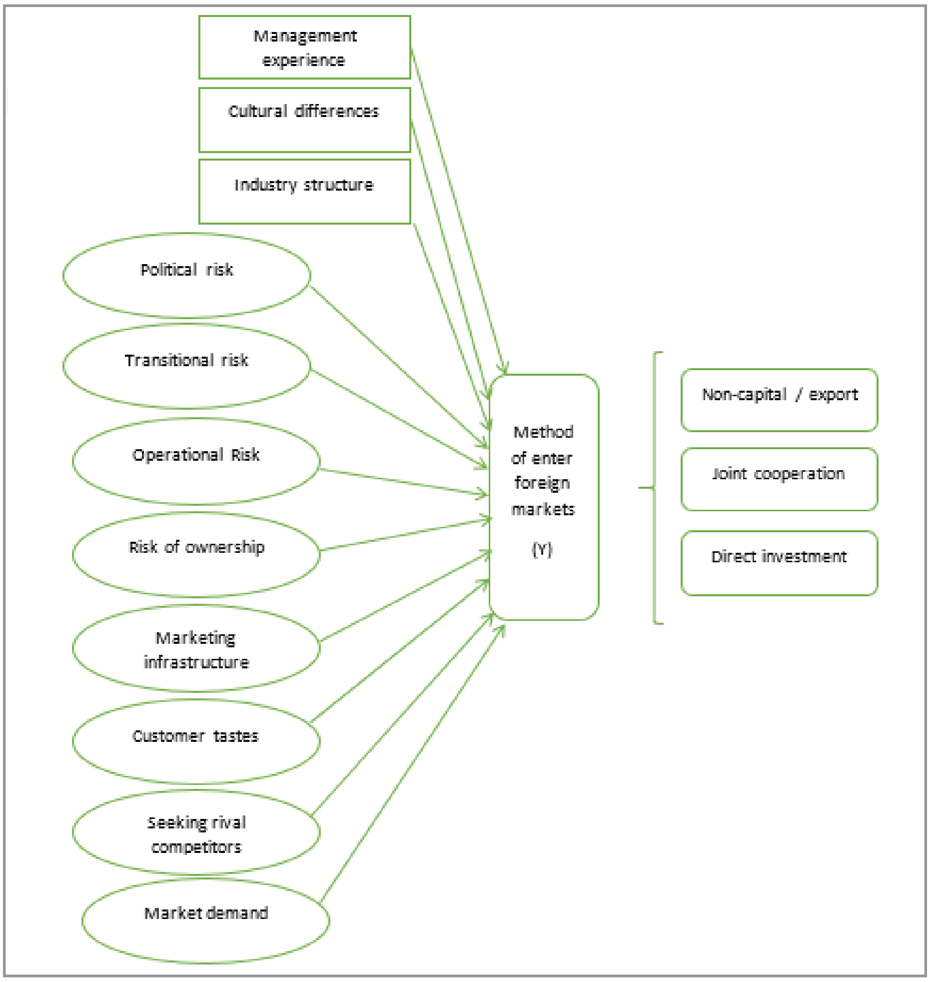

Figure 2: The Research Model (Zafar & et al, 2002)

Management Experience: the experience of international management as a measure of a company's ability to control and manage international operations by influencing the choice of method of entry has been identified. Wrong decisions of corporate executives and financial institutions may have negative consequences for an organization. According to different levels of management, the risk of incorrect decisions is different and will affect the organization's performance in various amounts [11]. When a financial institution decides to global trade, has no opportunity for trial and error and is forced to use experienced managers in the global arena.

Cultural Differences: Cultural differences refers to similarities and differences between customers' cultures in the domestic market and customers' culture in foreign target market. Therefore, it is recommended that organizations not decide based on internal customers' culture to enter foreign markets but also must do detailed analysis about the components of the culture of investment country.

Industry Structure: Industry structure risk is the volatility of investment returns that is caused by events or special events, and changes in a particular industry. These changes arise based on tariffs or prices at the domestic and international levels, the life cycle of industry, goods tax in an industry, issues related to trade unions in the industry, access to primary sources and other similar factors [11].

Industry structure has an impact on the method of entry and risk perception. Especially since it could create a barrier to new entrants and thus reduce competition among the companies previously available. In a highly concentrated industry companies pay more attention to ways to control the spread of internationalization that maintain barriers to entry to the market [2].

Political Risk: Political risk can be defined as public and social activities and policies within or outside of the host country and can have a negative effect on the majority of foreign trade and investment activities [12]. Political instability is the result of a war, revolutions, coups or political turmoil that is part of the political risk [2].

Transitional Risk: transitional risk arises from the government's ability to restrict the free flow of goods, services and capital within or outside a specific country. In some developing countries, government policies (such as exchange controls, taxation, printing money) limit the acquiring of foreign companies to financial markets and capital flows from abroad. Constraints can also be imposed through import and export barriers and price controls.

Operational Risk: Operational risks include the company's inability to perform the contract, the quality of internal management and access to skilled labor and raw materials. Others have more restrictive definitions of operational risk and define it as a risk resulting from the inability or failure of the technology and people [13]. Therefore, financial institutions are required to enable labor and technology of the day.

Risk of Ownership: Risk of ownership arises from uncertain actions of government for for control of the company and its assets through activities such as expropriation, confiscation, localization and homegrown. In general, companies engaged in international trade are forced to consider ownership risk and the possibility of losing their assets [2]. Some investment countries spending more than usual on their non-indigenous organizations for the exercise its domestic law, [14].

Marketing Infrastructure: The main marketing infrastructure is the halving of research and development unit that is a primordial nucleus in activities of marketing research [15]. Marketing infrastructure refers to the available method in the market for sales, distribution, advertising and promotion of services or products of a company.

If the administrator finds that the foundation of marketing is similar to the domestic market, selects a strategy for method of entry that its components is similar to the successful strategy of the internal market. Financial organizations have spent enough time and money for marketing infrastructure and from the beginning not only thinks about profit. Strong marketing infrastructure is necessary information to make the right decisions on how to enter foreign markets and its result is profit.

The Taste of the Customer: The taste of the customer focuses on the similarities / differences between the tastes of customers in the domestic market and target market. An organization can only react to the taste of the customer, buying patterns, their priorities for substitute goods rather than control it. Organizations are recommended to measure taste, taste and preference of customers in the external market accurately. Because the acceptance or non-acceptance of the goods and services of an organization leads to profitability or bankruptcy.

Rival Seeking Competitors: A company needs to analyze the structure of the industry in which it operates and test its competitors on the basis of competitive features such as marketing strategy and competitive strategy. If competition is high in the market, entering a market will become more difficult and management will see higher complexity risk of market and consistent and mitigation entry strategy must be selected.

Organizations without sufficient information to competitors and their strategy in entering foreign markets and review its goals will not be able to take the right decision about entering the foreign markets and survive in the competitive environment of the market; as a result of the necessary measures prior to entry into foreign markets, is the assessing of rival seeking competitors.

Market demand: Market demand, including current and future market demand. In countries with high demand for goods and services, on the condition that the size of the market to support the entry of other companies and organizations is sufficient, the risk of market demand is low. In countries with low current demand but forecast the high demand in future, risk is low because there is a large potential market for products and services in the future. If an organization is planning to enter the global market should choose markets that are of good size and have a high level of demand for the products and services [16].

Conclusion

A bank or financial institution before deciding on the method of entering a foreign market, forces one to review effect of international risk based desired approach to entry. Today's highly competitive environment requires continuous assessment and appropriate strategies to deal with changes. Thus, continuous assessment of the international risk and attention to their changes and update marketing tactics and methods for deciding on how to enter foreign markets is one of the basic principles.

Banks and financial institutions to enter the different countries face different international risks and this difference may result from the conditions of investor's country, sometimes resulting from conditions of investment country and is often the result of mentioned institution; that in any case, the directors of Institute shall decide after analyzing the reliable data that is associated with minimal risk.

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