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Financial Risk Management in Global Expansion: Which Market Entry Strategy is the Most Effective in Financial Risk Management?

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ABSTRACT

This research investigates the effectiveness of market entry strategies with financial risk. The main question is which strategy from the selection of exporting, licensing and franchising, joint ventures and foreign direct investment is most effective in managing financial risk. This research encompasses prior research, experts' opinion, online sources, books, and real-life cases without focusing on a specific industry or region. Beginning with an introduction to the historical context and current trends in market entry strategy and financial risk, addressing the problem of insufficient risk management in global expansion leading to failure. The methodology involves a detailed analysis of qualitative data from literature review and experts' opinions to understand the relationship between market entry strategies and managing financial risk. The study concludes that there is no superior market entry strategy in dealing with their financial risk; the effectiveness depends on the context and the objectives of the company. Exporting is low risk but offers limited control, licensing and franchising has a balance between risk and control, Joint venture offers shared risk but requires heavy investment in time, FDI involves the highest risk but with potential high profitability. This research concludes licensing and franchising is generally the most effective in managing financial risk due to their risk transfer mechanism, but other risks will occur. It is recommended that companies utilize the benefits of each strategy, progressing from low commitment strategies like exporting to high commitment options like FDI. Further research should focus on specific industries or regions for more detailed insights.

Keywords: Financial Risk, Market Entry, Risk Management, International Business

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1. INTRODUCTION

1.1 Background

As we can all agree, the main objective of every corporation or business is to maximize shareholders' wealth. There are many types of ways a corporation can increase their value, there are increasing production, opening a new subsidiary, or lowering cost and increasing margin. Global expansion is every company's dream, it is combining all the ways stated in the statement before and more.

In entering a new market or a country, there are many strategies that companies use for market entry. All which have quite different ways in which a company enters the market. Determining which strategies are crucial for every company, if they choose the wrong strategy, it will lead to a disaster.

In this modern age, there are many companies that are trying to expand their company to a global perspective. Whether the motive is reactive or in nature (Cavusgil, Knight, Riesenberger, Rammal, & Rose, 2015). It promotes promised growth in value and in profits that will guarantee the shareholders satisfaction. If that is the case, why doesn't every company goes international? It is because there is risk to it. As companies go international, the complexity of risk will fluctuate and many other challenges such as cultural barriers. Risk management is crucial for every company to be able to achieve sustainability and success globally.

In this dissertation, we are going to discuss market entry strategies and which strategy is the most effective in managing risk and particularly in the financial risk sector. By analyzing different strategies such as exports, licensing, joint venture, and foreign direct investment (Dinu, 2018). Thus, finding the optimal strategy that is most capable of financial risk management.

The objective of this study is to give insight into navigating which strategy is the most effective and which strategy is most suitable for them to implement. By synthesizing academic journals and theoretical frameworks, it is to summarize how financial risk management impacts market entry strategy in a global economy. With a thorough review of related literature, theoretical frameworks, real world examples, and insights from experts. This dissertation aims to be a tool of insight for those who are trying to expand their companies abroad. It is to navigate companies on achieving big potential profits while managing potential risks.

1.2 Problem Statement

Global economy has continuously increased throughout the years; businesses will face challenges if they want to proceed with international business. One aspect which is certainly critical in international business or global expansion is how one can navigate and manage their financial risk complexities. Afterwards, selecting which market entry strategies will suit the business expansion. Literature on financial risk and market entry has been done and published many times. However, little to none have talked about which market entry is the most effective in mitigating the financial risk that is correlated with international expansion. Companies need to be able to conduct financial risk management with diligence.

1.3 Research Question

Which market entry strategy is most effective in facing financial risk associated with global expansion? The question that is most effective to answer the problem statement is the one above. The aim is to question which market entry strategy is most effective when mitigating and managing financial risk in the process of global expansion. In this research, there will be more questions that will appear, and I will try to answer all of them.

1.4 Research Objective

Determining which market entry strategy is the most effective in managing the financial risk associated with global expansion, The main objective of this research is to be able to determine the best optimal solution for financial risk in global expansion, in which we will determine through the choice of market entry strategy. This research aims to help those businesses who are aiming to go global for their activities, as it addresses a critical topic which is financial risk, a significant concern to those who are dealing with business whether its domestic or international activities.

2. LITERATURE REVIEW

2.1 Risk and Risk Management

Before we talk about financial risk, we need to know the definition of a risk. "In 1966, the Commission on Insurance Terminology of the American Risk and Insurance Association (ARIA) approved the following definition of risk: Uncertainty as to the outcome of an event with two or more possibilities" (Outreville, 2014). As stated, risk is the uncertainty outcome of events or activities where there are chances that the outcome of those events is not the desired outcome. Undesirable outcomes can happen from many possible reasons, there are external and internal reasons that an outcome may happen.

To prevent undesirable outcomes, one must manage their risk. Risk Management is where one must deal with risk before an outcome happens. It's where someone takes control of those internal factors and deals with external factors. An example of internal factors management in business is when a business conducts regular risk assessments to prevent unwanted things from happening. On the other hand, external factors management is when a business diversifies their suppliers and markets to reduce dependency.

2.2 Financial Risk

As the previous subsection says, financial risk is the uncertainty of things in the financial perspective. It refers to the possibility of undesirable outcomes such as losing money and not reaching expected returns due to many variables. "Financial risk is defined to be the added variability of the net cash flows of the owners of equity that results the fixed financial obligation associated with debt financing and cash leasing." (Gabriel & Baker, 1980). The author states that financial risk is defined as the increase in fluctuations in the net cash flows to equity owners. It arises from fixed financial commitments required in debt financing and cash leasing. It is the most common form of risk that directly and indirectly affects the firm's financial performance (Spek, 2006).

2.3 Types of Financial Risk

In a business, there are many risks to be considered, whether that is external or internal. All the risk can impact the business negatively and needs to be considered or monitored. Financial risk consists of: liquidity risk, market risk, legal and regulatory risk, credit risk, currency risk, and operational risk. It is essential that businesses understand and manage all this risk to protect their assets and attain sustainability. The risk listed above will be the risk that will be considered in this dissertation.

2.3.1 Liquidity Risk

Liquidity in finance is a term of how fast it is to convert an asset to cash. "Liquidity risk is defined as the particular risk from conducting transactions in markets with low liquidity as evidenced in low trading volume and large bid-ask spreads. Under such conditions, the attempt to sell assets may push prices lower, and assets may have to be sold at prices below their fundamental values or within a time frame longer than expected." (Christoffersen, 2003).

It is essential to a business to be able to manage their assets to sell them with an insignificant impact to its value. Higher liquidity means that the risk of loss is getting lower. Financial institutions monitor the risk of an entity to be able to meet their short-term obligations. Being able to manage liquidity risk is crucial for a business to maintain stability for their businesses.

2.3.2Market Risk

Others like to call it systematic risk, market risk is the uncertainty of changes in market conditions such as interest rates, exchange risk, etc. "Market risk is defined as the risk to a financial portfolio from movements in market prices such as equity prices, foreign exchange rates, interest rates, and commodity prices." (Christoffersen, 2003). The author stated that market risk has many factors that can affect the financial portfolio of a company. Market risk is also the risk involving the people in the market where preference plays a role.

"…is sometimes referred to as market risk. As such, it can be hedged but cannot be diversified completely away. In fact, systematic risk can be thought of as undiversifiable risk." (Santomero & Babbel, 1997). As stated in the article, market risk is undiversifiable, meaning that it cannot be controlled. In managing market risk, businesses need to be cautious about every factor, even if market risk cannot be controlled, a manager needs to try and prevent a major loss for the company.

2.3.3 Legal and Regulatory Risk

Legal and regulatory risk is the underlying uncertainties of changes in laws, policies, and regulations. "Legal risks are endemic in financial contracting and are separate from the legal ramifications of credit and operational risks. New statutes, court opinions, and regulations can put formerly well-established transactions into contention even when all parties have previously performed adequately and are fully able to perform in the future." (Santomero & Babbel, 1997). As the authors stated, it refers to the consequences regarding legal issues. Legal risks are inevitable in wholesale financial markets that are international, competitive, and innovative (McCormick, 2010). Managers need to manage by identifying and mitigating legal issues that are associated with financial transactions.

2.3.4 Credit Risk

Some might think that credit risk is the risk of changes in interest rates. But it is actually the risk of a certain entity that has a chance of failure if paying their obligations. "Credit risk is defined as the risk that a counterparty may become less likely to fulfill its obligation in part or in full on the agreed upon date. Thus, credit risk consists not only of the risk that a counterparty completely defaults on its obligation, but also that it only pays in part or after the agreed upon date." (Christoffersen, 2003). The author is stating the definition of credit risk as the uncertainty that arises when there is a possibility of a counterparty failing in completely fulfilling its financial obligations as agreed. Either by failing to fully pay their obligations, or only making partial payments.

2.3.5 Currency Risk

The simplest risk in terms of definition, but it's not simple in terms of managing it. Currency risk is or exchange rate risk is a risk of fluctuations of exchange rate, this risk really affects those who do international trade or business. "Currency risk is to be identified with statistical quantities which summarize the probability that the actual domestic purchasing power of home or foreign currency on a given future date will differ from its originally anticipated value" (Adler & Dumas, 1984). What the author is trying to say is that currency risk involves the possibility that domestic purchasing power of a currency whether its domestic currency or foreign currency will be different from its expected value in the future. This risk occurs when companies finance their investments through debt or equity in one currency and then use the capital to invest in assets in another currency (Backlund, 2011).

2.3.6 Operational Risk

Operational risk in simple terms is the uncertainty of the everyday operations of a company. There are a lot of factors that can affect the operational risk such as people, technology, etc. From the Basel Committee on Banking Supervision in 2006, Operational risk is the risk of loss from errors in the operational process whether it is internally or externally (Xu, Pinedo, & Xue, 2017). The author is explaining that operational risk is underlining the possibility of errors from factors such as people or the system itself, also external factors. Operational risk involves the possibility of errors in processing transactions, managing documents, failure in the systems, and regulatory compliance. If those errors occur, will result in significant losses to the firm.

Managers need to be able to mitigate these kinds of errors by planning. The company needs to be able to adapt to certain scenarios and be able to cease the situation. Human error can always happen, even an employee's actions can affect the owner of a company and can affect the value of a company. For some companies that heavily depend on their technology production process, they would be able to operate if there is anything wrong with their technology.

2.4 Financial Risk Management

Financial risk management is identifying, assessing, monitoring and reporting, and control to envision the appropriate response for the possible outcomes (Alexander, 2005)." Financial risk management is the measurement and the attempt to control trade-offs between risk and rewards in both profit-motivated enterprises and non-profit organizations" (Gastineau & Kritzman, 1996). As it stated, it's an attempt from a business to reduce the possibility of undesirable outcomes to satisfy their stakeholders. A business needs to be able to control or manage all the risks stated above to achieve a sustainable business. Not all risk can be controlled, but it's an effort to prevent big losses to the corporation.

2.5 Financial Risk Measurements

Over the course of its history, financial risk management has discovered many different modules or formulas to assess their risk. One of the most common forms of financial risk assessment is Value at Risk or VAR which is basically simplifying the assumptions and risk that is considered into one simple number to show in the boardroom. "VAR is a single, summary statistical measure of portfolio losses. VAR is a measure of losses resulting from "normal" market movements. Losses greater than the VAR are suffered only with a specified small probability." (Linsmeier & Pearson, 2000). VAR is widely used to monitor and control the levels of risk exposure, also used for regulatory purposes and financial risk management for many institutions that deal with risk.

The Capital Asset Pricing Model (CAPM) is a foundation type of concept for those who practice finance. It describes the correlation/relationship between a risk and the expected return for assets, similar to VAR but has a different purpose. The CAPM predicts an asset's risk and the expected return. On the other hand, VAR measures the potential loss in value of an asset. "The CAPM builds on the model of portfolio choice developed by Harry Markowitz (1959). In Markowitz's model, an investor selects a portfolio at time t - 1 that produces a stochastic return at t. The model assumes investors are risk averse and, when choosing among portfolios, they care only about the mean and variance of their one-period investment return" (Fama & French, 2004). CAPM is usually used for stocks, it is to calculate the cost of equity and helps investors to make decisions on which investments are justifiable to invest despite the risk in it.

2.6 Financial Risk Management Strategies

Financial Risk Management is crucial to every company due to the main purpose of it being guarding their assets and optimizing financial performance. Strategies include hedging techniques, diversification, risk transfer, internal control, audits, ETC. Each of these strategies helps companies address specific areas of vulnerability/weakness within the operation of a firm. All these strategies form a comprehensive approach in managing financial risk or risk in general, which is essential in the long run of a company. It helps in the process of mindful decision making to help the company achieve success and sustainability.

2.6.1 Hedging Techniques

Hedging Techniques is a risk management strategy that aims to limit the probability of loss from fluctuations in the prices of currencies, commodities, or even securities. "The traditional view of hedging in futures markets depicts an agent with a predetermined position in a single cash good as seeking to avoid price risk by taking the equal and opposite position in a futures contract involving that same cash good (see e.g. Hieronymus (1971))" (Anderson & Danthine, 1979). By using financial instruments such as futures, options, and swaps to help companies determine a fixed price or rates for an asset in advance. It is to help companies stabilize their future cost and revenue to reduce the risk. Hedging does not remove the risk completely, although it helps companies to have more predictability and a more stable financial solution.

2.6.2 Diversification

Diversification is a risk management strategy that combines a wide variety of investments within a risk portfolio. "Diversification is one of the major components of investment decision-making under risk and uncertainty, even long before the birth of portfolio theory.... Roughly, portfolio diversification consists of allocating wealth across a variety of assets. Its benefit is risk reduction minimizing both the probability and severity of portfolio loss, through a multilateral insurance in which each asset is insured by the remaining assets." (Koumou, 2020). What the author states is that diversification is a fundamental and historically recognized investment strategy that many use to reduce risk by spreading investment throughout the various assets, thus providing insurance among them. The idea with diversification is that a portfolio with various kinds of investment will usually produce higher returns and consist of lower risk than any single investment found in the portfolio. This strategy helps to reduce unsystematic risk that is related to a particular sector such as industries or markets. To simplify, the goal of diversification is to reduce the risk of significant losses by investing in different assets so that if one is underperforming, the other will outweigh the underperformance of other assets.

2.6.3 Risk Transfer

Risk transfer involves the shift of risk from one party to another. Insurance is the biggest example of risk transfer; it is the most used method for business and individuals to transfer their risk to another party which are the insurance companies. "Insurance is a mechanism through which firms can reduce negative financial consequences of an uncertain event or possible financial loss. Insurance reduces the impact of financial loss on firms, including banks." (Fadun, 2013). The author is saying that insurance is a risk transfer tool/mechanism that allows companies/individuals to mitigate the financial impact of uncertain or unpredictable events by shifting/transferring the cost of risk to the insurance company in exchange for payments of premium. Another form of risk transfer is the use of derivatives. Derivatives allow the risk to be managed with other financial tools. Derivatives are useful for dealing with credit risk or the default risk of a counterparty. Although this method seems to be a wonderful way of managing risk, there are considerations that need to be made due to the excessive cost. A firm needs to be able to weigh the cost of insurance and the benefits of risk reductions.

2.6.4 Internal Control and Audits

Internal control is a set of processes that are put to place to ensure the integrity of financial and accounting information to improve accountability and reduce the chance of fraud. Its purpose is to help manage and mitigate the risk that is within the firm or usually called systematic risk. On the other hand, audit is a set of processes that is similar to internal control. Internal audit is the process of evaluating the operations within a company on how well it is working and what are the things to improve on. On the other hand, external audits are usually done with individuals outside the firm (usually an auditing firm) whose purpose is to validate financial statements and provide an external perspective on the financial health of the auditee including the quality of internal control over the financial reporting. Internal control and audits are related, but all have different purposes. "Audits are performed to provide assurance that financial statements properly follow current accounting standards and accurately reflect the financial position of a company. Historically, this paradigm has been useful to investors and creditors who had little information available beyond the financial statements." (Lombardi, Bloch, & Vasarhelyi, 2014). The author is trying to state that audits are conducted for the purpose of ensuring the accuracy of financial statements with accounting standards. While also providing valuable and reliable information for those who have limited data which are the likes of investors and creditors.

2.7 International Business

International Business, if we separate those two words, international means activities that are happening between two different nations, it could also mean going across borders. On the other hand, business means an organization, or an entity doing professional activities to produce goods or services and making a profit. The authors of the book "International business" believe that there are two types of activities in international business which are international trade and international investment. "International trade refers to an exchange of products and services across national borders. … international investment refers to the transfer of assets to another country, or the acquisition of assets in that country." (Cavusgil, Knight, Riesenberger, Rammal, & Rose, 2015).

International trade can be in the form of exporting and importing, and it could also in many forms. Basically, it refers to the exchange of one's products or services that can reach across its nation's borders. Global sourcing is also international trade where a supplier is located abroad. On the other hand, international investments can be in the form of international portfolio investment or Foreign Direct Investment (FDI). International portfolio investment is when an entity acquires passive ownership such as shares or bonds, while FDI refers to when an entity establishes a physical presence abroad through acquisition of productive assets.

2.8 Reason Businesses Go International

We can safely say that there are many reasons that a business would want to go international, who would not? But the considerations that arise, such as the challenges that one's faced during the process of going international, is usually due to the lack of resources. "Companies pursue internationalization for various reasons. Indeed, there are often multiple motives for international expansion. Some motives are strategic in nature, while others are reactive." (Cavusgil, Knight, Riesenberger, Rammal, & Rose, 2015). The meaning of what the authors said is companies go international with motives whether it is strategic or reactive.

The meaning of a strategic motive is to tap into opportunities in foreign markets or acquire new knowledge. This specific motive is when one company is driven by their long-term goals and plans. These companies are those who know their capabilities and resources and have a clear vision for the future. They see this international expansion as a key steppingstone for their growth as a company. By safely analyzing the factors that need to be considered during the international expansion process to be able to achieve stability. This motive also means that a company's motive for international expansion is to tap into the international market opportunities. This is to enhance their presence in the market by entering a new market and hope to be able to leverage their resources within the new market.

On the other hand, the meaning of a reactive motive approach is when a company is driven by the current needs and external pressures. This motive could probably be due to some events such as rising competition in the domestic market, economic downturns in the domestic market, ETC. Which means that this motive is usually when companies need to adapt to certain circumstances. Both motives aren't wrong. They are both equally beneficial to the company due to both happening when a certain circumstance happens. It depends on the reason for this motive whether the company's choice of motive is right or wrong.

2.8.1 Globalization

On the other hand, there is globalization, which is believed to be the main reason why companies go abroad. This author describes that globalization is not just a phenomenon that solely involves business, but also affects many sectors of life (Dator, 2006). It's a broad array of global forces that goes beyond the national boundaries. This phenomenon involves technological advancement, cultural exchanges, environmental changes, and even social dynamics which can be shown in migration, the influence from the media, and even the spread of diseases. It can be also shown from the diffusion of ideas like democracy and rights. This phenomenon sure needs to be a concern because it affects various aspects of life and governance whether in a positive way or a negative way. The term "Anti-globalization" is used to denote the forces that are against this phenomenon.

Globalization is a process, or a set of processes of which businesses, technologies, ideas and culture are spreading all over the world, leading to greater connectivity between nations and interdependencies between people and nations. In the economic standpoint which is the one we are focusing on. Globalization involves the connection between national economic activity of goods, services, capital, and technology.

2.8.2 Market Diversification

Market Diversification refers to the strategy of a business expanding their business into new markets to reduce the reliance on a single market. A risk manager loves the word diversification because it can help reduce the risk portfolio of a company. "When they diversify into foreign markets, firms can generate sales and profit opportunities that cannot be matched at home." (Cavusgil, Knight, Riesenberger, Rammal, & Rose, 2015). Diversifying their revenue streams will help a company achieve a more sustainable income stream and have less worries about the risk and their dependence on one single market. This strategy has been used by many companies, for example Gillette (an international company that provides goods such as shavers) has more sales outside of their own domestic market, overcoming more than 50% of their sales.

2.8.3 Bigger Margin

As we all know, all companies strive for profit. As said at the previous literature review, doing international business will increase their profit phenomenally if done correctly. The number of potential customers will skyrocket rather than those who stick to a domestic market. Besides finding new customers, going international could lead to potential cost effectiveness. Cost effectiveness is when a company can produce profit with as little cost as possible. Going international will open opportunities such as lower material cost, lower labor costs, and economies of scale. For example, if a company moves their production to a lower labor cost country, most of the time, the company's biggest cost is labor cost, so if a company can decrease that cost, the profit margin of a product will be rising through the roof. Achieving lower raw material cost could help the company in the long run with events such as inflation happening, companies can achieve lower material cost that has the same quality or maybe even better quality. After achieving international status, with the need for supply rising, companies will be able to achieve economies of scale which will increase the profit margin even more.

2.9 Theories Related with International Businesses

Over the course of international business since the first trade, many theories related to international business have risen. These relevant theories help companies discover where the need is to go international, and how to penetrate a certain market. These theories provide frameworks that help companies to analyze and understand the needs for business activities between borders.

2.9.1 Dunning's Eclectic Paradigm

The eclectic paradigm was proposed by John Dunning, combining various theories related to international business with the focus of three key aspects which are OLI standing for Ownership advantages, Location advantages, and Internalization advantages. "The intention was to offer a holistic framework by which it was possible to identify and evaluate the significance of the factors influencing both the initial act of foreign production by enterprises and the growth of such production" (Dunning, 1988). In this statement, John Dunning's aim was to provide a comprehensive framework through the eclectic paradigm to identify and evaluate factors that have influenced in both the initiation and expansion of international production.

Research shows that companies use this framework to assess the choice of market entry through these three aspects. Ownership advantages is referring to the firm's asset that helps provide a competitive advantage. Location advantages is assessing the benefits in choosing and conducting activities in a specific region. Internationalization advantages refer to the gains in operating cross-border operations in the company rather than just licensing/contracting. This framework has been widely used when a company is considering going international, even when they don't realize it because these factors should be the first thing to come to mind when considering going international. This model also helps in relation to managing financial risk.

2.9.2 Michael Porter's Theories

Michael Porter has created many widely known frameworks that have been used for decades by firms that are looking to go international. Frameworks such as the five forces, Value chain, Diamond Model, ETC all help companies to assess the factors that are considered in models, some which are essential in analysis of going international.

The Diamond Model, also known as the diamond of national advantage, explains the reasons why certain industries within a particular nation are competitive internationally. "In this context, Porter's diamond model, which was developed to measure the level of competitiveness, is an important model. In this model, "factor conditions", "demand conditions", "related and supporting industries" and "firm strategy, structure, and competition" are the decisive factors with the "government" and the "chance" factors. This model is a dynamic and versatile model." (Bakan & Doğan, 2012). The author agrees that this model helps individuals analyze why some countries and firms from a specific sector are more competitive and successful.

The Porter's five forces, a framework that helps analyze the industry's attractiveness and profitability based on the five forces that are considered. Forces such as the threats of new entrants and substitute products, the power of consumer and suppliers, and competitive intensity of rivalry (Bruijl, 2018). On the other hand, the value chain explains the activities within the operations which together creates the products or services. Companies that use these models for example tech industry companies like Apple and Microsoft for assessing the competition in the industry.

2.9.3 Product Life Cycle

The Product Life Cycle is a theory that suggests that products go through different stages since its birth.

Developed by Raymond Vernon, Vernon argues that as products mature, a shift of locations in sales and production will shift. The stages that a product goes can be divided into 4 stages, that Vernon was credit with developing in 1960. As a secondary source stated, the 4 stages of the product life cycle are the Introduction stage, Growth stage, Maturity stage, and Decline stage (Anderson & Zeithaml, 1984).

Introduction stage is when a product is first introduced into the market. The sales of the product are usually slow, and the profitability of the product is low also due to the high cost of effort in increasing awareness such as marketing and product development. The next stage is the Growth stage, it is when a product is slowly accepted in the market and starts to see growth in sales. Some competitors will arise in the market and starts entering the market with similar products.

Maturity stage is when the product has reached its peak maturity. Sales growth slows down as the market is becoming more saturated. Profits peak and then will start to decline due to competition getting more intense. Decline stage is when the product's sales and profits begin to fall due to many factors such as technological advancements and shift in consumers preferences. The product will lose its appeal and will soon be not relevant to the consumer. Understanding this theory is important for a business for decision making in production, marketing, and resource allocation. This will help businesses make good strategic planning when producing a new product and managing the old ones.

2.10 Market Entry Strategy

Choosing a market entry strategy is crucial for a company in entering the new market. Market entry strategy is the choice of procedures that a company chooses when entering the market, every market entry strategy is different in procedures and resources needed. This author states that international transactions are one of the fastest ways in improving a strategic position of any company when entering a new market, meaning that choosing a market entry strategy in recent years have become an essential element of corporate strategy (Dinu, 2018). In simple terms, market entry strategy is a planned method of delivering products and services into the new market and distributing them there.

2.11 Types of Market Entry Strategies

There are several types of market entry strategies, all which have different procedures and characteristics to it. The author explains that the strategies are organized and examined by dividing them into different categories of entrance strategies, it is based on the principle of the simple to complex approach and the essential criteria each market entry strategy has (Dinu, 2018). The author states that there are exports, franchising, joint ventures, acquisitions, and FDI.

2.11.1 Exporting

Exporting can be classified into two categories which are direct export and indirect export (Dinu, 2018). Direct and indirect exporting are the two fundamental methods that companies use when selling their products in markets outside their borders. Each method has a different approach in exporting, but both have similar procedures, it is usually the channels of the exporting chain that makes a difference. The choice between each method depends on the resources and needs of the company, mainly the size of the company. Each method will be effective in helping the process be successful, but the chosen method depends on the company's goal, the product itself, and the nature of the target market.

This author states that direct export is a form of operation whereby the executes the cross borders sales by establishing direct interactions with the external customers (Dinu, 2018). This method provides great control to the company over the activities that happen internationally which usually lead to greater numbers of profits. However, this method needs to have many resources and a comprehensive understanding of the foreign market. This method is usually used by those companies that are relatively large and have enough resources to invest in a new foreign market.

Indirect exporting on the other hand is selling the product to an intermediate who will sell the product directly to the customers (Dinu, 2018). Indirect exporting I usually have a partnership with a company that is based on the target country and knows the market very well. This method usually results in lower profits due to the cost of having a middle entity in the process of exporting. But it will require less resources which will be perfect for companies that are relatively small that want to enter a new market.

2.11.2 Licensing and Franchising

Licensing is when it involves a company granting permission to another entity to use their intellectual property, technology, name, or product specifications in exchange for fees. This author states licensure is a public policy tool that is designed to mitigate persistent agency cost or conflicts of interest that occur when one party provides services to another (Svorny, 2000). This method helps companies generate revenue for their international market from their parents, trademarks, or copyrights while not bearing any agency cost. It is a method that is used to maximize intellectual property while bearing a minor risk.

This author states franchising is an agreement that lasts for a definite or indefinite period of time in which the owner grants permission for their protected property of trademarks for some consideration, giving the right to this trademark in order to produce goods and services (Caves & Murphy II, 1976). To simplify, franchising allows the franchisee to not only use the intellectual property, but also operates under the franchisor's business model. This method is usually effective to those industries that the brand and standardize service are essential, for example fast foods, retail, and hospitality. In contrast with licensing, franchising involves a deeper and broader level of control and integration into the business process rather than licensing.

2.11.3 Joint Ventures and Strategic Alliance

Joint ventures are a partnership agreement between two firms contributing their capital to a newly form entity firm that will be operated together or having a distinct management structure in which each parent firm will be accountable or an international firm and a local firm enter into a common partnership agreement and running the business as partners (Dinu, 2018). Companies often use this strategy to enter a new market with a firm that is quite knowledgeable in the target market, it is when knowledge and presence of the target market is essential, it allows the share of risks and resources. This strategy gains a competitive advantage where two companies combine their strength although it does raise the risk of conflict between the two.

Strategic alliance is when companies voluntarily collaborate between each other that involves an exchange of products, sharing or co-developing, technology development or the provision of services that helps each other reach a common goal (Lin & Darnall, 2015). It is said to be less formal than joint ventures that usually don't involve equity stake but only to help each other in achieving their personal goals. This strategy allows companies to have faster adaptation and innovation due to the leverage of each other's capabilities.

2.11.4 Foreign Direct Investment

Foreign Direct Investment or for short FDI, is defined as the process of investing across borders to gain/acquire or expand their corporate control of productive assets (Froot, 2008). Considered to be the most integrated form of market entry strategy, due to offering control over operations but also involving substantial commitment and bearing the risk involved. But it offers the most benefits of all by including its long term profitability.

2.12 Market Entry Strategies and Financial Risk

The relationship between a market entry strategy and its financial risk is that when entering a new market, a company must be able to choose on which strategy they would like to choose. A lot of factors that are put into consideration such as the capabilities and resources of the company, what is their goal, and how would their business model be implemented into the strategy. All the strategies face financial, all come in different forms. This financial risk can affect the potential success of the market entry process. A firm needs to be able to mitigate and manage these risks to help the overall success of the market and the financial stability of the firm.

Exporting can be considered as a lower risk strategy (Dinu, 2018). Exporting doesn't involve less investments than most strategies such as the ones that are trying to establish a local production or a subsidiary. But exporting does carry some financial risk, one for example is currency risk where the exchange rate can heavily impact negatively to the firm financially.

Licensing and franchising bears similar goals in financial risk. As it stated, licensing is when someone gives permission to provide services to another person by using the licensor's intellectual property (Svorny, 2000). On the other hand, franchising is similar, giving permission to use intellectual property but in a deeper involvement. Both are also shifting their risk to the ones that acquire the franchise or the license, and receiving a fee as time goes. But this method is quite lower in the risk section, but it also results in lower revenue which can lead to more financial risk in the long term.

Joint venture, the risk in joint venture will be a significant amount because the process of combining two companies will also come with many events of conflicts of interest and potential conflicts also. This will mean that the risk exposure will increase due to many factors such as different management styles, misalignment in goals, and many more risks. Foreign direct investment could also be considered as a high-risk entry mode. Due to the fact it requires a significant amount of commitment and investment, leading to a higher exposure to financial risk.

3. METHOD

The purpose of this research is to answer the following question which is "Which market entry strategy is most effective in facing financial risk associated with global expansion?" based on the current research and knowledge available today. The result of this research that we want to achieve is the solutions or recommendations for companies that are planning to expand internationally and to help them choose the right market entry strategy in the perspective of dealing with financial risk. To find the answer to the question, this research will go through phases of systematic research. We will first try to understand the relationship between market entry and financial risk from prior research and conclude it in the findings. Next, we will implement real life examples or scenarios that will fit into the description of the topic. Lastly, we will take account of the input from the experts that was received in the interview and put a conclusion to the answer.

3.1 Data Collection

Data Collection, to find the basic or base information that is needed in this qualitative based research. A method of conducting a literature review will be done, reading through prior research journals and academic articles, also including books that are related to the topic of market entry and financial risk. Two interviews will be conducted for this research to obtain primary data that helps determine the answer to the question. The first interview will be conducted with Mr. Kim Seong Young, a professor that specializes in international business and is teaching in the university of Rennes School of Business. Mr. Kim has experience in many situations regarding companies going for international expansion and has an in-depth experience and knowledge of the topic of international business and market entry. The input from Mr. Kim will help this research to gain insight into the sector of international business and market entry. The second interview will be with Mr. Christos Alexakis, a professor that specializes in finance and accounting who has a deep interest in financial market and risk management and is currently teaching in Rennes School of Business. Mr. Christos will help give input regarding the financial risk aspect that will help this research gain knowledge into the financial risk perspective that is highly needed.

Aiming to help aid further information, the data collected in this research will provide first hand information that helps give companies more information regarding the topic of choosing a market entry and which is more efficient in dealing with financial risk. As well as information from the interviews that provide information from experience in the field of international business and finance respectively.

3.2 Data Analysis

The data analysis will be in the form of thematic analysis which will help identify the common themes and patterns across the qualitative data to help understand the relationship between market entry and financial risk and how those market entries are managed. As also a comparative analysis will be conducted, comparing between market entries and the effort they put into mitigating and managing financial risk. This research will compare real life data with the data that is gained from this research and match both to gather evidence for the paper.

4. RESULTS

If we follow the research objective of this study which is Determining which market entry strategy is the most effective in managing the financial risk associated with global expansion. To achieve this objective, the findings will be divided into 3 parts. The first part is to explain what has been found in the process of literature review that is related to the topic. The second part is showing what information and insights that the expert has given to this topic. The third part is to implement the information from the literature review and interview into cases of companies going international, also summarizing the patterns and the key learnings, emphasizing the practical implications of the findings.

4.1 Literature Review Findings

To conclude the finding in the chapter of literature review that is related to the topic of this research, we need to summarize the two key components which are financial risk and market entry. We need to summarize the main idea of both components to be able to determine the relationship between the two components. Thus, helping us find the relationship between the two and how effective each component is essential to conclude a solution for the research.

Financial risk, containing the two words of finance which means anything that relates to finance and risk which means the uncertainty as to the outcome of an event when two or more possibilities (Outreville, 2014). Financial risk is the added variability that will or may affect the flow of money of the firm due to internal or external factors (Gabriel & Baker, 1980). Financial risk management is the management of any risk that is related to finance for a firm/organization. It is the practice of identifying, analyzing, and taking appropriate actions to help minimize the uncertainties and the potential losses one will experience. In summary is the effort to control the risk for companies/individuals (Gastineau & Kritzman, 1996). Financial risk can be said to be the major risk that companies deal with because every company (except non-profit organizations) is to maximize their profit, meaning that financial risk management is crucial for every company so that it doesn't affect the flow of money or the value of capital. The financial risk that will be discussed in this topic are six risks which are liquidity risk, market risk, legal and regulatory risk, credit risk, currency risk, and operational risk. The effort that companies do to fight these risks is to conduct financial risk management. Effort such as hedging risk, diversification, risk transfer, and internal control and audits. The value of a risk can also be measured by using formulas such as VAR or value at risk and Capital Asset Pricing Model or CAPM.

International business is referring to the activities of trading and investing between borders (Cavusgil, Knight, Riesenberger, Rammal, & Rose, 2015). Many reasons why companies go international, there is globalization, market diversification, and bigger margins. Companies can assess their capabilities and assess their target market using theories such as the Dunning Methodology and the Porter diamond and forces. Market entry modes/strategies are a set of procedures or planned methods that companies or organizations use to enter a market outside their own. In this article there are market entry modes such as exports, licensing and franchising, joint venture, and FDI (Dinu, 2018). Exports can be considered as the activity of sales with consumers outside of their border, and indirect exports use an intermediary in the process (Dinu, 2018). Licensing is a public policy tool where an entity can give permission to another entity to use their intellectual property, also having a similar meaning with franchising which differentiate from a deeper involvement in the activity. Lastly, FDI is the term where acquire or invest outside their borders to expand their business and their international presence (Froot, 2008). All these market entries have their own ways in dealing with financial risk and have the same and different risk that is attached to them.

From the literature review we can conclude that both key components have been widely researched and have been in discussions since the 19th century. Both financial risk and market entries have been discussed since the 19th century. A lot of articles and authors have put their deep research into these two key components which will undoubtedly help the research undoubtedly. In my opinion, in my quest to find articles related to the topic that I am researching on which is financial risk with market entry strategies, there isn't much that I found. There were several that talked about the risk in market entry strategies but none of them specifically is talking about the financial risk in these entry modes. On which I need to find the relationship between the two with the help of my own research and knowledge in these components, also using the help of the two professors that I interviewed.

4.2 Interview Insights

I conducted two interviews with two professors, both who are experts in the field of international business and financial risk management respectively. Both professors provided me with good insights on the research topic that will help me to find a conclusion in my research and answer the research question.

Mr. Kim is a professor who is an expert in international business and has experienced first hand many situations in market entry. He states that international business is understanding business in a global setting (Kim, 2024). The biggest challenge that a company faces is understanding the environment of the target market, he describes it as we humans trying to understand aliens, meaning there are so many unknowns (Kim, 2024). In his opinion, the biggest reason why companies go abroad is the market conditions of their current market (Kim, 2024). The important factor that companies need to consider is that they have to know their capabilities and resources on whether they are ready to go international and consider the key criteria such as the environmental conditions of the target market (Kim, 2024).

When asked the questions regarding what he thinks is the recommended stuff on market entry and their risk management, he is basically saying that there are a lot of great examples and lessons from the success and failures in companies going abroad. But, in international business, there is too much to consider and put to mind, so there is no exact or sharp answer to questions like that. All of it depends on the conditions that the activity is experiencing. The risk of a market entry depends on how much a company invests in the project, also goes the same way with the level of commitment.

Next interview was with Mr. Alexakis, he provided short and clear answers to the questions. Financial risk management is the effort to reduce the risk and potential loss in the company (Alexakis, 2024). A company needs to be able to counter these risks with financial tools such as insurance and other tools. A lot of companies fail due to their overconfidence in their product, so companies need to do some things such as working together with people that understand the target market deeply. Implementing strategies such as diversification and acquiring prior knowledge about the target market is essential for good financial risk management.

Both answers from each professor are similar to the findings in the literature review, meaning that not much has changed throughout the years. This is probably because both international business and financial risk management have a lot of factors that need to be considered, meaning flexibility and adaptability is required in both sectors. Companies need to be able to adapt to the situations that they face whether it's dealing with financial risk or planning to go international.

4.3 Real Life Implementations

To have a better view on the examples of success and failure for business in going global from many websites. A table will be provided with the company name, industry, market entry mode, success/failure, reason, financial risk. After the table has been provided, a summary of the table will be given, with a comparative analysis and try to match with the data provided.

Table 1. Real Life Exporting Analysis

Company Name	Industry	Success /Fail	Reason	Financial Risk
Exporting				
Apple	Tech	Success	It has strong global brand appeal despite the high price. Has worldwide demand.	Currency and Credit
Coca Cola	F&B	Success	Coca-Cola has a powerful brand identity and has been known to adapt to local taste.	Currency and Market
İkea	Retail	Success	Effective cost control measures and has a unique value proposition.	Currency and Market
Microsoft	Tech	Fail	The Microsoft Zune failed to compete in the competitive market and had timing issues. Loss to Apple's iPod.	Market
U.S Steel	Manufacturing	Fail	Loss to competitive pricing in the Chinese market.	Market and Operational
Krispy Kreme	F&B	Fail	Overconfidence in their product and lack of understanding in the markets.	Market

In exporting, we can see the most frequent risks are market risk and currency risk. It's safe to say that this is understandable because exporting requires a lot of research in the target market on whether the product will work there or not. And if successful, it can also overlook the currency risk problem where if the research is done correctly, the problem of exchange rate wouldn't bother the company because of great pricing and good adaptation to local taste (Adler & Dumas, 1984).

Operational risk is significant in licensing and franchising because of the inherent challenges like maintaining consistency, quality, and control over multiple operating systems that are not directly managed by the parent company. It's because this market entry strategy heavily depends on the franchisee and the licensee to maintain the standards. Which leads to the rise of operational risk, but if done correctly, it will be a success.

Table 2. Real Life Licensing and Franchising Analysis

Company Name	Industry	Success /Fail	Reason	Financial Risk
Licensing and Franchising				
McDonalds	F&B	Success	Strong brand reputation and high adaptability with the local taste.	Operational
Microsoft	Tech	Success	An extensive and diverse software portfolio which allows a widespread penetration in the target market	Operational
7-Eleven	Retail	Success	Strong supply chain support and easy to implement business models.	Credit and Operational
Google	Tech	Fail	Conflicts in regulation and policies in restrictive markets such as China.	Legal Market
Burger King	F&B	Fail	Underestimation with the competition and lack of market research in some markets such as Australia.	Market

Table 3. Real Life Joint Venture Analysis

Company Name	Industry	Success /Fail	Reason	Financial Risk
Joint Venture				
Walmart and JD.com	Retail	Success	Working with a partner who has knowledge in the Chinese market. Also, a partnering with companies that can cover each other's weaknesses	Operational Currency Market
Starbucks and Tata	F&B	Success	Combining Starbucks brand and product with Tata's knowledge in the Indian market.	Operational and Market
Walmart and Bharti Enterprise	Retail	Fail	Conflicting business practices and misunderstanding of market dynamics of the Indian market.	Operational and Market
Best Buy and Carphone warehouse	Retail	Fail	Failed in understanding the European market.	Operational and Market

Operational risk and market risk is inevitable to this market entry. The main objective for joint venture is partner with someone who has knowledge in the target market (Dinu, 2018). And most businesses fail in this method most likely because of conflicts in business practices and a lack of understanding in the market even with the knowledgeable partner.

Table 4. Real Life Foreign Direct Investment Analysis

Company Name	Industry	Success /Fail	Reason	Financial Risk
Foreign Direct Investment				
Nestlé	F&B	Success	Investments in local manufacturing and strong local adaptation strategy.	Currency Operational
Hyundai Motor	Manufacturing	Success	Establishing a manufacturer in the U.S market which helps reduce cost.	Currency Operational
Costco	Retail	Success	Matching business model with the local preference of Canada, Mexico, and Asia market	Currency Operational
Starbucks	F&B	Fail	Underestimate the competition and a disconnection with local taste	Market
Walmart	Retail	Fail	Failed in Germany and South Korea due to lack of market understanding	Market
eBay	Tech	Fail	Hard competition in the Chinese market with strong competitors such as Alibaba.	Market and Legal

Arguably higher in risk due to higher investment, FDI usually has the most investment and commitment needed than other methods (Kim, 2024). Most of the time, companies that choose to use this method are able to penetrate the market in a manner that could reduce cost if they establish a manufacturing process which will reduce the currency risk and will also help reduce the operational risk with having more control over the operations. And companies usually fail due to the lack of understanding the market which market risk plays a role.

To summarize, most of the market entries deal with the market risk, which is not a surprise where it is not surprising knowing that international business is an activity where understanding the market is essential (Kim, 2024). Operational and currency risk also occur often which is understandable, operations in different markets also sometimes is in the hands of a third party(licensing and franchising) will be difficult if the company cannot adapt to the standards of the domestic market operations or the parent company, on the other hand, currency risk is inevitable in the scenario where a company is entering a market where they use different currency. Every industry and company are different in their resources and differ in challenges that they will face.

4.4 DISCUSSION

To answer the research question "Which market entry strategy is most effective in facing financial risk associated with global expansion?" These findings have been helpful in determining the answers. What has been researched in the past and what the experts are aligned with, meaning that not much has changed over the history of the relevant components such as market entry and financial risk. What happened in the real-life practices of market entry has been proven to correlate with the prior knowledge. Meaning whether it is outdated or current knowledge, the literature review and the insight from the expert is reliable to help determine the answer.

As the expert stated, international business, there is no specific answer (Kim, 2024). Because the situation for every business is different, meaning that there can't be only one answer, companies need to consider every factor that may affect them, especially risk and specifically financial risk. There are many tools to help assess these risks and ways to mitigate and manage them (Alexakis, 2024). So, the important thing to consider is that when companies want to go abroad, they must be knowledgeable enough with their own resources and capabilities, and whatever the market entry choice of the company to go abroad, the important thing is to conduct financial risk management in the process.

However, if we need to have a direct answer for the research question. The higher investment and commitment, the higher the risk (Kim, 2024). Meaning the answer for the market entry that is most effective in dealing with financial risk is by doing licensing and franchising. Licensing and franchising require lower investments and commitment than JV and FDI meaning less exposure to the company's financial factor. These models allow companies to enter the market with lower capital outlay and reduced operational cost because most of the risk and capital is the licensee and franchisee to bear. Moreover, it provides steady income through the fees and royalties, the initial fees provide a buffer against the changes in operational performance. But this model is also arguably the highest in operation as it really depends on the third party, also meaning that it could ruin the reputation of the company, not to mention the lower return than JV and FDI. Exporting may also be the answer but exporting bears many risks such as market risk and currency risk, and if its indirect export, it also depends on the distribution channel. Also, exporting usually comes with lower returns because of higher logistics and transportation cost. JV and FDI is a similar case, both bear the most risk out of the selection of market entries, however for JV, the risk is divided with the partners while for companies that choose FDI will bear the risk for themselves, not to mention that FDI also bear the most risk. Some factors are more important than other factors, so focus on the one that is most important (Kim, 2024).

So, for companies that are planning to go international, the right procedure to follow is first to know if their own resources and capabilities are ready to go international. Every industry, company, or even product is different, there are many factors that need to be considered when planning to go abroad. Factors such as the industry, the market conditions, the product's nature, and the overall value at risk for the company. By using tools and frameworks such as the Dunning's method and Porter's value, five forces, and diamond model to assess the internal and external factors, using formulas such as the VAR and CAPM to calculate the risk and returns in these projects. Companies need to carefully consider these factors before going international. If the company is ready, whatever the market entry modes they want to choose, it really depends on the level of commitment and investment that they are planning to do. If the company is planning to have low levels of commitment and investment, they could choose to export or license and franchising, which will bear lower risk for the company and easier entry to the market. But I need to consider the low return of these modes. For a medium level, companies can choose to do joint ventures or strategic alliances which is arguably the most balanced between risk and return. And if the company is ready to have a high level of commitment and investment, companies can choose to conduct a foreign direct investment, but bear in mind that even if it's the highest in returns, it is also the highest in risk. Regardless of the choice, every company, whatever the conditions are, need to follow through their project in going abroad with risk or financial risk management. Companies need to be able to understand themselves and the target market and the risk that comes with it. If successful in managing it, the high returns from it will undoubtedly satisfy the stakeholders of the company. By using financial risk management tools such as risk transfer (which is heavily used in JV, Licensing, and Franchising), diversification, internal controls, audits, hedging, and many other tools it is to help companies in reducing the risk of any market entry strategy.

In the future there are maybe possible new theories and frameworks that may help to assess financial risk management better. Many factors also will change in the future with the emergence of new technologies, economic shifts, and evolving geopolitical landscapes which needs to be heavily considered in this topic. For example, the rise in e-commerce will likely change the environment in exporting and may also eliminate the risk related to it. The limitations in this research were that biases could occur in the process of interviewing the experts which are experts in their own field and are less knowledgeable in the other field. Also in the literature review, the problem in attaining the data was to find recent research that explains the key components such as financial risk definition wise, all the recent research talks immediately about the financial risk assessment and management. This research was to find the solution in a broad perspective of international business and the relationship with financial risk management regardless of the industry and the geographical status. So, the findings of these research are more in the general area of international business. Future research could extend and test the findings here, perhaps through a quantitative approach or a more focused one in certain industries and geographical areas.

5. CONCLUSION

The aim of this research is to help companies in their ongoing international project with finding the most effective market entry method in dealing with financial risk. As many companies go through failure in going international, even companies that have global reputation fail to enter certain markets. In this case financial risk management is crucial for companies that plan to go abroad. The objective of this research is to give companies the basic idea of international business and financial risk management with the focus of choosing the market entry.

After comprehensive research with a qualitative approach with reading past books and journal articles, also with the help of insights from the professors, the given is the summary of the research. International business is when a business conducts activities outside of its borders with a motive of expanding their sales, raising their reputation, and getting more consumers. The key lesson in international business is understanding and considering everything, but some factors may be more important than the other. To assess the factors, companies can use frameworks and theories such as the eclectic paradigm from John Dunning and Models that has been created by Michael Porter. Companies can enter a market by choosing a strategy of exporting, licensing, franchising, joint venture, strategic alliances, and foreign direct investment, and some more. Each market is different in characteristics which usually differ from the level of commitment and investment that is involved in.

Financial risk is the risk of factors that may affect the financial performance of a company. Financial risk can be divided into market, operational, currency, liquidity, legal, and credit risk (but there is still many more). All come with their own factors that will affect the company in their operations whether it is domestic or international. Companies need to be able to fight these risks by doing financial risk management which is the process of identifying, assessing, monitoring and reporting, and control to envision the appropriate response for the possible outcomes. Companies can calculate the value of these risks by using formulas such as the VAR and CAPM. There are many strategies in managing these risks such as using risk transfer, diversification, hedging, internal control, and audits. By using these strategies, companies can reduce the risk and the potential losses, eliminating the risk is impossible because some factors are out of the company's control.

The correlation between financial risk and market entry is that any activity that has financial factors will also come with financial risk, including market entry. If companies are planning to choose the market entry, they will need to consider their commitment and investment level because the higher the level, the higher the risk involved. But high risk comes with high potential returns. The ranking of which market entry strategy is most efficient in dealing with financial risk, most efficient is licensing and franchising, because of lower capital requirement and risk transfer to the licensee and franchisee. Second is exporting, relatively efficient but comes with more risk and higher cost. Third is JV, risk sharing with the partner but involves more complexities that come with risk. Last is FDI, provides the high potential returns but comes with the higher risk due to higher commitment and investment. Companies need to be able to take the lessons of the companies that are conducting international business whether it is from the success stories and the failure, with also adding the knowledge input from this research. If done correctly, the return from conducting international business with risk management will be second to none.

6. Recommendations

As the suggestions from this research are for companies that are planning to go international, additional research studies with different methods such as quantitative approaches and a more focused approach towards a specific area of study will help make this research better and help make a better conclusion. With the help of this research, the decision-making process of market entry strategies for companies will be easier to understand for their international business project. The gaps of this research, if there is more research in the future, will help overcome the gaps of knowledge and enrich the answer and maybe even found the one exact answer, like focusing on certain industries.

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Please note that this paper was made in the time span of December 2023 - July 2024. The information here was based on the comprehensive research and analysis of data that was available during the time of writing this research. It is important that the conclusion and recommendations that were made in this research are subject to change as new data and phenomena arise. Meaning, readers are advised to put into consideration this document in further exploration and inquiry. Thank you for your attention to this work, this is my first research, your attention is highly appreciated.

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Appendices

Appendix 4.1.2

Interview Transcript

Title: International Business and Market Entry Modes with Risk

Interviewee: Mr. Kim Seong Young, a professor that specializes in international business and is teaching in the university of Rennes School of Business.

Interviewer: Ammar Yasira Wahyudi

[Ammar]: "What is international business?" [start: 00:18]

[Mr. Kim]:" International business is to understand the operations of company in global setting, in different countries, in international business, we should understand company's operation and we need to understand the environment, international business is complex."

[Ammar]: "What is the biggest challenge for companies that go international?" [start: 00:48]

[Mr. Kim]:" I think the basic thing is that we need understand properly the target market/country. Because actually foreign countries are almost like mars (as in the domestic market is earth,) it's like alien. International business is very different, without understanding those kinds of differences, it will be very difficult to do business in other countries".

[Ammar]: "Why do companies still go international despite the challenges?"[start: 01:47]

[Mr. Kim]:"okay maybe, mainly I think in some market, they are saturated that's why they need to go to other markets, and some are very small market like Taiwan and South Korea"

[Ammar]: "What are the important factors that needs to be considered when entering a market?" [start: 02:45]

[Mr. Kim]: "There is some standard criteria, how many populations and potential, markets like Indonesia and India which are high in population and potential, there is also level of economics, economic conditions, if the conditions are good means that the purchasing power is good which means that we can do high sales. Level of democracy is also important, you can guarantee the right property, but personally I think the most important is that if companies are ready to go international in terms of capabilities and resources. There is still a lot but those are key criteria".

[Ammar]:" In your opinion, which market entry is balance between risk and their control? [start: 05:35]

[Mr. Kim]:" As I said, going international means we need to consider a lot of things, like understanding an alien. With that, it is actually not easy to select any strategies. Because we need to consider everything. But sometimes there is some factors that are more important. Imagine if your product is perfect, and you are going to a well industrialized country, in that case country risk is lower. But imagine going to countries like Myanmar these days, very unstable, you will have risk if you go there, because political risk is very high. So basically, you need to consider everything, but some factors are more important than others. So, it really depends on the situation, there is no clear answer for it".

[Ammar]: "In your experience, what are the examples of companies failing in going international?" [start: 07:28]

[Mr. Kim]:" There is a lot of examples of companies failing. Usually, it's because that they don't understand the culture enough, they were too arrogant, like Walmart for example. They failed in Germany, South Korea, and Japan because they ignore the culture."

[Ammar]:" How about the successful examples? [start: 09:20]

[Mr. Kim]:" We have a lot of successful examples, Samsung was a successful case. They have good product, good price also but in my opinion its because they really try to understand the culture and adapt to the target market. By using local people, hiring local employees, trying to understand local culture, by implementing local business practices. By understanding that first, they make their business easy, there are a lot of examples, but Samsung is on the biggest examples.... But besides understating culture, they need to be able to achieve the satisfactions of people. Whether it is in an international setting or domestic setting, everything is based on people".

[Ammar]: "What are the tools that you recommend assessing the market risk? [start: 12:28]

[Mr. Kim]:" We have a lot of tools but there is no specific tools. But we can say five forces model, a very specific tool for understanding industry. But international business is more than that. In international business, we have many different entities that are engaging such as economies and people. So, in terms of tools, rather than tools, what is the information that e can use. For example, using statical data like how many populations, economic GDP and GNP, Purchasing power, growth level, how many exports and imports. At the same time also the regulations they have. So international business is a very broad domain, so rather than using specific tools, its how we can use information properly".

[Ammar]:" Can you recommend for some specific industries on which market entry strategy is for applicable for them?" [start:14.33]

[Mr. Kim]:" This is not an easy question; every industry has different characteristics. So, for example, high technology market. Technology can easily spread in the market, so why not take all market, so we need to quickly internationalize, quickly spread to other countries. In manufacturing sector, maybe some products spread relatively slower than high technology. So timing is important to consider. This question is tough, but let's say we go to Indonesia, I'm a Japanese player, which product could be good in their market, which is a really good question to answer, the products that quickly accepted in Indonesia like technology. For example, countries like France are more advanced than most Asian countries. France is relatively negative towards AI Technology, but these days countries like France is more human oriented, so they try to keep distance with high technology. So, from those cases, we have different opportunities."

[Ammar]:" Can you talk about the level of commitment in going international. [start: 18:50]

[Mr. Kim]:" As I understand, commitment is how much you invest over there, if you invest less your commitment will be lower. And for FDI you invest a lot, so you need to have higher commitment meaning higher risk also. Commitment is dependent will affect how many risk you have also"

Appendix 4.1.2

Interview Transcript

Title: Financial Risk in Global Expansion

Interviewee: Mr. Christos Alexakis, a professor that specializes in finance and accounting who has a deep interest in financial market and risk management and is currently teaching in Rennes School of Business.

Interviewer: Ammar Yasira Wahyudi

[Question]:" What is financial risk management?" [start: 00:30]

[Mr. Alexakis]:" It is to manage the risk, to reduce the risk, if not eliminate the risk, its how you manage the risk to reduce the riskiness in activities".

[Question]:" What are the principles in financial risk management that is used in global expansion?" [start: 00:50]

[Mr. Alexakis]:" The fundamental principle is to use these tools, like derivative financial products, insurance, diversifications, and most of the people used these tools".

[Question]:" How do different market entry strategy impact the financial risk when expanding globally? [start: 01:15]

[Mr. Alexakis]:" The best way to avoid risk is to corporate someone who is in the target market, who knows the market, so franchising is a good idea".

[Question]:" In your experience, how well traditional risk management models hold up in with financial uncertainties?" [start: 02:02]

[Mr. Alexakis]:" All of these models is based on assumptions, when we uncertainties like crises, so when these events happen the assumptions are not valid"

[Question]:" What is the most often financial risk that companies experience when going abroad?" [start: 02:25]

[Mr. Alexakis]:" There is operational risk, because they don't know how to operate in a new environment, there is also currency risk, but there are tools to deal with these risk"?

[Question]:" What are the current trends in finance that relevant to global expansion?" [start: 02:50]

[Mr. Alexakis]:" Finance is always developing, so companies need to be aware about the new products that emerge".

[Question]:" What are the common mistakes that companies do in financial risk management when going international?" [start: 03:31]

[Mr. Alexakis]:" Maybe the overconfidence, when they thought they are good but in reality, they are not that good, so you need to be always cautious".

[Question]:" Do you have any recommendations for assessing risk for companies going abroad [start: 04:23]

[Mr. Alexakis]:" Diversifications is important. To assess the risk, you need to be able to understand that market. So before entering the market, you need to have prior knowledge about that market".