

Lack of knowledge about new foreign markets hampers international success

March 19 2015, by Andreas G. Jensby Og Martin H. Damsgaard



Credit: Aarhus University

Lack of insight into the culture and regulations of other countries is a great obstacle for companies trying to enter new international markets. These are the results of a new study, which establishes that companies may benefit from e.g. hiring employees with knowledge about the new market.

"Despite all the talk about globalisation and the trend towards the expansion of the international trade space, the world is still far from frictionless or flat. There are still large national differences between countries. And these differences can greatly influence the companies' earning potential when they seek to expand."

So says Associate Professor Ingo Kleindienst from the School of Business and Social Sciences at Aarhus University. He has recently concluded a major study of 91 German-owned multinational companies and their ability to make money in foreign markets. The results have been published in *Journal of International Management*.

In broad strokes, the results show that companies lose profit due to what Kleindienst describes as "the geographical, cultural or administrative [challenges](#)", which the companies encounter in these new [international markets](#). He believes that many companies with an international outlook underestimate the extent of the local difference between countries.

"It is much harder to gain insight into new cultures and unfamiliar regulations than it is overcoming the more concrete challenges related to transportation," explains Ingo Kleindienst, who has collaborated on the project with Thomas Hutzschenreuter and Sandra Lange from the Otto Bisheim School of Management in Germany.

Every line of business has its own challenges

Ingo Kleindienst proceeds to explain that there may be great differences in how the challenges influence the various industries. For instance, cultural challenges may be especially hard to overcome for companies in for instance the media or food industries where language aspects play a large part, or businesses that are especially connected with what the international market is especially known for.

Administrative challenges are difficult in highly regulated and high-tech industries such as aviation and telecommunications. And geographical challenges are especially great for companies, whose products are of low value compared to their weight or size, which in turn increases the transport costs.

"We are not likely to find a 'one size fits all' strategy for this. Generally, we recommend that companies proceed slowly. That they gather and exchange knowledge and don't move on to the more challenging markets, before they have secured employees with extensive international knowledge within the [company](#)," says Kleindienst and adds other pieces of good advice:

"It is also possible to spread the risk and still obtain more knowledge about the market for instance by collaborating with a partner, participating in joint ventures or hiring local employees, who possess the knowledge that you need."

More information: *Journal of International Management*,
[www.sciencedirect.com/science/ ... ii/S107542531300029X](http://www.sciencedirect.com/science/.../ii/S107542531300029X)

Provided by Aarhus University

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