

Journal of Finance and Accounting

ISSN Online: 2616-4965



Dynamics of Political-Legal Environment on Foreign Market Entry for Multinationals Corporations in Latin America

Dr. Fernando Rodríguez & Amanda Isabel

ISSN NO: 2616 - 4965

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¹ Dr. Fernando Rodríguez, University of Texas

² Dr. Amanda Isabel, University of Texas

*E-mail of corresponding author: rodriguez@gmail.com

How to cite this article: Rodríguez F., Amanda I. (2020): Dynamics of Political-Legal Environment on Foreign Market Entry for Multinationals Corporations in Latin America, Vol 4(1) pp. 15-24.

Abstract

The study examined the dynamics of the political-legal environment on international business entry strategies among multinationals in Latin America. The study was anchored on two theories, namely, international product life cycle theory and environmental dependency theory. A descriptive research design was utilized in the study. The descriptive statistics entailed the frequencies, mean and standard deviation, while inferential statistics comprised of the correlation and the regression analysis. Analysis of variance was utilized to determine whether the overall model was statistically significant. The findings of the study established that the political environment factors that affected the foreign market entry strategies in large extent were election cycles, politician's involvement, the political risk and predictability, level of democracy, embezzlement of funds, the graft level, political traditions, political structure and taking of bribes. Besides the study found that the legal factors that affected the foreign market entry strategies among multinationals corporations to a large extent were liberation in management, levels of consumer protection, economic regulation on price ceiling, licensing requirements, competition regulation, export subsidies, trade tariffs, import quotas and level of taxes. Additionally, The study revealed that foreign entry strategies used in large extent were direct exporting, indirect exporting, investment franchising, management franchising, provision of managerial expertise, hiring of the management company, cooperation with another business, separate joint venture, licensing of copyright and trade secrets and licensing of trademarks. The correlation results showed that the political environment and legal environment were positively and significantly associated with foreign market entry strategies. The study concluded that the political environment and legal environment were positively and significantly related to foreign market entry strategies. The study recommended that multinational corporations in Latin America be granted democracy in their leadership style and not dictated on who be involved in the management. The study also recommended that politicians should distance themselves from interfering with the operations of the business and government to establish policies and regulations to protect companies from the

interference from the influential people in the country. The study also recommended that other multinational corporations aiming to expand their business in different countries can also adapt those strategies of cooperation with another company, separate joint venture and direct exporting since they were the most used by the multinational corporations in Latin America.

Key words; *Political-Legal Environment, Foreign Market Entry, Multinationals Corporations & Latin America.*

1.0 Introduction

1.1 Background of the Study

The political and legal environment is an essential factor that is undertaken by the business institutions before deciding on which market to venture into conducting business. According to Pauline (2016), the political environment can be viewed as the activities of the politicians in a country that is a great way that affects the process of doing business. The political factors like political stability go in hand with the legal frameworks such as legislations, laws and regulations and thus become powerful market tools that determine the sustainability and growth of businesses (Czinkota & Ronkainen, 2016). Moreover, Alejandro (2016) established that the political environment could be defined as the actions of the government that usually affect the operation of the business. Therefore, political stability is very vital to determine the entry of new business in the country and the places with much political instability will drive away from the investors.

Furthermore, this study will rely upon two theories in making the conclusions, namely, international product life cycle theory and environmental dependency theory. Raymond Vernon, in the early 1960s, developed the international product life cycle theory (Vernon, 1971). According to the theory, product life cycles go through different stages; Introduction, growth, maturity, saturation and decline. The environmental dependency theory was developed by Hans Singer and Raúl Prebisch (Pfeffer & Salancik, 1978). The theory shows that external factors affect the performance of an organization and most of the companies in the world must engage in transactions with other actors and organizations in its environment to acquire resources.

According to María Paula (2014), the legal environment includes both national and international laws that govern how foreign businesses should operate within a country. Moreover, Pauline (2016) defined the political environment as a set of actions that affects the overall operations of any business activity. The legal environment can be divided into three aspects, namely home, host and global contexts (Ajayi, 2016). The home environment specifies international companies should fully adhere to the internal rules set aside. Some of the home environment affecting the business includes the nature of the administration and who are responsible for making laws (Tambovceva, 2016). Moreover, the host environment restrains the company to abide by the laws governing business in the host country, such as adhering to employment practices, taxation, and measures to protect the environment (María Paula, 2014).

The global environment is regulated by the agreements different countries have set aside to control the flow of goods and services to different boundaries (Wu, Johan, & Rui, 2016). The government has a role in protecting the local industries and firms from stiff and unfair competition from well-established firms with massive resources. Therefore, the political, legal environment plays a fundamental role in ensuring economic stability. Thus, the government may initiate strategies to discourage or encourage foreign companies depending on the impacts to the country (Amaeshi,

María Paula, 2016). For instance, a political barrier can be informed by boycotting a particular product from a given company coming from outside the country.

According to van Hoorn and Maseland (2016), foreign market entry strategies are methods used by companies to access an overseas market for its products and services. Moreover, Beamish and Lupton (2016) showed that business enter an overseas market for income generation and profit maximization. Kordos and Vojtovic (2016) established that most compelling foreign market strategies international companies use are direct and indirect exporting, franchising, management contracts, joint ventures and licensing. Viswanathan (2016) argued that exporting had gained roots in the current World and it entails the process in which a good is produced within a country but sold outside the country to the external consumers. The direct exporting is selling directly to potential consumers, while indirect selling entails using an intermediary to sell out the products (Sukali, 2014). Franchising is a particular type of permitting where franchiser sells its impalpable property like a trademark, copyrights, plans, and licenses to its franchisee (Bandick & Sanneh, 2018).

Moreover, the management contracts are also used as an entry business strategy in which a company can hire professionals from another country to manage the operations and activities of the business in which a fee will be paid (Sartor & Beamish, 2018). Furthermore, Felipe (2017) uncovered that joint-venture is shared responsibility for substance between two companies, one situated in abroad and the other located in the home country. In conclusion, licensing is a legitimately restricting trade where the firm offers some selective assets for a neighborhood association as a byproduct of greatness costs (Alejandro, 2017). For example, a portion of the benefits that can be a bit of licensing understanding fuse trademarks, advancement know-how, age, procedure and licenses.

1.2 Statement of the Problem

The operations and sustainability of the businesses depend on the environment in which they will be operating under, such as the political situations and stipulated laws (María Paula, 2018). The government involvement in the businesses is very crucial since it formulates the fiscal and monetary policy that affects the operations of the company. The nature of the political and legal systems, for example, political vulnerability, legitimate procedural difficulties, deprivations and inadequate lawful reinforcements, becomes a significant determinant in selecting a suitable market for the operations (Rahman, Uddin & Lodorfos, 2017). Additionally, most common strategies used by the MNCs to enter a foreign market are direct and indirect exporting, franchising, management Contracts, joint Ventures and licensing.

However, the political and legal environment in Latin America has not been very conducive to the business. There have been cases of high corruption cases, embezzlement of the funds, political instability and unfavorable laws. The political interference from the politicians and other influential individuals is considered to play a significant role in the business and determines the strategy that the company has to use to overcome it and continue being stable (Felipe, 2014).

Preceding studies present knowledge gaps. Yasmeeen and Viswanathan (2016) argued that entry in another country is determined by government intervention, property right and environmental uncertainty. In addition, Sogo (2015) established the entry strategy depends on the political situation in the countries, foreign market size, legal environment, and taxation and business regulations.

Likewise, research by Silverman (2013) postulated that technological resources are perhaps one of the essential characteristics of a firm affecting the entry mode decisions to internationalize in the USA. Andersen and Buvik (2012) established modes of foreign market entry and operation could be classified according to the level of involvement in the overseas market. The above studies presented conceptual, geographical, contextual and methodological gaps. Therefore, since none of those studies have conducted a similar study, the current study may be beneficial and is expected to fill the existing research gaps and establish the dynamics of political-legal environment on foreign market entry for multinationals corporations in Latin America.

1.3 Objectives of the Study

To establish the dynamics of political-legal environment on foreign market entry for multinationals corporations in Latin America.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 International Product Life Cycle Theory

Vernon developed the theory in 1960. The theory argues that product life cycles go through different stages. The first stage is the introduction of the product. At this stage, the product is consumed locally since many of the consumers are not aware of the existence of the product. The producers promote the product and examine the responses of the consumers to the product in the local environment (Vernon, 1771). Further, the product enters the next stage, which is growth. At the growth stage, the product is known to the more extensive market and the competitors develop their version of the product, which increases the level of competition, forcing the company that developed the product to increase their spending on promotion (Vernon, 1771).

The continuing stage is that the maturity stage (Vernon, 1771). At this stage of the merchandise life cycle, the marketplace for the merchandise is high and also the demand is additionally high. The companies look for the new market by exporting to other countries, mostly with similar status (Vernon, 1771). New plants may be established in the new market to meet the demand. Thus, instead of importing from one production plant in the motherland country, the product is produced in the new market, which will cause the export from the original supplier to decline. Then, the saturation stage of the product cycle is reached when there is neither increase nor decrease in sales. The competitors at this stage may have gained momentum, causing a decline in the market share of the inventor of the product (Vernon, 1771). Finally, the last stage is the decline of the item. At this point in the item's life cycle, the qualities of the object itself and the generation procedure are notable; the issue is well-known to buyers and the creation procedure to makers. In the long run, incomes drop to the point where it is never again monetarily achievable to keep making the item. At this stage, the item can be ended or offered to another organization. Generation may move to create nations (Vernon, 1771).

The product life cycle is very much relevant for the companies since they can easily forecast the sales which the product will be able to make in its life span. Moreover, the theory shows that analyzing the life of a product in the market help the companies to develop the best strategies and help the company to create a mechanism that will help to face the competition. The theory was significant to the present examination and will dissect the impact of the political and legal environment on foreign market entry strategies.

Nevertheless, the theory had some weaknesses. According to Finnveden (2000), the approach shows that life cycles come to an end with the decline of the product. Still, there are other situations after the fall; the product found the popularity and becomes widely demanded. Also, Peltoniemi (2011) criticized the theory and showed that the model only operates to the environment which is stable without any uncertainties. Moreover, Agarwal, Sarkar and Echambad (2002) argued that the life cycle of a product is dependent on the sales to the consumers and some of the consumers may start purchasing the products after their friends have already consumed the product and thus may not consume at the introduction stage.

2.1.2 Environmental Dependency Theory

It was initiated by Hans Singer and Raúl Prebisch (Pfeffer & Salancik, 1978). The theory shows that external factors affect the performance of an organization and most of the companies in the world must engage in transactions with other actors and organizations in its environment to acquire resources. Moreover, the resources needed may be scarce, thus forcing companies to adapt to the nature of the environment, therefore, develop strategies such as merging, absorption, joint ventures, taking political actions and developing direct links with other organizations for survival (Bryant & Davis, 2012). Depending on the strategies adopted, firms will lessen their dependence on other businesses for survival. The theory illustrates that as the environment changes, such as the decrease in demand, the need for links with other organizations also increases (Pfeffer & Salancik, 1978).

Furthermore, the theory is relevant and establishes firms can minimize environmental dependence and uncertainty through mergers, joint ventures, and political action. The theory further shows that merging and absorption are very fundamental in controlling the competition, inputs and the diversification of its operations to reduce the dependency. Likewise, the theory showed that joint ventures are critical to spreading out risks and political actions change the condition of the external economic condition by attempting to shape the administration guidelines and set up a progressively ideal situation that will support the business (Sherer and Lee, 2002). The theory gets pertinent to the present investigation and the substance of the approach will guide the study in establishing the influence of the political and legal environment on foreign market entry strategies.

However, the environment dependency theory has been criticized by scholars. For instance, according to Binder (2007), the theory did not establish the importance of free trade. It ignored to examine how lack of competition within an economy makes the local industries reluctant to improve on the products and services, making the consumers lack a variety of goods and services. Moreover, Ho, Liao and Rosenthal (2015) highlighted the theory did not establish those industries that influence political decisions and rely mostly on government support that may not be sustainable in the long term. In addition, according to Hessels and Terjesen (2010), the theory does not elaborate on the consequences of the political action of the businesses in the economy. The severe cost of production stimulated by the taxes and restrictions on the imports constrains individuals to do without those products.

2.2 Empirical Review

The political environment in countries is an essential factor that determines the morale of the businesses to venture into the market. The companies have to abide by the rules and regulations within a country despite the influence of the company country (De Villa, Rajwani & Lawton,

2015). The political situation in a country influences the way businesses will operate and the investors are interested in the countries enjoying political stability and there is freedom of choices. According to Ajayi (2016), the political environment constitutes the level of corruption and peace stability in the country. Corrupt nations scare investor's away transparency of the institutions and low political interference in doing the businesses increases the confidence level among the investors in their invested money to give out returns. Besides, the political relations among nations determine the strategy that business users in the business (Autio & Fu, 2015). For instance, a business will find it to be challenging to expand its operation in countries with bad relations with the home country. Further, the companies have to do a more profound research for the markets to avoid examining the strengths and weaknesses of the market.

Du, Wang and Wang (2014) tried to examine the severity of the political factors on decision making of the Chinese firms in entering other countries. The discoveries of the examination demonstrated that the political factors were positively and significantly influenced the decision of the Chinese firms in entering other countries globally to do business. Moreover, the study concluded that the Chinese firms, in general, put resources into nations that have a superior institutional environment and they are much confident their investment will earn some interest after some time.

Furthermore, Mark and Nawawi (2015) tried to examine how political environments have influenced the performance of international companies in Nigeria. The data was collected between 1999 and 2013. The discoveries of the examination revealed that the international business in Nigeria was much concerned with the political situation in the country. The investigation further inferred that the Nigerian government ought to stay away from successive changes in government strategies and projects with the goal that it does not influence the performance of the business negatively.

The legal environment is the core factor that the companies are concerned with when looking to invest in other countries that they have not been associated with before (Felipe, 2014). For instance, Ofunya (2013) established that the success of the companies, whether local or international depends on how those companies abide by the established laws. The companies that do not abide by the regulations to not take long before liquidating up since the government will be on their toes and to a greater extent, their operation license will be revoked and become illegal to continue operating. The legal environment constitutes the government policy that is regulating the functioning of the business entities within a particular jurisdiction (Watson, Weaven, Perkins, Sardana & Palmatier, 2018). Some of the crucial legal environment that the business, whether internationally or locally, should adhere to include Competition Regulation, Tax Policy and the government policy.

Further, the legal environment can be divided into three aspects, namely home, host and global contexts (María Paula, 2016). The home environment specifies international companies should fully adhere to the internal laws and policies, no matter the impact on the company. Some of the home environment affecting the business includes the administrative requirements relating to the legislative branches of the government (Tambovceva, 2016). Moreover, the host environment restrains the company to abide by the laws governing business in the host country, such as adhering to employment practices, taxation, and measures to protect the environment.

3.0 Research Methodology

A descriptive analysis style was used within the study in line with Newhart (2017), the descriptive study style is employed once gathering information regarding individuals' attitudes, opinions and habits. The researcher focused on multinationals corporations in Latin America. Therefore, the focus population in the study was multinationals corporations in Latin America. Census was utilized in this study since the focus population is small and manageable. The quantitative knowledge was analyzed using descriptive and inferential statistics. The descriptive statistics entailed the frequencies, mean and variance, whereas inferential statistics comprised of the correlation and therefore the multivariate analysis.

4.0 Data Analysis and Discussion

4.1 Correlations Analysis

The correlation results are presented in Table 1.

Table 1: Correlation Analysis

		Foreign Market Entry Strategies	Political Environment	Legal Environment
Foreign Market Entry Strategies	Pearson Correlation	1.000		
	Sig. (2-tailed)			
Political Environment	Pearson Correlation	.694**	1.000	
	Sig. (2-tailed)	0.000		
Legal Environment	Pearson Correlation	.723**	.477**	1.000
	Sig. (2-tailed)	0.000	0.000	

The results in Table 1 show that the political environment and foreign market entry strategies are positively and significantly associated ($r=0.694$, $p=0.000$). The legal environment and foreign market entry strategies are positively and significantly associated ($r=0.723$, $p=0.000$). The results concur with the findings of Catalina (2017), who showed that internal firm factors and external determine the outside market extension procedures used by companies.

4.2 Regression Analysis

Table 2: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.825a	0.6810	0.6730	0.2196

a Dependent Variable: Foreign Market Entry Strategies

b Predictors: (Constant)Legal Environment, Political Environment

As presented in Table 4.7, the model summary shows that the R square value was 0.6810, indicating that the political environment and legal environment explained 68.10% of foreign market entry strategies. The results agree with the argument of Javier (2015) who found out that

entry into overseas market by the commercial banks considers the political situation in the countries, sufficient foreign market size growth rate, competitive technology, legal environment, taxation and business regulations, income distribution to sustain entry and growth requirements, adequate and favorable monitors and fiscal policies and foreign currency exchange conditions in the country.

Table 3: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.139	2	5.069	105.15	.000b
	Residual	4.773	99	0.048		
	Total	14.911	101			

The results in Table 3 show that the general model was statistically significant thus, political environment and legal environment were good indicators of foreign market entry strategies.

Table 4: Multiple Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.949	0.203		4.684	0.000
	Political Environment	0.327	0.047	0.452	6.988	0.000
	Legal Environment	0.426	0.054	0.507	7.836	0.000

The regression model is presented as

$$Y = \beta_0 + 0.327X_1 + 0.426X_2$$

Where: -

Y= Foreign Market Entry Strategies

X₁= Political Environment

X₂= Legal Environment

β₁, β₂, = Coefficients

Results in Table 4 show the political environment and foreign market entry strategies were positively and significantly related (β =0.327, p=0.000) supported by the calculated t statistics, which is 6.988 greater than critical t statistics of 1.96. The results imply that when the political environment improves by one unit holding other factors constant, multinationals corporations will enter the Latin America market by 0.327 units. The outcomes agree with the findings of Mark and Nawawi (2015), who revealed that political stability in the country was positively and significantly related to international business entry in Nigeria. The legal environment and foreign market entry strategies were positively and significantly related (β =0.426, p=0.000) supported by calculated t statistics of 7.836, which is more than t critical of 1.96. It signifies that by holding other factors constant, an improvement in the legal environment by one unit will increase the multinationals corporations coming into Latin America by 0.426 units. The findings concur with the reasoning of Catalina (2017) who showed that internal firm factors, external factors such as government policy

and trade policy had a positive and significant effect on the outside market extension procedures used by companies.

5.0 Conclusion and Recommendations

Political environment was positively and significantly related to foreign market entry strategies. The findings of the research established that the political environment comprised of many determinants such as election cycles, politicians involvement, political risk and predictability, bribe-taking, embezzlement of funds, the graft level, Political traditions, Political structure and level of democracy. According to the findings of the study, most political environment that influenced the foreign market entry strategies among multinationals corporations in Latin America in large extent were embezzlement of funds, political risk, level of the democracy, taking of the bribes, politician's involvement and graft level in which the mean score of the six determinants of the political environment was four and above.

The study also concludes that the legal environment was positively and significantly related to foreign market entry strategies among multinationals corporations in Latin America. With the references to the findings of the study, the legal environment constitutes liberation in management, levels of consumer protection, economic regulation on price ceiling, licensing requirements, competition regulation, export subsidies, trade tariffs, import quotas and level of taxes. The outcomes of the investigation reveal that the most compelling legal environments factors were the level of taxes, liberation in the management, import quotas and licensing requirements, in which the determinants portrayed a mean score of more than 4.

The study further concludes the strategies employed by multinational corporations to enter the Latin America market were cooperation with another business, separate joint venture, direct exporting, indirect exporting, investment franchising, provision of managerial expertise, management franchising, licensing of trademarks, hiring of the management company, licensing of copyrights and trade secrets. However, strategies used to a large extent were cooperation with another business, separate joint venture and direct exporting, in which the approaches depicted a mean score of more than four.

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