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MODERN CHALLENGES FOR COMPANIES IN THE CONTEXT OF BUSINESS INTERNATIONALIZATION

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Abstract

This paper is dedicated to analyzing factors influencing the success of enterprise internationalization in a globalized world. The research is highly relevant due to the rapid growth of globalization and business internationalization, which present companies with new and complex challenges. On the one hand, this opens up broad opportunities for market expansion and increased competitiveness, but on the other hand, it requires adaptation to diverse cultural, economic, and political contexts. The study aims to identify key factors of successful internationalization, analyze contemporary challenges faced by companies during the internationalization process, and develop practical recommendations for overcoming these challenges and achieving success in globalization.

The research results will increase the competitiveness of Ukrainian enterprises on the global market, strengthen Ukraine's position in the worldwide economy, and expand opportunities for Ukrainian companies to attract foreign investment.

Keywords

Internationalization of business, International expansion, International market, Globalization, Market expansion.

Problem statement

Despite the growing need for Ukrainian companies to internationalize to succeed in the global market, their entry into international markets has faced many challenges that hinder their development. The lack of sufficient research dedicated specifically to the Ukrainian context of internationalization makes it difficult to understand the specific success factors and challenges faced by Ukrainian companies. The problem lies in the need to identify the key factors influencing the success of internationalization of Ukrainian enterprises in a globalized world, analyze the contemporary challenges they face, and develop practical recommendations to overcome these challenges and achieve success in the globalization process.

Relevance of the chosen topic

The analysis of factors influencing the success of enterprise internationalization in a globalized world is determined by the growth of globalization, which creates new business opportunities but also requires adaptation

to global changes. For many companies, especially Ukrainian ones, entering international markets is crucial for achieving success, increasing competitiveness, and expanding the scale of operations. However, internationalization is associated with many complex challenges, such as cultural differences, diverse legal systems, competition from international players, currency risks, etc. Successful internationalization requires careful planning, market analysis, adaptation to local conditions, and effective management. Despite the growing relevance of the topic, there is currently a shortage of research focused specifically on the Ukrainian context of internationalization. Therefore, the analysis of factors contributing to the successful internationalization of Ukrainian enterprises is extremely important for increasing the competitiveness of Ukrainian businesses on the global market, improving the efficiency of internationalization strategies, developing effective mechanisms of state support for exports, economic growth of Ukraine, and its integration into the global economy.

Analysis of recent research and publications

A key component of this research was the analysis of contemporary articles highlighting the primary challenges companies face when internationalizing.

According to Émile Audet (Audet, 2024), entering international markets is a pathway to business scaling. However, it demands meticulous preparation and a deep understanding of the unique characteristics of different countries.

Olha Somova (Somova, 2022), notes that numerous Ukrainian small and medium-sized enterprises have successfully entered the international market and have already established themselves there.

Adam Hayes (Hayes, 2021), emphasizes the importance of product modifications to align with the technical or cultural needs of a specific country, thereby enhancing integration into new markets. Additionally, Dr. Mohamed El Idrissi (Idrissi, 2023), points out the necessity of considering local laws and regulations for successful international market entry, as non-compliance can lead to sanctions or financial losses.

Purpose of the article

The purpose of the study is to study the factors affecting the success of internationalization of Ukrainian enterprises in the globalized world and to develop practical recommendations for overcoming challenges and achieving success in the process of globalization.

Presentation of the main research material and results obtained

Business internationalization is the process of expanding operations beyond the company's home country, allowing it to achieve greater growth and success in the global market. Even if a company is successful domestically, internationalization can be a crucial step for further development, especially in today's environment.

International business is attractive to companies for many reasons, with cost reduction being a primary driver. Companies can take advantage of weak currencies or lower costs of living in other countries to reduce their operating expenses. Additionally, relocating production to markets with lower labor costs can significantly decrease production costs. Ultimately, internationalization often leads to the globalization of products, as goods produced and sold by multinational corporations become available on a global scale (Hayes, 2021).

Fig. 1 shows the evolution of a company on the world stage, which usually consists of five stages, characterized by changes in strategy, activities, and market focus:

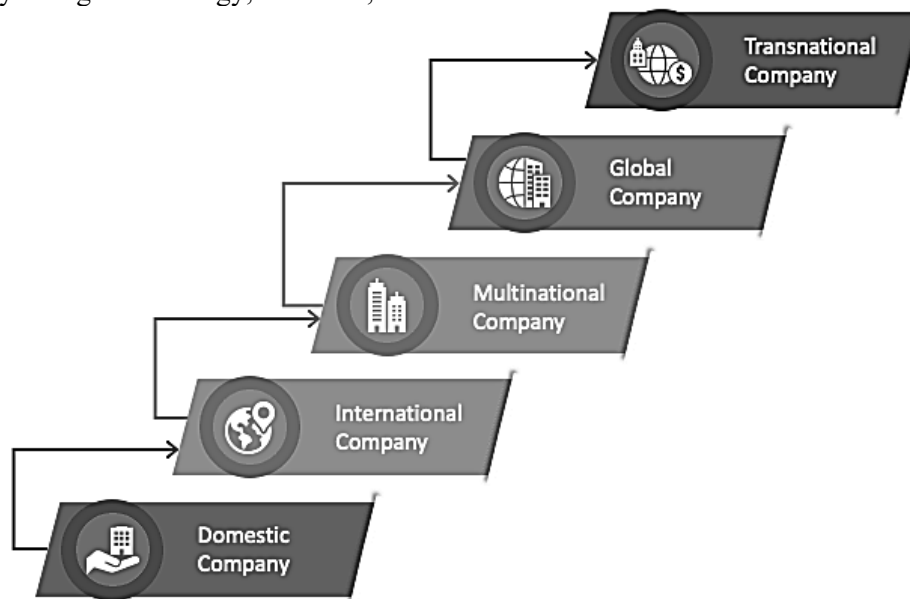


Fig. 1: Stages of internationalization.

Source: (Hive, 2024)

1. Domestic Company. Operations are confined within national borders, with a focus on the domestic market, meeting the needs of local consumers, and adhering to national regulations. Examples include Reliance Industries Limited and Tata Motors Limited.
2. International Company. The company expands beyond national borders, establishing branches or subsidiaries in foreign countries, and exploring international market opportunities.
3. Multinational Company. The company caters to the needs of individual markets in different countries through customized offerings, pricing strategies, and advertising campaigns. Examples include Coca-Cola, McDonald's, and Nike.
4. Global Company. The company employs a unified global strategy, regardless of production or sales location, optimizing efficiency and market penetration worldwide.
5. Transnational Company. Characterized by global integration, production, sales, investments, and operations worldwide, combining global resources with global markets to optimize profits. Examples include Coca-Cola, Apple, McDonald's, and Nike. Each stage is a logical progression from the previous one, reflecting the company's increasing integration into the global economy (Hive, 2024).

Before entering the international market, it is important to have a clear understanding of your goals, resources, and readiness to make decisions. Internationalization requires a constant presence abroad, including scaling up and expanding the business to other countries. It is important to optimize current processes, establish communication with customers, and implement an effective management system.

There are many advantages, including:

1. Increased sales.
2. Expanded target audience.
3. Strengthened brand.
4. Increased trust of consumers.
5. International market presence.

6. Increased return on investment (ROI).

It is also important to distinguish between internationalization and localization. First, it is necessary to enter the global market, and then adapt the product or service to the needs of the local market (Somova, 2022).

Globalization is the process of a company entering the global market. Internationalization is the preparation for this entry, which involves adapting products, services, and internal operations to international standards. Localization is the final stage where the product or service is adapted to a specific region or country, taking into account its language, culture, and consumer needs. By planning internationalization and localization at the beginning of a project, you create products that satisfy users from different regions, cultures, and languages (Lionbridge, 2021).

Business internationalization can be accomplished through various means, from exporting goods to creating joint ventures, transferring production, conducting research and development, and developing marketing strategies abroad. The choice of the optimal form depends on the company's strategic goals, as well as on the conditions in the domestic and foreign markets.

Before entering the international market, a company goes through sequential stages of development. Initially, it focuses on the domestic market, cooperating with local suppliers and financial companies, and orienting itself towards the needs of the local consumer. At this stage, it is important to lay the foundation for scaling by expanding the product range and capabilities. The next stage is the export of goods when the company expands its activities beyond the domestic market while maintaining production in the country of residence. Gradually, the product is adapted to the needs of the international market.

The next stage is entering the international market, when the company expands its operations abroad, including opening subsidiaries and localizing processes and strategies. At the globalization stage, the company transforms into a global corporation with production in several countries. There are two possible options: production in the country of residence and sales worldwide, or production in several countries and sales within them. The final stage is the transformation into a transnational company that independently produces, sells, and invests worldwide.

One of the most crucial steps is choosing a product realization model on the international market that aligns with the company's strategy and resource capabilities. These models can be considered in Table 1.

Table 1: Models of entering the global market.

Model	Description	Advantages	Disadvantages
Online store	Selling goods online without creating a physical network	Direct contact with the customer, instant payments, ability to quickly respond to market changes	Need to adapt the website to the language and cultural characteristics of the target market
Indirect export	Supplying goods through an intermediary	Reduced costs for logistics and documentation, focus on production and internationalization of the product	Loss of control over the sales process, dependence on the intermediary
Production facility	Creating production in the country of business expansion	Reduced export costs, access to local resources	Significant investments and time, need to adapt technologies and production processes to local conditions
Licensing	Granting the right to a company to use the brand and technology for the production and sale of goods	Fast entry into a new market, minimal investment	Loss of control over production and marketing
Franchising	Providing a company with a comprehensive franchising system, including production, sales, marketing, and	Fast entry into a new market, gaining experience and support	Lack of complete freedom of action, possible conflicts with the franchisor

	management		
Direct export	Creating subsidiaries and own activities in a new market	Full control over the sales process and business development	Significant investment and resources are needed to adapt the product and marketing strategy to the needs of the target market
Investment in shares	Acquiring a stake or full control over an existing company in a new market	Fast access to established infrastructure and marketing strategy	Significant investment, need for careful analysis of the financial condition and potential of the target company

Source: Compiled by the authors.

So, the choice of an internationalization strategy is pivotal to a company's success in the global market. It depends on the company's strategic objectives, resources, and risk tolerance. Companies can opt for direct exporting, which is less risky, joint ventures with local partners to share resources and knowledge, or wholly-owned subsidiaries for complete control but requiring substantial investment. To make the right choice, companies must carefully weigh the pros and cons of each option.

Internationalization necessitates a radical overhaul of a company's management system. This entails a shift towards a global approach encompassing operations, human resources, and supply chains. To successfully integrate international divisions, companies require flexible management methods, the development of intercultural skills, and multilingual communication. Moreover, the implementation of integrated information systems is essential to ensure effective coordination between the headquarters and subsidiaries. These adaptations are pivotal for maintaining operational efficiency and seamless integration of all company divisions within a global network.

Developing countries offer attractive growth opportunities due to their dynamic economies and young populations. However, entering these markets requires caution and a deep understanding of the local landscape. Political instability, regulatory differences, and varying consumer habits can pose significant challenges. Companies seeking to successfully integrate into these markets must be flexible, capable of adapting quickly to change, and invest in local knowledge. Collaborating with local partners can provide valuable insights and facilitate a smooth entry into the local economy (Audet, 2024).

Large corporations demonstrate extensive internationalization with vast networks of stores, production facilities, and offices worldwide. For instance, Inditex, a Spanish corporation, is a global leader in retail, operating stores in over 156 countries. It owns brands such as Zara Home, Massimo Dutti, Bershka, Oysho, Pull & Bear, Stradivarius, and Uterqüe, with manufacturing facilities in various countries, including Morocco, Turkey, and Portugal. A portion of the production, especially for new designs, remains in Spain.

Amway Corporation, founded in the United States, has been actively expanding into other countries since 2003, including Ukraine. The company offers a wide range of products, from cosmetics to NUTRILITE dietary supplements, eSpring water purification systems, and AMWAY HOME household products.

FMC Corporation, a leading US-based agrochemical company, operates 26 manufacturing facilities and is present in 70 countries. In France, Groupe SEB, known for its Krups, Moulinex, Rowenta, and Tefal brands, is present in over 150 countries and holds a leading position in the small household appliances market.

Mastercard, a global payment company, operates in over 210 countries, actively promoting contactless payments and e-commerce.

TUI Group, a leader in the tourism industry, has approximately 260 retail agencies and franchise outlets, developing its vacation concepts for customers.

Regarding small and medium-sized enterprises in Ukraine, it is worth noting the startup Enjoy the Wood, which produces multi-layered wooden maps, with about 70% of its products exported to the US and Europe. The Homest brand, which manufactures soy candles, also operates in Ukraine and the Netherlands, focusing on online sales.

PatentBot, a Ukrainian trademark registration bot launched in 2017, successfully operates in the US, European Union, China, and Kazakhstan markets (Audet, 2024).

Successful expansion into new markets hinges on the sequential execution of each stage: from in-depth market research to adapting products and services to meet the needs of local consumers; from adhering to local laws and regulations to establishing an effective distribution and promotion system. The significance of local

partnerships cannot be overstated, as they can help you better understand the market and culture, continuous monitoring and evaluation of results are essential for timely strategy adjustments (Idrissi, 2023).

International expansion is an attractive option for companies as it promises market share growth, the acquisition of new customers, and increased profits. However, this process is fraught with numerous risks that could jeopardize the company's financial stability. It is shown in Fig. 2. The main challenges include substantial costs for entering new markets, currency exchange rate fluctuations, political instability, cultural differences, compliance with local regulations, competition from local brands, and the need to adapt products to the new market.



Fig. 2: Risks associated with going global.

Source: Compiled by the authors.

One of the key issues is financial costs. Companies often overlook the full range of necessary investments, which include setting up local offices, adapting products or services to new market conditions, marketing, as well as legal fees and supply chain costs. Additionally, resources allocated to expansion can weaken the development of the business in its home market.

To address this issue, companies need to develop a detailed financial plan. This plan should account not only for the initial investments but also for potential unforeseen expenses. It is essential to conduct financial modeling of various scenarios in advance and ensure the availability of financial reserves in case of slower revenue generation in the new market. This will help maintain financial stability even if profits are delayed.

Another challenge is currency exchange rate fluctuations, which can negatively impact the cost of doing business abroad. To mitigate this risk, companies can use financial instruments such as currency hedging, which will allow them to protect against sharp currency fluctuations and maintain cost predictability.

Political instability in markets is also a significant risk. The solution to this issue lies in conducting a thorough analysis of political risks before entering the market and preparing a contingency plan for potential political changes. For example, diversification of investments by expanding presence in multiple regions can help avoid over-reliance on a single market.

Cultural differences and misunderstandings can hinder a company's success in new markets. To solve this problem, companies should invest in studying the local culture and consumer habits. Adapting products and marketing strategies to fit local tastes and preferences can help avoid cultural conflicts and bring the brand closer to the local audience.

Compliance with local norms and regulatory requirements can be challenging for foreign companies due to differences in legislation. To avoid compliance issues, it is necessary to involve local lawyers and accountants who can help properly adapt business processes to meet local regulations.

Competition from local companies can be tough, especially if local brands have established positions in the market. To address this issue, companies should use a thorough analysis of the competitive environment and leverage their global advantages, such as innovation or unique products, to stand out among competitors (Zegal, 2023).

Thus, the solution to the challenges associated with international expansion lies in thorough planning, risk

management, and a deep understanding of the market the company is entering. Additionally, effective management of marketing research findings is crucial for successful business internationalization. Analysis of collected data provides valuable insights that drive strategic decision-making. Companies must be able to interpret this information to make timely adjustments to their strategies, respond quickly to market changes, and optimize their approaches for maximum efficiency and profitability. Only in this way can companies remain competitive and adapt to complex changes in the global market. Ultimately, without a thorough understanding of the market, internationalization can be ineffective and even risky. This approach will help minimize risks and ensure stable business growth abroad.

Conclusions

Internationalization, while offering significant growth opportunities and market expansion, is a complex process that demands flexibility, innovation, and adaptation to the dynamic global environment of companies. It's not merely about expanding into new markets but transforming into a global player. This requires not only substantial financial resources but also a deep understanding of international contexts, agility, innovation, and a readiness for constant change.

Key challenges include financial expenditures, currency fluctuations, political instability, cultural barriers, compliance with local regulations, and competition from local companies.

The high financial costs associated with entering new markets are among the primary challenges. To mitigate risks, companies should develop detailed financial plans and conduct scenario modeling. Currency fluctuations can significantly impact business profitability; therefore, hedging is often used to reduce this risk.

Political instability is also a serious risk factor. Companies should analyze political risks before entering new markets and be prepared for various scenarios. Cultural differences can hinder successful market entry, so studying local cultural nuances and adapting products is critical.

Adherence to local laws and regulations is another key challenge. Companies need to engage local lawyers to correctly adapt business processes to local requirements. Competition from local brands requires a deep analysis of the market and identifying one's competitive advantages, such as innovation or unique products. In conclusion, success in global business depends on a company's ability to adapt to diverse market conditions, manage risks, and implement strategic decisions that preserve competitive advantages. This will help minimize risks and ensure the stable development of the business in the international arena.

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