

UNIVERSITY OF SOUTHAMPTON

FACULTY OF BUSINESS, LAW & ART

Southampton Business School

**Market Entry and Market Entry Mode Decisions: The Case of the Saudi
Insurance Market, 2003-2017.**

by

Hassan Al Sedran

Thesis for the degree of Doctor of Philosophy

December 2018

ABSTRACT

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Market Entry and Market Entry Mode Decisions: The Case of the Saudi Insurance Market, 2003-2017.

The literature related to market entry and market entry modes does not clearly state the overall determinants of market entry and market entry mode decisions. With more focus on external factors, external and internal factors are the main determinants this discipline of knowledge has covered. Within these two determinants, a large number of factors have been found to have an influence on market entry and market entry mode decisions. However, within the literature, external and internal factors vary from one study to another; these variations are due to the limited theoretical perspective of most studies. Furthermore, these studies tend to include different markets and industries, although there is empirical evidence that factors vary from one market or industry to another. With such limitations, each study highlights a specific stream of factors that differs from what other studies have found. Moreover, there is almost total ignorance about a third determinant, which is the managerial perspective that might influence market entry and market entry mode decisions. As a result, there is no clear guideline for main determinants that should be followed when investigating a given context or industry. Therefore, the main aim of this thesis is to create such a guideline, providing a theoretical framework of all factors that might influence market entry and market entry mode decisions.

Focussing on the Saudi insurance market from 2003 to 2017, this qualitative study uses the semi-structured interviews of 36 participants. These participants represent a combination of three groups: CEOs and general managers from 33 insurance companies, participants from the main official insurance regulatory agency (the Saudi Arabian Monetary Agency, or SAMA), and independent actuaries from two advisory offices. The data were analysed using a thematic analysis.

The findings of this research improve the state of knowledge in different areas. Overall, three determinants of market entry and market entry mode decisions are investigated and

found to be influential: external and internal determinants (both investigated empirically) and managerial perspectives (investigated theoretically). This confirms the need for theoretical integration when studying market entry and market entry mode decisions. More specifically this thesis confirms that following the country- and industry-specific approach is better for investigating external and internal factors. Moreover, this study develops a holistic approach to screening external factors for a specific industry within a specific context or country. Within this holistic approach, the factors are classified hierarchically in a multilevel construct. Finally, two frameworks result from this research: one is a conceptual framework for practical purposes, and the other is a theoretical framework for contextual purposes.

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Academic Thesis: Declaration Of Authorship

I, Hassan Al Sedran

declare that this thesis,

Market Entry and Market Entry Mode Decisions: the Case of the Saudi Insurance Market, 2003-2017.

and the work presented in it are my own and has been generated by me as the result of my own original research.

I confirm that:

1. This work was done wholly or mainly while in candidature for a research degree at this University;
2. Where any part of this thesis has previously been submitted for a degree or any other qualification at this University or any other institution, this has been clearly stated;
3. Where I have consulted the published work of others, this is always clearly attributed;
4. Where I have quoted from the work of others, the source is always given. With the exception of such quotations, this thesis is entirely my own work;
5. I have acknowledged all main sources of help;
6. Where the thesis is based on work done by myself jointly with others, I have made clear exactly what was done by others and what I have contributed myself;
7. None of this work has been published before submission.

Signed:

Date:

Acknowledgements

First and foremost, I am grateful for the intellectual advises, comments, and support from my supervisors, Dr Alasdair Marshall and Dr Ian Harwood. They have been so patient through my long learning process, and understanding most of difficulties I have been through in my personal life; for that, I would like to say to both of them ‘thank you from the bottom of my heart’.

I would also thank some other personals who contributed to this thesis in a way or another but the list would be very long except for one person, my mother Dhafrah. I know you cannot read, but I know you can listen to my words through your heart. I left you in 1998 when you pushed me away from my home town telling me to pursue a degree although you needed me the most after my father passed away the same year. Thus, I dedicate this degree to you, as you are and will always be everything I have ever lived for.

Finally, I hope I have contributed to the knowledge, and someone would benefit from this work and built upon on it.

Chapter 1: Introduction

1.1 Background

The knowledge of market entry and market entry mode has major gaps in need of development. Within these major gaps, more specific investigations are needed to confirm or verify claims in previous studies. The first main gap is the theoretical limitations of the literature on market entry and market entry mode (Ekeledo and Sivakumar, 2004; Brouthers and Hennart, 2007). Within literature of market entry, different theories have been used but integration between these theories is not common (Brouthers and Hennart, 2007). Different studies with limited theoretical perspective for each study produced a massive number of factors, especially external factors, that has been highlighted and empirically tested (Erramilli, 1992; Helfat and Lieberman, 2002). Under this limitation, each study has identified one or several factors that are similar to some studies or different than others (different/similar streams of factors). Consequently, scholars have formed different sets of factors based on the results of previous studies, perpetuating this problem. In which case, the overall of factors that need to be focused on investigating new markets still unidentified. This limitation or lack of holistic approach was not highlighted through the review of the field by Brouthers and Hennart (2007) or suggestion made by Shaver (2013) in response to Brouthers and Hennart's suggestions.

Moreover, following different theoretical perspectives, studies have investigated factors based on industry type (i.e. manufacturing and service industries), favouring manufacturing industries (Brouthers and Hennart, 2007). This industry-specific differentiation has produced varied results due to the use of different theoretical perspectives (less integrated perspectives). However, studies adopted this industry specification suffer two problems: (1) studies included multiple markets investigating a specific industry (2) or investigating multiple industries within a specific market or country. For many other studies, there is an inclusion of multiple industries and markets within different countries. In industry-specific studies, however, the services industry has been divided between the soft and hard service industries (Blomstermo *et al.*, 2006), but little is known still about this direction (soft vs hard services). Furthermore, some service industries are less investigated within literature of market entry especially in the insurance sector (Ozturk *et al.*, 2015).

Another main gap in market entry literature is, mostly, there is absence of managerial perspectives. As shown above, there is already a lack of theoretical integration exploring or explaining overall factors, and moreover, the integration of theories explaining managerial perspectives have largely been ignored (Brouthers and Hennart, 2007; Shaver, 2013).

Given these directions, specifications, and limited theoretical perspectives, the overall picture of the factors affecting a given market in a specific industry is not clear yet. This makes it difficult for researchers to identify a set of factors to investigate. Consequently, models proposed for use in the field do not reflect the full reality but only part of reality.

1.2 Academic discipline and theoretical perspectives of the research

The topic of this research is interdisciplinary-based in nature. In the internalisation process, such decisions are considered to be the most critical decisions firms penetrating new markets (Hill *et al.*, 1990; Brouthers and Hennart, 2007). Thus, market entry and market entry mode decisions become “a classical topic of study in International Business” (López-Duarte and Vidal-Suárez, 2010: 575). However, studies into market entry and market entry mode decisions are published in large number of academic journals although these studies are more frequently published in Journal of International Business Studies (Canabal and White, 2008). Similar observations can also be noted through other systematic reviews such as those by Laufs and Schwens (2014) and Schellenberg *et al.* (2018).

Nevertheless, based on different limitations found in literature of market entry and market entry mode decisions, different theoretical perspectives are adopted in this thesis which requires the inclusions of other bodies of literature. Theoretical perspectives commonly used in literature of market entry and market entry mode decisions can explain most of limitations, and different theories have been used in this domain of literature. Of these theories, four have been adopted in this thesis: the transaction cost approach (TCA) of Williamson (1985); the resource-based view (RBV) of Wernerfelt (1984); the institutional theory of North (1990); and the eclectic framework of Dunning (1988). These theories have been used to underpin the empirical investigation into external and internal factors that might affect market entry and market entry mode decisions, and to overcome the different limitations that needed to be addressed.

However, market entry and market entry mode studies should relate to other academic disciplines based on a specific limitation found in such literature. The empirical evidence

and theoretical perspectives of market entry and market entry mode studies suffer from a major limitation, which is their ignorance of managerial perspectives. At the same time, managerial perspectives are well explained in theories of decision-making literature that fall under the notion of bounded rationality. Of these theories, the models of bounded rationality by Simon (1982) and upper echelon theory by Hambrick and Mason (1984) have been adopted in this research. For decades, the theories of bounded rationality or behavioural theories have been used in studies of the Psychology of Higher Cognitive Processes to investigate how decision makers process information during any decision-making process. As a result, different cognitive biases have been found to be applied by decision actors when making decisions. However, Gigerenzer and Gaissmaier (2011) stated that the use of heuristics depends on its context. That said, some heuristics are more related to strategic decisions than others. Vuori and Vuori (2014) argue that the use of heuristics depends on the type of context. Thus, considering market entry and market entry mode decisions to be strategic decisions in nature (Crick and Crick, 2016), this research discusses heuristics that have been related to strategic decisions (Strategic Decisions Journal).

Overall, this research considers different disciplines after examining empirical evidence and highlighting various limitations and suggestions made in literature of market entry and market entry mode decisions. Besides this body of literature, the topic of this research is linked to other bodies of literature. Specifically, it is linked to decision analysis under uncertainty, with an insight into the cognitive biases (Psychology of Higher Cognitive Process) that fit the strategic context (Strategic Management Journal).

1.3 Methodological background

According to Brouthers and Hennart (2007), most studies on market entry and market entry mode selection have used samples based on cross-sectional data on different countries and industries and involved many variables, such as home and host countries and industry type. For industry type, some scholars have built arguments based on empirical evidence on the differences between the manufacturing and services industries. This research, therefore, focuses on a specific country and industry, the Saudi insurance market. This single case study is exploratory in nature. Qualitative interviews were conducted with 36 participants in three groups: participants from insurance companies (chief executive officers and general managers), participants from the main insurance regulators in the Saudi market and participants from advisory offices. The interview data were transcribed and analysed

inductively and deductively using thematic analysis as explained by Braun *et al.* (2015) and Saldana (2016).

1.4 Complexity of the Saudi environment

Exploring or investigating the Saudi market is not an easy task for empirical or practical purposes. The Saudi environment requires attentions to how some factors are deeply interrelated affecting each other in a unique and complexed way. For instance, it is not new to know the relationship between politics and economy at any context, but it is different in the case of Saudi context; “from 2005 to 2015, King Abdallah incrementally modernized the Kingdom. Driven by personal ideology and political pragmatism, he introduced a series of social and economic initiatives, including expanding employment and social opportunities for women, attracting foreign investment, increasing the role of the private sector in the economy, and discouraging businesses from hiring foreign workers” (CIA, 2016). In this sense, strategic planning for the Saudi government could easily change based on the change of rulers. In the case of king Salman became the new king in 2015, who designated his son as the deputy crown prince (CIA, 2016), a new strategy (the Vision 2030) as mentioned before. The question now is whether this vision could survive and continue or it could be change by a new ruler after the death of the current king. In other words, strategic plans that supposed to drive the Saudi economy could be massively changed whenever a new ruler ascended to the throne.

Another interesting interrelationship is the fact that some cultural aspects have recently changed, but source of this change is not form or within the society; instead it was the politically forced. . For instance, in 2015, king Abdullah allowed women to vote or even stand as candidate in municipal council elections (CIA, 2016). After that, king Salman, the current leader of Saudi Arabia, issued a royal decree that allows women to drive (Syed *et al.*, 2018).

Overall, factors within the Saudi environment are linked to each other in a unique and complex nature. Thus, close investigation to these factors and their interrelationships is highly required to understand the Saudi context adequately.

1.5 Saudi Insurance Market

While literature of market entry and market entry mode provides little knowledge about the Saudi context, much less is known in terms of the Saudi insurance market. In fact, only a

handful of empirical studies have focused on such a market, discussing specific perspectives such as the insurance framework, based on Islamic Sharia law. Nevertheless, the Saudi insurance market has witnessed interesting changes over the last 30 years. The insurance business started in Saudi Arabia in 1985, when a state-owned insurance company was established, based on a Royal Decree, but no official body existed to regulate the market (Khorshid, 2004). In 1999, the Cooperative Health Insurance Law was passed by the Saudi government to regulate and control companies providing health insurance products (Mirah and Masadeh, 2014). In 2003, the Cooperative Insurance Companies Law was passed to control the entire insurance market (Saudi Arabian Monetary Agency, 2005; Mirah and Masadeh, 2014).

A radical change occurred in 2003, when the number of insurance companies in the Saudi insurance market dropped from 42 to 11, after the new insurance law was issued with new legal requirements (Saudi Arabian Monetary Agency, 2007). The lack of an official body to regulate the market before 2003 motivated some insurance companies to enter the market prior to 2003.

Legal conditions represent one aspect among other external environmental factors that would affect an industry in a specific market. The question now is what overall external environmental factors that have been affecting the insurance industry in the Saudi market since 2003? Further, how have those external factors (along with internal factors) influenced decision-makers, regarding market entry and market entry mode decisions in companies that entered the Saudi insurance market during that time period?

1.6 Motivations, aims, objectives, and significant of the research

1.6.1 Motivations

The motivations behind this thesis arise from different, unsettled arguments and apparently contradictory empirical evidence within the market entry and market entry decisions literature. However, the initial motivation started years ago when the author was working at the central bank of Saudi Arabia or Saudi Arabian Monetary Agency (SAMA). In 2003, SAMA was entrusted by the Saudi government to control a new business sector, the insurance industry, which had just been approved within the country, and where legislature was set the same year to regulate it. Before 2003, insurance companies only existed in Saudi Arabia through agents representing around 90 insurance companies. However, after

the new law passed, all companies were required to be licensed by SAMA, in addition to other requirements. However, only 11 companies applied for licenses, while others decided to stop any related business in the country. This created some considerable interest as to why these companies seemed keen to avoid a more regulated market. Was an unregulated market somehow preferable? This situation motivated the author to investigate the biases in market entry decisions made by members of top management teams.

In view of these initial questions, the market entry and market entry literature decisions was examined in detail, from which it was found that there is appears to be a general lack of empirical understanding of managerial perspectives or factors within the market entry decisions literature, although this gap has, theoretically, been suggested by some scholars; these studies recommend the investigation of how market entry and market entry mode decisions are made, focussing on decision makers and decision-making processes.

However, some limitations have been noted in these regards and so these areas are still debatable; the need more empirical evidence in such areas is clear. For instance, there is an apparent contradiction between empirical studies that were market- and/or industry-based with those that included different markets and industries. Moreover, there has been a greater focus on manufacturing industries than service industries. Indeed, within service industries themselves, the insurance industry has also received very limited attention.

Therefore, this thesis follows from three principal motivations: the first is to enrich our knowledge of market entry decisions from a managerial perspective; the second is to examine whether market entry studies should be market- and industry-based by comparing factors found in this thesis with others within previous studies; the final motivation is to investigate external and internal factors affecting market entry decisions for a less investigated industry, insurance, in a lesser known market, Saudi market.

1.6.2 Aims and objectives

Using the case of the Saudi insurance market from 2003 to 2017 (industry- and market-based approach), the aims of this thesis are:

1. To better understand the factors that do, or may, affect market entry and market entry mode decisions.
2. To build a theoretical framework that improves market entry and market entry mode decisions.

Achieving these aims, the following objectives were designed:

- 1- To explore external factors have attracted insurance companies (industry-based) to enter the Saudi market (market-based) since 2003. Similarly, to explore the internal factors that encouraged these companies to enter this specific market.
- 2- To identify external and internal factors insurance companies recommend that new entrants consider, and to explain the relationships between these factors.
- 3- To shed light on possible managerial perspectives through an investigation of the variation between factors that attracted/encouraged these companies to enter the Saudi insurance market with those that new entrants were recommended to consider. In other words, this objective is the result of a comparison between objective 1 (factors considered before operating in the market) and objective 2 (factors recommended to be considered after having operated in the market for a short while).

Through the aims and objectives described above, this thesis focusses to the same extent on external and internal factors. Moreover, it investigates whether market entry studies should be industry- and market-based. Finally, it introduces the role of managerial perspectives to market entry and market entry mode decisions.

1.6.3 Significant of the research

By meeting the above research aims and objectives, this research contributes to the following aspects;

1.6.3.1 Theoretical contribution:

(1) This research incorporates different theoretical perspectives, including the main theories used in the market entry and market entry literature by different scholars. Specifically, TCA, OLI, RBV and institutional theories are used to investigate empirically external and internal factors. Each has distinct approaches explaining specific factors. In the discussion chapter, it is shown based on the findings how one major factor can be explained by one theory, but details and related factors are explained by other theories, which confirms the suggestion of some scholars such as Brouthers and Hennart (2007) of the need to integrate different theoretical perspectives.

(2) This research introduces managerial perspectives using some theoretical perspectives from decisions analysis literature: models of bounded rationality theory and upper echelon

theory. These theories extend the rational decision model in market-entry and market-entry-mode studies by drawing attention to behavioural perspectives, decision behaviours or behavioural factors specifically. This is addressed in the final theoretical framework this thesis introduce through discussion chapter based on findings.

1.6.3.2 Contextual contribution:

(1) Using the case of the Saudi insurance market, this research proves that market-entry and market-entry-mode decisions should be country and industry based. This research also provides a holistic framework that includes all possible factors that should be considered making market-entry and market-entry-mode decisions. The PESTLE (political, economic, socio-cultural, technological, legal, and environmental) analysis framework of Aguilar (1967) is adopted to identify external forces. Although the six external factors, PESTLE can be found in earlier studies, this research adds new insights into additional factors related to them. This research also provides an abstraction overview of the overall factors can play roles in market-entry and market-entry-mode decisions. This abstraction overview is linked to a multi-level construct of all the related factors. The findings, therefore, show that within the main factors, there are many underlying related factors subject to more variation by market location and industry type.

(2) The results contribute to the scant evidence that internal factors are country and industry specific, which imposed by external factors to a specific context and industry. This research also adds more evidence that for the insurance industry, some internal factors are found to be more common in studies on insurance businesses, while few others are found to be unique to insurance industry.

(3) This research adds contextual value by exploring a unique, different context. In the market-entry and market-entry-mode literature, the Saudi insurance industry is generally neglected. The Saudi market, including the insurance industry, is emerging and developing and thus suffer from immature domestic contexts, such as institutional contexts and cultural attributes (Moon and Roehl, 2001; Kaynak *et al.*, 2007). For instance, Ellis (2000), Zhao and Hsu (2007) found that social ties affect entry modes into the Chinese market, which is found similar for the Saudi insurance market. The findings of this research, therefore, contribute to knowledge about the Saudi market in general and the Saudi insurance market in particular. This research thus adds to the accumulated knowledge

about less well-known contexts and could spur further examinations of the Saudi market and surrounding countries that share some contextual aspects.

1.6.3.3 Methodological level:

Previous studies have mainly focused on the quantitative approach investigating market entry and market entry mode decisions (Ellis, 2000). This is because scholars in market entry and market entry mode studies tend to use factors produced by previous studies. In other words, “Each study seems to use those risk factors that are deemed appropriate (or available) by the authors” (Brouthers and Hennart, 2007: 406).

The qualitative design, adopted in this research, prove its significance to reveal the wider picture of phenomenon under investigation. Furthermore, it uncovers hidden realities that Positivists cannot reach or explain; realities that are constructed through human minds cannot be understood without a close interaction with those of social actors.

Results in this research indicate that market entry and market entry mode decisions are better understood through the eyes of decisions makers; this is because they are subjects their cognitive biases that is caused by uncertainty they face making such decisions.

In short, this research has shown that a contribution to the literature of market entry and market entry mode decisions can be better reached through qualitative designs.

1.6.3.4 Practical and policy contributions

(1) The conceptual framework of this thesis can be applied to investigate market entry and market entry mode decisions in different markets and industries; however, but the contextual factors might not be the same. The literature on market entry and market entry mode argues that external factors vary across countries and industries in the same country. In response to these external factors, the internal factors necessary to consider also vary. Consequently, the detailed main and sub-main factors in this study’s conceptual frameworks should not be considered generalizable results. Overall, this framework is beneficial primarily to insurance companies targeting the Saudi insurance market. It also has some usefulness for insurance companies targeting countries with similar contexts and companies targeting other Saudi markets.

(2) Policy-makers in the Saudi market can benefit from the final conceptual framework showing how government and legal conditions (factors) can affect the insurance industry. The thesis findings suggest that government actions, such as making more insurance products compulsory, can stimulate the insurance market. The findings also suggest that more actions by the Saudi government are crucial to reduce the complexity of laws in general and insurance regulations in particular.

1.7 Structure of the thesis

This research has seven chapters. Chapter 1 introduces the thesis, summarising the research background, methodological background, theoretical perspectives and academic discipline of the research topic, context, motivations, aims, objectives and contributions of this research. Chapter 2 provides a critical review of the literature different bodies of literature: the first section is reviews market entry and market entry mode and explains the limitations or gaps. One of the main gaps found in the first section is the neglect of managerial perspectives, which is further explained in the second section with a literature review of decision analysis under uncertainty. Chapter 3 provides an overview of the Saudi context overall and condition of the Saudi insurance market specifically. In addition, chapter 3 proposes a conceptual framework of factors that might have influenced decisions of insurance companies to enter the Saudi insurance market between 2003 and 2017. Chapter 4 describes the methodology adopted in this research. Chapter 5 presents data analysis and findings divided according to the research objectives. Chapter 6 includes a discussion of findings in three sections: findings in relation with research question and gaps, findings in relation with research objectives, and findings in relations with theoretical perspectives used in this research. Finally, Chapter 7 summarizes the research gaps being addressed through specific aims and objectives; this chapter also reflects on the research design adopted to produce findings, and discusses contributions and limitations before suggests directions for further research.

1.8 Conclusion

This chapter provides a summary and introduces the research scope and background, and research methodology. This chapter also explains the underpinning theoretical perspectives in relation to the discipline of the topic under investigation. Finally, it explains geographical context investigated in this research besides research motivations, gaps, aims, objectives, and contributions conducting this research.

Chapter 2: Literature Review

2.1 Introduction

This chapter consists of two sections: the market entry and market entry mode literature, and decisions analysis under uncertainty. The reasoning for such a literature review structure is based on specific limitations found through extensive examination of the market entry and market entry mode literature.

The first is the ignorance of managerial perspectives. The current knowledge in this area of literature, to a large extent, recommends dedicating any future focus on how market entry decisions are made by investigating managerial perspectives. This gap is ignored in empirical studies despite being repeatedly addressed through different theoretical studies. Nevertheless, such agreement about shifting the focus onto managerial perspectives indicates that the empirical evidence provided already lacks any other limitations. However, different limitations need further empirical investigation alongside managerial perspectives as these limitations have been determined through only limited evidence or due to apparent contradictions with previous studies.

Examining the literature further, it could be noted that there are two main directions or approaches which suffer certain limitations or hidden gaps, both of which have focussed on external factors more than internal factors. Within the first direction, the more popular approach, scholars focussed on or included different markets and industries in their studies, investigating external and internal factors affect market entry decisions; however, the results of these studies are highly contradictory. Moreover, these studies have generally classified industries as either manufacturing or services, but have not treated them separately.

The second approach taken in the literature is to treat either the industry or market in isolation, which is less appreciated or common. In addition, studies adopting this approach have increasingly differentiated and classified types of industries (manufacturing and services) into specific industries such as technology (software programs) and hospitality (hotels). Yet, there is a notable scarcity of studies that have focussed on the insurance business. The results of these studies, however, indicate that external and internal factors are different depending on the type of industry and location (market or country) in question, though the empirical evidence for this approach is still limited.

Therefore, this chapter is designed to, first, explain the overall limitations within the market entry and market entry mode literature. Second, in the second section is designed as a response to one specific limitation highlighted in market entry and market entry mode literature. For both these areas of the literature, theoretical perspectives and justifications are provided.

2.2 Limitations to market entry and market entry mode decisions

In the literature, previous studies have focussed on determinants influence market entry and market entry mode decisions; that is, external and internal factors. On the other hand, managerial perspectives are ignored in general. In other words, previous empirical evidence has assumed that market entry and market entry mode decisions are made on rational basis focussing on the influence of external and internal factors only. Thus, the current debate within the market entry and market entry mode literature suggests that relevant knowledge can be extended by focussing on managerial perspectives. Brouthers and Hennart (2007) stated the need to shift focus on managerial perspectives; in accord with this suggestion, scholars such as Shaver (2013) and Schellenberg *et al.* (2018) raised the following question: **how are market entry and market entry mode decisions actually made? Or how rational are market entry and market entry mode decisions?**

However, the following questions still need to be addressed and answered alongside the above question:

What external factors need to be considered making market entry and market entry mode decisions?

and:

What internal factors need to be considered when making market entry and market entry mode decisions?

These two questions above are abstractions of or represent the following detailed questions:

- **Are external and internal factors different from one market to another?**
- **Are external and internal factors different for manufacturing industries and service industries?**

- **Do external and internal factors vary within service industries?**
- **When exploring a specific industry of a specific context (country), what external and internal factors are worth investigating through literature review?**
- **What are the external and internal factors that could influence the decisions made by insurance companies targeting the Saudi insurance market?**

These questions arise due to the fact the empirical evidence available from market entry and market entry mode studies are still somewhat contradictory regarding external and internal factors, and further limitations are highlighted as a result. Each limitation is linked to one or more of the questions above. Therefore, this thesis focusses not only on limitations that arise from a managerial perspective, but also articulates other limitations relating to external and internal factors that could affect market entry and market entry mode decisions. The following discussion explains the main proposed limitations from the literature and managerial perspectives, in addition to other limitations arising from external and internal factors.

2.2.1 Ignoring managerial perspectives

Decisions about market entry and market entry mode are rationalised (Benito and Welch, 1994), and made based on comprehensive decision-making mechanisms (Maignan and Lukas, 1997). Decisions are modelled as a list of choices, but no questions are raised as to whether these choices are complete and if that matters (Martin, 2013). “So far we lack detailed knowledge of how entry decisions are actually made” (Hennart and Slangen, 2015: 119), and far more studies are needed to investigate the behaviours of decision makers selecting market and entry modes (Brouthers, 2013b; Hennart and Slangen, 2015). This suggestion is not new, with numerous scholars having suggested the need for empirical work conducted from this perspective, such as Maignan and Lukas (1997) and Brouthers (2007). Yet, there are few studies, such as that by Moore *et al.* (2007), that have examined the subjectivity of market entry decisions based on the availability of information. In their study, they included entrepreneurs and decision makers who were working professionals to examine the subjectivity of both parties towards the single external factor of competition. They found that both parties’ choices were subjective, making market entry decisions focussing on internal capabilities without any real consideration for relevant external information, specifically competition. Apart from these few studies, most other studies in market entry and market

entry mode have remained silent with regards to managerial perspective (Hennart and Slangen, 2015). This ignorance even extends to theoretical frameworks in the market entry and market entry modes literature.

Surprisingly, among most studies which rationalise decisions of market entry and market entry modes, uncertainty is constantly reported to be involved in new markets. “The investment risk in a host country reflects the uncertainty over the continuation of present economic and political conditions and government policies which are critical to the survival and profitability of a firm's operations in that country” (Agarwal and Ramaswami, 1992: 6). Hence, uncertainty revolves around external factors, and internal factors are surrounded by uncertainty as a result (Zhao *et al.*, 2004). However, uncertainty is the variance between information needed for a specific task and information available (Galbraith, 1973), and obtaining full information is a hard task to achieve. Therefore, decision makers try to do their best, making their best judgement based on available information. In other words, one of the main reasons for subjectivity in market entry and market entry mode decisions is a lack of information, due to uncertainty regarding conditions in host countries.

Miller (1992) argues that when managers decide to penetrate new markets abroad, they could face uncertainty regarding environmental factors¹, industry factors², and firm-specific factors. In this sense, are decision makers fully aware of external factors involved in targeted markets, and aware of internal factors their companies hold, in order to perform well in those markets? Do they obtain full information about external factors? Do internal factors assist them in collecting and analysing needed information in order to deal with external factors? Is the required information about their targeted markets usually available? Answers to these questions cannot be absolute because, in reality, there is usually a lack of information, especially about external factors. Furthermore, “not all managers in a particular country have homogeneous perceptions of the general environmental uncertainty, nor are the perceived industry uncertainties similar across all managers in a given industry” (Miller, 1992: 313). Thus, market entry and market entry mode decisions should not be rationalised in the manner that most studies in the literature suggest.

¹ External factors that might affect business environments in general for all industries in a specific context.

² Specific external factors for type-specific industries.

2.2.2 Theoretical Limitations

Different theories have been used within this discipline of literature. TCA (Williamson, 1985; Anderson and Gatignon, 1986; Brouthers *et al.*, 2003), RBV (Luo, 2001), the eclectic model (Dunning, 1988; Kim and Hwang, 1992; Hennart and Park, 1994), institutional theory (Meyer, 2001), Uppsala school theory (Johanson and Vahlne, 1977) and the bargain power theory (Palenzuela and Bobillo, 1999) are some of the major theoretical perspectives that have been discussed in the literature. Each of these theories is responsible for generating different streams of external and internal factors. However, combining more theoretical perspectives has not been largely adopted among previous studies, and this is one particular reason why the current empirical evidence regarding external and internal factors is apparently so contradictory. Thus, the combination of mixed theoretical foundations has been repeatedly suggested to introduce more factors that will better explain market entry and market entry mode decisions. For instance, it has been suggested that TCA be extended by adding cultural and institutional factors (Kogut and Singh, 1988; Delios and Beamish, 1999). More empirical studies have recently adopted such suggestions; Hoskisson *et al.* (2013) made such an extension by adding institutional dimensions and factors. Overall, the integration of more theoretical perspectives is sought to better identify further factors that could explain market entry and market entry modes (Brouthers and Hennart, 2007).

Combining more than one theory is also suggested for another reason; according to Brouthers (2013b), one of the principal shortcomings within market entry and market entry studies is that they do not consider the moderating impact of different theoretical perspectives. Instead, they focus on the direct impact of theories such as TCA and their effects on choosing the market and market entry mode.

This thesis, however, is underpinned by TCA, RBV, OLI, and institutional theories. The focus on these four theories is due to the fact that they are the most commonly used, both conceptually and empirically. In their review, Brouthers and Hennart (2007) found that the TCA, RBV, OLI, and institutional theories were adopted in 90% of the studies they reviewed. Similarly, in their review paper, Laufs and Schwens (2014) found that TCA, OLI, institutional theories are among the four dominant theories amongst all the studies they included. Moreover, in a systematic review by Wulff *et al.* (2016), TCA, RBV, and OLI were used in 80% of 119 studies they reviewed. Therefore, the four theories adopted in this thesis regarding external and internal factors are TCA, RBV, OLI, and institutional.

2.2.2.1 Transaction Cost Approach (TCA)

Of all the theories in this domain, TCA is most commonly used (Brouthers and Hennart, 2007). Focussing only on TCA-based studies, Zhao *et al.* (2004) completed a meta-analysis based on empirical evidence of 38 studies and found evidence that TCA explains, to some degree, the market entry mode decision finally adopted. In their review, Brouthers and Hennart (2007) found the same result in 43 studies that included TCA in the theoretical perspective. However, in this theory, or indeed in the framework of Williamson (1985), three factors were considered to affect decisions of market entry mode: asset specificity, frequency, and uncertainty (Geyskens *et al.*, 2006).

According to Brouthers and Hennart (2007), asset specificity was a major explanatory variable in all 43 of the studies they reviewed, but results were mixed. In many of these studies, high control mode or wholly-owned subsidiary was related to high asset specificity (Gatignon and Anderson, 1988; Erramilli and Rao, 1993; Hennart and Larimo, 1998; Makino and Neupert, 2000; Brouthers and Brouthers, 2003). For other studies, the opposite effect was found (Palenzuela and Bobillo, 1999). Furthermore, Brouthers and Hennart (2007) also noticed that, through the studies where a relationship between high control mode and asset specificity was found, the level of significance was low.

Frequency is the second dimension or variable that Williamson (1985) considers important in terms of its effects on the market entry mode decision. Based on Williamson, frequency refers to the recurrence of transaction costs. These costs depend on ‘the choice between using market contracting and integrating transactions within the firm’ (Brouthers and Hennart, 2007: 404). Even if contracts’ costs can be fixed by a pre-existing enforcement mechanism, such as licensing costs, they are also involved in integrating transaction costs within the firm (Brouthers and Hennart, 2007); integrating transaction costs, for instance, could utilise specialised workers and equipment. Such costs are also related to the volume of the transaction where ‘the cost of specialized governance structures will be easier to recover for large transactions of a recurring kind’ (Williamson, 1985: 65). Hence, the variable of frequency, can determine the market entry mode, whether this is via contracts or via equity (sharing control or full ownership).

The third variable hypothesized in TCA by Williamson (1985) is that of uncertainty (uncertainty with regards to both external and internal factors) (Geyskens *et al.*, 2006). The

more uncertain the external factors are, the less possible it is to specify contingency in a contract; such uncertainty internally affects the verification of performance at a later point (Brouthers and Hennart, 2007). Williamson (1985) assumed that decision makers are subject to the opportunistic behaviour of potential partners. Thus, decision makers will fail to anticipate contingencies, risks, and consequences of their decisions and the firm's actions when writing contracts, especially if the uncertainty is related to unfamiliar markets (Wilkinson and Nguyen, 2003). As a result, this variable greatly influences the decisions of market selection and market entry mode.

Williamson (1985) sees uncertainty to be problematic in terms of asset specificity, where contracts' costs could become very high or cause holdups (Brouthers and Hennart, 2007). However, later studies linked uncertainty to more general issues. For example, cultural distance and country risk were suggested by Zhao *et al.* (2004) to be two of the main external or market-specific factors. Furthermore, in their review article, Brouthers and Hennart (2007) found that country risk is measured in different studies by a range of factors such as economy, industry growth, size of market, and political stability risk for the host market. However, cultural distance is measured differently in different studies (e.g., Kogut and Singh, 1988; Erramilli and Rao, 1993; Luo, 2001) using some or all of the four dimensions found by Hofstede (1980).

Internally, such uncertainty is thought, and generally found, to be less problematic within experienced companies. Experience is measured by many different constructs, such as the number of years operating in the host country (Hennart, 1991; Padmanabhan and Cho, 1996; Luo, 2001), number of foreign investments (Delios and Beamish, 1999), and number of years operating worldwide (Padmanabhan and Cho, 1996). However, results showed less consistency in which mode would be chosen over another based on experience; experienced companies were found to prefer or enter new markets through a joint venture mode (Padmanabhan and Cho, 1996), while others preferred to approach the problem via a wholly-owned subsidiary.

In summary, there is considerable room for improvement for TCA, which will contribute to the knowledge market entry and market entry mode studies significantly. As explained earlier, results were mixed with regards to one or more of the three variables hypothesized by Williamson for TCA (1985). Notably, some TCA-based studies deviated from these three variables to include further factors, such as the economy, political factors, and cultural factors.

In other words, some scholars have found other factors that are not at the core concept of the TCA theory but are in other theories, such as the cultural dimensions described by Hofstede (1983). Thus, many scholars have extended TCA theory to cover further factors, such as cultural and institutional factors (Brouthers, 2002; Lu, 2002; Yiu and Makino, 2002). In addition, the effect on internal integration or uncertainty through internal factors in response to an uncertain external environment has been explained through experience in general, but there is no further explanation as to which exact internal factors are subject to change, are themselves affected, or even moderate such uncertainty rather than experience.

2.2.2.2 Resource-Based View

This theory relies on the rare, valuable, hard to imitate, or unique resources that a firm possesses as its competitive advantage (Wernerfelt, 1984; Barney, 1991). A firm's resources include 'all assets, capabilities, organisational process, firm attributes, information, and knowledge' (Barney, 1991: 101). This theory takes the approach of avoiding the loss of transferred resources and thus losing competitive advantage (Sharma and Erramilli, 2004).

Many studies have been conducted on these resource-based advantages to explain market selection and market entry mode decisions. Experience was one of the first advantages to be focussed on. Studying the effect of experience on the choice of market entry mode, Erramilli (1991) found that high control mode is used in the cases of high- and low-level experience, and market-based modes were chosen in the case of an intermediate level of experience. These results are consistent with other studies (e.g., Delios and Henisz, 2000; Cho and Padmanabhan, 2001).

Some studies have tested and found other resources that are considered to be advantageous. For instance, among nine valuable resources, Tan *et al.* (2001) found that the firm's size, knowledge, and strategic control often indicate the choice of market entry mode. Tacit know-how, firm reputation, and skilled workers were found to determine the market entry choice (Erramilli *et al.*, 2002; Ekeledo and Sivakumar, 2004).

Some other studies have shown a twist by focussing on some external factors that might influence the resource-based advantages. For instance, Koch (2001a) suggested 16 internal and external factors that might determine the market selection and market entry mode choice, such as internal factors, such as strategy orientation, experience, company international

competitiveness, size, and management control. However, he also suggested external factors, such as networking, similarity of the overseas market (psychic distance), market potential, and market barriers.

This last study by Koch (2001a) indicates the area of improvement in RBV by extending its concepts with other theories, such as institutional and TCA. For instance, the associated market barriers might include political, economic, or even cultural barriers, which would affect resource-based advantages and internal factors.

2.2.2.3 Institutional Theory

Institutional theory points out the impact of the institutional environment of a host country on internalisation, suggesting that firms should consider and follow informal and formal rules in targeted markets (North, 1990). Early studies that adopted this theory focussed on the uncertainty and risks involved in host markets that could influence the choice of the market and market entry mode (Okoroafo, 1990; Ahmed *et al.*, 2002; Brouthers, 2002). Other studies focussed on the industry structure in a host country that might affect the market entry and market entry mode decisions (Chen and Hennart, 2002; Somlev and Hoshino, 2005).

‘Although these studies helped develop our understanding of differences in institutional environments between home and host countries and how these differences might influence the mode choice decision, they tend to lack a theoretical basis on which to select the risk factors to be included in each study. Hence, each study seems to use those risk factors that are deemed appropriate (or available) by the authors’ (Brouthers and Hennart, 2007: 406).

The new institutional theory argues that the regularity, cognitive, and normative are the three dimensions that form the institutional environment of a host country (Scott, 1995). The influence of these dimensions varies from one country to another (Brouthers and Hennart, 2007). Based on the study of Kogut and Singh (1988), as based on an index of cultural differences, some studies, such as Agarwal (1994) and Hennart and Larimo (1998), have found that cultural differences are crucial factors in determining the market entry and market entry mode.

The question now is what other forces, norms, systems, and beliefs that shape a country’s institutions might influence the market entry and market entry mode decision. In other words, what are the overall cultural distance variables that should be taken in consideration when

choosing markets and market entry modes? Cultural differences include a wide range of variables, such as practices, business customs, languages, and socio-economic characteristics. In their meta-analysis, Kirkman *et al.* (2006) suggested that studying the overall effects of certain factors in a given institutional environment that might affect decision criteria. In which case, what are the overall institutional environmental factors that might influence market entry and market entry mode decisions? Kirkman *et al.* (2006) concluded that a majority of studies that examined cultural distance focussed on the cultural dimensions described by Hofestede (1983), and indeed this appears to be the case for market entry and market entry mode studies (Brouthers and Hennart, 2007). However, Hofstede's work has been criticised for reducing culture to four simplistic dimensions, ignoring cultural heterogeneity and the uniqueness of some cultures (Sivakumar and Nakata, 2001; Kirkman *et al.*, 2006). Again, studies that have adopted Hofstede's cultural dimensions have ignored other factors when it comes to studying the physical psychical distance between the home and host countries; economic and political factors are some of these issues. In addition, economic and political factors are subject to rapid changes in any countries. Therefore, more research about institutional dimensions and their influence on resource-based advantages is needed (Brouthers and Hennart, 2007).

2.2.2.4 Eclectic Framework (OLI)

The eclectic perspective or framework is a combination of different theories that can be used to overcome and address market entry mode problems (Agarwal and Ramaswami, 1992). This framework was first propounded by Dunning (1977), who argued that three kinds of advantages have to be considered when choosing the market and market entry mode: ownership (O), location (L), and internalisation (I), or OLI. This framework brings insights from the three previous theories; internalisation can be linked to TCA, ownership to RBV, and location to institutional (Brouthers and Hennart, 2007).

Many studies have applied these three variables to different contexts and industries, revealing more variables and interrelationships between them. For instance, Erramilli *et al.* (1997) found that ownership might be location specific, and this relation varies from less developed countries to more developed countries. In another study (Cloninger, 2004), ownership and internalisation were influenced by service intangibility within U.S firms. In terms of services manufacturing products, the OLI framework was found to have a different effect on

manufacturing than service entries investing in the Turkish market (Tatoglu and Glaister, 1998).

Overall, this framework should be given credit for bringing together different insights from different theories. However, studies that have adopted these variables or this framework lack a wider overview of external environmental factors that might also affect market entry and market entry decisions. Each study focusses on a specific number of factors that differentiates itself from or matches other studies' results. Some of these claim a dependence on the specific country in question, or a context-specific dependence, while others claim a dependence on how developed that context is. Again, there is no specific umbrella or proxy that can lead to a much more detailed variable that scholars should consider in order to examine new markets. In terms of internal factors, many more differences have been introduced through these studies as there is substantial evidence that the type of industry and product can involve different factors and levels of influence on market entry and market entry mode decisions. Finally, 'past studies of the eclectic framework tend to ignore constructs developed and tested in studies of these other theories' (Brouthers and Hennart, 2007: 408).

2.2.3 One Market or Multiple Markets

There is some considerable tendency for studies within the literature of market entry and market entry mode to include multiple countries. Zhao *et al.* (2004) reviewed 38 studies, of which 33 were conducted in multiple countries, while 5 studies focussed on a single market. Similarly, Laufs and Schwens (2014) found that 32 out of 33 studies included multiple markets. Within these studies, different external factors were found to influence market entry and market entry decisions. The questions here are: what external factors need to be considered studying a specific market? And what external factors could the literature propose to decision makers intending to enter a specific market?

External factors such as cultures and legal systems are not the same in all countries (Gatignon and Anderson, 1988; Erramilli, 1992; Jung, 2004), which is another reason why scholars have shown differing influential factors or influential levels for the same factor. Focussing on international strategic expansion (mergers and acquisition), Hasan *et al.* (2016) found that from one country to another, institutional distance factors vary; they stated that formal institutional factors (economic, political, infrastructural, and administrative) and informal factors (cultural, knowledge, demographic, geographical, and connectedness) could affect

international mergers and acquisitions. Thus, this thesis is single country-based, focussing purely on Saudi Arabia (further explanation about the relevant conditions in Saudi Arabia is provided in chapter 3 (3.2.1)).

2.2.4 Manufacture versus Service

Another shortcoming within the literature of market entry and market entry mode is the unsettled argument and empirical evidence regarding the type of industry in question. Previous studies have, for the most part, focussed on the manufacturing and service industries together, or the manufacturing industry alone. Canabal and White (2008), for instance, reviewed 126 studies. Through the empirical ones of these studies, they found 50 studies focussed on manufacturing and service together, 38 studies focussed purely on manufacture, and only 10 studies focussed purely on service. Thus, there is little research available in terms of services industries (Contractor *et al.*, 2003; Blomstermo *et al.*, 2006).

However, some other scholars, such as Agarwal and Ramaswami (1992), argue that factors for the manufacturing and service industries are similar. On the other hand, scholars such Lovelock (1983) and Erramilli (1992) argue that external factors for manufacturing firms are not the same as for service firms (Lovelock, 1983; Erramilli, 1992). For instance, legal restrictions can differ between countries, markets and industries (Gatignon and Anderson, 1988).

Furthermore, services industries are not the same (Contractor *et al.*, 2003). As a result, studies focussing on the service industry are becoming increasingly industry sector-specific, e.g., the hotel sector (Quer *et al.*, 2007), and the tourism sector (Hardaker, 2017). However, there are different types of services such as insurance, banking, accountancy, consultancy, advertising, and telecommunication (Contractor *et al.*, 2003). Despite this, the insurance industry has attracted little attention in the market entry literature (Altuntas and Gößmann, 2016); in addition, the few studies that have focussed on insurance industry have been subject to certain limitations. In general, these studies are carried out for more developed countries rather than emerging markets in developing countries. Moreover, these studies hypothesised and tested very few factors with no justification as to why other factors were not included, a shortcoming that is rooted, for the most part, in the adoption of limited theoretical perspectives. Finally, studies focussing on the insurance sector, have mostly investigated

multiple markets simultaneously, such as those by Schoenmaker *et al.* (2008) and Berry-Stölzle *et al.* (2010).

Therefore, this thesis first extends the empirical research and evidence conducted on the services industry. Second, it provides further insight into a specific industry type, namely insurance, in a specific market, namely the Saudi insurance market. More details about the Saudi insurance market are provided in chapter 3 (3.2.3).

2.2.5 Lack of Holistic Approach

Determinants or factors, namely external and internal factors that influence the market entry and market entry mode decisions have been extensively investigated with more focus on external factors. As a result, many factors were found in previous studies and have been empirically examined from different theoretical perspectives. The questions that now arise are: what are the factors that need to be considered for scholars studying specific markets? and what factors need to be considered for decision makers investigating new markets? In the literature, these factors have been scattered with no clear censuses as to relevance, which is mostly the result of the limited and different theoretical perspectives among previous studies to have investigated external or internal factors, or indeed both together. Each theoretical perspective is responsible for producing a specific stream of factors. For instance, TCA theory as the most commonly adopted theory, as noticed by Chen and Hu (2002), Brouthers *et al.* (2008a), and Chen and Chang (2011), fails to capture external factors other than those that will minimise transaction costs. Therefore, some scholars have introduced the need to include institutional and cultural factors as well (Kogut and Singh, 1988; North, 1990; Delios and Beamish, 1999; Brouthers and Brouthers, 2000; Brouthers, 2002).

Nevertheless, the literature provides a lengthy list of factors with an imbalanced focus between external and internal factors. Most studies in the literature focused on external factors with very limited attention being given to internal factors (Erramilli, 1992; Helfat and Lieberman, 2002). Thus, many external factors have been found or suggested, see table (2.1).

Table 2.1: Examples of External Factors in Selective Studies of Market Entry and Market Entry Mode

Factors	Studies
Market Size	Erramilli <i>et al.</i> (1997). Buckley and Casson (1996). Ekeledo and Sivakumar (1998). Chen and Hu (2002). Zitta and Powers (2003). Ojala and Tyrväinen (2008). Martín and

Market Growth/Potential	Gaston-Breton (2011). Sheng and Mullen (2011). Agarwal and Ramaswami (1992). Erramilli (1992). Root (1994). Nakos and Brouthers (2002). Elango and Sambharya (2004). Cui and Jiang (2009). Brouthers (2013a).
Gross Domestic Product (GDP) Per Capita	Davidson and McFetridge (1985). Benito (1996). Delios and Beamish (1999). Baek (2003). Martín and Gaston-Breton (2011).
Legal Restrictions	Erramilli (1992). Brouthers <i>et al.</i> (2003). Drogendijk and Slangen (2006). Morschett <i>et al.</i> (2010). Brouthers (2013a).
Corruption	Kim and Hwang (1992). Somlev and Hoshino (2005). Moore <i>et al.</i> (2007). Cui and Jiang (2009). Martín and Gaston-Breton (2011).
GDP	Martín and Gaston-Breton (2011).
Country Risk/Uncertainty	Agarwal and Ramaswami (1992). Erramilli and Rao (1993). Zhao <i>et al.</i> (2004). Sanchez-Peinado and Pla-Barber (2006). Ojala and Tyrväinen (2008). Brouthers <i>et al.</i> (2008).
Cultural Distance, Physical Distance	Whitelock and Jobber (2004). Cho and Padmanabhan (2005). Somlev and Hoshino (2005). Drogendijk and Slangen (2006). Sakarya <i>et al.</i> (2007). Ojala and Tyrväinen (2008). Sousa and Lages (2011). Brouthers (2013a). Laufs and Schwens (2014)
Exchange Rate	Pan (2002).
Geographical/Physical Distance	Mellahi <i>et al.</i> (2003). Gripsrud and Benito (2005). Sakarya <i>et al.</i> (2007). Ojala and Tyrväinen (2008). Sheng and Mullen (2011). Laufs and Schwens (2014)
Uncertainty of Demand	Kim and Hwang (1992). Madhok (1998). Sanchez-Peinado and Pla-Barber (2006).
Behaviour of Potential Partner in Host Country/Relation Between Parent Companies and Potential Partners	Anderson and Gatignon (1986). Gatignon and Anderson (1988). Chen and Hu (2002). Sanchez-Peinado and Pla-Barber (2006).
Language Distance/Diversity	Slangen and Tulder (2009). Sheng and Mullen (2011).
Political Risk/Governance Quality	Agarwal and Ramaswami (1992). Delios and Beamish (1999). Delios and Henisz (2000). Slangen and Tulder (2009). Laufs and Schwens (2014)
Economic Stability/Development	Mellahi <i>et al.</i> (2003). Jekanyika (2012).
Trade Barriers	Papadopoulos <i>et al.</i> (2002). Ojala and Tyrväinen (2007).
Economic Stability or Economic Risk	Mellahi <i>et al.</i> (2003). Sakarya <i>et al.</i> (2007). Hain (2011). Jekanyika (2012).
Social or Cultural Factors	Sakarya <i>et al.</i> (2007). Hain (2011)

On the other hand, there has been much less consideration of internal factors. This could be even observed through systematic review papers. For instance, Schellenberg *et al.* (2018), in

their systematic review, highlighted only three internal factors, which are control, international experience, and assets specificity.

However, it is not clear what external and internal factors need to be considered by a researcher or even a practitioner, as little guidance is provided through the literature. Only a few previous studies have provided a meta-analysis to classify external and internal factors that influence market entry decisions or market entry modes, and each of these meta-analyses suffer from certain limitations. For instance, Zhao *et al.* (2004) preformed a meta-analysis of market entry mode determinants, but they focussed only on factors generated by transaction cost theory. Tihanyi *et al.* (2005) also conducted a meta-analysis focussing on one main factor (cultural distance). Moreover, Zhao *et al.* (2004) designed a meta-analysis of which cultural distance and country risks are the determinants of external factors. The question here is what the specific factors of country risk and cultural distance actually are, and how they can be measured. For some scholars, country risk was considered and measured using industry growth. For others, economic and political stability was considered. Similarly, different studies considered different factors pertaining to cultural distance. For instance, some studies have measured cultural distance based on perceived similarity between cultures, while others have measured familiarity with the culture in the host market or country.

Another meta-analysis conducted by Morschett *et al.* (2010) focussed on the empirical results of 72 studies to classify and examine external factors influencing market entry mode decisions. They found that there are six key external factors pertaining to market entry and market entry mode decisions: market attractiveness, cultural distance, uncertainty of targeted country, competition situation, legal conditions and culture of the home country. However, this meta-analysis, as with most others, had some serious problems, the main problem being the authors' focus on external factors only. They also failed to classify factors in a clearer, broader way, and limited the main factors to specific sub-factors. For instance, they claimed that uncertainty about the host country influences the market entry mode, focussing only on the country risk and demand uncertainty as a sub-factor. If expected demand, as an economic factor, plays an influential role, then all economic aspects could arguably be influential as well. Economic factors were not included in their meta-analysis results, with the exceptions of demand and income, and both were, surprisingly, classified as being sub-factors of two different main factors (uncertainty about the host country and market attractiveness).

2.2.5.1 Proposed Holistic Approach for External and Internal Factors

The discussion in this section concludes that a better holistic approach would be country- and industry-based. This approach would minimise assumptions made by researchers investigating any industry within new markets instead of generalising what already is known about the same industry in different markets. This thesis applies the same approach, but suggests a wider proxy for external and internal factors that researchers, and even practitioners, could use as an initial lens to examine or investigate a specific industry in a specific country.

External factors

For external factors, the initial screening of external factors shown above in table (2.1) indicates that certain factors could be proxies for other factors. For instance, trade barriers can be classified as a sub-factor of legality, and language diversity can be classified as a sub-factor of cultural differences; similarly, GDP and GDP Per Capita could fall under a wider proxy of economic conditions. However, these factors are better grouped and classified in a hierarchical design in a framework called PESTLE, which represents six main factors (Politics, Economic, Socio-cultural, Technological, Environment³, and Legal Environment); a commonly used tool or framework used to help analyse the macro-environment of a host country is the PESTLE analysis (Chaharbaghi *et al.*, 2005; Kotler and Armstrong, 2010).

PESTLE's six external factors could be employed as main index categories with other sub-factors assigned to them. The challenge now is to determine what those sub-factors are, and which belongs to which. In Table (2.2) below, a list of sub-factors are classified under the six main PESTLE factors. This list is adopted from Bivolaru *et al.* (2009) and Yüksel (2012), who derived those sub-factors through their own literature reviews. However, it is important to note that these sub-factors are not exclusive. Instead, this is an attempt to provide a holistic overview of expected external factors in analysing host countries' environments. In other words, PESTLE is used in this thesis as an initial form of guidance to exploring main and sub-external factors.

³ Environment in PESTLE refers to ecological aspects such as climate change and public health (Yüksel, 2012). Further in this research, such terminology is used as a reference for all external factors to organisations such as regulations for a specific industry, expected demand for a product, etc.

Table 2.2: Main external factors (PESTLE) and sub-main factors could be assigned to it

Main Factors (PESTEL)	Sub-main Factors
Political	<ul style="list-style-type: none"> • Relations with European Union • Political rights/civil liberties • Democratisation process • Regional relations • Press Freedom score • Developments in Middle East and North Africa • Political stability
Economic	<ul style="list-style-type: none"> • National income/GDP • GDP per capita • GDP growth rate • Monetary policy • Exports • Investment incentives • Fiscal policy • Foreign investment • Per capita tourism turnover • Energy cost • Current account deficit • Current deficit • Foreign debt • Unemployment
Social-cultural	<ul style="list-style-type: none"> • Level of education • GINI coefficient • Lifestyle • Literacy rate • Awareness of citizenship • Primary, secondary, tertiary education enrolment • Obey the rules • Level of generalised trust • Democracy culture
Technological	<ul style="list-style-type: none"> • Governmental policies about technology investment • Governmental support for development and research activities • New patents • Adaptability to new technologies • Change rate in technologies • World Economic Forum (WEF): Global Competitiveness Report
Environmental	<ul style="list-style-type: none"> • Traffic safety • Transportation infrastructure • Public health • Urbanisation level • Green issues • Disaster management • United Nations Development Program (UNDP), Human Development Report

Legal	<ul style="list-style-type: none"> • United Nations Framework Convention on Climate Change • Judicial system • Corruption (Corruption Perception Index) • Competition laws • Consumer rights • International treaties • Implementation of laws
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Internal factors

On the other hand, internal factors should be specified in response to external factors found to be influential within a specific market and industry. In other words, the search or investigation of overall factors that might influence market entry and market entry mode decisions should start with their external factors. In the literature, it is repeatedly argued that external factors relating to a specific context or market effectively specify the internal factors an organisation should acquire. For instance, Zhao *et al.* (2004) stated that uncertainty about external factors in targeted markets decides the assets specify required.

As explained previously, assets could involve different aspects such financial assets, human resources or other physical assets. However, control, experience, and assets are, specificity, the most frequent internal factors in the literature, as based on the review by Schellenberg *et al.* (2018), and could assigned as initial internal factors worth investigation.

This said, the suggested holistic approach, see figure (2.1), in this thesis is designed to be the initial lens through which to investigate a specific industry in a specific country. This approach is expected to produce specific conceptual frameworks for each industry in specific markets; more detailed external and internal factors for each market and industry should start to build up if this holistic approach is subsequently applied among other studies. In the future, it would be possible to compare more empirical evidence for each market and industry, and point out an increasing number of theoretical and practical lessons that could be adopted.

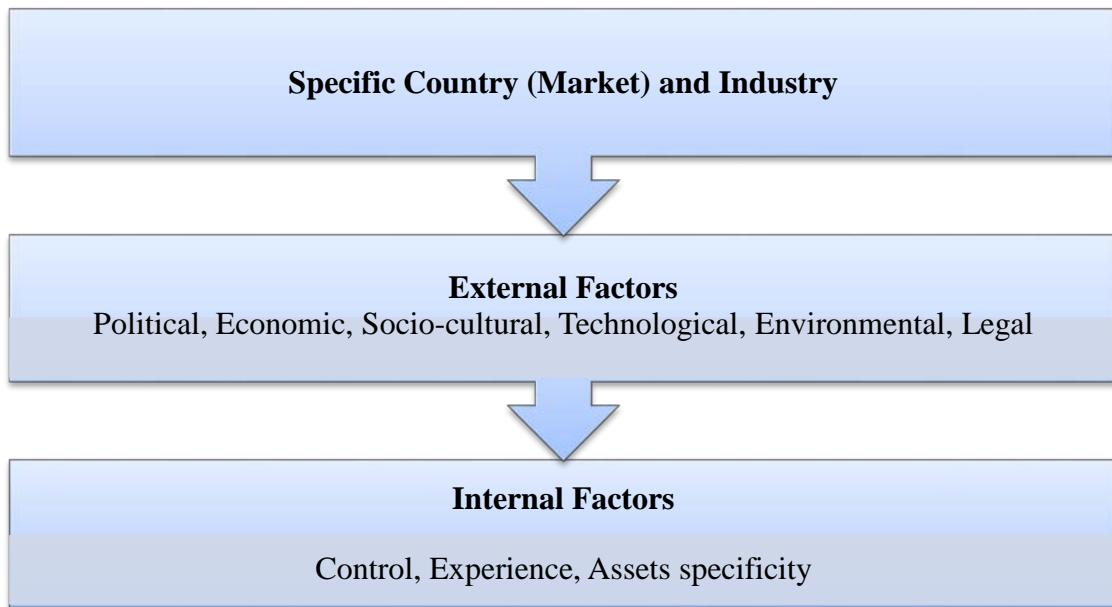


Figure 2.1: A holistic approach based on literature review to specify external and internal factors for a specific industry in a specific context.

2.2.6 Summary

This section of the literature review explains the current state of knowledge represented by market entry and market entry mode studies. It highlights the proposed gap, ignorance of managerial perspectives, by different scholars as exemplified through the literature. This section also proposes different limitations need to be investigated further using different theoretical perspectives rather than a single or limited tricale perspective. Specifically, this thesis, besides investigating managerial perspectives, investigates whether external and internal factors have to be market or industry-based by focussing on one specific industry, insurance, in a specific market, the Saudi insurance market. In addition, it proposes a new holistic approach as to how external and internal factors should be investigated for any industry and any market.

2.3 Decision Analysis under Uncertainty

2.3.1 Introduction

This critical review of decision making under uncertainty is a response to a major gap in market entry and market entry mode studies and ignorance of managerial perspectives. As explained in the previous section, market entry and market entry mode decisions are considered crucial strategic decisions (Benito and Welch, 1994; Canabal and White, 2008; Crick and Crick, 2016). At the same time, strategic decisions are, usually, easily affected by a complex, uncertain, and changing environment (Johnson and Scholes, 2001) where managerial perspectives could be in action. Despite this, market entry and market entry mode decisions are assumed to be rational (McNaughton, 2001; Brouthers and Hennart, 2007), which is, mainly, rooted in the theoretical perspectives used within the discipline of market entry studies (Kumar and Subramanian, 1997).

In contrast, the theoretical perspective and empirical evidence in the decisions analysis literature have, in general, extensively referenced and examined managerial perspectives. Specifically, there has been considerable research into behavioural decision making under conditions of uncertainty. In addition, making decisions under uncertainty is more frequently searched for in strategic decision making literature as parties or individuals “responsible for formulating an organisation’s strategy face a task of extreme complexity and ambiguity” Schwenk (1984: 111).

Therefore, this section explains how uncertainty is treated within the theoretical perspectives of decision making; relative theoretical perspectives are first discussed. Second, the effect of bounded rationality under uncertainty is explained in terms of cognitive simplification process, providing examples on a heuristic and cognitive basis. Examples of heuristics in this thesis are derived from strategic decisions literature as heuristics are linked to its contexts (Vuori, 2014).

It is important, however, to emphasise that this section of the literature is not to propose a heuristic or cognitive basis for examination; rather, it shows how market entry and market entry mode decisions should fall under the notion of bounded rationality. In this sense, market entry and market entry decisions should not be rationalised, as the individuals who make such decisions should only be expected to show limited rationality. Despite this, the empirical evidence presented in this thesis demonstrates the variation between external and

internal factors the decision makers at companies entering the Saudi insurance market considered and, indeed, those they recommended for consideration after operating in the market for a certain length of time. In other words, this thesis demonstrates that market entry and market entry mode decisions are, usually, made under conditions of uncertainty that necessarily limit the rationality underlying decision making. At the same time, it does not specify the associated behavioural action, including cognitive simplifications, as a result of the bounded rationality of decision makers making market entry decisions.

2.3.2 Conceptualisation of Uncertainty

Uncertainty has been given many definitions and is linked to various different terms such as ambiguity, tolerance, and risk (Lipshitz and Strauss, 1997). Most definitions, however, are rooted in one or more theoretical grounds. For instance, Zadeh (2011: 15) defines “uncertainty is an attribute of information”; this information and statistical-based definition is the basic concept of uncertainty for information theorists such as Attneave (1959). One information theorist stated that “the uncertainty of an event is the logarithm of the number of possible outcomes the event can have” (Garner, 1962: 19).

However, more than any other concept, uncertainty is linked to risk. In fact, some scholars, such as Jaeger *et al.* (2013: 17), argue that uncertainty is an element of risk, stating that “Risk implies both the possibility that an event or outcome can happen with the denial that either occurs with predetermined certainty. Risk thus necessarily implies uncertainty ...”.

On the other hand, there are some scholars who make a clear distinction between uncertainty and risk. They argue that some events are not measurable due to their uncertainty. Firoozye and Ariff (2016: 2) argue that uncertainty “cannot be characterised by a single probability” while probability of risk is a sufficient characterisation. Similarly, many such definitions have pointed out that the inability to assign definite probabilities is an attribute of uncertainty. As observed by Duncan (1972: 318), uncertainty involves three components: “(1) the lack of information regarding the environmental factors associated with a given decision making situation, (2) not knowing the outcome of a specific decision in terms of how much the organisation would lose if the decision were incorrect, and (3) inability to assign probabilities with any degree of confidence with regard to how environmental factors are going to affect the success or failure of the decision unit in performing its function”.

This logic of an event's probabilities and the ability to measure or quantify them has its roots in theory, as explained further below in the theoretical discussion.

2.3.3 Decision making under uncertainty in theory

“Uncertainty and rationality are closely related features of human decision making” (Brandolini and Scazzieri, 2011: 1). In fact, “uncertainty is a feature of organisational decision making with which organisations must live” (Cyert and March, 1963: 166). Hence, in the decision-making literature, uncertainty and other related concepts such as ambiguity and risk are prominent (Lipshitz and Strauss, 1997). In other words, uncertainty has been a classical subject for studies within decision analysis in general, and related disciplines such as cognitive science, philosophy, artificial intelligence, and economics (Brandolini and Scazzieri, 2011), and many theories, as a result, have been developed to articulate how decisions are, or should be, made under uncertainty. However, the treatment of uncertainty in theory, generally, is a two-sided argument, those sides being rational choice decision making and behavioural decision making.

2.3.3.1 Rational Decision-making Theoretical Perspectives

Rational choice decision making is rooted mainly in neo-classical economic theory. This theory, similar to others such as subjectivity theory, assume “that choices are made: (1) among a given, fixed set of alternatives, (2) with a (subjectively) known probability distributions of outcome of each” (Simon, 1997b: 291). In other words, decision makers are assumed to be able to identify an issue about which a decision should be made, information collected and analysed, and an optimal choice reached. Therefore, under the notion of rational choice, information about any uncertain event is treated as a characterised probability that is both measurable and quantifiable. Different theories, such as rational choice theory, probability theory, and the generalised theory of uncertainty, apply the same concept when dealing with uncertainty.

Although this side of argument has been the object of particular criticism over the last seven decades, there are some scholars who still advocate the notion of rational decision making. Hastie and Dawes (2010) stated that precautionary actions could force cognitive biases into predictable directions; Hastie and Dawes (2010: 157) further argued that “the best way to

think systematically about judgement is to learn the fundamentals of probability theory and statistics and to apply those concepts when making important judgements”.

The logic above is best described by James Maxwell, who argued that “the actual science of logic is conversant at present only with things either certain, impossible, or entirely doubtful, none of which (fortunately) we have to reason on. Therefore, “the true logic for this world is the calculus of probabilities, which takes account of the magnitude of the probability which is, or ought to be, in a reasonable man’s mind” (Jeffreys, 1998: 1).

2.3.3.2 Bounded Rationality Theoretical Perspectives

“The term ‘bounded rationality’ is used to designate rational choice that takes into account the cognitive limitations of decision maker limitations of both knowledge computational capacities” Simon (1997: 191). However, based on the argument above, among theories of rational choice the question is now one of whether decision makers can act or decide in perfect rationality and reach the optimal solution. The answer to this question is surrounded by considerable doubt as a result of a second kind of theorist, such as Herbert Simon, Richard Cyert, James March, Johan Olsen, and Donald Hambrick. They have developed different theories such as the behavioural theory of the firm, administrative behaviour theory, the upper echelon theory, and the models of bounded rationality theory.

The basic argument within these theories is that decisions are affected by behavioural factors rather than on the basis of economic optimisation, thus introducing the notion of bounded rationality. “Bounded rationality, multiple and conflicting goals, myriad options, and varying aspiration levels all serve to limit the extent to which complex decisions can be made on a techno-economic basis” (Hambrick and Mason, 1984: 194). On one hand, however, some of these theories such as the behavioural theory of the firm and administrative behaviour theory acknowledge or accept that some types of decisions could approximate rational prescriptions. In particular, “programmed decisions are often made lower down in the organisational hierarchy; they are the operational decisions which can be safely left to subordinates. It is likely that they can be made in a way which closely parallels the prescripts of rational choice models. In fact, there may be little in the way of formal deciding to be done” (Salaman, 2001: 77).

On the other hand, these theories insist that for certain other types of decisions, that is, non-programmed or strategic decisions in particular, irrationality is anticipated. Unplanned, non-programmed, complex, non-structured and non-rational decisions are some of the possible characteristics of a given strategic decision (Cyert and March, 1963; Mintzberg *et al.*, 1976; Dean and Sharfman, 1996; Elbanna, 2006). In this type of decision, decision makers face unfamiliar or previously unencountered situations, in which case it is likely to be difficult to collect the precise information needed. As a result, it could become difficult to choose between options due to the potential of creating additional problems such as conflicts between decision actors. In other words, decision makers or top management teams become subject to their own cognitive simplification process in a situation characterised by its uncertainty and where a decision has to be made.

However, among all theories of the notion of bounded rationality, one theory, the models of bounded rationality theory, explicitly explain how bounded rationality amongst decision makers could affect the decision-making process and outcomes. This theory focusses on the psychological aspects and cognitive biases that might affect decision making under conditions of uncertainty. Certainly, other theories confirm irrationality in decision making under conditions of uncertainty but do not necessarily emphasise the psychological aspects of decision making; indeed, psychological aspects scarcely register in these other theories. For instance, in the behavioural theory of the firm, Cyert and March (1963: 171) argued that the organisational search of information in a given situation involves “three different kinds of research bias: (1) bias reflecting special training or experience of various parts of the organisation, (2) bias reflecting the interaction of hopes and expectations, and (3) communication biases reflecting unresolved conflict within organisation”. In other words, the behavioural theory of the firm limits the effect of bounded rationality to a few simple biases.

On the other hand, the models of bounded rationality theory discussed by Simon (1982: 342) argue that it is not possible to predict a decision maker’s behaviour if a distinction is made “between the objective environment in which the economic actor “really” lives and the subjective environment that he perceives and to which he response” and, thus, “we need to know something about his perceptual and cognitive process”. In which case, Simon does not specify the effect of bounded rationality in the instance of few specific biases, leaving the door open for all possible cognitive biases psychologists could produce. Hence, the models of

bounded rationality theory is the first theory to underpin this thesis, discussing the managerial perspectives of market entry and making market entry mode decisions.

2.3.3.2.1 Models of bounded rationality

Since 1940s-1950s, Herbert A. Simon has been criticising theories of rational choice. He introduced his refutation to the dominant idea of utility maximisation in decision making through administrative behaviour theory in the 1950s, which he refined within the models of bounded rationality theory in 1984. His main aim was to replace the optimisation school of thought with the more realistic notion of economic behaviour (Hatchuel, 2001). “The behavioural economic is best characterized not as a single specific theory but as a commitment to empirical testing of the neoclassical assumptions of human behaviour and modifying economic theory on the basis of what is found in the testing process” (Simon, 1997: 278). In addition, he classified research of behavioural economics in two ways: (1) the first is concerned with motivational assumptions that could describe human motivations; and (2) the second direction is concerned with the ability of economic actors to maximise subjective expected utility under uncertainty, where cognition is the main issue. Simon argues that the inability of human or decision actors to deal with uncertainty is just one specific case among a large number of cognitive limitations that ultimately prevent economic actors from reaching maximum optimisation. In summary, Simon suggests the deviation from subjective utility theory, which is rooted in neoclassical theory, should be based on what is known with regards to the thought and choice process of humans; in particular, this deviation should focus on the limitations to human cognitive capacity when making decisions.

Nevertheless, “strategy research should increase its emphasis on executive judgment in the actual conditions of high-stakes, complex problem solving in organisations” (Powell *et al.*, 2011: 1377). At the same time, top management teams are responsible for making strategic decisions (Amason, 1996), where such decisions are usually made by a small number of high-level management members. Yet, managers are individuals who vary in terms of their characteristics, personalities and values including their cognitive thinking and perceptions, which is the core argument of the upper echelons theory by Hambrick and Mason (1984). Accordingly, upper echelons theory is the second theory adopted in this thesis discussing managerial perspectives.

2.3.3.2.2 Upper Echelons Theory

Hambrick and Mason (1984) developed a model that explicitly specifies the pivotal role top management teams or top executives play in the development of a firm's strategy; see figure (2.2). This model focusses on executives' values, perceptions, and cognitions, in addition to their influence on strategic choices and outcomes. Further, this model explains the difficulty of measuring cognition without help from "relevant literature in related fields, especially psychology and social psychology" (Hambrick and Mason, 1984: 203). Hambrick and Mason also called for demography research; they argued that the characteristics of executives could function as the proxies through which to understand differences in values, cognitions, and perceptions. As shown in figure (2.2), the second stage of the model is where executives' characteristics (e.g., age and education), besides those of cognition base and values, take a place in interpreting the internal and external factors that themselves have a part in the first stage from the left side as shown in the model. In sum, the core argument of this theory is that decisions made under conditions of uncertainty cannot be rationalised as the actors involved in decision making, namely top managers, are rationally limited according to their values, perceptions, and cognitions.

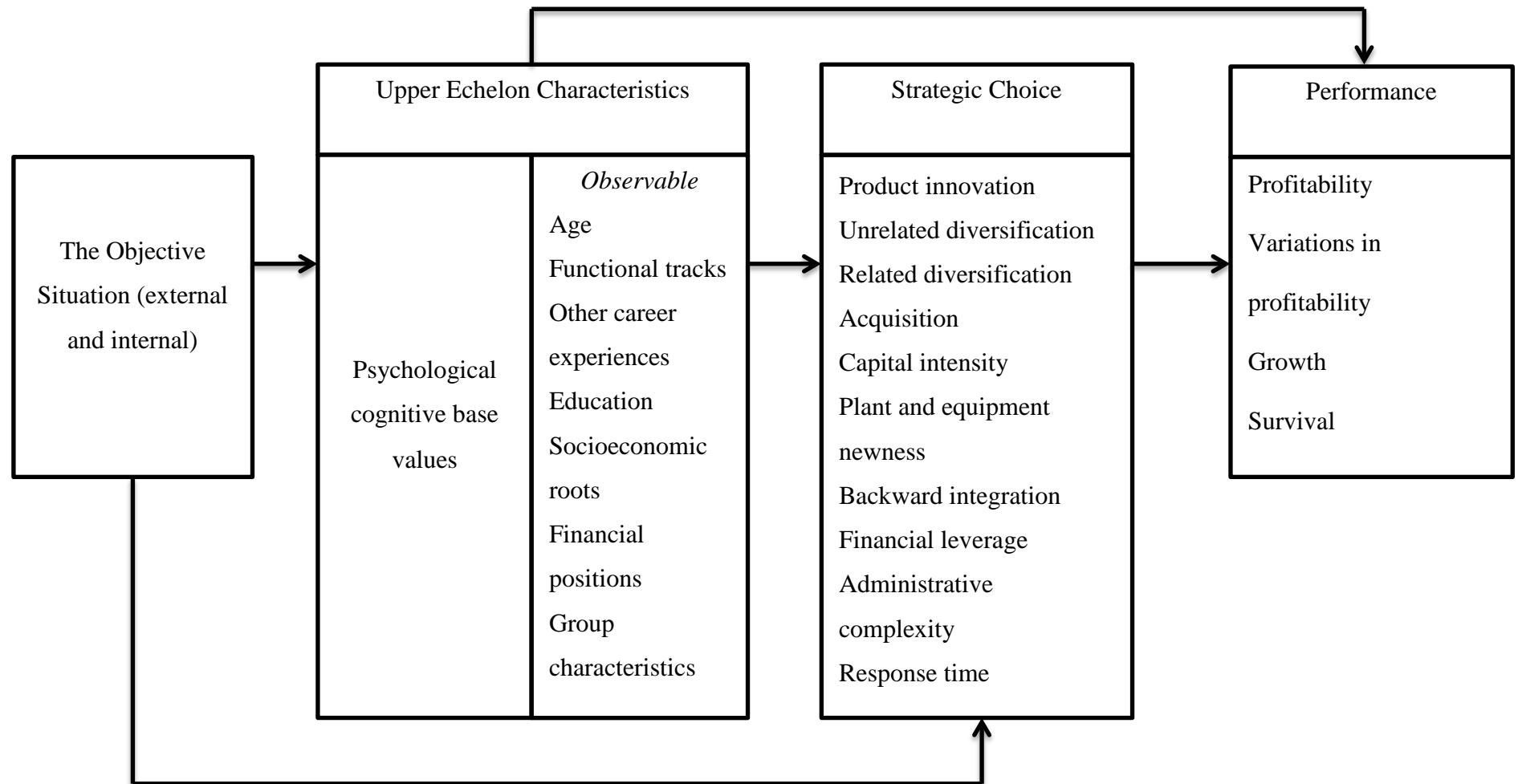


Figure 2.2: Upper Echelon framework by Hambrick and Mason (1984)

2.3.4 Effects of Bounded Rationality on Decision Making

As based on Simon's theories, administrative behaviour theory and the models of bounded rationality theory, many studies have empirically investigated the specific effects of bounded rationality on decision making. These studies have specified the effects of bounded rationality in terms of human cognitive limitations with the help of psychological researchers such as Kahneman and Tversky (1984), Gentner *et al.* (2003), and Lee and Holyoak (2008), who have reported different heuristics and biases that can occur when making decisions under conditions of uncertainty. In addition, the role of cognitive simplifications through heuristics that could lead to biases has grown as a topic in the strategic decision-making literature, e.g., Barnes (1984), Golden (1992), Lant *et al.* (1992), Miller and Shapira (2004), Helfat and Peteraf (2015), and Levine *et al.*, (2017). In fact, Vuori and Vuori (2014) argued that in a strategy context, decision makers must rely on heuristics.

However, some scholars such as Schwenk (1984) related or linked these cognitive biases to one or more phases of the decision-making process such as the problem identification and evaluation phases. Yet, this part of literature can be taken as evidence that uncertainty is inherent to complex situations, and, as result, the human mind's ability to process information is not optimal where different cognitive biases could be applied at any stage of the decision-making process. Moreover, there is an argument in the literature indicates that the use of heuristics depend on the context (Gigerenzer, 2011). This notion of argument started to take root in the strategic management literature; see Bingham (2011) and Vuori and Vuori (2014). In strategic decision making, however, many studies have reported on the various heuristics and biases that can have an effect on strategic decision making; see table (2.3) below.

Table 2.3: Selective studies in strategic decisions that focused on heuristics

Heuristics and biases	Authors
<ul style="list-style-type: none"> • Prior hypothesis bias • Adjustment and anchoring • Escalating commitment • Reasoning by analogy • Single outcome calculation • Inferences of impossibility • Denying value trade-offs • Problem set • Representativeness 	Schwenk (1984)

• Illusion of control	
• Devaluation of partially described alternatives	
• Availability	Barnes (1984)
• Hindsight	
• Misunderstanding the sampling process	
• Judgements of correlation and causality	
• Representativeness	
• Desire for certainty	
• Reasoning by analogy	Gavetti and Rivkin (2005)
• Encoding	
• Retrieval	
• Adaption	
• Reasoning by analogy	Gary <i>et al.</i> (2012)
• Encoding	
• Retrieval	
• Anchoring	Malhotra <i>et al.</i> (2015)
• Sample selection	Certo <i>et al.</i> (2016)

Hence, the following is a discussion of some of the random heuristics decision makers could apply under conditions of uncertainty, regardless as to what phase of the decision-making process these could be applied through. At the same time, the examples of heuristics provided below are those reported in the strategic decision-making literature, which itself shows a lengthy list of such heuristics.

2.3.4.1 Representativeness

Representativeness is a cognitive process that people apply by assessing the probabilities that could allow them to simplify their predictions based on how representative the situation is. In representativeness “probabilities are evaluated by the degree to which A is representative of B, that is, by the degree to which A resembles B. For example, when A is highly representative of B, the probability that A originates from B is judged to be high. On the other hand, “if A is not similar to B, the probability that A originates from B is judged to be low” (Tversky and Kahneman, 1974: 1142). To consider this heuristic or biased is not a problem; yet, it could be problematic as people applying this cognitive bias are not sensitive to the sample size or prior probabilities (Tversky and Kahneman, 1974). In strategic decisions, there is less data by which to generalise judgements, so decision makers rely on

what limited data they have, and with a tendency to show considerable overconfidence in such data (Schwenk, 1984). In addition, applying this simplification process could lead decision makers “to overestimate the extent to which the past is representative of the present and the extent to which solutions offered for problems in the past will be of value in the present problem” (Schwenk, 1984: 121).

2.3.4.2 Availability

The availability heuristic is the situation when specific information becomes more prominent than other information because it can be brought more quickly to mind when assessing the probability of an event (Tversky and Kahneman, 1973). More frequent events are more imaginable and recalled than other, rarer ones. However, the availability heuristic could lead to predictable biases as there are more factors that can affect this process to a greater extent than probability and frequency. For instance, the availability heuristic could be affected by ‘retrievability’, whereby people give more weight to events that are more easily retrieved than others that are less easily retrieved, even though they are done so with equal frequency (Tversky and Kahneman, 1974). In other words, the subjective likelihood increases when the event being assessed is easier to imagine (Carroll, 1978) as information or data that is easier or quicker to be recalled to the human mind with regards to a specific event might not be relevant, while others that are more evident are underestimated. Hence, an objective discussion about risk would result in a lower expectation of decision makers relying on availability heuristic (Barnes, 1984).

2.3.4.3 Adjustment and Anchoring

In this process, people make their estimations based on different starting points, but where these estimations “are biased towards the initial value” (Tversky and Kahneman, 1974: 1128). In which case, the new information might be ignored as being biased by its initial values. Decision makers are supposed to make initial judgements and revise their decisions or strategy based on evolving data from the present, but this process might result in decision makers denying any such gaps (Barnes, 1984). Anchoring can lead to bias error when making strategic decisions, as information relevant to the focal event could be excluded (Malhotra *et al.*, 2015).

Escalating commitment

In some other instances, the new information might be recognised by decision makers, but its significance might still be denied or otherwise downplayed (Barnes, 1984). This refers to the escalating commitment where decision makers tend to resist new evidence that their chosen plans or projects are not operating successfully (Staw, 1981).

2.3.4.4 Illusion of Control

In experiments undertaken by scholars such as Langer (1975) and Larwood and Whittaker (1977), it has been found that subjects tended to overestimate their actual abilities, believing that future outcomes would be under greater control than objective probabilities would otherwise suggest. Subjects in the study by Larwood and Whittaker (1977) fell into two groups: student and executives. Being managers for a hypothetical firm, both showed high confidence in their abilities although executives conditioned their success with more experience. Decision makers in this case might be deluded in the sense that whatever strategy they decided to follow was under their control, and future problematic obstacles would be solved or managed by some means (Schwenk, 1984).

2.3.4.5 Illusion of Validity

The illusion of validity is the process whereby people are overconfident in their prediction of the potential outcomes of an event, as found by Einhorn and Hogarth (1978). This process is related to representativeness; the higher the degree of representativeness, the more confident people become about their predictions (Tversky and Kahneman, 1974). As discussed in many instances in this thesis, strategic decisions involve high uncertainty due to the associated complex environmental conditions. Hence, decision makers should not overestimate their ability when planning a strategy or making strategic decisions.

2.3.5 Conclusion

In this chapter, two sections are discussed. The first section examines the limitations within the literature of market entry and market entry mode studies. In response to one of these limitations, ignorance of managerial perspectives, the second section discusses decision analysis under uncertainty. For the second section, it has been shown that there has been considerable research regarding uncertainty in decision-making analysis. Theorists have

developed a large number of theories as to how to make decisions under uncertainty. The first and oldest line of these theories adopted the notion of rational choice when making decisions. Criticising these rational choice theories, the second line of theories stressed the notion of bounded rationality when making decisions under uncertainty; this notion is discussed and researched more in terms of strategic decisions as these decisions are less familiar to decision makers, and are non-programmed. As a result, “when confronted with complex problems, involving risk and uncertainty, strategists adopt a variety of heuristic modes of thinking and reasoning, in an effort to simplify the processes of judgment and decision making” (Goll and Rashede, 1997: 287). In which case, market entry and market entry decisions should not be exempt of such notions; these decisions involve high degrees of uncertainty, especially in the case of entering unfamiliar countries or lesser-known markets. Furthermore, market entry and market entry mode studies should be country-and industry-specific; factors influencing market entry decisions depend on the context of a given market and specific industry, and are not usually easy to assess where considerable uncertainty is involved. The following chapter is an example of the application of such logic when focussing on a specific industry in a specific context or country.

Chapter 3: Case Study

3.1 Introduction

As illustrated in the previous chapter, analysis of market entry decisions should be country- and industry-specific. In this chapter, the focus is devoted to a specific country, Saudi Arabia, and specific industry, the Saudi insurance market. In the first sections, a preview is provided describing the general conditions within the Saudi market while the second section describes further details about the Saudi insurance market itself. A conceptual framework is then proposed, in the third section, describing external and internal factors that might be influential for an insurance company plans to enter the Saudi insurance market (this conceptual framework is subject to change based on field work or findings in this research).

3.2 Saudi context and the Saudi insurance market

This section explains the Saudi insurance market starting with an overview of the general conditions of the Saudi context. Explaining the general conditions of the Saudi context is to show how these conditions have their influence on some aspects of insurance industry in the country. However, this section also provides an overview of some aspects of the Saudi insurance market: history of the Saudi insurance business, current competition and demand, the perception of insurance amongst the Saudi public, and regulatory issues relating to the Saudi insurance market.

3.2.1 Saudi Context

The Saudi Arabia market offers exporters and numerous opportunities in a wide range of business sectors (Rice, 2004: 59). However, “foreign business people should be prepared to conduct thorough preliminary research, visit the country on a regular basis, show genuine concern for Saudi development goals and culture, be patient in business negotiations, and adapt carefully to the Saudi environment” (Rice, 2004: 84).

This section gives an overview of general outlook of Saudi Arabia regarding the different aspects that might be of interest to initial screening by new insurance companies targeting the Saudi insurance market.

3.2.1.1 Population

All data and figures of this part are based on annual publications of the General Authority Statistics (2017) in Saudi Arabia; see Appendix (1). Based on this report, the total population of Saudi Arabia is 32,552,336 with 12,143,974 non-Saudi citizens. In addition, over 50% of the population is located in two ‘counties’ or administrative areas which are Riyadh, the capital city of Saudi Arabia, and Makkah Al-Mokarramah, the area of the holy places of Islam. Moreover, 13,841,863 are women while 18,710,473 are men. Finally, the population based on age group shows that 24% of population is younger than 15 years old, and 72% of people are aged between 15 and 64 years old, see Appendix (2).

3.2.1.2 Geographical Location and Climate

As shown in figure (3.1), Saudi Arabia is bordered by Qatar, Arabian Gulf, and United Arab Emirates to the east, Oman and Yemen to the South, Iraq and Jordan to the north and Kuwait and the Red Sea to the west (General Authority Statistics, 2015). Saudi Arabia has an area of around 2 million square kilometres, which is mostly taken up by sand (General Authority Statistics, 2015). Yet, according to the Saudi General Authority Statistics (2015), there is a chain of mountains (1,100 kilometres long) that lies alongside the western costal line that has a maximum height of 9000 feet and minimum of 3000 feet.



Figure 3.1: Geographical location of Saudi Arabia

Because of these topographic differences, there are considerable differences in climate between many of Saudi Arabia's cities and areas (Appendix 3 shows the variation in temperature for two cities located in different regions in Saudi Arabia). In addition, rainfall levels vary from one city to other, forming significantly different landscapes in different regions as Shown in Appendix (4).

Nevertheless, According to Almazroui *et al.* (2018) and Almazroui *et al.* (2013), the climate in Saudi Arabia is dry most parts of the country, but it has witnessed an increasing number of flash floods over the last 20 years. Almazroui *et al.* (2018) stated that the location of the mountain chain alongside the west coast is the cause of heavy rain in west and southwest of Saudi Arabia. Overall, with only a few exceptions, natural disasters caused by the climate in Saudi Arabia are rare and the overall climate conditions are stable.

Furthermore, Saudi Arabia is also stable in terms of earthquakes. Records show, according to the Saudi Geological Survey (2018b), that the last major earthquake (7.3 in

magnitude) was in 1995 in the northwest of Saudi Arabia, in a region that is essentially uninhabited. Apart from this particular incident, numerous earthquakes are commonly recorded but, generally originating in the middle of the Red Sea, are not felt onshore (Saudi Geological Survey, 2018b). In addition, Saudi Arabia is located on the Arabian Shield, which is part of the Arabian tectonic plate (Saudi Geological Survey, 2018a), see figure (3.2), and areas that are still considered as potentially active volcanic places can be found in the central and western areas of the Arabian Shield (Saudi Geological Survey, 2018b). In other words, there is no potentially active volcanism in Saudi Arabia except for the far northwest area (Saudi Geological Survey, 2018b).

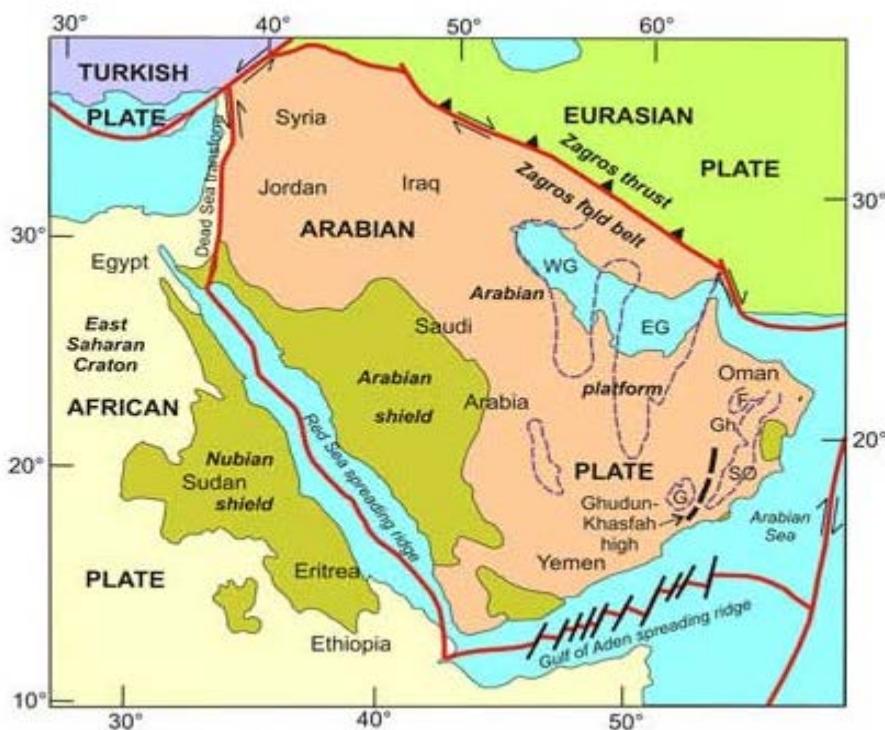


Figure 3.2: Plates in Middle East. (— Plate boundary).

3.2.1.3 Saudi Political and Legal System

Saudi Arabia is ruled by the king through a council called the Council of Ministers (Mellahi, 2007), who are appointed by the king himself (Alkhazim, 2003). In addition, people communicate their concerns and views to the government through another council called the *Majlis Al Shura*, or Consultative Council (Aba-Namay, 1993), the members of which are also appointed directly by the king (Mellahi, 2007).

Nevertheless, this political system has shown or maintained its stability and survived the hostile conditions in Middle East, especially those associated with the Arab Spring⁴ (Kamrava, 2012). The Saudi government showed flexibility towards the changes in surrounding countries by enacting various economic reforms and socio-economic compensations as a proactive strategy if the Arab Spring were to being to take root in the country; this strategy proved its worth when an uprising hit Saudi Arabia through the Shia⁵ people in its Eastern Province (Kamrava, 2012). The counteraction of the Saudi government has been always effective in improving economic conditions and maintaining overall public prosperity and welfare. Maintaining stable political conditions inside the country is one major aspect attracting foreign direct investments, including foreign insurance companies.

However, Saudi Arabia is an Islamic monarchy and its constitution is based on *Sharia* law (Vogel, 2000). The sources of *Sharia* law in Saudi Arabia arise from the interpretation of the Holy *Qur'an* and *Sunnah*, the teachings of the Prophet Mohamad. Laws are determined and passed by the Council of Ministers, and must be in compliance with Islamic or *Sharia* law (Rice, 2004). This aspect is a major aspect worth considering when conducting business in Saudi Arabia as Islamic law is involved in all aspects of life in the country, which includes the business environment. For instance, Muslim people pray five times a day, and during these times, “which last from 10 to 20 minutes, products cannot be promoted on radio or TV, retail shops close, and no commercial or official transactions are permitted” (Luqmani *et al.*, 1989: 63). Islamic Law, as the main source of legislation, also has a major influence on the insurance business, as explained further in section (3.3.1.3).

3.2.1.4 Socio-cultural

Two main aspects shape the culture in Saudi Arabia: Arabian tribal traditions, and religion. Both aspects have their influence on other related issues such as the business

⁴ “political changes that swept across the domestic politics of the Arab world” Kamrava, M. (2012) The Arab Spring and the Saudi-led counterrevolution. *Orbis*, 56 (1), 96-104.

⁵ One of two main sects in Islam. Jiwani, N. and Rail, G. (2010) Islam, hijab and young Shia Muslim Canadian women’s discursive constructions of physical activity. *Sociology of Sport Journal*, 27 (3), 251-267.

environment, law and legislation, and politics. Tribal traditions and religion have a major role in all official institutions of Saudi Arabia, but there is a greater influence due to religion. For the first aspect, ordinary citizens can gain access political leaders to petition them whenever a public audience is held, which is a well-established custom of Bedouin tribal chiefs (Rice, 2004). Another example of tribal traditions is a phenomenon called *Wasta*, “the granting of favours to friends, extended family, and tribal members in order to circumvent rules” (Rice, 2004: 64). Furthermore, Saudi citizens, supported by their families and the government, avoid labour-type jobs as these are considered dishonourable (Idris, 2007). Moreover, Saudi society is a family oriented; given an example as to how extreme a collective society the Saudi society actually is, Rice (2004) stated that young and unmarried men and women remain at their parents’ houses, giving themselves high disposable incomes. These are just a few glimpses of the role of tribal traditions in Saudi Arabia within the context of the socio-cultural aspects of the country. It is important for any foreigner or investor to pay due consideration to Saudi traditions.

Nevertheless, not all Saudis are Bedouins or of an Arab-based ethnicity. There are racial differences, especially in the western region where many pilgrims from different races have, over the decades, settled within or close to Mecca, rather than returning to their home countries (Wilson and Graham, 2016). On the other hand, regardless of their racial differences, Islam is considered the only faith; in which case, religion is more influential than public traditions.

As explained earlier, the constitution of Saudi Arabia is based on Islamic law. As a result, this influence can be seen in all related aspects such as the daily life of the Saudi people, and the political and business environments. Politically, the Saudi royal family continues to legitimise their role of power in terms of the application of Islam law (Prokop, 2003). In other words, they have won the public’s approval to rule the country and remain in power as long as their rule is based on Islamic law. In terms of the business environment, daily working hours, for instance, are shortened during Ramadan, which is the month during which Muslims fast due to religious teaching (Rice, 2004). Daily life is also affected during Ramadan, where people are not allowed to smoke, eat or drink in public (Rice, 2004), and where similarly the non-Muslim population are required to follow these same restrictions in public.

Overall, in penetrating the Saudi market, one main challenge for foreign investors is the extent of the ‘cultural distance’ (Rice, 2004; Idris, 2007).

3.2.1.5 Saudi Economy

The Saudi economy has been, and remains, the leading economy in the Middle East and among the Gulf Council Cooperation (GCC). The main source of power to the Saudi economy is due to the fact that Saudi Arabia possesses 18% of the world’s oil reserves (OPEC, 2015b) and is the world’s largest oil producer (OPEC, 2015a). In the past decade, Saudi Arabia has shown some interesting transformations that could allow it to host a number of new markets extending across various different industries.

Saudi Arabia has evolved to become one of the major developed economies among the MENA⁶ countries with a GDP of \$646 billion in 2016 compared to \$188 in 2000 (World Bank, 2015a). Along with such growth in GDP, the net flow of foreign direct investment (FDI) increased to \$8 billion from a figure of \$1.8 billion in 2000 (World Bank, 2015b). These figures could indicate the existence of a potential market in Saudi Arabia, and such potential might attract more companies that search for such new opportunities through new markets.

The Saudi Government has recently reformed actions announcing Vision 2030 to increase the role of private sector (IMF, 2016) after the latest drop in oil prices, which is a positive sign in terms of unlocking the barriers to different industries in the private sector. In 2016, the work on Vision 2030 started with a number of major actions. For instance, according to the IMF (2016), the Saudi government started the privatization process by selling a stake, 5%, in the state-owned oil company, Aramco. Further, as stated in the same report, the Saudi government completely opened the wholesale and retail sectors to foreign investors. In short, the Saudi government is currently determined to drive its economy through different reforms such as minimising restrictions on foreign investments and privatising the public sector, and this creates further opportunities for different types of businesses.

⁶ Middle East & North Africa

For instance, as part of the Vision 2030, the Saudi government has also started to improve the tourism sector. In 2018, the Saudi government completed a railway system linking the two holy cities to provide pilgrims greater ease of movement (Transport Ministry, 2018). In addition, King Abdulaziz Airport in Jeddah, 35 km away from Mecca, has been expanded to receive 80 million visitors annually (Henderson, 2017). Pilgrims visit Saudi Arabia for two reasons or activities: *Hajj*⁷, an obligatory activity, and *Umrah*⁸ or *Ziarat*, which is an optional activity (Bhardwaj, 1998). According to the General Authority Statistics (2017) and General Authority Statistics (2018), the total number of pilgrims, both Saudi and non-Saudi, to the holy cities was 1,862,909 pilgrims for *Hajj* and 19,079,306 for *Umrah* in 2017. With more improvements towards tourism, the number of visitors should increase considerably, considering the fact that there are over 1.5 billion Muslims around the world (Zamani-Farahani and Henderson, 2010).

3.2.2 Preview of the Saudi Insurance Market

This part of the literature provides an overview of overall conditions in the Saudi insurance market stressing the following: historical overview, current conditions and demand, perceptions of insurance among the public in Saudi Arabia, and the Saudi insurance regulations. This review shows the influence of the wider environment of the Saudi context on the Saudi insurance market. In addition, throughout this review, it may be noted how unique and complex the Saudi insurance market could be for new companies, especially foreign companies, targeting the Saudi insurance market.

3.2.2.1 Historical Preview of the Saudi Insurance Market

The insurance business in Saudi Arabia was initiated in 1985, when a state-owned insurance company was established, as per the associated Royal Decree, but there was no official body to regulate the market (Khorshid, 2004). This law is the Islamic version of insurance (Mankabady, 1989), which is also known as *Takaful* (Kwon, 2007). Before that, insurance was banned due to religious beliefs (Ramady, 2010).

⁷ *Hajj* where Muslims, who are financially and physically capable, must visit Mecca once in their lifetime (Greenia, 2018).

⁸ *Umrah* refers to activity of Muslims visiting all religious places in Mecca and Madinah (Greenia, 2018).

In 1999, a law was passed to regulate and supervise the health insurance business: the Council of Co-operative Health Insurance law (Council of Cooperative Health Insurance, 1999). This law was passed to make health insurance compulsory for foreign residents only (Oxford Business Group, 2007). After that, the third party liability law was introduced in 2002, forcing every driving license holder to buy car insurance. This was later linked to every registered vehicle in 2007 (The Report: Emerging Saudi Arabia, 2007).

In 2003, the Cooperative Insurance Companies Law was passed and entrusted to the Central Bank, also known as the Saudi Arabian Monetary Agency (SAMA) (Mirah and Masadeh, 2014), which is the main industry regulator. This was an attempt by the government to tidy up and reorganise the industry by introducing a new set of rules (The Report: Emerging Saudi Arabia, 2007) because, prior to this law, most companies were operating in the market through unlicensed agents (Kwon, 2007).

With the new law in 2003, the number of insurance companies in the Saudi insurance market dropped from 42 to 11 by the end of 2008 (Saudi Arabian Monetary Agency, 2007). According to the same report, this was because existing insurance companies which had failed to apply for a license complying with the Cooperative Insurance Companies Law by April 2008 were forced to exit the market. This historical review of the Saudi insurance market shows clearly how the market has been institutionalised, not only through official bodies but also through Saudi culture. Religion has played a role in shaping the legal conditions for the insurance business in Saudi Arabia by setting an Islamic version of insurance, *Takaful*.

3.2.2.2 Current Condition of the Saudi Insurance Market

The current number of companies operating in the Saudi insurance market is 33, ranging between small- and large-sized companies based on number of employees (Appendix 5 shows these companies and their sizes based on number of employees).

However, one company solely operates solely in reinsurance activities, while the remaining 32 operate in insurance alone or both insurance and reinsurance (Albilad Capital, 2017). Moreover, among these companies, the top three insurance companies

possess a total of 54.6% of the total market share Albilad Capital (2018: 3) (Appendix 6 lists insurance companies in the Saudi insurance market based on their market shares).

Nevertheless, according to the Saudi Arabian Monetary Agency (2017), insurance products offered by these companies fall under three categories: health insurance, general insurance, and protection insurance, see table (3.1). It is clear that the market is driven by health insurance and general insurance, but general insurance is for the most part driven by motor insurance (Saudi Arabian Monetary Agency, 2017), see figure (3.3).

Table 3.1: Type of insurance products in the Saudi insurance market in Millions SR

	2014		2015		2016		2017	
Line of business	SR M	%	SR M	%	SR M	%	SR M	%
Health insurance	15,720.5	51.6%	18,966.8	52.0%	18,630.3	50.5%	19,035.5	52.1%
General insurance	13,857.4	45.5%	16,493.8	45.2%	17,173.7	46.6%	16,327.4	44.7%
Protection insurance	904.4	3.0%	1,035.7	2.8%	1,051.4	2.9%	1,140.3	3.1%
Total	30,482.2	100.0%	36,496.3	100.0%	36,855.3	100.0	36,503.2	100.0%

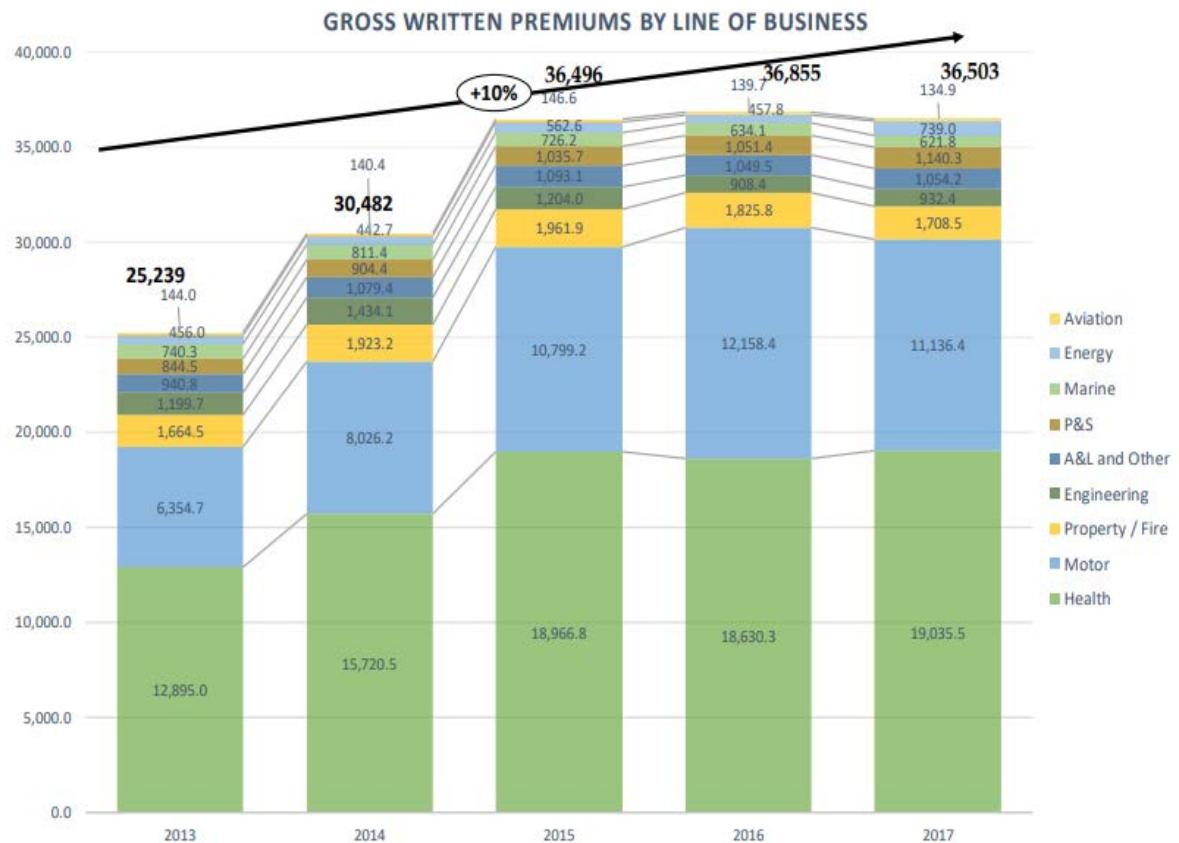


Figure 3.3: Total premiums based on line of business (product) in the Saudi insurance market

In summation, insurance in Saudi Arabia is a relatively new service but one that is growing rapidly. However, demand in Saudi Arabia is for the most part driven by compulsory insurance schemes, while uptake of optional insurance remains very low. Specifically, compulsory health insurance and car insurance are the dominant products, representing more than 90% of all premiums sold.

3.2.2.3 Perception of insurance in Saudi society

As can be noted through table (3.1) and figure (3.3), the demand within the Saudi insurance market is largely dominated by compulsory insurance products. This low demand might be explained by cultural resistance toward insurance products in Saudi Arabia (Oxford Business Group, 2014). Arguably, ‘the humanly devised constraints that structure human interaction’ (North, 1990: 3) might not have fully accepted the insurance business from a religious perspective with regards to customers in Saudi Arabia. In other words, people might be still unconvinced that insurance in Saudi

Arabia is compliant with Islamic law. As a result, insurance, especially life insurance, in Saudi Arabia might still be avoided due to religious views (Rasheed, 2005).

3.2.2.4 Saudi Insurance Regulation

The new law, passed in 2003, might present some limitations to new entrants in the Saudi insurance market. For instance, all companies must only provide insurance products that comply with Sharia Law (Oxford Business Group, 2007). Further, full ownership is not possible for foreign companies; a foreign company can only possess up to 49% of the capital (Oxford Business Group, 2011). Additionally, any insurance company must be a joint stock company (Saudi Arabian Monetary Agency, 2005) with only 60% ownership, while floating the remaining shares which themselves can only be owned by Saudi shareholders (Oxford Business Group, 2011). Moreover, instead of SAMA, the Grievances Department has the power to settle all disputes between reinsurance and insurance companies (or both) and to settle all claims regarding violations of the Cooperative Insurance Companies Law (Saudi Arabian Monetary Agency, 2005). Lastly, even if a company has met the legal requirements set out by SAMA, it will still not be able to obtain a license unless it is issued by Royal Decree, as based upon recommendations of the Council of Ministries and the Minister of Commerce (Saudi Arabian Monetary Agency, 2005).

Another official body involved in the regulation of the Saudi insurance market is the Council of Co-operative Health Insurance (CCHI). The CCHI is involved with the control, passing of legislation, and giving initial license approval to insurance companies that intend to sell health insurance. In summary, SAMA is not in full control of regulating the Saudi insurance market, which could be an issue of regulation clarity.

3.2.3 Summary

This section of literature has provided an overview of the Saudi context in general and the Saudi insurance market in particular. This preview has included a consideration of the external environmental of the Saudi context and the possible influence of these, or some of these, factors on insurance demand in Saudi Arabia. Through this discussion, it can be concluded that the Saudi context is somewhat complex and involves a number of uncertain aspects. This complexity has its application to the Saudi insurance market

through such factors as the political, economic, socio-cultural, and legal. It can also be concluded that there are some interrelationships within these factors that have formed in rather unique ways that could be hidden from academic researchers and practical investigators. However, there is an excellent potential for the growth of the Saudi insurance market through expected changes to local environmental factors, such as the legality of certain insurance types. Despite this, capturing the opportunities presented by the Saudi insurance market requires careful attention to how environmental factors within the Saudi context overall and those affecting insurance market in particular are constructed and are evolving.

3.3 Conceptual framework of the Saudi insurance market

In this section, a conceptual framework is proposed for two main purposes: (1) to stress out that decisions of market entry and market entry mode are always taken under uncertainty and should always fall under the notion of bounded rationality where different decision behaviours could be applied by decision actors, (2) to propose an initial list of influential external and internal factors that could have affected market entry decisions of insurance companies entered the Saudi insurance market between 2003 and 2017.

3.3.1 Influential external factors within the Saudi insurance market

External environment of the Saudi insurance market are still volatile. The demand on insurance in the Saudi market seems to be dependent on several external factors. However, some of these factors might increase demand in the Saudi insurance market while other might involve some issues. At the same time, it is uncertain if helpful factors would continue improving or if problematic factors, on the other end, would be resolved in the future. The following discussion explains the main external factors and related sub-factors, see table (3.2), that appear to be influential, negatively or positively, in the Saudi insurance market. These factors are listed in a hierarchical design (sub-main factors assigned to main factors), a similar design to PESTLE analysis framework.

Table 3.2: Influential external factors in the Saudi insurance market

Influential external factors in the Saudi insurance market
Political
<ul style="list-style-type: none"> • Governmental Intervention
Economic
<ul style="list-style-type: none"> • GDP • Individual income (GDP per capita) • Governmental expenditure
Socio-Cultural
<ul style="list-style-type: none"> • Public Resistance • Religion
Legal
<ul style="list-style-type: none"> • Insurance regulation • Judicial System

3.3.1.1 Political Influence

Earlier in this section of this chapter of literature, it was explained that the role the government has played in the Saudi insurance market passed a number of royal decrees to both organise the market and regulate it. This role is expected to continue to be influential, and it could create further demand for insurance. For instance, health care in Saudi Arabia is free through heavy financing by the Saudi government; however, this financing process is at risk because of the decrease in oil prices (Al-Hanawi *et al.*, 2018: 259). In order to reduce the financial pressure on the Saudi government, health insurance became compulsory for Saudis and non-Saudis in the private sector first, and then became compulsory for Saudis in the public sector (Almalki *et al.*, 2011). If public hospitals are privatised by the Saudi government by introducing health insurance schemes, this could further introduce the benefits of insurance business among the general public. In fact, Al-Hanawi *et al.* (2018: 259) found that two-thirds of their Saudi citizen sample were “willing to participate in and pay for a contributory national health insurance scheme”.

3.3.1.2 Economic Influence

Based on statistics published by the Saudi Arabian Monetary Agency (2018), the Saudi economy has been highly dependent on oil revenues, see table (3.3). On the other hand, oil prices have been subject to a sharp decrease since 2014. Despite this, Saudi governmental expenditure has, in general, remained essentially steady. This sustained government expenditure has increased insurance activity, especially through infrastructure projects (Akhtar, 2018). At the same time, the Saudi government is showing its determination to continue its current economic growth without the need for excessive expenditure through privatisation programmes as part of the strategic economic plan called Vision 2030 (Oxford Business Group, 2018).

Table 3.3: Overview of the Saudi economic

	Oil revenues to total revenues in %	Total expenditure (billion SR)	GDP (million SR)
2013	89.51 %	976	2,350,370
2014	87.45 %	1,109	2,435,900
2015	72.5 %	978	2,545,236
2016	64.2 %	830	2,587,758
2017	63.0 %	930	2,565,591

Moreover, the **GDP**, gross domestic capital, of Saudi Arabia has shown overall annual growth between 2013 and 2017, see shown in table (3.3). Although there has been a drop in oil prices affecting the oil GDP sector of the Saudi economy, GDP continues to grow because of growth in other sectors, such as the manufacturing industries (Saudi Arabian Monetary Agency, 2018).

In addition, the **GDP per capita** in Saudi Arabia has shown steady growth, making it one of the highest GDPs per capita amongst the developing countries (International Monetary Fund, 2013). Thus, Saudi citizens enjoy a high disposable income (Oxford Business Group, 2018). However, “best foreign markets would differ by industry” and consumer expenditure for each specific industry (Ozturk *et al.*, 2015: 126). In the case of the Saudi insurance market, consumer expenditure on insurance has increased by 8%

between 2013 and 2017 for both optional and non-optional insurance. However, compulsory insurance lines account for 85% of total premiums in the Saudi insurance market (Albilad Capital, 2018). In other words, demand for optional insurance products in the Saudi market is low, regardless of the growth in GDP per capita or high disposable incomes; this might be explained by certain socio-cultural factors, as explained below (3.3.1.3).

3.3.1.3 Socio-cultural Influence

From the tables provided above, it can be noted that compulsory insurance, health insurance and car insurance account for the vast majority of premiums sold in the Saudi insurance market. One could argue the demand for optional insurance remains low. A possible answer is that people might not be fully aware of the benefits of insurance products because insurance business is new in the Saudi context, as previously illustrated. Certain studies, such as that by Ansari (2012), found 67.4% of Saudis surveyed have a positive perception of insurance due to their use of compulsory insurance. On the other hand, 17.6% said there was no effect, 7.9% were not clear as to the effect, and 7.1% stated that using insurance “had a negative impact on their perception of insurance” (Ansari, 2012: 3742).

Furthermore, religious beliefs could be another issue for the resistance of people within the Saudi society to buying optional insurance. As explained previously, the Saudi insurance market did not exist until recently because of Muslim scholars, especially in Saudi Arabia, considering insurance to be a “form of gambling which is strictly prohibited by Islam” (Al-Ghadyan, 1999: 333). The ban on insurance was removed after introducing *Takaful* in 2003 (Khorshid, 2004). However, this Islamic version of insurance was introduced by Saudi officials, but there might still be a degree of resistance to this business among Muslims in Saudi Arabia. Ansari (2012) found that 40% of 700 Saudi users of compulsory insurance products would buy other insurance products if they are convinced that these products were based on *sharia* or Islamic principles.

Nevertheless, it is uncertain how long it would take Saudi customers to become more aware of the benefits of insurance. In addition, it is not clear how they could be convinced that insurance companies in the Saudi insurance market actually provide

insurance products that are entirely based on Sharia law. These socio-cultural factors require careful attention if increased demand for insurance is to be stimulated in the Saudi insurance market. Ansari (2012) argues the majority of the Saudi population would be prepared to buy insurance products but they are hesitant due to religious beliefs, so he suggested more effort should be made by policy makers and managers within insurance companies to overcome these problems.

3.3.1.4 Legal Influence

Pushed by the Saudi government, there is now an official body to regulate the insurance market with an improving legal framework. The Saudi Arabian Monetary Agency is the main regulator of the insurance market in Saudi Arabia. Since it was entrusted with this task, SAMA has been showing continued improvement in controlling the market through different amendments to market legislation. For instance, because 55% of 14 million vehicles on roads in Saudi Arabia are uninsured, SAMA is working alongside the Traffic Police Department to ensure that all vehicles have insurance coverage through intelligent traffic systems (Albilad Capital, 2017). In short, if SAMA applied increased law enforcement in collaboration with other related officials, demand for motor insurance within the Saudi market should increase.

However, as explained in section (3.2.2.4), there are multiple official agencies or offices involved in the regulatory process in the Saudi insurance market. Besides the involvement of the Saudi Council of Co-operative Health Insurance, the Ministry of Labour is also involved, forcing the Saudi insurance market through the Saudisation process. Saudisation is a policy set by the Saudi government requiring a minimum number of Saudi employees in private sector companies, and the failure to meet this requirement could result in severe penalties (Sadi and Al-Buraey, 2009). Thus, the Saudi **insurance regulatory** seems complicated as multiple players are involved, each with different legal remits.

Furthermore, legal requirements might have been clearer after passing the associated laws in 2003, but the involvement of other **judicial systems** applying rules with no clear set of laws results in additional complexity and uncertainty. With the application of Sharia law in Saudi Arabia, it is constitutionally impossible for the Saudi government to

pass any law before it is vetted by the *Ulama*⁹ (Haberbeck, 1987), which can be taken as an indication of the influence of formal and informal rules in institutional theory (North, 1990).

3.3.2 Influential internal factors operating in the Saudi insurance market

As illustrated in chapter 2, section (2.2.5), there is limited empirical evidence pertaining to the service industries in the market entry literature compared to the manufacturing industries. In addition, the insurance industry itself has attracted very little attention in the market entry literature (Altuntas and Gößmann, 2016). In addition, the few studies in market entry and the market entry literature that have investigated the insurance business have (1) included more than one context (country or market), see Schoenmaker *et al.* (2008), or (2) focussed on external factors to a much greater extent than internal factors, see Berry-Stölzle *et al.* (2010).

However, because internal factors are imposed by external ones (Couturier and Sola, 2010) (Couturier and Sola, 2010), internal factors should, consequently, vary based on the context (country) and type of industry. In this sense, the proposed internal factors here should be based on studies that have focused (1) on the Saudi insurance market, and (2) included internal factors in their investigation. Some studies have focussed exclusively on the Saudi context but have included different industries with the Saudi insurance market, such as Hain (2011). Nevertheless, with little focus on internal factors in general, for the service industry, the insurance industry, and for the Saudi insurance market in the market entry literature, the author in this research focuses on internal factors that are highlighted through systematic review papers in this area of the literature. Specifically, internal factors highlighted by Schellenberg *et al.* (2018) in their systematic review are the internal factors initially proposed in this thesis. They highlighted three main internal factors, which are control, international experience, and assets specificity.

⁹ *Ulama* are Muslim scholars who are well recognised for their extensive knowledge of Islamic law or Sharia law.

3.3.2.1 Asset Specificity

Asset specificity refers to a human or physical investment that is valuable to a few users only (Williamson, 1985; Anderson and Gatignon, 1986; Erramilli and Rao, 1993), such as physical assets (i.e., a piece of equipment) that is unique to one or few users (Anderson and Gatignon, 1986) or human assets (working relationships of experienced workers with others) working with partners (Erramilli and Rao, 1993). These assets are subject to opportunistic behaviour by partners (Williamson, 1985; Anderson and Gatignon, 1986; Hennart, 1991).

Asset specificity can take many different forms. In general, most studies have investigated marketing or technological assets, but there are more and other forms of assets such as dedicated assets, human resources, and temporal assets (Brouthers, 2013). Furthermore, know-how and tacit knowledge are other forms of transaction-specific assets (Brouthers and Nakos, 2004). The know-how and tacit knowledge representing asset specificity might be lost if old partners are replaced, which endangers intellectual property (Brouthers and Nakos, 2004). Overall, the logic behind asset specificity is to indicate the costs of transferring assets to new markets (Hennart, 2009). In other words, asset specificity represents or indicates the transaction-specific costs (Williamson, 1985; Brouthers and Nakos, 2004). In this sense, there are different costs in relation to different forms of asset specificity. For instance, there are contractual costs or risk, which determine the advantages that might be gained or lost by entering particular markets and choosing particular market entry modes (Dunning, 1980; Agarwal and Ramaswami, 1992; Brouthers *et al.*, 2000; Nakos and Brouthers, 2002), and the cost of negotiation and monitoring (Brouthers, 2002). It also involves costs associated with sharing skills, dissemination of knowledge, and product quality deterioration by incorporating new partners (Agarwal and Ramaswami, 1992).

Nevertheless, asset specificity is found to be influential to market entry and market entry mode decisions in general. A high control mode, for instance, is generally chosen over a low control mode when the costs of the assets involved are high (Erramilli and Rao, 1993; Makino and Neupert, 2000; Brouthers *et al.*, 2003).

3.3.2.2 International experience

Firm's experience: Experience is another principal factor that has been examined and has been suggested to be influential in selecting markets and market entry modes. “Experience was conceptualised as the firm’s previous experience in international markets” (Blomstermo *et al.*, 2006). According to the Uppsala model, a firm’s experience in different markets is an important factor when committing to new markets (Johanson and Vahlne, 1977). In TCA, experience is referenced as a tool that can be used as a measure of internal uncertainty. The more experienced firms are, the less uncertain internal factors are, in which case high control modes are less desirable (Anderson and Gatignon, 1986). A firm’s experience in RBV and OLI is considered in a different way, namely as one of the unique resources a firm possesses. This resource helps firms to exploit other specific factors. However, international experience influences market entry and market entry mode decisions (Hennart, 1991). Moreover, time operating internationally, scope of operation, decision-specific experience, and country-specific experience are the principal five variables that are typically used to measure such kinds of experience (Cho and Padmanabhan, 2001). There is a greater expectation that a firm with a good level of experience that operates in different markets will know how to deal with conditions it encounters in new countries or markets; for instance, it provides firms with greater flexibility with cultural distance (Kogut and Singh, 1988). It would be expected that experienced firms could capture and overcome aspects such as institutional differences and political conditions, and recognise new opportunities with regards to their strengths.

In terms of market entry mode, firms with good experience can choose a full control or an ownership entry mode (Anderson and Gatignon, 1986; Gatignon and Anderson, 1988; Hennart, 1991; Delios and Beamish, 1999; Chang and Rosenzweig, 2001; Tatoglu *et al.*, 2003). Other scholars have argued that experienced firms will choose a low control mode over a high (Kogut and Singh, 1988; Gomes-Casseres, 1989; Erramilli, 1991; Padmanabhan and Cho, 1996). These differences might be explained in terms of the type of experience, or the industrial or geographical location (Gomes-Casseres, 1989). Overall, a firm’s international experience is potentially a highly influential factor when making decisions about market entry and market entry mode.

Personal experience: Arguably, if an organisation's experience had been found to affect market entry and market entry mode decisions, as explained earlier, its employees should have impact, choosing targeted markets and mode choices based on their levels of experience. Herrmann and Datta (2006) conducted a study examining the effect of chief executive officers' (CEOs) experience on different market entry modes. They found that the CEO's personal experience negatively affects acquisition and greenfield over joint venture. They also reported a positive relationship between CEOs' international experience and acquisition, greenfield and joint venture. Herrmann and Datta (2002) also found the same positive relationship between a CEO's experience with full control mode. In short, decision actors might be able to overcome ambiguity in new markets based on their experience.

3.3.2.3 Control

Control arises when companies are about to choose the market entry mode where they need to operate within in a targeted market. Basically, all market entry modes are accompanied by an anticipated loss of internal control (Agarwal and Ramaswami, 1992) because they determine whether companies have to choose full control or share control within partners in any given targeted market (Arregle *et al.*, 2006). According to Hollensen (2007), a company can operate in new markets via three main categories of market entry modes, each of which provides different levels of control. The first category is high control modes, such as the wholly owned subsidiaries which involve full control. The second category is intermediate modes such as joint venture, where control is shared between the parent company and partners. The final category is low control modes such as exporting, where a parent company has very little control over the activities of an agent located in a different market, working as an importer or distributor.

However, the level of control possible for the chosen market entry mode depends on the conditions and/or external factors in the targeted markets. For instance, for a country that has stable environmental conditions, wholly owned subsidiaries or high resource commitments are preferred (Malhotra *et al.*, 2003). Kotabe *et al.* (1996), on the other hand, found that joint venture mode is preferred in markets that have weak legalisation and standards of enforcement. Joint venture mode is also preferred in countries that impose extensive restrictions on ownership (Erramilli, 1992).

Therefore, choosing a market entry mode to obtain a certain level of control, a company has to evaluate external factors in targeted markets first. Based on this evaluation, it can choose a specific entry mode or otherwise decide not to enter (Erramilli, 1992).

However, companies might find it difficult to undertake such an evaluation due to uncertainty about external factors associated with the new market (Davidson, 1982; Anderson and Gatignon, 1986; Hill *et al.*, 1990; Malhotra *et al.*, 2003).

3.3.3 Uncertainty in the Saudi insurance market

As explained in chapter 2, market entry decisions are considered strategic decisions, and strategic decisions are considered to be the ability of organisations to adjust to and match threats or opportunities with regards to their environments (Hitt and Tyler, 1991).

At the same time, uncertainty is main characteristic of strategic decisions (Dean and Sharfman, 1996; Elbanna, 2006). With uncertainty involved in market entry decisions (Maitland and Sammartino, 2015), the decision analysis about the opportunities and threats in new markets will be less rational. As a result, market entry decisions under uncertainty could be affected by a decision-behaviour related cognitive simplification process among the decision actors (Simon, 1982; Hambrick and Mason, 1984); this cognition process differentiates top management teams based on their demographic characteristics such as values, personalities, and experiences (Hambrick and Mason, 1984).

In the case of the Saudi insurance market, decision behaviours would be expected to be much more likely. It can be concluded that the Saudi context, in general, is far more complex than is typical for such circumstances, and will accordingly involve more uncertainty than usual. In the Saudi insurance market, this complexity is majorly related to factors such as the political, economic, socio-cultural, and legal. It can also be concluded that there are some interrelationships within these factors that are unique to Saudi Arabia, where certain realities could be hidden from decision makers. For instance, the new set of regulations for the Saudi insurance market passed by the government in 2003 is based on Islamic principles. These should be sufficient for certain insurance products to gain credibility within Saudi society as the Saudi government by the deliberate design of its constitution being based on Sharia law.

Despite this, Saudis typically remain unconvinced that current insurance regulations conform to Islamic law (Ansari, 2012).

However, the external environment of the Saudi insurance market still seems to be unstable, and the forecast for some of these factors not particularly reliable.

Accordingly, decision makers could assess and weight these factors differently, resulting in associated decision behaviours. At the same time, these internal aspects can be altered by the decision makers' perception of information about the uncertainty associated with these external factors (Huber *et al.*, 1975). In other words, the uncertainty currently revolves around external factors within the Saudi insurance market will lead to uncertainty in terms of internal factors within the insurance companies that are targeting it. Overall, the following conceptual framework, figure (3.4), proposes a number of general factors that might have played a role in market entry decisions made by insurance companies entering the Saudi insurance market between 2003 and 2017. However, this conceptual framework does not suggest possible decision behaviours to be examined in this thesis; instead, it argues that market entry decisions are not made systematically and with complete rationality, as assumed by the market entry literature. To demonstrate such logic, uncertainty is investigated empirically in this thesis through a comparison between the factors (external and internal) perceived by decision makers within insurance companies prior to and after penetrating the Saudi insurance market. As for the external and internal factors proposed in this framework, they are used for the purpose of initial guidance to allow further exploration of all other possible factors.

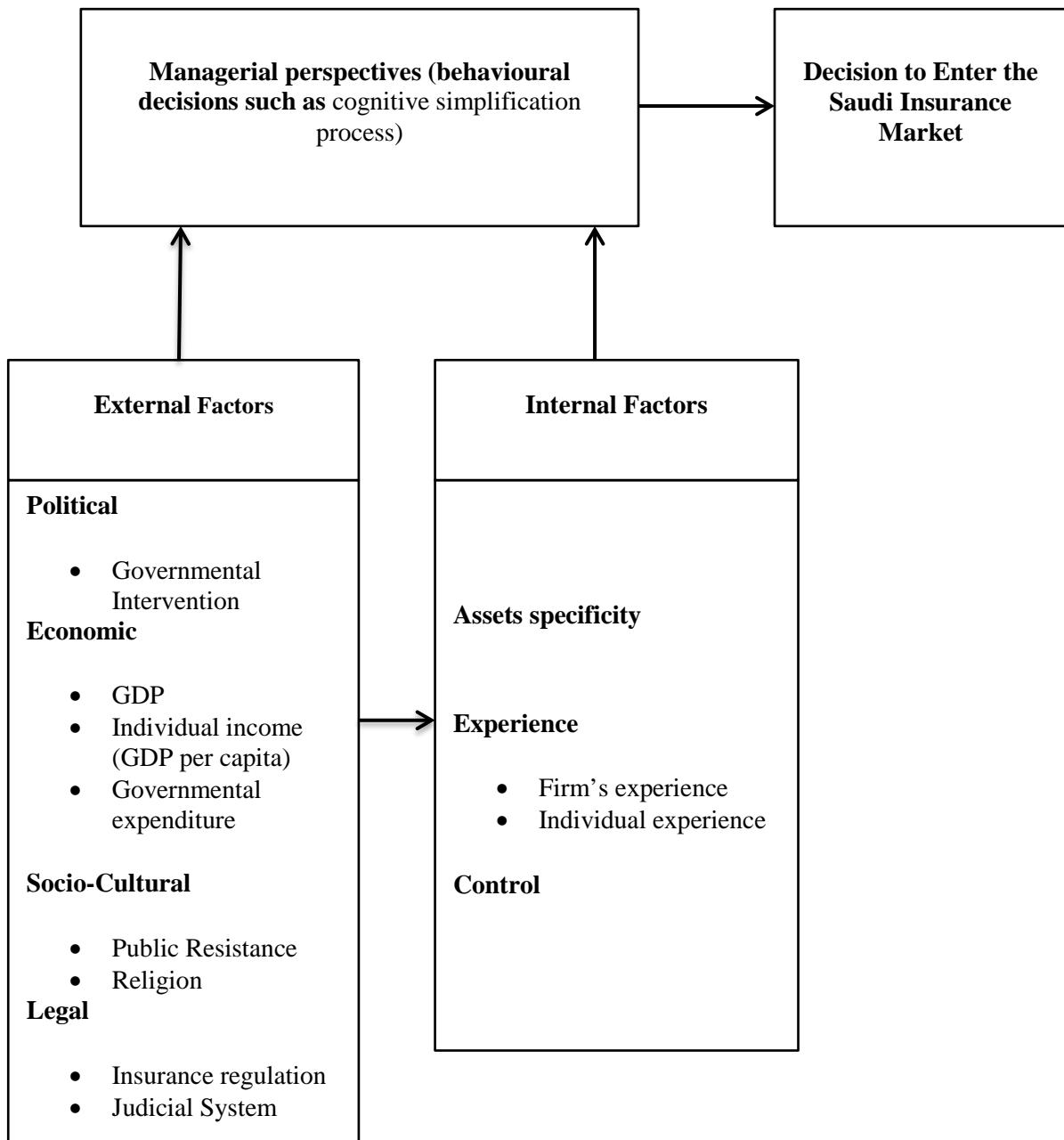


Figure 3.4: A literature review-based conceptual framework proposed for the Saudi insurance market

3.4 Conclusion

In this chapter, two sections have been examined. The first is a preview of the Saudi insurance market explaining the general conditions of the Saudi context and further details regarding the Saudi insurance market: history of the Saudi insurance business, current competition and demand, the perception of insurance amongst the Saudi public, and regulatory issues relating to the Saudi insurance market. In the second section, a

conceptual framework was proposed that considered the factors that might have had a general influence on the decisions made by insurance companies that entered the Saudi insurance market between 2003 and 2017. In this framework, an initial list of influential external and internal factors had been proposed for further investigation in this thesis, and the role of managerial perspectives is emphasised. Finally, this framework highlights clearly the nature of market entry and market entry mode decisions being made under uncertainty usually.

Chapter 4: Methodology

The research methodology underpinning this research is explained in this chapter along with a discussion of the pragmatic assumptions justifying the research design overall.

4.1 Research paradigm and philosophy

A research paradigm can be defined as the “comprehensive belief system, world view or framework that guides research and practice in the field” (Willis *et al.*, 2007: 8). In other words, the research paradigm refers to the way in which a study should be conducted in regards to the researcher’s beliefs that explain his or her world; it provides specific ways to understand objects that are examined in the course of the researcher’s engagement with the world (Johnson and Duberley, 2000). In this sense, all possible relationships in the researcher’s world are defined, and the research process is influenced as a result (Collis and Hussey, 2003).

That said, every methodology relies on the nature of that world or knowledge (Corbin and Strauss, 2014), which the researcher’s assumptions and beliefs affect and shape. These will, in turn, lead the researcher to apply a specific methodology when investigating the nature of the world. These assumptions and beliefs can be explained from ontological, epistemological and axiological perspectives. To address these three perspectives, many scholars have pointed to a list of questions that a research needs to be consider which identify the nature of the data they are about to analyse, and which will thus guide their practice in the field (Willis *et al.*, 2007). The answers to these questions, among these assumptions or perspectives, are constrained by or interconnected with each other. In other words, answering question/s regarding ontological assumptions will guide the researcher’s answers under epistemological and axiological assumptions. In short, constrained by each other, these three fundamentals (or basics) will lead the researcher to choose the most appropriate methods of generating knowledge to be gained (Guba and Lincoln, 1994).

However, answers to questions made on the basis of these three assumptions will lead the researcher to choose between two main paradigms, which are positivism (objectivism) and constructionism (subjectivism) (Guba and Lincoln, 1994; Saunders *et al.*, 2016). Both treat social reality differently, and the three stances (ontology, epistemology and axiology) are, as a result, based on differing assumptions under these two paradigms with different set of questions. For the social phenomenon of management, Saunders *et al.* (2016: 129)

highlighted questions with their objective and subjective answers under ontological, epistemological, and axiological assumptions, see table (4.1).

Table 4.1: Philosophical assumptions as a multidimensional of continua according to Saunders *et. al* (2016)

Assumption type	Questions	Continua with sets of extremes	
		objectivism	subjectivism
Ontology	What is the nature of the reality?	- Real	- Nominal/decided by convention
	What is the world like?	- External	- Socially constructed
Epistemology	How can we know what we know?	- Adopts the assumptions of the natural scientist	- Adopts the assumptions of the arts and humanities
	What is considered acceptable knowledge?	- Facts	- Opinions
	What constitutes of good-quality data?	- Numbers	- Narratives
	What contribution to the knowledge can be made?	- Observable phenomena - Law-like generalisations	- Attributed to meanings - Individuals and context, specific
Axiology	What is the role of values in research? How should we treat our own values when do research?	- Value-free	- Value-bound
	How should we deal with the values of research participants?	- Detachment	- Integral and reflexive

Nevertheless, the subsequent sections provide, first, a discussion of ontological, epistemology, and axiology assumptions under the positivism and constructivism paradigms. The second section discusses the philosophy for this thesis with regards to these assumptions.

4.1.1 Research philosophy

Considered to be a “paradigm” (Silverman, 2013), research philosophy involves two main paradigms: positivism and subjectivism (constructionism) (Guba and Lincoln, 1994). Both treat social reality in a different manner, and the three stances (ontology, epistemology and axiology) are based on differing assumptions as a result. The following debate explains the positivist and subjectivism paradigms under these three assumptions.

4.1.1.1 **Ontology**

Ontology refers to the nature of a phenomenon as it exists (Duberley *et al.*, 2012) and addresses the researcher's assumptions regarding the reality of that phenomenon (Easterby-Smith *et al.*, 2016). The argument relating to ontology revolves around whether the phenomenon under investigation exists independently of the researcher's knowledge (Saunders *et al.*, 2016; Symon and Cassell, 2012). In this sense, different types of thoughts concerning the nature of realities will occur, but these thoughts can be, generally, viewed and classified as objectivism and subjectivism (Saunders *et al.*, 2016).

Objectivists assume that "social phenomena and their meanings have an existence that is independent of social actors" (Bryman, 2004: 16). They adopt the natural science point of view, treating the reality being researched as external to the researchers and other social actors. In other words, ontologically, objectivists treat social entities as if they are physical entities, which is known as realism or the most extreme point of view an objectivist could assume (Saunders *et al.*, 2016). In short, for objectivists, social actors' experiences, perceptions, and interpretations have no influence on the realities that exist in the social world.

On the other hand, and as a result of the dominance of objectivity, subjectivity has emerged to emphasise that reality is socially constructed (Easterby-Smith *et al.*, 2001). For subjectivists, the social phenomenon is a result of perceptions that follow the actions of social actors (Collis and Hussey, 2003; Saunders *et al.*, 2016). In other words, subjectivists assume that the social world is based on multiple realities rather than one, and social realities are socially structured rather than being external to social actors (Saunders *et al.*, 2016). However, subjectivity could take two forms, which are nominalism and social constructionism (Saunders *et al.*, 2016). According to Saunders *et al.* (2016), nominalism is the extreme end of subjectivity that considers the reality of the social world as a result of social actors' language, perceptions, conceptual categories, and consequent actions. As for social constructionism, researchers focus on the way people think, feel and communicate, enabling them to interpret the reality of a given situation based on social interaction (Martin and Sugarman, 1996).

4.1.1.2 **Epistemology**

While ontology is concerned with reality, epistemology relates to what is considered acceptable knowledge and the methods of obtaining it (Guba and Lincoln, 1994; Bryman,

2004). Therefore, it reflects the assumptions of the researcher regarding the ways in which to investigate the nature of the phenomenon (Easterby-Smith *et al.*, 2012). With its focus on knowledge, this philosophy involves two major paradigms: positivism and social constructionism or subjectivism (Collis and Hussey, 2003).

In positivism, only measurable and observable phenomena are considered to be knowledge (Easterby-Smith *et al.*, 2001; Collis and Hussey, 2003), which is natural since the associated point of view is independent and objective (Saunders *et al.*, 2016). Positivists argue that there is a definite meaning to each object and it is separate from the researcher's awareness (Crotty, 1998; Saunders *et al.*, 2016). Thus, knowledge for positivists is definite and static through solid scientific applications that are ultimately represented in factual results (numbers). Researchers' role in this case is to collect and systematically analyse data that already exists by assuming an objective stance that is not altered or distorted by their values (Collis and Hussey, 2003), so they can generate knowledge based on "measurable facts, from which law-like generalisations can be drawn about the universal social reality" (Saunders *et al.*, 2016: 128). Usually, quantitative research adopts this research paradigm (Saunders *et al.*, 2016). Nevertheless, this paradigm is appreciated among a wide range of sciences and provides a solid and reliable basis for the generation of knowledge.

However, social constructivism or subjectivism contrasts with the positivism view quite radically. The basic argument of social constructivism is that realities within the social world are, in general, extremely complex (Crotty, 1998). Social constructivism has its general roots in phenomenology (Alvesson and Sköldberg, 2009), and, more specifically, in psychology and sociology (Burr, 2006). In social constructivism, "knowledge is historically and culturally specific; that language constitutes rather than reflects reality, and is both a pre-condition for thought and a form of social action; that the focus of enquiry should be on interaction, processes and social practices" (Pak and Park, 2004: 377); thus the meaning of social constructivism is supported by a large number of scholars such as Gergen (1985) and Shotter (1993), and they defined it in an essentially similar manner. For instance, knowledge is constructed "through the daily interactions between people in the course of social life that our versions of knowledge become fabricate" (Burr, 2006: 4). Nevertheless, social constructivism advocates the discovery of subjective meanings that lead social actors to behave and act in certain ways. In other words, it contradicts the positivist perspective by addressing social actors' subjective meanings to comprehend

them. It can identify a phenomenon that might seem natural but is, in reality, socially constructed (Alvesson and Sköldberg, 2009).

4.1.1.3 Axiology

The essence of axiology relates to the role of ethics and values in a research context (Saunders *et al.*, 2016). More specifically, it is concerned with how researchers deal with their own and the research participants' values (Saunders *et al.*, 2016). The topic of axiology in scientific research has been a classical debate between scholars about the values of science. How people form their ethical and evaluation standards are important in all other sciences, and this debate is indeed reflected in all sciences in different forms but mainly under the view of positivism and social constructivism.

In positivism, science is value-free, as researchers are detached from the problem being studied (Saunders *et al.*, 2016). Positivists assume, or at least attempt to have no place for human values, expectations, feelings, and hopes in the research process and scientific inquiry; this philosophical position for positivist was reached through systematic and standardized investigation methods (Punch, 2005). However, many scholars have criticised this view, especially those within the science of value. Rescher (2004), for instance, argues that humans are implanted in the world by their nature as rational beings who are supposed to act and think rationally by using their values as a means of guidance for their decisions and actions. In other words, values are considered to be part of basic rational reasoning, and thus shape all human actions (Heron, 1996). Values for all sciences, including natural sciences, are still in need of values as every scientific inquiry involves attitudes, problem, processes, and methods (Bahm, 1993). For positivists, approaching a problem believing it is a genuine problem that can be solved through the appropriate effort is a matter of conceiving still (Bahm, 1993). Hence, they are not entirely free from their values.

However, in contrast to this value-free view taken by positivists, research is value-laden for constructionists, who consider that researchers interact with the matters they investigate (Easterby-Smith *et al.*, 2012). Those who epistemologically adopt social constructivism in particular are supposed to be close to, and in prolonged interpersonal contact, with respondents (Punch, 2005). Social constructivists need closer insight to the phenomena being investigated by the interpretation of participants' meanings, perceptions, and experiences at a personal level. In this sense, social constructivists are subject to value biases through both: their own and the participants' values. "Therefore, it is a fallacy to even think that one could eliminate value biases in such an interdependent researcher–

participant interaction" (Punch, 2005: 131). However, they must acknowledge such biases rather than claiming they can eliminate them (Punch, 2005; Saunders *et al.*, 2016).

4.1.2 Philosophical position underpinning the current thesis

Under the main assumptions (ontology, epistemology, and axiology), different research philosophies can be adopted in business management. According to Saunders *et al.* (2016), there are five philosophies under ontological, epistemological, and axiological assumption. These philosophies are positivism, critical realism, interpretivism, postmodernism, and pragmatism. Interpretivism, however, is the research philosophy adopted in this research. This section justifies this choice of research philosophy through three main concerns or questions: (1) on the ontological level, what is the nature of reality? (2) on the epistemological level, what is acceptable knowledge? and (3) on the axiological level, what is the role of value?

4.1.2.1 The nature of organisational decision making under uncertainty

As explained in chapter 2, there are two classical schools of thought about decision making, rational choice and limited or bounded rationality. The first assumes that decisions are systematically made based on a fixed list of alternatives open to decision makers, and known probability distributions for the outcomes to each alternative (Simon, 1997). This is an objectivist stance, portraying organisations as an objective entity for which managers "have job descriptions which prescribe their duties" (Saunders *et al.*, 2016).

However, for limited rationality theorists, decision makers are not separate entities from decision making. Decisions cannot be made in complete knowledge, especially under uncertainty (Cyert and March, 1963). Given this, decisions are subjectively made as the role of cognition or the use of cognition simplification processes by decision makers takes place (Simon, 1997). Furthermore, characteristics such as decision makers' cultures, educational levels, meanings, and experiences are vital in how they perceive and process information (Hambrick and Mason, 1984), which makes them part of the reality or the phenomena of making decisions, rather than external entities who objectively behave.

In the case of market entry and market entry mode decisions, the situation is more complex and uncertain. As part of the reality of market entry and market entry mode decisions, decision makers face unfolded contexts in new markets that dynamically change. Considerable uncertainty is involved when considering external environments in new

markets, and these are likely be perceived differently between decision makers within a given organisation, or indeed among different organisations.

Therefore, the reality of decision making in general and market entry decisions in particular is not based on absolute sense (true or false), as positivists argue (Guba and Lincoln, 1994). Instead, it is constructed through multiple realities, meanings, and interpretations. First, decision actors vary in their characteristics, such as their cultural backgrounds, educational level, and experience in business and administrative positions. Second, decision makers face different circumstances when deciding to enter a specific market. Finally, market entry decisions can be different based on the time taken to make them; different top management teams with different characteristics could be involved over time, and such change influences even the organisational strategic goals (Cyert and March, 1963). In addition, the manner in which decision makers interpret the connotations of a specific market could vary because: (1) conditions of a specific context or market are a reflection of its society, as based on the way people's cognitions, perceptions and meanings, structures and institutions in a society are built (Berger and Luckmann, 1966), and (2) that these conditions are subjects to change with time. Nevertheless, interpretivism argues that humans "with different cultural backgrounds, under different circumstances and different times make different meanings, and so create and experience different social realities" (Saunders *et al.*, 2016: 140). Thus, on an **ontological** level, reality, at least in this research, is based on complex contexts and multiple realities, some of which are socially constructed and have multiple meanings.

4.1.2.2 Facts and numbers VS opinions in decision making

In rational decision making, various theories have emerged to objectively treat decision making as a form of physics through utility function and maximisation. Through this mathematical and objective measurement, the aim is to separate factual knowledge from value and mind. However, the objectivist view within these theories cannot be fully claimed as such. For instance, one of the assumptions made in the theory of subjective utility is that the probability distributions of outcomes for alternatives can be obtained, but only subjectively (Simon, 1997). In other words, this theory admits the subjectivity applied by decision actors.

However, for long time, the decision analysis has taken the notion of psychology to moderate the human mind and its value in decision making. As a result, different cognition models such as the mapping model of Helversen and Rieskamp (2008) are adopted in

decision analysis to estimate and predict human judgements. At this point, scholars have been aiming to systematically understand decision making by predicting heuristics and the role of cognitive biases. In this sense, one could argue that this effort can produce acceptable knowledge that could be measured.

However, this acceptable and measurable knowledge would not have existed without the focus on the cognitive limitations that decision makers could already apply in the first place. In other words, in order to take the positivist philosophical position (measurable knowledge), namely analysing decision making, an interpretivist (perceptions and interpretations knowledge-based) philosophical position is first required to interpret decision makers' perceptions and meanings. Thus, on an **epistemological** level, this thesis accepts the fact that acceptable knowledge is based on the perceptions of social actors, specifically decision makers, in this research.

4.1.2.3 **Role of value**

As can be noted through the arguments above, the phenomena being investigated require some form of direct interaction with their participants. Face to face interaction with decision makers is required in order to understand and highlight the overall factors that seem most influential to penetrating the Saudi insurance market. In other words, the level of interaction with the constructors of this phenomenon is heavily emphasised. As a result, the researcher, on an **axiological** level, is value-laden, as interpretivism philosophy points out that the researcher's interpretation is "key to contribution" (Saunders *et al.*, 2016: 136).

4.2 **Research approach**

To begin with, this research is based on a deductive approach that is qualitatively conducted. In general, there are three main research approaches in business research: the deductive, the inductive, and the abductive (Bryman and Bell, 2015; Saunders *et al.*, 2016). The main distinguishing criterion between them is the use of theory which influences other criteria, such as the use of data and generalisability of findings. In the deductive approach, researchers rely on an existing theoretical perspective through a related literature review, while the inductive approach ends with the development of a theory (Bryman and Bell, 2015). As for the abductive approach, this can be followed should one wish to generate or modify a theory, or incorporate different theories to build a new one, or modify an existing one (Saunders *et al.*, 2016).

However, the deductive approach has been chosen in this thesis because different theoretical perspectives underpin the propositions suggested throughout the literature review. As explained in chapter 2 (2.2.1), there is a certain ignorance of managerial perspectives within market entry and market entry mode studies. One major factor that can account for this gap is the fact that theoretical perspectives within this discipline make no reference to, or inclusion of, managerial perspectives (Kumar and Subramanian, 1997; Brouthers and Hennart, 2007; Schellenberg *et al.*, 2018). On the other hand, this knowledge gains its existence through the theoretical perspectives of another discipline, which is decision analysis under uncertainty in general and strategic decision making in particular. Hence, theories such as models of bounded rationality and the upper echelons are adopted to introduce managerial perspectives to market entry literature. One could argue that this incorporation of existing theoretical perspectives is similar to the concept of the abductive approach. However, incorporating different theories could be adopted through the abductive approach if such an incorporation would result in the building of a new theory or the modification of an existing theory (Saunders *et al.*, 2016), which is not the case in this thesis as the purpose is to shift knowledge between different disciplines.

4.2.1 Methodological choice

Although the deductive approach is normally used in quantitative research through hypothesis and measurable propositions, qualitative research can also adopt the deductive approach (Saunders *et al.*, 2016). A methodological choice could take the form of qualitative, quantitative, or mixed (qualitative and quantitative) (Saunders *et al.*, 2016). A major distinction between the qualitative and quantitative is the means by which each produces knowledge; in qualitative research, findings are not produced through quantification such as statistical means (Corbin and Strauss, 2008). Instead, qualitative research is the process of interpreting data in order to develop the empirical knowledge of a social phenomenon (Corbin and Strauss, 2008). Typically, qualitative research is appreciated through researchers who focus on individuals' meanings, uncovering the hidden realities of complexed social phenomena with complex human behaviour (Creswell, 2009).

However, the deductive approach in this research is conducted in a qualitative manner, and for specific reasons that are linked to gaps or limitations highlighted in chapter 2 (2.2), which reflects the type and nature of knowledge this research seeks to produce. First, factors among previous studies vary in the sense that they either adopted the same or a

theoretical perspective. Moreover, these factors vary depending on the market (Jung, 2004) and industry (manufactures or services) (Erramilli, 1992). For this thesis, the focus is on a specific industry, insurance, which has been given relatively little attention in the market entry literature (Altuntas and Gößmann, 2016). In addition, this thesis investigates the insurance industry within a specific context, namely that of Saudi Arabia, and this market has seen even less investigation in terms of the insurance industry as a whole, as reported in table (4.2). Thus, it would be due to ignorance of the country and industry-specific evidence to form a hypothesis on the basis of previous studies that were conducted in a different context or for a different industry.

Table 4.2: Studies that have focused on the Saudi insurance market since 2000.

Authors	Theoretical perspective	Factors investigated	Time frame	Type of data and sample size	Research design
Khorshid (2001) ¹	Islamic religious foundations (Quran and Sunnah)	Islamic insurance legal framework based on Islamic law	unspecified	Secondary data (Quran and other Muslim scholars' interpretations)	Qualitative
Ansari (2011)	N.A.	Insurance market performance under new legal reforms Influence of insurance legal reforms on the industry through Saudisation	2005-2009	Secondary data (Annual reports by the Saudi Arabian Monetary Agency)	Quantitative
Ansari (2012)	N.A.	Risk perception and perception of insurance among Saudi citizens	distribution and collection of questionnaires during 2011	Primary data (questionnaires) and sample of 700 insurance users	Quantitative
Al-Salih and Napier (2012)	N.A.	Awareness and perceptions of <i>Takaful</i> insurance and conventional insurance, and their insurance policies choices	non specified	Primary data (questionnaires) and sample of 387 insurance users	Quantitative
Alhumoudi (2013) ²	Islamic religious foundations	<i>Takaful</i> insurance legal framework	unspecified	Secondary data (based on writings and interpretations of Sharia law scholars)	Qualitative
Alawni <i>et al.</i> (2015)	N.A.	Customers' loyalty, customer knowledge, and internal communication	distribution and collection of questionnaires during 2014	Secondary data (questionnaires adopted from previous studies) and sample of 399 employees in insurance companies	Quantitative
Alotaibi and Mazzarol's		Strategic planning of small- and	unspecified	Secondary data (analysing companies'	Quantitative

Hana (2015)	strategic management framework	medium-sized insurance companies that provide health insurance		documents) and sample of 5 companies	
Boulanouar and Alqahtani (2016)	Asset pricing theory	External factor: Shira law compliance internal factor: underwriting pricing	2007-2013	Secondary data through DataStream, Thomson Banker, and the Saudi Stock Exchange. Sample of 33 companies	Quantitative
Al-Hanawi <i>et al.</i> (2018)	N.A.	External factors, socio-cultural: willingness to participate in health insurance schemes introduced by the Saudi government. perceptions of insurance business	from October 2014 to February 2015	Primary data (questionnaires) and sample of 1187 Saudi citizens (unspecified if these participants are users of insurance or otherwise)	Quantitative
Akhtar (2018)	N.A.	Internal factors: performance	2010-2015	Secondary data (database of the Saudi stock market) sample of 33 companies	Quantitative
Alkhamis (2018)	N.A.	Health insurance perceptions among male expatriates	from March 2015 to February 2016	Primary data (questionnaires) and sample of 3398 male expatriates	Quantitative
Ali and Tausif (2018)	N.A.	Customers' satisfactions, profitability, service quality.	2011-2016	Both: - secondary data (finical reports of 5 companies), and - primary date (questionnaires) 314 customers of those 5 companies	Quantitative

- Through keywords such as 'Saudi insurance market', this review is based on online searches using electronic tools, namely 'Elsevier', 'JSTOR',

‘Emerald Insight’, ‘EBSCOhost’ besides other online sources such as ‘Google Scholar’; the scanning process among these tools is widely used by different scholars, such as Rialp *et al.* (2005).

-The inclusion of studies is based on three criteria: (1) based on empirical evidence; (2) published between 2000 and 2018; and (3) focussed on the Saudi insurance market specifically.

¹ and ² are Phd theses, and these are the only qualitative research efforts conducted within the above research.

Second, based on the observations of scholars such as Zhao *et al.* (2004), this thesis argues and proposes that the perception of uncertain external factors among decision makers would result in internal uncertainty. However, it is difficult to propose specific internal factors when the previous literature is (1) focussed mainly on external factors (Erramilli, 1992; Helfat and Lieberman, 2002), and (2) contains little evidence regarding internal factors as provided from a more abstract notion, specifically assets specificity, experience, and control (Schellenberg *et al.*, 2018). Thus, it is crucial to investigate which exact internal factors could be explored for a specific industry in more detail in response to influencing external factors within a specific market or context.

Third, within the market entry literature, different theories (e.g., TCA, Institutional, and RBV) have been used, but the integration of these theories is not common (Brouthers and Hennart, 2007). This lack of integration demands the qualitative nature of this research. Part of the reality of market entry and market entry mode decisions is that the external and internal factors that those theories explain cannot be fully separated from each other; for instance, political factors are expected to be related to, and influence, economic factors. Each study of the previous literature provides a set of factors that are based on a limited theoretical perspective. Accordingly, there is only limited knowledge of the interrelationships that could exist among different factors and which ways in which they affect each other.

Therefore, the conceptual framework proposed within the literature review in chapter 3 highlights the main three layers or determinants of the associated factors: managerial factors, external factors, and internal factors. With regards to the first and second layers, namely external and internal factors, a list of factors is proposed to provide initial guidance to further investigation. Factors emerging through the exploration process in this thesis are expected to be explained through the existing theories adopted herein. In a more abstract sense, the three determinants of the factors are expected to not change; however, the list of external and internal factors are subject to change based on the results of fieldwork in this research. At the same time, the interrelationships that might occur between external factors, internal factors, or external and internal factors, will be explained after the data analysis.

As for the third layer, managerial perspectives, this is proposed in the conceptual frameworks to emphasise that market entry and market entry mode decisions should not be rationalised in this study or, indeed, any other study within the market entry and market

entry mode literature. In other words, this research has no intention of hypothesising or proposing any form of decision behaviour, such as the use of heuristics, by decision makers to overcome uncertainty. Instead, this thesis demonstrates the argument that the theories of decision analysis under uncertainty have been stressing for decades, which is the irrationality of decision making under uncertainty; this evidence is reached by observing the difference between factors perceived to be influential by decision makers before and after penetrating the Saudi insurance market.

In summary, this thesis takes the deductive approach in a qualitative exploratory nature. This methodological choice is usually based on an interpretive philosophy that represents the world through interviews, recordings, field notes, memos, and observations (Denzin and Lincoln, 2005). With regards to the philosophical position of this thesis, it can be understood that opinions, meanings and perceptions of decision makers are key to understanding the overall factors that could influence market entry and market entry decisions. These opinions and perceptions differentiate from one group of decision actors to another (considering their characteristics), and differentiate with regards to the contexts or markets being investigated. The subsequent sections are influenced by the qualitative nature of this thesis.

4.3 Research strategy

Defined as the “plan of action to achieve a goal” (Saunders *et al.*, 2016: 177) and used as a link between the research philosophy and data collection and data analysis methods (Denzin and Lincoln, 2011), case study has been chosen as the research strategy in this research. Saunders *et al.* (2016) classified research strategy based on the chosen methodological design or choice, as per table (4.3). He argues that the first two strategies are mainly used for quantitative research; the next two strategies could be adopted in quantitative, qualitative, or mixed research designs; the last four strategies are mainly used in qualitative research designs. In this sense, this thesis, being qualitative in nature, could have used any of these strategies except experimental and survey research strategies. The following discussion gives an explanation of why these six research strategies were eliminated in terms of their use in this thesis, and a justification for why case study was chosen in preference to these strategies.

Table 4.3: Research strategies in relation to methodological design

Research strategy	Methodological design (Quantitative / Qualitative / Mixed)
1- Experiment	quantitative
2- Survey	quantitative
3- Archival and Documentary Research	quantitative, qualitative, or both
4- Case Study	quantitative, qualitative, or both
5- Ethnography	qualitative
6- Action Research	qualitative
7- Grounded Theory	qualitative
8- Narrative Inquiry	qualitative

4.3.1 Archival and documentary:

This strategy, according to Saunders *et al.* (2016), refers to the use of all types of documents and archival sources such as governmental reports, organisational reports, and press releases. He also explains that such types of data are considered secondary data that were created, originally, for purposes other than those of research. This strategy, however, will not serve all the research objectives of this thesis. For instance, this research is investigating the difference between factors perceived to be influential by decision makers before and after their companies penetrated the Saudi insurance market. Opinions and perceptions of decision makers in this case are crucial, and cannot be observed through the archival documents of their companies. Personal interaction with participants is thus needed in this research.

4.3.2 Ethnography:

Ethnography is used to describe the culture of specific ethnic groups of people (Saunders *et al.*, 2016; Spradley, 2016). This type of research strategy requires researchers to spend long time with the subjects being observed (Yin, 2009). Ethnography can be useful in terms of marketing research studying customers' experiences and behaviour (Saunders *et al.*, 2016). That said, this strategy would be an excellent choice in this research if the focus

was Muslims' perceptions of insurance in Saudi Arabia; however, this is not part of this research effort's aims and objectives. The phenomenon of interest in this research is investigated through decision makers' personal experiences, perceptions, and opinions; this is to form an overall understanding of how market entry and market entry decisions are made, and to investigate whether external and internal factors should be country and industry based, or otherwise.

4.3.3 Action research:

Action research, also known as participatory action research, "seeks to bring together action and reflection, theory and practice, in participation with others, in the pursuit of practical solutions to issues of pressing concern to people, and more generally the flourishing of individual persons and their communities" (Reason and Bradbury, 2001: 1). This strategy is designed to provide solutions to organisational problems through contemporary collaboration with participants (Berg *et al.*, 2004), and has implications at both the academic and practical levels (organisations and participants) (Coghlan and Brannick, 2014). One major feature or requirement for this strategy is to have an event that is in progress or in action to provide practical solutions in an iterative nature through different stages (Saunders *et al.*, 2016), which is not appropriate to this research. Rather, this research investigates the decisions of companies that have entered the Saudi insurance market. These decisions are part of these companies' histories, and such decisions are not practiced on a daily basis within these organisations.

4.3.4 Grounded theory:

This strategy refers to the development of theory that is inductively derived from raw data (Corbin and Strauss, 2014). This strategy takes a contrasting philosophical position to positivism (Saunders *et al.*, 2016), treating reality as a result of social actors' meanings (social constructivism) (Suddaby, 2006). However, this strategy is not used because this research rests on a clear theoretical perspective, see chapter 2. Thus, this strategy is not a potential choice for use in this research.

4.3.5 Narrative inquiry:

The main focus of narrative inquiry is the experiences of participants (Clandinin, 2006) by collecting and analysing each participant's story (Saunders *et al.*, 2016). Rich understanding, and better analysis, could be obtained through participants' storytelling

about a given event or sequence of events (Saunders *et al.*, 2016). However, the data collection in this strategy suggests that researchers should interrupt the flow of the story being told by the participants through in-depth interviews (Saunders *et al.*, 2016) because narrative inquiry research should not be guided by theoretical research questions (Clandinin, 2006). By contrast, in this research the data collection is based on semi-structured interviews guided by research questions that have their roots in the theoretical perspectives adopted in this research. Therefore, this particular research strategy can be eliminated as a possible approach in this research.

4.3.6 Chosen research strategy (Case study)

A single case study has been chosen as the research strategy in this research, adopting the case study research design suggested by Yin (2014). “The distinctive need for case study research arises out of the desire to understand complex social phenomena” (Yin, 2014: 4). Through the literature review chapters, it has been shown that external factors specify the internal factors that need to be obtained by an organisation, and the uncertainty involved in external factors results in uncertainty about the internal factors that need to be obtained. In addition, it is explained that market entry and market entry mode decisions are usually taken under uncertainty, which categorises such decisions as irrational, and this uncertainty increases in the instance of emerging and unknown markets or contexts. Finally, it is shown that external factors vary from one market to another and are differentiated as based on the type of industry. Adopting the country and industry, this research focusses on the Saudi insurance market; this industry is relatively new, and the Saudi context is far more complex than is typically encountered, as shown in chapter 3. Therefore, a case study should allow investigators to focus on a “case” and retain a “holistic and real-world perspective” such as maturation of industries, organisational and managerial process and small group behaviour (Yin, 2014: 4). Using the case of the Saudi insurance market, this research will provide answers to the following research questions posed in this thesis:

How are market entry and market entry mode decisions actually made?

What external factors need to be considered making market entry and market entry mode decisions?

What internal factors need to be considered when making market entry and market entry mode decisions?

4.3.6.1 Conditions of the case study:

Yin (2014: 9) argues that a case study strategy can be adopted if three conditions exist regarding the phenomena being investigated: “(a) type of research question posed, (b) the extent of control a researcher has over actual behavioural events, and (c) the degree of focus on contemporary as opposed to entirely historical event”. With regards to research questions, Yin (2014) states that “how” and “why” questions should lead to the selection of an explanatory case study. However, he argues that an exploratory case study could be chosen if the research question/s is/are the type of “what” question such as “what can be learned from a study of a startup business?”(Yin, 2014: 10), which is similar to the “what” type of question in this research. One major lesson that can be learned from this thesis is whether market entry should be a country and industry-based by answering questions such as “what are the external factors that could influence the decisions made by insurance companies targeting the Saudi insurance market?”

As for the second (control over events and a contemporary research phenomenon), the researcher has little control over the event being investigated. In this study, the researcher interacts with people involved in the research events. Namely, this evaluation focusses on decision makers within insurance companies that have entered the Saudi market since 2003. At the same time, the behaviours and responses of participants are not manipulated by this research as this research reflects the reality that these participants report. In addition, the period from 2003 to the present today represents the third condition (a contemporary research phenomenon) and, in the Saudi context, it qualifies as a real-life context.

4.3.6.2 Components of the case study

Yin (2104) points out five important components for the case study strategy which are the case study’s questions, propositions (if any), unit/s of analysis, logic linking the data and propositions, and the criteria used for interpreting findings. In terms of the case study’s questions, how it can relate or fit a case study strategy is explained in the section above and.

Propositions

Chapter 4 Methodology

Although research propositions are needed for explanatory case studies but are less of a requirement for exploratory case studies, exploratory case studies must still have a purpose (Yin, 2104). In this research, the propositions made in this exploratory case study are not for the purpose of examining purposes, but are formed as an engine for further exploration. To illustrate more, in figure (4.1), the blue colour represents the main three layers of the conceptual framework. These layers are proposed on a theoretical level in the literature review chapters. In other words, decisions about market entry and market entry modes are, theoretically, influenced by three determinants: managerial perspectives, external factors and internal factors. In addition, each of these layers involves different factors (green colour). In this research, the specific external and internal factors listed in this framework are subject to change after further exploratory investigation. At the same time, factors related to managerial perspectives are not examined or explored; instead, they are referred to in this framework as the possible results of uncertainty involved in market entry and market entry mode decisions. In other words, the propositions in this research and conceptual framework show the exact purpose of conducting this research, and work as an initial guideline rather than proposing the exact directions that need to be examined.

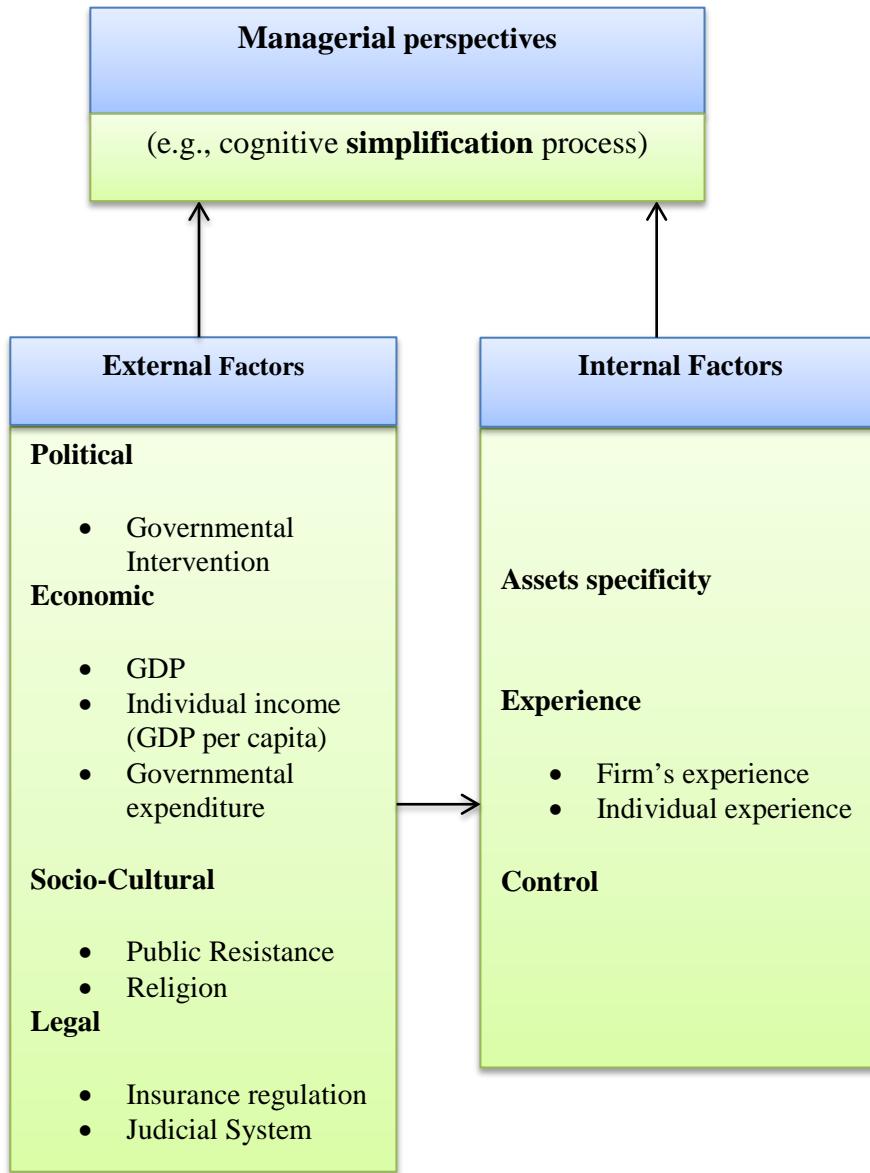


Figure 4.1: Detailed propositions in relation to the proposed conceptual framework

Unit of analysis

In this research, organisations represent the unit of analysis. Organisations — insurance companies in the Saudi market — are major criteria in exploring market entry and market mode under environmental conditions. Traditionally, the unit of analysis in this domain is transaction cost (see Gatignon and Anderson, 1988; Brouthers and Nakos, 2004). The logic here is to use each market entry or market entry mode decision on the basis of the costs involved. Other studies that adopted the RBV considered organisational capabilities as the unit of analysis. While many researchers consider strategic decisions to be the unit of analysis, authors such as Madhok (1997) selected organisations as their unit of analysis; decisions in different organisations might vary (from cost considerations to other resource-

based influences) in response to external factors in the Saudi insurance market. Therefore, organisations have been chosen as the unit of analysis in this research.

Linkage between data and propositions and criteria for interpreting findings

These two components concern the way data is analysed and presented. Yin (2014) suggested four ways to link data to propositions: explanation building, pattern matching, logic models, and time series, which can lead to the better presentation of findings.

However, these criteria “depend on researcher’s own style of rigorous empirical thinking, along with the sufficient presentation of evidence and careful consideration of other alternative interpretations” (Yin, 2014: 133). Here, data is analysed through thematic analysis under in the light of the conceptual framework proposed earlier in this thesis; see data analysis in this chapter for further explanation.

4.3.6.3 The role of theory in case study

In chapter 2 of the literature review, it can be noted that this thesis relies on more than one theory. The use of theory prior to data collection is the major difference between case study research and other strategies, such as grounded theory and enography, and this will result in theoretical propositions (Yin, 2014). These propositions can provide “guidance in determining data collection of any case study that is desirable” (Yin, 2014: 38)

4.4 Time horizon

Time horizon refers to the period of time for the collection of data, and could be either cross-sectional or longitudinal (Saunders *et al.*, 2016). Based on Saunders *et al.* (2016), in cross-sectional studies, data is taken at a particular time, usually a shorter time period compared to longitudinal collection. In this research, the time horizon is cross-sectional. The majority of previous studies into market entry and market entry mode studies use cross-sectional data, although longitudinal data are nevertheless useful (Brouthers and Hennart, 2007). Only a few studies, such as that by Barkema and Vermeulen (1997), studied market entry mode, in this case in the instance of joint venture in 72 countries between 1966 and 1994. Longitudinal data would provide a greater “understanding of how changes in the attributes examined influence mode choice or how knowledge accumulation and learning influence mode choice decisions” (Brouthers and Hennart, 2007: 416).

However, Barkema and Vermeulen (1997) based their results on secondary data that was quantitatively analysed and that ignored managerial perspectives. Thus, if longitudinal data is to be used in market entry and market entry mode decisions, it is better to investigate it at the time it occurs (Brouthers and Hennart, 2007). Otherwise, market entry and market entry mode decision studies could be subject to recall bias because of the retrospective nature of these decisions (Huber and Power, 1985). If this thesis is to adopt such suggestions, data collection should have started in 2003 and continued until 2017, investigating the decisions made by each company that entered the Saudi insurance market during this period, which is beyond the scope of this research due to time limitations.

4.5 Sample and sampling techniques

4.5.1 Non-probability sampling

This research is based on **non-probability sampling**. Non-probability sampling was chosen over probability sampling because specific participants who met specific criteria were needed. This logic is usually practiced in qualitative research (Ritchie *et al.*, 2013). In this sense, non-probability sampling is mainly driven by the researcher's judgment, as stated by Patton (2002) and Saunders *et al.* (2016). Therefore, **purposive sampling**, which is a type of non-probability sampling technique and which is also referred to as judgemental sampling (Saunders *et al.*, 2016), was applied when choosing the particular participants for this research. Usually, purposive sampling is based on selective small samples that is believed to be informative (Neuman, 2014) when used in conjunction with research questions and research objectives (Saunders *et al.*, 2016).

However, research judgment is influenced by the way the researcher considers what reality is and what is considered acceptable knowledge. As illustrated earlier in this chapter, the philosophical position adopted by this research is interpretivism; under this philosophical stance, the reality of decision making is based on multiple realities (ontology) through perceptions and interpretations (epistemology). In other words, close investigation (value-laden axiologically) with decision actors who were involved in making decisions in companies that have penetrated the Saudi insurance market since 2003 is key to understanding the factors that influenced these companies' decisions (first objective). It is also a key to understand the factors that should be considered by decisions makers in companies who might be considering entering the Saudi insurance market in the future (second objective). The opinions and responses gained from these decision actors will

serve as the basis on which to compare factors they perceived as being influential before penetrating the Saudi insurance market with factors they perceived influential after having operating in the market in for some time (third objective).

Until this point, the purposive sample constituted members of top management teams at those insurance companies that had entered the Saudi market since 2003. However, other groups of participants are included in this investigation process for the purposes of **triangulation**.

4.5.2 Triangulation

Based on an early suggestion by Denzin (1973), there are four main forms of triangulation: triangulation of data, triangulation of investigators, triangulation of theories, and triangulation of methods. In this research, triangulation of data is used. “Triangulation of data combines data drawn from different sources and at different times, in different places or from different people” (Jenner *et al.*, 2004). This type of triangulation is believed to generate depth and richness when investigating a given phenomenon (Denzin and Lincoln, 2011; Saunders *et al.*, 2016). This said, three different groups of participants were chosen for this research. The first group were participants from insurance companies that had entered the Saudi insurance market since 2003. The second group were participants from SAMA, specifically the General Department of Insurance Control which is the main regulator in the Saudi insurance market. The last group of participants were independent actuaries at advisory offices. The inclusion of these two groups with the first was to combine different opinions in order “to secure an in-depth understanding of the phenomenon in question” (Denzin and Lincoln, 2011: 5). In this sense, richness regarding the research phenomenon is provided through this form of triangulation (Flick *et al.*, 2004). However, the participants within these three groups were chosen as they met specific criteria, as will be explained in the following section.

4.5.3 Purposive and snowball sampling techniques with selection criteria

As mentioned above, three sample groups are included in this research, within which specific participants were chosen based on specific criteria, see table (4.4). The purposive sampling technique was used when choosing participants for the first and second groups, while the snowball sampling technique was used to choose participants for the third.

Table 4.4: Selecting participants based on specific criteria in different groups in this research

Groups of participants	Criteria	Targeted population before the fieldwork (80 participants)	Total number of participants interviewed (36 participants)
From insurance companies	knowledge based on organisational hierarchy level	66 participants (33 CEOs and 33 general managers)	25 participants (8 CEOs 17 general managers)**
From SAMA	knowledge based on organisational hierarchy level	9 participants	9 participants
From advisory offices	knowledge through their experience	5 participants	2 independent actuaries

** These 25 participants represent 21 out of 33 insurance companies; in some cases, the CEO and general manager of the same company were contacted. In other cases, only the CEO or the general manager, but not both, could be reached. For the remaining 12 companies, neither the CEO nor the general manager could be reached.

Participants from insurance companies

The first group constituted participants from insurance companies in the Saudi insurance market. Specifically, CEOs and general managers at these companies were chosen to be part of this research. People running these positions were chosen due to their direct involvement in decisions making, so better knowledge about the phenomenon being studied could be obtained. For instance, CEOs are, empirically, found to have much more tenure and international experience (Herrmann and Datta, 2006). In other words, they are, or at least supposed to be, more knowledgeable than other employees in these organisations or companies. Thus, the main criterion for selecting participants in this group was their knowledge, as indicated through their organisational hierarchy levels.

The total number of insurance companies in Saudi Arabia is 33 (SAMA, 2015a), and this thesis included them all for the purposes of data collection. With one CEO and general manager at each company, the total population of this group was 66 CEOs and general managers. However, this thesis acknowledges the fact that decisions that are made in one company could be different from those made in others because of the unique characteristics of each. For instance, relevant factors could vary depending on the insurance products provided by a given insurance provider (e.g., companies that sell life insurance products, companies that sell non-life insurance products, others that sell both).

To understand the overall external and internal factors that should/do play a role in market entry decisions, different companies with different characteristics need to be included.

Each company in the Saudi insurance market is different in terms of size, range and type of products, and experience. As a result, the findings could result in the determination of different factors. In short, such inclusion is beneficial for the following reasons:

- 1- It can give a fuller picture of the factors that need to be considered when penetrating the Saudi insurance market.
- 2- It can help to identify some, or all, of the factors shared by these different insurance companies.

Of the 66 participants in this group, the researcher managed to interview 26. At the beginning, the overall number of participants who confirmed their participation in this research was 31. However, one participant cancelled their meeting while four participants kept delaying the date of the meeting until the time period allotted for the data collection was finished. Finally, one participant was interviewed but he was excluded based on his refusal to allow his interview to be taped. Thus, the actual number of participants included in this research was 25.

Participants from SAMA (regulator body)

The second group of participants were from SAMA, in particular, individuals at the General Department of Insurance Control were chosen. This department is the main official body responsible for passing legislations and controlling the Saudi insurance market. In this department, participants were chosen based on their knowledge, which was assumed to be wider and richer based on their organisational hierarchy levels. That said, the organisational structure of this department involves a general manager of this department besides eight senior managers of different divisions, such as the Onsite Insurance Supervision Division and the Policies and Procedures Division. Thus, nine participants from this department were included, representing the second group of participants in this research; the researcher was able to interview them all.

Participants from advisory offices

As for the third group of participants, independent actuaries at advisory offices were chosen. Five actuaries were recommended, via snowball sampling (Saunders *et al.*, 2016), by participants from the second group. They were recommended on the basis of their

knowledge about the Saudi insurance market through long experience. These actuaries had previously worked in insurance companies or at SAMA. However, only two participants were included as the three others did not want to participate. Both participants had more than 25 years of experience in the business and both had previously worked for insurance companies.

4.6 Type of data and data collection methods

As explained earlier in this chapter, the methodological choice made above is to conduct qualitative research, whilst the type of data collected is primary data through semi-structured interviews.

4.6.1 Secondary VS primary data

In general, research data can be categorised as being primary or secondary in nature, which can be collected through different techniques. **Secondary data** refers to data that has been previously generated and already archived that could be quantitatively or qualitatively used in a different context than originally intended. This type of data can take different forms such as documents, survey, or both documents and survey could be used at the same time (Saunders *et al.*, 2016). For this research, secondary data could have been used if there was more empirical evidence regarding the Saudi insurance market, but less is known about this type of industry and in this context (see table 4.2 shown earlier in this chapter at section 4.2.1).

On the other hand, **primary data** is data that is has been gathered and generated by the researchers themselves for the specific purpose of meeting their research objectives. This type of data could be either qualitative or quantitative and can be gathered through various data collection methods such as observations, interviews, and questionnaires (Saunders *et al.*, 2016).

4.6.1.1 Observation

According to Saunders *et al.* (2016: 354), the observation method “involves: the systematic viewing, recording, description, analysis and interpretation of people’s behaviour”. In this research, the phenomenon under consideration is not a continuous action; market entry and market entry mode decisions are strategic decisions that are not taken on a daily basis that

could otherwise allow one to watch and observe decision makers making them. Hence, the observation method is not an appropriate data collection method for this research.

4.6.1.2 Questionnaires

In terms of questionnaire, the data gathered is based on questions that are precisely defined before collecting data of an explanatory or descriptive nature (Saunders *et al.*, 2016). This method would be an adequate choice if the general factors that could influence market entry and market entry mode decisions were known in advance in the instance of the Saudi insurance market. Evidence from different markets and industries in previous studies are excluded in this research because other empirical evidence shows that factors vary based on the location (market) and type of industry. At the same time, the limited evidence that is currently available from studies that have focussed on the Saudi insurance market suggests very few of the general factors that might be influential; given this lack of information, to attempt to form a questionnaire based on little evidence provided by these studies, chances to not capture other hidden realities would be high. Thus, questionnaires were not considered appropriate to this research.

4.6.1.3 Chosen data collection method (interviews)

The philosophical assumptions underlying this research indicate the level of involvement in this research; qualitative researchers recognise the value-laden nature of investigation processes, which involve a close relationship between themselves and the inquiry (Denzin and Lincoln, 2005). Evidence cannot be detached from the inquirer and must be addressed in a meaningful way (Guba and Lincoln, 1994); therefore, qualitative research investigates the phenomenon by interpreting the meanings that individuals bring to it (Denzin and Lincoln, 2005). Thus, in this research, interviews were selected as data collection method of choice, specifically semi-structured interviews.

4.6.1.3.1 Semi-structured interviews

Semi-structured interviews are widely applied in qualitative research (Bryman, 2001). This narrative and subjective method incorporates verbal communication, so social situations and human feelings can be understood (Miles and Huberman, 1994). This method was also chosen due to its ability to provide rich, comprehensive data (Creswell, 2009), and is accordingly a method that will complement the objectives of this research (Punch, 2005).

Finally, semi-structured interviews will enable the researcher to pose further questions, allowing fruitful results to be attained through a more holistic understanding.

Based on the literature review and framework proposed earlier in this research, the semi-structured interviews were designed to highlight the main issues or aspects to be covered. Initially, this started with a set of questions intended to discover the external factors that have attracted and encouraged companies to enter the Saudi insurance market since 2003. Accordingly, participants were asked about the internal factors they had sought to strengthen their companies when penetrating the Saudi insurance market. After that, another set of questions was asked addressing how volatile and uncertain the Saudi insurance market has been by exploring the difficulties these insurance companies have faced. The final set of questions was set to explore the external and internal factors these companies recommend that new entrants targeting the Saudi insurance market should consider. The difference between the factors perceived before and after penetrating the Saudi market is used as indication of the uncertainty involved in market entry and market entry decisions.

Organising and conducting the interviews in this research took a total of seven months, from gaining initial agreement from the individuals involved as to their participation to the stage of actually conducting the interviews. First, interviewees were approached via email and telephone, but not many responded. As a result, the researcher visited those who had not responded at their work places to gain their initial agreement to participate in this research. At this stage, access to these participants was facilitated through some members of the General Department of Insurance Control at the Saudi central bank, SAMA.

Those who decided to participate in this research were interviewed at the work places and their offices. At the beginning of each interview, each participant was handed a few documents regarding ethical practice, which included: (1) participant information sheet, (2) consent form, and (3) a debriefing. The participant information sheet was used to inform participants about various issues such as the research topic, why they had been chosen, the benefits and risks of being part of this research, the ability to withdraw from the research, and the confidentiality of their information. In the consent form, participants were asked to read specific agreement statements and tick the boxes in front of each statement. These statements were designed to ensure that participants had the opportunity to ask any question regarding their interview, that they agreed to participate in the research and their data would be used for the purposes of this research only, understood that their

participation was voluntary and they could withdraw at any time, and were happy to have the interview recorded. At the end of this form, participants were asked to provide their names and signatures if they agreed to take part in the study, after they were informed that their personal details would be protected, and any use of the data they provided would be anonymous. At this stage, some participants did not agree to sign because they did not want their interviews tape recorded, despite confidentiality being guaranteed. The researcher felt that it was impolite to terminate the meeting, so the interview was conducted but was later excluded from the research.

In the last form, debriefing, further explanation about the research was provided with some references to the subject if the participants were interested to read more. In addition, this form clearly stated whether there was any active deception in this study. Finally, in case participants had any issues during their interviews and wanted to report them, this form provided them with the contact information of the parties they could contact at Southampton University.

Triangulation of data was adopted, and interviews were conducted with three different groups. The selection of the participants within these three groups was based on specific criteria - see the sampling section earlier. The first group were individuals from insurance companies, which totalled 25 participants; the second was actuaries at consultant agencies, which totalled only two participants; the final group were participants from the main regulator agency, SAMA (Saudi Arabian Monetary Agency), which totalled nine participants. Thus, in total, 36 participants were interviewed. The triangulation of respondents at this stage enriched the knowledge gained and confirmed factors that were common to all participants. A few factors and categories were not mentioned by some participants while being emphasised by others - see findings chapter for further details.

Interviews were conducted face-to-face, and the shortest interview lasted around 25 minutes while the longest lasted one lasted around 90 minutes. All these interviews were tape recorded. During the interviews, not all interview questions were asked in the 'correct' order, which is expected from semi-structured interviews (Saunders *et al.*, 2016). Participants seemed to be talkative and generally took more of the leading position during the interviews, so less control or guidance was exercised by the researcher. However, information was ultimately reconnected to the main set of questions designed prior to the fieldwork. Moreover, some interviews were conducted in Arabic and translated into

English transcripts for analysis, while others were conducted directly in English, as some participants were not Arabic speakers.

4.7 Data analysis

The data analysis process involved inductive and deductive approaches, stressing the iterative nature of the qualitative research (Creswell, 2009). As explained by Maxwell (2004), the inductive approach begins by observing realities which leads to the exploration of patterns, categories, and themes. This approach reflects the context participants act within, and defines the meaning of events. However, this thesis has developed a conceptual framework through the literature review which was based on specific theoretical perspectives, namely the deductive approach; the use of a conceptual framework through literature review indicates the use or adaptation of the deductive approach (Miles and Huberman, 1994).

The deductive approach used herein was guided by the conceptual framework suggested in the literature review. However, the conceptual framework in this thesis is not used to restrict the outcomes to specific factors or results; the development of this conceptual framework prior to the fieldwork helped to avoid the data overload that often characterizes qualitative research (Miles and Huberman, 1994). In other words, the conceptual framework explains the theoretical scope this study relies on, and thus guides data collection and analysis. In sort, in combining the inductive and deductive approaches this analysis process involved some basic techniques of grounded analysis, as explained by Easterby-Smith *et al.* (2012), which is the same, or essentially the same, as the thematic analysis suggested by Saldana (2016), see figure (4.2).

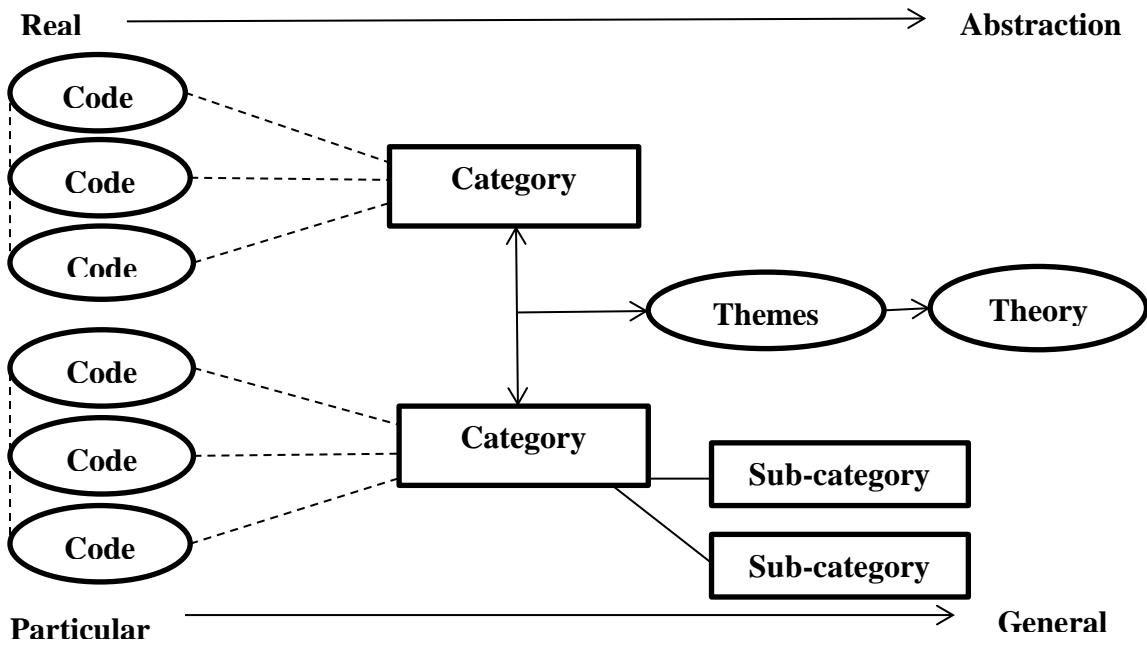


Figure 4.2 Thematic analysis according to Saldana (2016)

4.7.1 Data analysis stages

The data analysis in this research was based on thematic analysis that was conducted in two stages. Of these two stages, the major difference is the condign method is used which represents one step of the thematic analysis. The steps used in each stage are discussed further in the following sections. However, the reason for analysing data in two stages was because each stage serves or addresses specific part/s of the objectives of this research, see figure (4.3). For the first stage, thematic analysis explored the external and internal factors influencing market entry decisions by insurance companies that have entered the Saudi insurance market since 2003. It also explored the factors that need to be considered by insurance companies intending to target the Saudi insurance market in the future. Finally, it uncovered the differences between what decision makers considered as influential factors prior to penetrating the Saudi insurance market with those they recommend that new entrants consider prior to entry. Section (4.7.1.1) below provides detailed steps to this stage of the analysis.

The second stage of the analysis focussed on the interrelationships between factors recommended by participants and decision makers in insurance companies operating in the Saudi insurance market. To this end, a specific coding method was needed that was different than the one used in the first stage. Section (4.7.1.2) below provides detailed steps to this stage of the analysis.

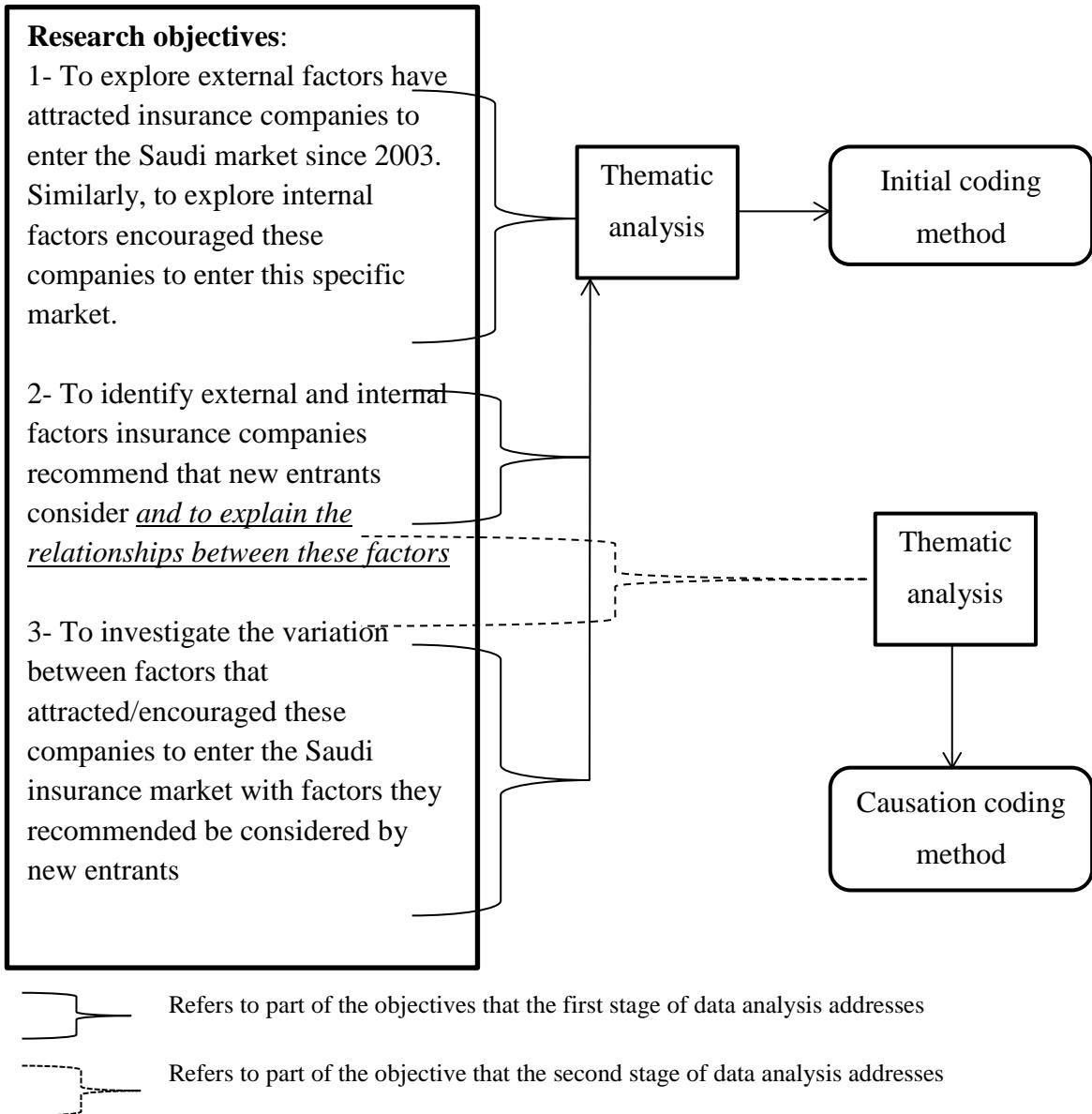


Figure 4.3: A flowchart of data analysis stages in linkage with research objectives

4.7.1.1 First stage of data analysis process

The data analysis process of the first stage of analysis involves six steps of thematic analysis, see figure (4.4). The steps can be navigated through the method of thematic analysis suggested by Braun and Clarke (2006) and Saldana (2016). On one hand, these steps are more explicitly expressed in six phases by Braun and Clarke (2006): (1) familiarisation with data, (2) coding the data, (3) searching for themes, (4) reviewing themes, (5) defining themes, and (6) producing the report. On the other hand, the application of some of these phases or steps is better explained or defined by other scholars such as Saldana (2016). Therefore, the steps adopted for the thematic analysis presented in

Chapter 4 Methodology

this thesis were generally inspired by the steps designed by Braun and Clarke (2006), though in addition to other scholars. The application of these steps is generally inspired by the thematic analysis by Saldana (2016), as well as other scholars.

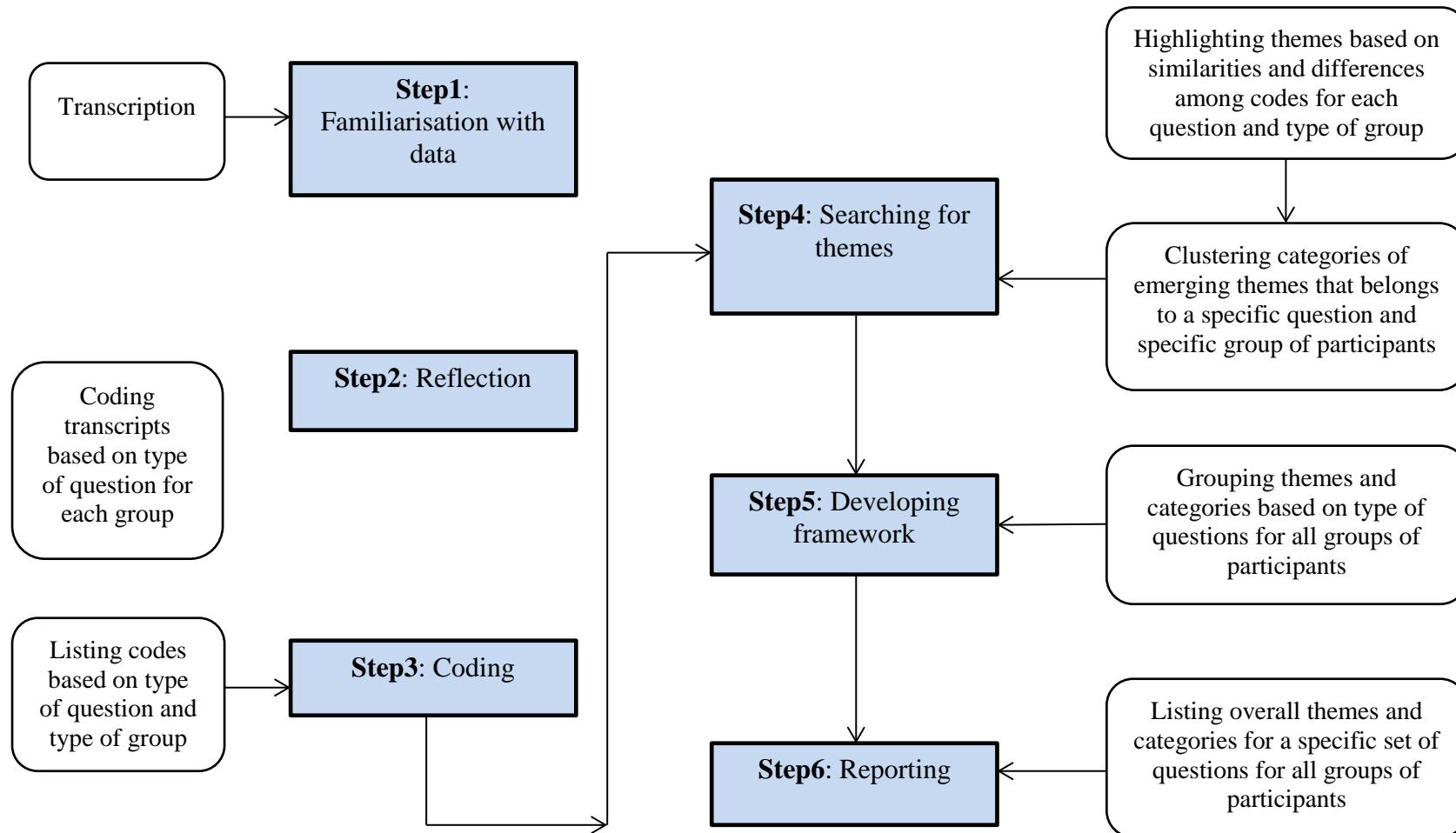


Figure 4.4: Steps of thematic analysis used in this research and main process for these steps.

1- Familiarisation of identification step: In this step, the researcher listened carefully to the recordings in order to transcribe them fully, see Appendix 7. The researcher then read them multiple times to identify the direction(s) that the data suggested. Overall, this step allowed the researcher to become more familiar with the data (Easterby-Smith *et al.*, 2012), and to initiate analytical engagement with the data collected (Braun and Clarke, 2006).

2- Reflection step: In this step, the researcher started understanding and evaluating the data by reflecting on the existing research covering market entry and market entry mode decisions. Hence, the researcher critically evaluated the data to examine how it challenged or supported current knowledge (Easterby-Smith *et al.*, 2012). The evaluation process in this step enabled the researcher to judge if the data, initially, could fill the research gap identified.

3- Coding or conceptualisation step: In this step, the researcher started the coding process, which was conducted throughout the transcription. Data was disaggregated and labelled in order to create sections in the transcript that were ready to be categorised. The data is broken down into discrete parts at this point in order to examine it to compare similarities and differences (Strauss and Corbin, 1998); this allowed the researcher to make sense of it (Easterby-Smith *et al.*, 2012). The coding process used at this stage, however, was the initial coding suggested by Saldana (2016). The initial coding leaves an open door to any possible theoretical direction data would suggest (Charmaz, 2014), which is similar to the coding process used in grounded theory (Saldana, 2016). Based on Saldana (2016), initial coding is the starting point for further exploration.

4- Searching for themes step: After the coding step, the next step was to develop and generate themes (Miles and Huberman, 1994). This step, however, involved clustering different theme groups into a higher order. That is, this step was a process of moving from lower to higher levels of abstraction (Miles and Huberman, 1994). Lower level codes were thus assigned to higher-level codes, which is a key process of categorization (Corbin and Strauss, 2008). In other words, the level of abstraction starts at this stage in moving from codes to themes.

To Saldana (2016), this step represents moving from coding to categories where codes are clustered into categories. Clustering categories in this research was applied before refining

the final themes to emphasise the major categories that needed to be reported in the final results in the form of the framework. This category clustering is useful, and also beneficial in terms of emphasizing the interrelation between categories and themes to be abstracted. These interrelationships were coded and analysed in the second stage of analysis using the causation coding method, as explained in section (4.7.1.2).

5- Developing framework: To Braun and Clarke (2006), this step is known as defining and naming themes. In this step, data was linked in a more holistic view. Here, data extraction ends, and the framing of the overall story is completed (Braun and Clarke, 2006). In other words, this step identifies the patterns within the relationships that emerge between concepts, categories and the main themes. Later, the researcher was able to build a final conceptual framework via an inductive approach.

6- Reporting step: This step involved two forms of writing up: polished analysis and polished report (Braun *et al.*, 2015). In the polished analysis, the researcher started story telling with regards to what the data consisted of (Braun *et al.*, 2015), which is provided in chapter 5, the data analysis and findings chapter. In this chapter, the data analysis is reported in line with the conceptual framework produced in the previous step. In addition, ‘rich text emphasis’ is applied by highlighting and explaining significant themes, categories, and sub-categories, “so salient and important ideas do not escape the reader’s notice” (Saldana, 2016: 282); this process required vivid examples from the data (Braun and Clarke, 2006) to capture the essence of the themes, categories or sub-categories being demonstrated.

As for polished report, data is reflected through existing theories and previous research or the literature (Braun *et al.*, 2015). This sense of reporting or writing up is provided in chapter 6, discussion chapter.

4.7.1.2 Second stage of data analysis

The second stage of analysis was based on the causation coding method suggested by Saldana (2016). This coding method was adopted to explain the interrelationships between sub-categories, categories, and themes. This coding method was used here to provide a causal explanation between the premises of the different factors (Miles *et al.*, 2014; Saldana, 2016). This coding method helped to address part of the second objective of this research, which was to explore the interrelationships between the factors proposed in the conceptual framework, as built through the findings, see figure (4.3) above.

Alongside the first coding process, initial coding, data was coded to draw the interrelationship between sub-categories, categories, and themes. During the first coding process, the researcher had already familiarised himself with the data, and notes were made regarding possible interrelationships. Later, a second review for the transcripts was completed that coded each relation and gave it a number. Simultaneously, each relation was summarised based on at least three components (Miles *et al.*, 2014; Saldana, 2016). These components were the antecedents, mediating variables, and outcomes (Miles *et al.*, 2014). Thus, any coded relationship would take the following format: “code1 > code 2 > code3 sequence (where > means “leads to”)” (Saldana, 2016: 187). All relationships were then aggregated, forming a chronological matrix based on their similarities to categorise them (Saldana, 2016). Table (4.5) below is an example of aggregating similar codes under specific categories, as based on the findings of this research.

Table 4.5: Example of the causation coding process

Antecedent	>	Moderating variable	>	Outcome category
Religious beliefs		Insurance business is not based on Sharia rules		Outcome category: market growth Less demand for optional insurance
Regulations		Sharia committee		Outcome category: reputation Trust among Muslim customers
Religion		Approving insurance products based on Sharia law		More credibility applying Sharia law
Religion		If health insurance policyholder Women won't uncover their faces		Outcome category: legalities Increase fraud
Social ties		Insurance programmes and education system		Outcome category: experienced Saudi workforce Shortage of educated workforce in insurance
		Family and clan's protection		Outcome category: Market growth Less demand for optional insurance
		Family and clan's health care aid		Less demand for optional insurance
		Family and clan's death compensation aid		Less demand for optional insurance

After that, the above initial categorisation process was followed by another, more detailed categorisation. From the table above, for instance, a theme (socio-cultural) can be composed of similar categories (religion and social ties). Finally, a final table was designed to provide a causal explanation for the relations or outcomes between themes and categories. This final table of causation coding explains not only why theme/categories affect each other, but also how they affect each other.

4.8 Validity and Reliability

Validity and reliability as positivistic terminology or trustworthiness, in qualitative research, are essential indications of the quality of any research. In particular, objectivity is more anticipated in a positivistic approach, while subjectivity is the criticism or downside of a qualitative approach.

Moreover, in qualitative research, the generalisability of findings is not necessarily a concern; instead, it aims to provide closer insights into and a richer understanding of a social phenomenon (Lincoln and Guba, 1986). This research is not exempt from such a rationale. The conditions of a specific context — in this case, the Saudi insurance market—cannot be generalised to other insurance markets in different contexts. Moreover, the literature reviewed indicates that conditions can vary based on industry type and context. Generalisability is thus beyond the rationale of this research in terms of detailed categories and themes. However, this assessment followed a rigorous methodology to create trustworthiness. For instance, triangulation of data was adopted to enrich the knowledge gained; more importantly, triangulation was used as “a validity procedure where researchers search for convergence among multiple and different sources of information to form themes or categories in a study” (Creswell and Miller, 2000: 126). In forming themes and categories in this research, three different groups of participants, as sources of data, were interviewed. Furthermore, specific participants in each group were chosen based on their relatedness and rich knowledge about the phenomena under investigation. For instance, the CEOs and general managers — who are considered more knowledgeable than other actors and closer to the matter being investigated — who were interviewed formed the first group in this research. This enhances the quality of data (Miles and Huberman, 1994).

In terms of reliability, the researcher acknowledges that achieving the same findings might not be possible in different contexts or markets. Moreover, the likelihood of finding the

same external internal factors as those found in this research by another researcher investigating the Saudi insurance market is very likely to be low in the long term, even if using the same instruments used in this research. Previously, in the literature review, external environmental factors were identified as potentially unstable in new markets. In such markets, these factors fluctuate but are always anticipated. It might be possible to observe the same results in the short term, but this is likely unachievable on any other timescale.

However, the theoretical framework suggested from the findings of this research can be applied to other markets when exploring external and internal factors of importance to market entry and market entry mode decisions. This theoretical framework, which is explained in more detail in the discussion chapter, involves different layers, and these layers should be the same for different contexts, industries, and markets or countries. Thus, applying the same methods used in this research, findings should indicate these main three layers or determinants.

4.9 Control bias strategy

In qualitative research, a part of issues or concerns about data quality when using semi-structured interviews or in-depth interviews is the issue of bias during data collection and analysis (Saunders *et al.*, 2016). However, the application or occurrence of bias is, first, related to data collection, and then to data analysis. In other words, bias during data collection will result in biases in interpretation or data analysis (Easterby-Smith *et al.*, 2012; Saunders *et al.*, 2016). In this sense, the rigorous or careful design of the interview questions should decrease the researcher's application of bias.

Saunders *et al.* (2016) suggest that in semi-structured interviews, listing themes is recommended to avoid bias during data collection. In this research, however, key questions were designed regarding two determinants of factors: external and internal factors. Of these determinants, no question was designed to stress specific theme of external factors (e.g., economic) or internal factors (e.g., experience). An example of these main key questions is: **What external factors do you think attracted your company to enter the Saudi insurance market?** Certainly, the literature review provides a lengthy list of external factors such as economic factors (e.g., GDP and GDP per capita), and legal factors (e.g., regulations regarding intellectual rights and legal restrictions) that might be relevant. However, the researchers sought to ask about specific themes or main factors being biased,

leading interviewees to discuss specific factors. Therefore, the interviews asked more general questions regarding: (1) factors, or the external and internal factors that attracted companies to enter the Saudi insurance market; (2) the problems they have been facing since beginning operations in the Saudi insurance market; and (3) the factors, both external and internal, that current companies recommend or suggest should be considered by new companies targeting the Saudi insurance market.

For each main question, more questions were asked as the interviews developed. These evolving questions were not random, but were rather based on two major aspects: (1) the extent of the researcher's knowledge about the topic, the organisations which the participants worked for, and the overall situation (Saudi insurance market) (Saunders *et al.*, 2016); and (2) the use of some certain 'prop' techniques such as "what did you mean by that?" "tell me more about", and "what sort of ..?" (Easterby-Smith *et al.*, 2012: 131).

This approach, the 'approach to questioning' (Saunders *et al.*, 2016), enabled the researcher to emphasise the main themes without being biased by previous knowledge about the topic. The data was captured in an evolving manner during the discussion, and, for the most part, the lead was in interviewee's hands, allowing them to direct the discussion after each propping question.

On the other hand, the design of the interview questions with propping techniques facilitated the data analysis, starting with the early stages of data analysis. During the data collection, the researcher listened to each interview, mapping out the directions taken by each interview. As suggested Miles and Huberman (1994: 51) a researcher should pause for a day or two to evaluate and ask him/herself "what were the main concepts, themes, issues, and questions that I saw during this contact" or interview? At this stage, the conceptual framework became useful to allow an initial judgement about the emerging themes and categories as to whether they could be listed in the final conceptual framework. This action, in principle, is an application of the familiarisation step as the first step of qualitative data analysis (Braun and Clarke, 2006; Easterby-Smith *et al.*, 2012; Saunders *et al.*, 2016), in which the research started the analytical engagement with the data (Braun *et al.*, 2015). An application of another step of qualitative analysis, reflection, is where researchers judge if the data supports or challenges the existing knowledge (Easterby-Smith *et al.*, 2012).

In summary, during interviews researchers are always subject to their biases (Easterby-Smith *et al.*, 2012). However, the interview questions themselves and their overall design could minimise or control levels of bias.

4.10 Conclusion

This chapter has sought to focus on the social origins of knowledge as the best means by which to understand the Saudi insurance market context and how market entry and market entry mode decisions were made in response to it. That said, this chapter included an explanation of overall research design: philosophies underpin this research in relation with the research problem, research approach, methodological choice, research strategy, time horizon and methods used for data collection and analysis. After that, this chapter explained validity and reliability of this research designs and findings. Finally, it included an explanation of biases control strategy while collecting and analysing the data.

Chapter 5: Data Analysis and Findings

In conjunction with the framework designed and adopted for this research, this chapter consists of two main sections. The first describes the analysis, or coding, used to produce the findings reported in this thesis in relation to the conceptual framework proposed earlier.

The second shows the associated results and findings. In this section, the key findings of this research are provided in three stages, the first of which reports external factors that attracted companies to enter the Saudi insurance market, and the internal factors that were considered to be helpful by these companies; the second discusses the external factors that had *not* been considered by companies operating in the Saudi insurance market; and the third explains external and internal factors that are thought to be worth consideration by new entrants. Within the latter stage, the interrelationships between external and internal factors are also provided. The third stage also reveals the variations of perceived factors before and after operating in the Saudi insurance market.

These three stages or sub-sections of the findings serve the three research objectives in the following ways:

- 1- The first stage explores external factors that have been attracting insurance companies to enter the Saudi market since 2003 and, similarly, explores the internal factors that encouraged these companies to enter this specific market.
- 2- The second stage begins the process of exploring the variation between factors that were considered more and factors that ultimately received little attention. This section determines the changes to a number of factors that were initially considered attractive but were subsequently found to be problematic after penetrating the Saudi insurance market. However, this section only focusses on external factors, asking participants about the problems that have been facing their companies in the Saudi insurance market. The reason for not asking them about internal problems is that decision makers might be in denial about explicitly describing any poor internal practices as being the results of their decisions. “They attempt to interpret facts in such a way that the favoured alternative appears to serve several values simultaneously and appears to have no costs associated with it. They attempt to deny that there are trade-offs and that there are some values which may not be served by their favoured alternative” (Schwenk, 1984: 119). Thus, the researcher sought to observe the variation of internal factors based on the results obtained

through the first stage, internal factors that encouraged the companies to enter the Saudi market, and the third stage, the internal factors recommended by the participants for new entrants.

3- As explained in the second sub-section, the results show that there are problematic external factors that are unique to insurance companies in Saudi Arabia. In this section, the recommended external factors for new entrants are first given, based on those which are still, or will be, problematic in the longer or shorter term. In addition to the recommended external factors, the recommended internal factors that need to be considered by new entrants are also given. Thus, this section serves the third objective, namely that of investigating the variation between the external and internal factors that attracted/encouraged insurance companies to enter the Saudi market through those factors they recommended should be considered.

(Among all three stages above, tables are provided to show who (participants) referenced or mentioned which (factors) to indicate how familiar participants are with the factors mentioned.)

5.1 Data analysis

Earlier in the methodology chapter, it was explained that this thesis collected its primary data through semi-structured interviews and analyses this type of data using thematic analysis. It was also explained that the data collection and analysis was guided by a conceptual framework that was developed through a thorough consideration of the literature review. However, this section will explain in detail how this framework guided the data collection and analysis, and then describe the data coding process for the raw data collected during the course of the semi-structured interviews.

5.1.1 Role of proposed conceptual framework in data collection and analysis

In the conceptual framework proposed in this thesis three main layers were highlighted. Based on this framework, the interview questions are designed to uncover: (1) the external factors that attracted insurance companies to enter the Saudi insurance market, and the internal factors that were considered to be these companies' strengths; (2) the obstacles these companies have been facing since penetrating the Saudi insurance market; and, based on the previous point, (3) what external and internal factors they recommend new companies should consider before deciding to enter the Saudi insurance market. In other

words, the interview questions were designed around these three main layers, rather than the factors that have been listed and proposed as pertinent to each layer.

This question design facilitates the data analysis in: (1) exploring the external and internal factors considered before and after operating in the Saudi insurance market in detail, and (2) exploring the uncertainty involved in such decisions by comparing the factors considered before penetrating the Saudi insurance market with those recommended for consideration by new companies; this is without detailing any behaviour that could have been applied by decision actors as a result of uncertainty.

Nevertheless, the exploratory nature of this study did not result in any different layers than those proposed as a result of considering the literature review. However, the final conceptual framework, through these findings, reveals much more specific factors relating external and internal factors (5.1). The accompanying changes in these factors before and after the fieldwork can be navigated through the second section of this chapter (findings section).

Table 5.1: Difference between literature review-based and findings-based external and internal factors in this research

Proposed external and internal factors		External and internal factors based on findings	
External factors	Internal factors	External Factors	Internal Factors
Economic <ul style="list-style-type: none"> ➢ GDP ➢ Individual income (GDP per capita) ➢ Governmental expenditure 	Assets specificity Experience <ul style="list-style-type: none"> ➢ Firm's experience ➢ Individual experience Control	Economic <ul style="list-style-type: none"> ➢ Economic growth rate ➢ Governmental spending ➢ Individual income ➢ Market growth <ul style="list-style-type: none"> - Less demand for optional insurance - Many insurance providers 	Experience <ul style="list-style-type: none"> ➢ Experience in the business ➢ Experience in the Saudi market ➢ Experienced workforce ➢ Experienced local partners
Legal <ul style="list-style-type: none"> ➢ Insurance regulation ➢ Judicial system 		Legal <ul style="list-style-type: none"> ➢ Improved insurance regulations ➢ Saudisation ➢ Many regulators 	Human resources <ul style="list-style-type: none"> ➢ Sufficient Saudi workforce ➢ Sharia committee
Political <ul style="list-style-type: none"> ➢ Governmental intervention 		Political <ul style="list-style-type: none"> ➢ Political stability ➢ Government involvement in the business ➢ Government actions toward better business environment 	Reputation <ul style="list-style-type: none"> ➢ Assigning Sharia committee ➢ Claim handling
Socio-Cultural <ul style="list-style-type: none"> ➢ Public resistance ➢ Religion 		Socio-cultural <ul style="list-style-type: none"> ➢ Social ties ➢ Religion ➢ Awareness of insurance benefits ➢ Population 	Capital <ul style="list-style-type: none"> ➢ Islamic surplus management ➢ Sufficient capital for expansion
			Corporate governance <ul style="list-style-type: none"> ➢ Structure ➢ Audit committee ➢ Business strategy
			Internal control <ul style="list-style-type: none"> ➢ Information technology ➢ Compliance
			Risk management <ul style="list-style-type: none"> ➢ Risk strategy ➢ Risk Standards
			Size <ul style="list-style-type: none"> ➢ Geographic visibility
			Retention

5.1.2 Coding data

As explained in the methodology chapter, data was analysed based on a thematic approach using different coding methods that each served different areas of the research objectives. The first coding method was the initial coding, on which the majority of the data analysis is based. At this stage, the following discussion explains the steps in the thematic analysis using the initial coding method with some visual examples. As for data analysis using the causation coding method, further details are provided in section (5.2.3.3).

1- Data was transcribed from tape recordings into written documents using the Microsoft Word program. Each interview was transcribed into a separate file with a different code that referred to the participant's details (e.g., time of interview, date, name, positions). The transcripts were then divided into three groups based on type of participant (participants from insurance companies, participants from SAMA, and independent actuaries).

Following this step, the researcher spent a considerable amount of time familiarising himself with the data.

2- After reading the transcripts multiple times and framing the initial ideas for the directions that could be highlighted through the transcripts, the coding process was started. The codes determined in this step were based on individual words, short phrases, sentences, multiple sentences, or entire paragraphs, with a number for each code so that they could be tracked in later steps of the analysis, see table (5.2). Moreover, transcripts were divided in three sets in relation to each group of participants, so each set of transcripts is coded separately.

Table 5.2: Coding process of transcripts

<p>What kind of problems have your company been facing since entering the Saudi insurance market?</p> <p>The struggle we had in the Saudi insurance market has been always been around regulation changes and the overlap between the agencies⁵⁵⁶ that control the market. For instance, there is the Zakat agency, the Council of Cooperative Health Insurance, SAMA, and many other agencies in terms of car insurance. The approval required for new products also takes long time⁵⁵⁷. Another problem is there are no databases</p>	<p>⁵⁵⁶ “regulation changes and overlap between agencies controlling the market”</p> <p>⁵⁵⁷ “lengthy process to approve new products”</p>
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<p>available through the government or other insurance companies that can serve the market at all⁵⁵⁸. Each company has been trying to build up its own databases, but still face many anonymous customers⁵⁵⁹. In fact, companies have no access to driver histories or health records from governmental agencies yet⁵⁶⁰.</p> <p>The last problem I would mention is the poor awareness of insurance benefits in the local society⁵⁶¹. The old Islamic view still has an influence among people in Saudi Arabia⁵⁶².</p> <p><i>But isn't Takaful or the cooperative insurance law set by SAMA based on Sharia law?</i></p> <p>The answer to this goes back to years before 2003. There have always been the religious views in the Saudi society that prohibit insurance and consider it as pure <i>Raba</i>. Later on, the government used the official religious parties to announce a <i>Fatwa</i> legalising insurance and creating a version of Islamic insurance called <i>Takaful</i>⁵⁶³.</p> <p><i>Did not that help?</i></p> <p>Not much as yet; the situation is becoming better, especially for optional insurance products through the advertising process being used by different insurance companies using well-known local Muslim scholars⁵⁶⁴.</p>	<p>⁵⁵⁸ “lack of databases in the market”</p> <p>⁵⁵⁹ “new customers are mostly anonymous”</p> <p>⁵⁶⁰ “no access to drivers' records yet”</p> <p>⁵⁶¹ “poor awareness of insurance benefits among Saudi society”</p> <p>⁵⁶² “old Islamic view toward insurance still influences Saudi citizens”</p> <p>⁵⁶³ “governmental twist to Islamise and legalise the insurance business”</p> <p>⁵⁶⁴ “promoting business through well-known religious scholars increased slightly”</p>
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3- Searching for themes steps: after coding the overall transcripts, codes for each group of participants were grouped separately to examine what each group of participants had pointed out and the manner in which they had done so. At the same time, these codes for each group of participants were grouped in relation to the type of question they were asked, see table (5.3).

Table 5.3: Listing codes based on type of questions for each group of participants

Internal factors sought as strengths to penetrate the Saudi insurance market.		
Participants from insurance companies	Participants from SAMA	Participants from advisory offices
IC2 “we are familiar with the Saudi market” “our knowledge about the Saudi	SA7 “poor ability to face major losses at the beginning due to low capital and funds”	A1 “many poorly structured companies” “as required by SAMA,

<p>market was our advantage”</p> <p>“capital was not an issue to operate in the Saudi market”</p> <p>“we found partners easily”</p> <p>“partners minimise risks and maximise capital”</p> <p>“previous networking helped to hire experienced Saudi workers”</p> <p>“hiring a specific percentage of Saudi workers is required by SAMA”</p> <p>“greater availability of human resources enlarged the business”</p> <p>“the low problem of the low amount of capital required continued to result in unfair pricing”</p> <p>IGM18</p> <p>“sharia department is important”</p> <p>“as required by SAMA, products have to be based on Sharia law”</p> <p>“to have a Sharia committee is to ensure products are based on Islamic principles”</p> <p>“<i>Takaful</i> is not completely based on Sharia law”</p> <p>“having a Shari committee as a requirement buys greater credibility among Muslim customers”</p> <p>“it is better to have popular Sharia scholars as sharia committee members”</p> <p>“corporate governance is important”</p> <p>“clear polices and tools of corporate governance”</p>	<p>“many companies searched for funding through borrowing”</p> <p>“many companies liquidated some of their assets”</p> <p>“many companies applied for additional equity capital”</p> <p>“lack of experience”</p> <p>“limited experience in the insurance business overall”</p> <p>“limited experience in the Saudi insurance market”</p>	<p>standards and technical capitulates need to be met by 2005”</p> <p>“unclear ownership”</p> <p>“unclear responsibilities and risk shared”</p> <p>“poor corporate governance”</p> <p>“poor claims management”</p> <p>“poor information system management”</p> <p>“operating through very few offices”</p> <p>“some were operating in only one or two cities”</p> <p>“two good companies had better internal factors between 2005-2008”</p> <p>“clear responsibilities and risks shared”</p> <p>“clear ownership”</p> <p>“corporate governance”</p>
<p>IC2, IGM18, SA7, A1 are codes to reference the exact participant in each group.</p> <p>IC2 (I = Insurance, C = CEO, 2 = number of participants in the first group)</p> <p>IGM (I = Insurance, G = general manager, 18 = number of participants in the first group)</p> <p>SA7 (SA = SAMA member, 7 = number of participants in the second group)</p> <p>A1 (A= actuary, 1 = number of participant in the third group)</p>		

After listing the initial codes based on the type of question and specific group, each list of codes for a particular set of questions and particular group was analysed separately. At this

stage, codes were analysed based on similarities and differences in order to assign them to the main themes, see table (5.4).

Table 5.4: Searching for themes among codes listed based on type of question for each group of participants

Participants from insurance companies	
What external factors do you think attracted your company to enter the Saudi insurance market?	
Codes	Themes
28 “governmental project expansion is attractive” 91 “increasing total premiums” 92 “growing population” 93 “economic growth” 94 “regulated market” 125 “growing total premiums” 126 “young market with good premium potential” 127 “regulations and control of the market” 128 “growing economy” 129 “government determination to develop the economy” 130 “increasing engineering projects” 131 “creating different industries” 132 “individual income” 133 “increasing population with a high rate of increase” 180 “low density of insurance compared with population and economic growth” 181 “individual income was increasing” 182 “economic development made by the government” 183 “passing laws for the business and assigning an official body to control it” 221 “market growth” 222 “increasing premiums” 223 “strong increase in the Saudi GDP” 224 “SAMA’s actions making some insurance products compulsory” 270 “the industry is new to the country” 271 “legalisation of the market”	<p>Economy “governmental project expansion is attractive” “government determination to develop the economy” “increasing engineering projects” “creating different industries” “individual income” “individual income was increasing” “strong increase in the Saudi GDP” “developing infrastructure projects” “creating more jobs” “increasing individual income” “positive individual income” “increasing welfare”</p> <p>Legal “official Saudi Muslim scholars approved the business” “low amount of required capital led inexperienced investors to enter the market” “new regulations increased total premiums” “regulated market” “SAMA’s actions making some insurance products compulsory” “legalisation of the market” “passing new insurance laws”</p> <p>Government actions “economic development made by the government” “the industry is new in the country” “good health care system” “government’s determination to control the industry” “government investment in infrastructure” “increased prosperity” “government spends a lot on project engineering”</p> <p>Socio-cultural “growing population” “increasing population with a high rate of increase”</p>

* The above codes and themes are few among longer list.

Later, the themes emerging from a particular set of questions and group were recoded to highlight the categories that fell under that specific theme, see table (5.5). This process was undertaken to report the specific categories that were considered worthwhile highlighting “so salient and important ideas do not escape the reader’s notice” (Saldana, 2016: 282).

Table 5.5: Clustering categories of emerging themes that belongs to a specific question and specific group of participants

Participants from insurance companies	
What external factors do you think attracted your company to enter the Saudi insurance market?	
Themes	Categories
<u>Economy</u> “governmental project expansion was attractive” “economic growth” “creating different industries” “individual income” “individual income was increasing” “economic development made by the government”	<u>Growth rate</u> “economic growth” “steady economic growth over the last 35 years” “sharp economic growth since 2005” “large oil reserves and high oil production” “increasing revenues of Saudi Arabia” Market growth “increasing total premiums” “young market with good premium potential” “few companies operating in the market” “more demand with few companies” Governmental spending “governmental projects expansion” “creating different industries” “economic development made by the government” “developing infrastructure projects”
<u>Legal</u> “new regulations increased total premiums” “regulated market” “regulations and control of the market” “SAMA’s actions making some insurance products compulsory” “legalisation of the market” “SAMA made some insurance products compulsory” “making some products compulsory” “new laws and controlling the market”	<u>Passing new laws</u> “new laws and controlling the market” “making some products compulsory” “SAMA’s actions making some insurance products compulsory” Existence of insurance regulator “regulated market through SAMA” “regulations and control of the market” “official body to regulate and control the market”
* The above themes and categories are examples of a longer list highlighted by this group regarding this particular question and its related set of questions.	

After separately highlighting the themes and their related categories for each group based on a particular set of questions, a new table was designed to highlight what each group mentioned for each question in terms of its themes and categories. The following table,

(5.6), is an example of one theme and its related categories that was mentioned by all three groups; this theme, among others, was highlighted by all participants after being asked what external factors new companies need to consider when targeting the Saudi insurance market. This step was undertaken to track who mentioned each or which theme/s and category/ies and in what manner in order to be able to easily provide examples in the final report.

Table 5.6 Grouping themes and categories based on type of question for all groups of participants

Recommended external factors need to be considered by new companies in the Saudi insurance market		
Participants from insurance companies	Participants from SAMA	Participants from advisory offices
Socio-culture	Socio-culture	Socio-culture
<p><u>Social ties</u></p> <p>“traditions can result in fraud claims”</p> <p>“no guarantee tradition will change soon”</p> <p>“more time and globalisation might change traditions”</p>	<p><u>Social ties</u></p> <p>“Saudi tradition will count revising insurance demand”</p> <p>“less optional demand will continue due to social traditions”</p>	<p><u>Social ties</u></p> <p>“women covering their faces is a religious belief and the government is far from fixing this problem”</p> <p>“the government will not force women to uncover their faces to reveal their identities when receiving health treatment”</p>
<p><u>Trust</u></p> <p>“trust, traditions, and religious boundaries are reasons for the lesser demand for optional insurance”</p>	<p><u>Trust</u></p> <p>“pay attention to lack of trust among customers with regards to insurance”</p> <p>“the lack of trust in companies’ abilities to meet their liabilities after accumulative losses”</p> <p>“people’s trust in insurance companies is still weak”</p>	<p><u>Trust</u></p> <p>“people still have bad experiences with insurance companies’ major losses”</p> <p>“lack of trust among people in insurance companies”</p> <p>“not distributing any surplus between policy holders resulted in more lack of trust among customers”</p>
<p><u>Awareness</u></p> <p>“pay attention to the low awareness about insurance among customers”</p> <p>“awareness of insurance is expected to be better”</p> <p>“better demand in different lines for the insurance business is expected with better awareness”</p> <p>“there is still poor awareness of the benefits of having insurance”</p>	<p><u>Awareness</u></p> <p>“awareness of the benefits of having insurance is still low”</p> <p>“poor awareness is going to be a major problem for new entrants”</p> <p>“there is still poor awareness of the benefits of having insurance”</p>	<p><u>Awareness</u></p> <p>“there is still a poor awareness of the benefits of having insurance”</p> <p>“awareness of the insurance business is still problematic”</p> <p>“poor awareness of the benefits of having insurance”</p> <p>“there is still poor awareness of the benefits of having insurance”</p>

“demand might change when people are more educated about insurance” “low demand due to poor awareness of insurance”		
Education “demand might change when people are more educated about insurance”	Education “students have no education-related debt” “more young generations with free education”	Education “the Saudi job market lacks expertise and an educated workforce in the insurance business” “education system still does not provide insurance programmes”
Religion “health insurance will be compulsory for pilgrims” “millions of religious tourists visiting KSA yearly” “more demand on health insurance through religious tourism” “trust, traditions, and religious boundaries are reasons for the poor demand for optional insurance”	Religion “people believe insurance business does not comply with Sharia law” “Islamic view against insurance business still has an influence among people”	Religion “women covering their faces is a religious belief and the government is far from fixing this problem” “the government will not force women to uncover their faces to reveal their identities when receiving health treatment”
Population “increasing population” “insurance demand will increase with the growing population” “increasing population” “high population growth rate”	Population “increasing population with more young adults” “more of the young generation with free education” “the young generation are more likely to spend increasing amounts on insurance in the future”	Population “insurance demand will increase with growing population” “increasing population” “positive population” “expected increase in economic growth and population growth”

* Text in red represents negative statements or references made by participants towards one or more categories of this theme, while black indicates positive perceptions.

The final step was to design tables for all themes and categories based on type of question and particular group. For instance, the table below (5.7) gives a summary of all the themes and categories mentioned by all groups regarding the external factors that attracted or encouraged insurance companies to penetrate the Saudi insurance market.

Table 5.7: Reporting overall themes and categories for a specific set of questions for all groups of participants

Insurance companies (CEOs and general managers)		Advisory offices (Actuaries)		Regulators (SAMA)	
Themes	Categories	Themes	Categories	Themes	Categories
Economic	Growth rate	Economic	Growth rate	Economic	Growth rate
	Market growth		Market growth		Market growth
	Governmental spending		Governmental spending		Governmental spending
	Individual income		Individual income		Individual income
Legal	Insurance regulations	Legal	Insurance regulations	Legal	Insurance regulations
Political	Governmental stability	Political	Governmental stability	Political	Governmental stability
	Governmental involvement in the business		Governmental involvement in the business		Governmental involvement in the business
	Government actions toward better business environment		Government actions toward better business environment		Government actions toward better business environment
	New and old political forces		**		**
Socio-cultural	Population	Socio-cultural	Population	Socio-cultural	Population
	Education		Education		**
	Religion		Religion		Religion
Environmental	Probability of natural disasters	Environmental	Probability of natural disasters	*	**
Technological	Telecommunication and communication systems	Technological	Telecommunication and communication systems	*	**

** refers to category that is not mentioned by any specific group of participants. * refers to a theme that was not mentioned by any specific group of participants.

5.2 Findings

In this section, the findings are reported in three stages. The first reveals the external factors that have attracted companies to enter the Saudi insurance market since 2003. After that, the internal factors these companies have considered helpful to operating in the Saudi insurance market are described.

The second stage uncovers the more problematic factors or issues these companies have faced since starting their operations in the Saudi insurance market.

The third stage uncovers, first, the recommended external factors in the Saudi context that should be considered by insurance companies targeting the Saudi insurance market. Second, it highlights recommended internal factors that should be considered by insurance companies targeting the Saudi insurance market. Third, the interrelationships between all factors will be given and explained. Finally, this stage examines the uncertainty involved in market entry decisions by demonstrating the differences in the factors perceived to be influential before penetrating the Saudi insurance market with those found to be influential after beginning operations in the Saudi insurance market.

5.2.1 Factors that attracted/encouraged companies to enter the Saudi insurance market.

In this part of data analysis, findings are separated into two main sections. The first section considers the external factors that attracted insurance companies to enter the Saudi insurance market, in this instance since 2003. The second section is related to internal factors these companies considered as their strengths penetrating the Saudi insurance market.

5.2.1.1 External factors attracted insurance companies to enter the Saudi market.

The findings presented in this section consider external factors that were perceived as having a more positive influence on companies entering the Saudi insurance market since 2003. Participants were asked broader questions such as “**What external factors do you think attracted your company to enter the Saudi insurance market?**” Based on the answers received, more detailed and specific questions were asked such as “**In which ways is governmental spending positive or attractive to insurance companies?**” There were six external factors highlighted by participants as being the main factors or themes (be they

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economic, legal, political, socio-cultural, environmental, or technological). These factors represent PESTLE analysis framework suggested by Aguilar (1967). All these factors were perceived as being attractive or otherwise positive stimuli for companies making the decision to enter the Saudi insurance market after 2003. Within these main six factors, there are different categories and sub-categories, which can be given in two stages: first, sub-categories, categories, and themes mentioned by all participants are reported in table (5.8). Second, these sub-categories, categories, and themes are shown in linkage groups of participants, as shown in table (5.9). Finally, table (5.10) shows each theme and category based on number of participants of each group.

Table 5.8: External factors of the Saudi insurance market have been attracting companies since 2003

Themes	Categories	Sub-categories
Economic	Growth rate	GDP
	Governmental spending	
	Individual income	
	Market growth and potential	Total premiums
		New industry
		Few insurance providers
		Transportation
Legal	Insurance regulations	Passing laws
		Existence of insurance regulator
Political	Government stability	
	Government involvement in the business	Islamising insurance business
	Government actions toward better business environment	
	New and old political forces	
Socio-culture	Population	
	Education	
	Religion	
Environmental	Probability of natural disasters	Weather
		Epidemics
		Earthquakes
Technological	Telecommunication and communication systems	

Table 5.9: External factors of the Saudi insurance market have been attracting companies since 2003 based on groups of participants.

Insurance companies (CEOs and general managers)		Advisory offices (Actuaries)		Regulators (SAMA)	
Themes	Categories	Themes	Categories	Themes	Categories
Economic	Growth rate	Economic	Growth rate	Economic	Growth rate
	Market growth		Market growth		Market growth
	Governmental spending		Governmental spending		Governmental spending
	Individual income		Individual income		Individual income
Legal	Insurance regulations	Legal	Insurance regulations	Legal	Insurance regulations
Political	Government stability	Political	Government stability	Political	Government stability
	Government involvement in the business		Government involvement in the business		Government involvement in the business
	Government actions toward better business environment		Government actions toward better business environment		Government actions toward better business environment
	New and old political forces		**		**
Socio-cultural	Population	Socio-cultural	Population	Socio-cultural	Population
	Education		Education		**
	Religion		Religion		Religion
Environmental	Probability of natural disasters	Environmental	Probability of natural disasters	*	**
Technological	Telecommunication and communication systems	Technological	Telecommunication and communication systems	*	**

** refers to category that is not mentioned by any specific group of participants. * refers to a theme that was not mentioned by any specific group of participants.

Table 5.10: External factors attracted companies to the Saudi insurance market based on number of time these factors were mentioned by participants among each group.

	Participants from insurance companies	Independent actuaries	Participants from SAMA
Economic	25	2	9
• Growth rate	18	2	7
• Governmental spending	15	2	7
• Individual income	25	2	9
• Market growth	25	2	9
Legal	25	2	9
• Insurance regulations	25	2	9
Political	22	2	5
• Political stability	10	2	4
• Government involvement in insurance business	13	2	5
• Governmental actions to improve the business environment	22	1	4
• New and old political forces	9	0	0
Socio-cultural	21	2	9
• Population	21	2	7
• Education	6	2	0
• Religion	2	1	1
Environmental	10	1	0
• Probability of natural disasters	10	1	0
Technological	1	1	0
• Telecommunication and communication systems	1	1	0

These factors or themes with their categories and sub-categories are discussed in more detail below.

5.2.1.1.1 Economic factors

In general, the Saudi economy came first in the list of factors mentioned by participants. It was consistently mentioned by participants in all groups as a major positive external factor that attracted companies to enter the Saudi insurance market. Out of the first 36 participants, all 36 participants mentioned at least one factor related to the Saudi economy. Under this theme (economic), different categories were assigned based on the participants'

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points of view. As explained below, growth rate, governmental spending, and individual income are the categories highlighted and assigned to economic factors.

The first category of economic factors is the growth rate of the Saudi economy has been witnessing in last few decades. Participants (27 out of 36), frequently mentioned the fact that the Saudi economy has been growing in this manner. This economic growth has been discussed by many participants with more regard to a sub-category, which is the GDP, gross domestic production. For economic growth rate, GDP, among other economic growth indicators, is one of the main indicators through which to evaluate a nation's economic growth. GDP reflects the nation's income on an annual basis. Typically, participants linked the Saudi economic growth rate to oil revenues and increases in oil prices; as one actuary says:

Saudi Arabia is powerful economy in Middle East and gulf countries region. It also has its economic power having the second largest reserve of oil and being the highest producer of oil. This natural resource shaped the Saudi economy to be one of the major economies around the region, and maintain an overall economic growth.

The reason why oil and oil prices were so frequently mentioned in explaining the current Saudi economic growth rate is the fact that the Saudi GDP is mostly dependent on the export of oil, and that oil reached its highest price between 2004 and 2008, as stated by a CEO:

During that time, oil prices reached its highest which encouraged the king to improve the economy.

Other participants noted the ability of the Saudi economy to rapidly recover from some deflation or recession. As one SAMA member stated:

At the same time, the Saudi economy has been always good and attractive although there were some few declines in the economic growth especially the one in 2009, but it has been growing in general and always recovers quickly.

Governmental spending was also mentioned frequently by the participants (27 out 36). Governmental spending shows the intentions or directions a government intends to take to improve its economy. These directions are obviated through the sectors that the government is focussing on in its spending trends. Many participants noted that the Saudi government has been investing much of the governmental spending within the specific sectors that make the Saudi insurance market more attractive. As one actuary explained:

Governmental spending depends on aspects the government is trying to improve, and its strategic goals trying to reach. The Saudi government has been spending most of the annual budget on sectors such as education sector, health care system, and engineering projects. In addition, it has built some commercial cities serving the petrochemical sector and other industries. This focus gives you indication that the government is trying to provide and increase welfare to its people with more jobs, higher incomes, and better public services.

More spending on the health sector, for instance, improves health services in particular and public health in general. Improvements in public health result in better health conditions throughout society and reduce the assumed risks for health insurance providers. A CEO stated that:

[The] health sector has been taking over most of the governmental spending yearly for the last 15-20 years. Many hospitals were built covering most parts of the country, capacity and technologies of these hospitals has developed very well. Public health and services provided to people have developed as a result.

The above statement explains how governmental spending can improve conditions which matter to the insurance industry, for instance. The same can be said about major engineering projects that the government is launching to improve its infrastructure; more engineering projects increase the demand for work-related insurance products such as accidental injury insurance.

For individual income, all 36 participants reported this category of the Saudi economic factor during interview; all took a positive attitude towards individual income. Many considered individual income to be increasing, while others stated that it was already

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relatively high when they entered the Saudi insurance market. Most of the interviewees, however, linked individual income to one or more economic or other external factors. A CEO, for instance, stated that when explaining the Saudi economic growth:

This economic expansion has eventually increased the individual income which was another major factor

The economic growth through the statement above is explained further by another CEO who said that:

The government has been creating more industries in different sectors to deliver to the economy; in fact, more commercial and economic cities were built between 2005 and 2013 which created more jobs and commercial activates.

With more jobs, the unemployment rate decreased and more people have their own individual income, which increases the likelihood of a larger number of insurance purchases. However, increasing individual wealth might not be sufficient by itself to create demand for insurance products; for instance, income has been considered in conjunction with another external factor, which is that of population. As one CEO explained:

Finally, the growing population was a major attraction which showed a high rate of growth plus the fact of increasing individual income.

Moreover, individual income was regarded as a positive factor in relation to the free services the government has been offering. For instance, one actuary said that:

..... young people finish their higher education degrees with no debt as education is free; in fact, the government is paying a salary to each individual pursuing an undergraduate degree.

The statement above indicates that a class of the Saudi society has no burden of the so-called education loans or expenses arising from education. This aspect could represent the ability of customers or individuals to purchase an increased number of products, including insurance products.

The last category of economic factors is market growth, which was frequently mentioned by all 36 participants. Overall, it was reported as a positive factor in attracting insurance companies to enter the Saudi insurance market since 2003. During more detailed discussion, it was mentioned through different references (sub-categories), but all were either related or linked to each other. However, all the associated sub-categories (market growth) were discussed in light of other external factors.

When the Saudi government officially adopted and legalised insurance business in 2003, new laws were passed for insurance business. New legal requirements were defined that resulted in the following:

First, it resulted in having only a few insurance providers (sub-category). Many companies operating before 2003 left the market, and only four companies remained. This created fierce competition between these companies to enter and build their market share before the others. As one general manager stated:

After 2003, there were few companies providing insurance while there was increase on insurance demand. We sought it was the best time to enter the market and acquire a better market share before the competition become tougher.

Second, and related to the statement above, there is another sub-category that can be highlighted, that of increasing total premiums through increasing demand. However, most participants regarded this sub-category with another external factor, which is the further legal action made by the regulator, SAMA, one SAMA members said:

The total increase in insurance premiums was due to [SAMA] making health insurance and car insurance compulsory after 2003. For health insurance, at first, health insurance was compulsory for all foreign employees in the private sector. Later, it became compulsory for both: Saudi and non-Saudi workers in the private sector. These actions by SAMA stimulated and created high demand at that time.

Third, with regards to these legal actions, many participants noted that the expected demand at that time was, in particular, for car insurance; they discussed how they expected this legal action to result in greater demand for car insurance. They discussed matter in relation to the large number of cars in the Saudi market and the number of insured cars at that time. Overall, it was noted how this legal action was expected to be quite profitable as cars being are the main form of transportation used in the country.

Few other participants regarded market growth as an indication of how fresh and new the industry is in the country. However, it was regarded to be related to increasing general demand and overall economic factors. Being a new industry would not of itself be attractive or play a major role in deciding on the market without the consideration of other factors. As one CEO explained:

The Saudi insurance was new in a country that has great economic development, a good individual income, developing infrastructure, and good population. In addition, the industry was pushed by more regulations making some segments compulsory. Our expectation based on these indicators was to see a new thriving industry in the country.

Overall, the growth of the Saudi insurance market was perceived as an attractive category. Under this category, more specific sub-categories were highlighted as also being positive. These sub-categories are only provided by a few insurance providers, which increases total premiums, transportation, and the industry being new to the country.

5.2.1.1.2 Legal

The second theme determined through data analysis is the legal factor in the Saudi insurance market. This theme was frequently discussed by all 36 participants. It was reported as being one of the main factors to encourage companies to enter the Saudi insurance market since 2003 by all participants; 13 participants reported this theme in slightly different ways, however, as will be discussed later in this section. Mainly, this theme was discussed through the main category of insurance regulations; this category is derived through two sub-categories, namely those of passing new laws and existence of official insurance regulator to regulate the market.

Both sub-categories came into being simultaneously; in 2003, the Saudi government approved the insurance business, passing insurance law and entrusting SAMA to apply it, and consequently control and regulate the market. For all participants, these actions were perceived as highly positive, attracting companies to enter the Saudi insurance market. Before 2003, there was no insurance law, or indeed a regulator, to control this market. The introduction of these regulations was perceived as an excellent sign or guarantee of a healthier market in terms of legality and clear regulations. As one CEO explained:

When the Saudi Arabian Monetary Agency (SAMA) was assigned to implement the new insurance law that was issued the same year, the market started to mature. The new insurance framework was clear, and SAMA was very serious in implementing such a framework; SAMA made it clear to all insurance companies operating in the market when the new law passed that new legal requirements must be met by the end of 2006 or they would have to leave the market. By the end of 2006, we noticed that few companies were licensed by SAMA after meeting these requirements. To us, it was a strong signal that the regularity of the system of insurance was strong enough to regulate the market.

Many other participants stressed the importance of having an official body to firmly control the market and make sure regulations were properly implemented, as another CEO pointed out:

It was not the first time the Saudi government passed insurance regulations. The health insurance law in 1999 was an attempt to regulate the market, but it failed. In 2001, the Saudi government made car insurance compulsory but, again, failed to implement it. With the new law in 2003, we thought it was just another failed attempt by the Saudi government, as they have failed different times before to regulate the insurance market. However, the Saudi government was determined by assigning the task of implementing that law and regulating the market with SAMA.

On the other hand, some participants referred to legality or insurance regulations as being a positive factor, but from a different perspective; 13 participants stated that the low capital required has encouraged a number of insurance companies to enter the Saudi insurance

market. Notably, this was mentioned more by participants from SAMA and actuaries than the participants from the insurance companies themselves. A participant from SAMA stated that:

The new required capital was really low for insurance companies which was another factor that more companies entered the Saudi insurance market since 2003.

The affordability of required capital was discussed more within the context of internal factors under a main internal factor, that of capital.

In short, as a category of a main theme or factor, the introduction of legal insurance regulations within the Saudi market since 2003 have attracted more companies to enter the market. These regulations were reported in terms of legislation passed in 2003 and the introduction of an insurance regulator.

5.2.1.1.3 Political

The total number of participants who referred to the political factor was 28. Under this theme, four categories were assigned or highlighted, which are those of government stability, government involvement in the business, government actions toward better business environment, and new and old political forces. All these categories were reported to have had an influence on companies' decisions to enter the Saudi insurance market.

The first of these categories is political stability. It was noted that the political condition in Saudi Arabia has been stable for an extended period, and this was considered an attractive factor by 16 out of 28 participants. However, most participants stated that its political conditions were positive, as one general manager explained:

The Saudi political system has been stable with no major outside threats. It maintains good international relationship in the international community. In addition, it has been working on stabilising political problems in other countries in the region that could possibly form a threat to the Saudi political system. Similarly, the Saudi government has been improving different aspects inside the country to provide better welfare to its people.

From the statement above, it is clear that there is general satisfaction with political actions that are more likely to maintain political stability. The history of the Saudi political system as one of having little conflict with other political systems or countries was frequently considered by participants as a positive incitement for companies wishing to enter the Saudi insurance market. In relation to inside threats, some participants from some of the companies that had entered the Saudi insurance market after 2011 perceived the Saudi political system as being even more positive, although there were certain doubts about political stability in the KSA with the Arab Spring, as one CEO stated:

After 2011, the Middle East witnessed a major uprising in Arab countries trying to overthrow different political regimes. It was an infectious event that was spreading in most Arab countries, but few survived. Saudi Arabia was one of them launching more social welfare programs and increasing the state workers' salaries. These actions show a prudent policy in managing possible threats from inside.

More than political stability, government involvement in the business, which is the second category of political factor, was highlighted by 20 participants. This category is derived a standalone category, which is used to show the direct involvement of the government in the Saudi insurance business. From the previous theme, legal factors, the direct involvement of the Saudi government in the insurance industry can be seen through its demand that some segments be made compulsory; this was also noticed from the passing of new legislation and assigning an official regulator. Such involvement was noted by two participants though in different ways, as one CEO stated:

The problem was how people will accept us again after what happened in the past. Also, how to attract more customers and accept dealing with insurance business; for the last problem, the government announced the Fatwa of Islamising the insurance business, which was actually made by Alsheikh, Abulazaiz bin Baz himself. The government also pushed the official Muslim scholars to sign off that Fatwa. Before, insurance was considered to be "commercial insurance", which was not based on Islamic standards. Therefore, the new fatwa was released for the new insurance "Takaful insurance" or cooperative insurance.

Through the statement above, the government's desire to finally approve the industry demonstrates its direct involvement in the industry. The government pushed the official religious parties to approve the business by Islamising the insurance business. Such direct involvement, that of Islamising the insurance, is also derived and *set alone* as a sub-category of governmental involvement in the business. The importance of forming this sub-category arises from a simple question: "**why does the government need the religious parties' approval? Or why cannot the government just pass the law?"**

Further analysis in later sections will provide further explanation in this regard.

The third category of the political theme is that of government actions toward better business environment. 28 participants mentioned this, or indeed other, aspects that might be considered as action taken by the Saudi government to improve the business environment. This category is deeply connected and linked to economic factors. For instance, one participant from SAMA argued that:

The Saudi government has been taking serious steps to improve its economy. It has been launching major infrastructure projects in different sectors. The number of university, schools, hospitals, highways, even airports, ...etc., have doubled or increased to the half at least. Different sectors have also improved such as transformative industries related to petrochemical industry; instead of exporting raw oil, now there are many products being produced within the country from oil. These steps are very helpful in creating the basic foundations to from an attractive business environment in many industries.

These actions, as taken by the government, indicate a strong determination to develop the economy forming better foundations to implement and create different industries. One of these foundations is improving the education sector in order to build a good labour workforce that can participate in these industries. The same can also be noted in terms of health care services and highway networks. These governmental actions are perceived as attractive aspects that can result in national prosperity. A general manager argued:

Spending this much on engineering projects by the government has increased insurance demand as any governmental project is required by SAMA to be

insured. Also, these engineering projects created commercial activities that are in need of insurance products. At the same time, these changes by the government has created more job opportunities, increased individual income, increased national prosperity overall.

The fourth category, that was mentioned by 9 participants, is the new and old political forces. During a number of participants' interviews, some statements or references such as "previous ruler" and "new ruler" were noted. However, all references to these political forces were mentioned while discussing economic changes. For instance, discussing economic development with one participant, a CEO:

First, there has been steady economic growth in the KSA during the last 30 to 35 years, and since 2005, it has increased sharply. With the economic growth, the Saudi government has also showed serious actions to improve its economy with major steps since then. In 2005, a new ruler came to the crown and he doubled the governmental spending in few years, and the whole economy improved; the individual income increased, restrictions on foreign investment become less, and the whole environment for business improved. Yes, if it was not the new ruler, such economic improvement could not have happened, but do not forget, the oil prices at that time were increasing as well.

This category reflects some interesting facts about the Saudi economy, and how it is related to the ruling political parties. Economic changes were reported by these participants in relation to a new ruler being in power. This gives an indication that changes in the Saudi economy are heavily reliant on who governs or rules the country at a specific time. That being said, Saudi Arabia is a monarchy, and the span of a presidency clearly cannot be anticipated in any way. However, these changes by these political forces were perceived in a positive manner and as an indication of the government's determination to improve its economy.

5.2.1.1.4 Socio-cultural

The socio-cultural theme was discussed by 32 participants out of the 36. Of the socio-cultural factors, population, education, and religion were those most reported. The most-commonly discussed category was population, while education and religion are less often discussed.

29 participants stressed the importance of population to the insurance business. They considered the Saudi population as a positive factor in terms of playing a role in companies' decisions to enter the Saudi insurance market since 2003. In addition, most of the participants argued that the increasing Saudi population is a positive factor, and one that is expected to show rapid increase in the years to come. Some argued that the Saudi population was increasing so rapidly due to a number of other aspects, or as one CEO argued:

The population of Saudi Arabia has been growing rapidly because of the economic conditions of the country. The good economic growth of Saudi Arabia improved welfare in society. Individual income has increased, and public services improved, which have increased individual and national prosperity. Because of this, the population is twice what it was in mid-1990s. If economic growth continues, it is very likely the population will keep increasing at the same rate.

The economic conditions or economic growth of Saudi Arabia was directly linked to economic growth. Economic development resulted in more governmental spending on various sectors that touch people's lives directly, such as health care services. It also helped to develop better jobs and increase incomes, which consequently increased wealth and prosperity among the populace.

Eight participants discussed the Saudi population in relation to education; as one actuary argued:

Young and young adults are the main components of the current Saudi population because of the high population rate in the last decades. This generation were expected to be more educated about insurance and accept this business more in the future. In addition, they are receiving free education and reasonable subsidies until they find jobs.

The above statement refers to individual income for the younger generation in terms of receiving a free education and having access to a number of subsidies until they find work. More importantly, it refers to education and the acceptance of insurance businesses. The reason why such a reference has been made is the fact that insurance businesses were prohibited from operating in Saudi Arabia for decades because of religious beliefs. The expectation of this participant, along with a few other participants, is that after approving this business in terms of its compliance with Islamic principles, it is expected that the younger generation will be more accepting of it in the future. Through the statements of 4 participants, it may be noted that the government used or pushed the official religious parties to approve this business, allowing its recognition and acceptance within society.

One SAMA member stated:

The conflict between the government and religious parties goes back many years ago over approving insurance business. Many insurers were leaving the country whenever they faced high claims, and the government established its own insurance company in 1980s. During that time, the government forced the official religious parties to Islamise the business through Fatwa. However, the resistance among the society through unofficial religious parties was still strong. Therefore, the government was unwilling to draft laws related to the insurance business until 2003 where new insurance law was passed, and an official body was assigned to control the market. With this law, all official parties announced their approval and support of the business forced by the government. ... Because the government was under pressure to legalise the business from international agencies such the World Trade Organisation and International Workers Association. By that time, there had been a slight change in religious beliefs that prevented customers from buying insurance. With more time and education, this is going to have much less influence.

These religious beliefs were expected to have no, or significantly less, influence after passing new law relating to insurance businesses that complies with Sharia law or Islamic principles.

Overall, the socio-cultural theme was considered to be a positive main external factor in the Saudi insurance market. With more references to population and education than

religion, all these categories were considered attractive and of causing few difficulties for insurance business.

5.2.1.1.5 Environmental

This main factor, or theme, was referred to considerably less by the interview participants. Only 11 participants, 10 from insurance companies and 1 actuary, mentioned and discussed the category of the occurrence of natural disasters in Saudi Arabia that might affect insurance businesses. Weather, earthquakes, and epidemics are sub-categories highlighted as causing possible natural disasters. The possibility of such events in Saudi Arabia was considered low, which helped companies enter the Saudi insurance market.

In terms of weather, it was noted how the national weather is usually dry. The likelihood of major floods is low in the country, as one CEO explained:

The dry weather of Saudi Arabia eliminates the risk of having digastric floods.

The country witnessed few small ones in the past and they were not that bad.

Another CEO discussed weather and earthquakes saying:

..... the history of natural disasters in Saudi Arabia showed very rare occasions⁴⁶⁹; the records show no major floods⁴⁷⁰, small and rare earthquakes in some regions⁴⁷¹, and the geographical location of KSA is away from any tropical hurricanes or storms.

Weather and earthquakes are some of the major risks that threaten insurance businesses. They can result in major losses to insurance companies through a high number of claims in a very short period. However, weather and earthquakes are natural disasters that are beyond the ability of any party such as governments, so these sub-categories stand alone, that is, they are not linked to any other factor.

On the other hand, the government can help to prevent instances of epidemics through its health facilities and health care services. As mentioned by a number of participants, the health services are fairly developed which improved the government's ability to control contagion; one CEO argued that:

The likelihood of the occurrence of widespread and infectious disease in Saudi Arabia is small, and if it happened, the ability to contain it is good through the developing health care services in the country. This is because the government has devoted a large portion of its governmental spending on the health care sector for a number of years. Millions of people visiting Mecca and Madinah have pushed the government to improve public health. For us, investors in the insurance business, the likelihood of infectious diseases developing can be devastating, so we investigate the overall condition of health care system and the services a given target country is providing to its people.

In summary, natural disasters caused by weather, earthquakes, and epidemics were reported to be less likely to happen in Saudi Arabia by a number of participants. As a result, the environmental theme was considered a positive influence by some companies when they decided to enter the Saudi insurance market.

5.2.1.1.6 Technological

The least frequent main factor or theme amongst the external factors that attracted companies to enter the Saudi insurance market was the technological theme, which was discussed by only two participants of 36. These two participants pointed out the development of some basic technological infrastructure with regards to telecommunication and communication. One general manager explained:

For, instance, consumption of electronic especially mobile phones is high in Saudi Arabia. This is supported with good infrastructure that improved aspects such as internet, broadcasting, and communication in general. These factors are important for our business in terms of advertising, promoting the business, providing quick services to insurance customers.

5.2.1.2 Internal factors encouraged insurance companies to enter the Saudi market.

This part of finding explores internal factors were considered by insurance companies that have been penetrating the Saudi insurance market since 2003. The main question participants were asked is “Deciding to enter the Saudi insurance market, what internal factors your company sought it would be helpful to succeed in the market?” with more detailed questions, findings uncover eight themes or main internal factors sought to be internal strengths of insurance companies that entered the Saudi insurance market after 2003. Each theme is derived through category/categories. Moreover, some categories involved some sub-categories, which are highlighted by the researcher based in uniqueness and importance to be reported, see table (5.11). In addition, table (5.12) explains what internal themes and their categories and sub-categories by each group of participant, and table (5.13) explains number of participants at each group mentioned these themes and factors. Nevertheless, findings within this section describe these internal themes with detailed explanation. Remarkably, there is contradiction between the level of consideration of these themes, categories and sub-categories between all or some of three groups of participants. These contradictions are explained and justified whenever they occur.

Table 5.11: Internal factors companies focused on more penetrating the Saudi insurance market.

Themes	Categories	Sub-categories
Experience	Experience in the business	
	Experience in the Saudi market	
	Experienced workforce	
	Experienced local partners	
Human resources	Enough Saudi workforce	
	Sharia committee	
Reputation	Applying Islamic principles	
	Social responsibility	
Capital	Liquidity	
Corporate governance	Structure	
	Audit committee	Transparency and disclosure
	Business strategy	
Internal control	Information technology	
	Compliance	
Risk management	Underwriting	
	Risk strategy	
	Risk strategy	
	Risk management structure	
Size	Geographic visibility	

Table 5.12: Internal factors companies focused on more penetrating the Saudi insurance market based on each group of participants.

Insurance companies (CEOs and general managers)		Advisory offices (Actuaries)		Regulators (SAMA)	
Theme	Category	Theme	Category	Theme	Category
Experience	Experience in the business	Experience	Experience in the business	Experience	Experience in the business
	Experience in the Saudi market		Experience in the Saudi market		Experience in the Saudi market
	Experienced workforce		Experienced local partners		Experienced local partners
	Experienced workers		Experienced workers		Experienced workers
Human resources	Enough Saudi workforce	Human resources	Enough Saudi workforce	Human resources	Enough Saudi workforce
	Sharia committee		Sharia committee		Sharia committee
Reputation	Applying Islamic principles	Reputation	Applying Islamic principles	Reputation	Applying Islamic principles
	Social responsibility		**		**
Capital	Liquidity	Capital	Liquidity	Capital	Liquidity
	Surplus		Surplus		Surplus
Corporate governance	Structure	Corporate governance	Structure	Corporate governance	Structure
	**		Audit committee		Audit committee
	Business strategy		**		Business strategy
Internal control	Information technology	Internal control	Information technology	Internal control	Information technology
	Compliance		Compliance		Compliance
Risk management	Underwriting	Risk management	Underwriting	Risk management	Underwriting
	Risk standards		Risk standards		Risk standards
	Risk strategy		Risk strategy		Risk strategy
	Risk management structure		Risk management structure		Risk management structure
Size	Geographic visibility	Size	Geographic visibility	Size	Geographic visibility

** refers to category that is not mentioned by any specific group of participants.

Table 5.13: Internal factors companies focused on more penetrating the Saudi insurance market based on number of times these factors were mentioned by participants among each group.

	Participants from insurance companies	Independent actuaries	Participants from SAMA
Experience	22	2	9
Experience in the business	8	2	4
Experience in the Saudi market	13	2	6
Experienced workforce	9	2	9
Experienced local partners	4	1	1
Human resources	10	2	9
Enough Saudi workforce	10	2	9
Sharia committee	10	2	5
Reputation	9	2	4
Trust	5	2	4
Social responsibility	1	0	0
Capital	8	2	6
Liquidity	1	2	5
Corporate governance	9	2	9
Structure	7	2	9
Audit committee	0	2	5
Business strategy	3	2	1
Internal control	13	2	9
Information technology	13	2	8
Compliance	13	2	4
Risk management	17	2	9
Underwriting	0	1	3
Risk Standards	13	2	9
Risk strategy	3	2	6
Risk management structure	7	2	7
Size	6	1	5
Geographic visibility	6	1	5

5.2.1.2.1 Experience

In this main internal factor, other different categories can be highlighted based on participants' points of view. 33 out of 41 participants discussed one or more of these categories, which were experience in the business, experience in the Saudi insurance market, experienced Saudi workforces, and experienced local partners. However, there are contradictions in participants' responses regarding these categories. All participants from insurance companies considered this theme and its categories as one of their internal strengths. On the other hand, other participants, actuaries and SAMA members, have different opinions.

First, 14 participants shared their views about insurance experience in the business.

Through this category, they discussed how important it is for a company to have good or long experience in the insurance business overall. Out of these 14 individuals, 8 participants (who worked at insurance companies) considered that their companies' experiences in the business constituted major internal strengths to penetrate the Saudi insurance market. Explaining how experience helped them to enter and operate in the Saudi insurance market, one CEO argued:

We have been in the business for decades now operating in different markets with different backgrounds, legalities, competition conditions providing wide range of products. We have accumulated high levels of knowledge and experienced workers. Our experience was a key element in entering the Saudi insurance market; we started with high level of cautiousness in terms of policies to provide and risks around them until we obtain and build more knowledge about products that needs more concentrations. We sought to be patient and take steps slowly in the market to examine or identify risky and safe entire classes of policyholders.

Other opinions among participants from insurance companies are similar to the above statement.

On the other hand, some SAM members and actuaries, a total of 6 participants, either supported or disagreed with the above statement. Two participants from SAMA argued that most companies entering the Saudi insurance market lacked experience in the business. However, these participants made it clear that the companies that lacked experience were mostly the ones that entered between 2003 and 2008, and were mostly local companies. They argued that few companies had sufficient experience during that period; they were the successful companies at that time. Demonstrating this argument, one SAMA member stated that:

Few companies had adequate capabilities and vision to operate in the Saudi insurance market. Between 2003 and 2008, only four companies were thriving in the market. These were the companies that had been in the market before SAMA passed the new legislation in 2003, so they were already having their market share and build up a good level of experience.

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Another participant, an actuary, elaborated further on the problem of insurance companies experiencing major losses at that time, argued:

In my opinion, the lack of enough experience, either in the insurance business or in the Saudi insurance market. ... Some of them were in the market before passing the new law in 2003 by SAMA.²³, so they were already having their market share and had built up a good level of local experience.

From the statement above, some participants from SAMA or actuarial agencies agreed that, not all, but some companies had good experience in the business. Moreover, another category is referred to in the above statement, which is that of experience in the Saudi market. Experience in the Saudi insurance market means knowledge about the market overall, and about Takaful insurance in particular.

Experience in the Saudi insurance market or knowledge about the Saudi insurance market was mentioned by 18 participants. Out of these 18, 13 participants from insurance companies argued that their experience in the Saudi market was helpful in deciding whether to enter the Saudi market. Mostly, these participants noted that their companies were solely operating in the market before the new legislation was passed in 2003, and had built up considerable local experience. Others argued that their companies had sufficient knowledge about the Saudi insurance market from operating in the similar markets adopted in Islamic Takaful insurance, particularly in neighbouring countries in the region. This is best illustrated by one general manager:

The advantage of our strong regional platform in the Gulf countries helped us to quickly fit into the market and expand quickly. We had been watching the evolution of the Saudi insurance market, especially the legal improvement, and dealing with Takaful insurance was not new to us as we were already dealing with it in other Gulf countries.

Another CEO explained their experience of dealing with Takaful insurance further:

Our experience dealing with Islamic Takaful was also a key factor in helping us to take appropriate steps to enter the Saudi insurance market. ... Takaful is a slight

twist of the Islamic insurance frameworks known in other Muslim countries. We have been applying Islamic insurance principles in some of these countries for decades, and to understand the Saudi version of Islamic insurance or Takaful was not hard.

Participants from SAMA and actuarial agencies agreed with the above statement to some extent, but only a few insurance companies. One actuary, in addition to two SAMA' members, argued that companies that showed better performance in the market were those that were either operating in the market before 2003 or had experience in dealing with Takaful insurance in other markets. An actuary explained that:

Some companies in the market now were insuring some governmental projects many years before 2003. They have better knowledge of the Saudi market, and are more familiar with the conditions within the local market.

The analysis above shows how much emphasis participants place on experience in the business in the Saudi insurance market or otherwise in Takaful insurance. Through their comments, discussions, and opinions, there were many references to acquiring an experienced workforce to operate effectively in the Saudi insurance market. In all three groups of participants, the difficulty of engaging experienced Saudi workers was noted. Of the participants from insurance companies who mentioned this category, 13 referred to their advantage of having experienced Saudi workers.

These participants argued that being able to secure an experienced Saudi workforce was one of their major strengths one could gain in entering and starting a business in the Saudi insurance market. This category is a result of the legal requirement set by the Saudi government that foreign companies need to have at least 50% Saudi workers making up their total number of employees. What makes this problematic to foreign and local insurance companies is the availability of educated and experienced Saudi workforce in the insurance business, as a general manager noted:

A crucial aspect is the fact that our previous networks helped us to find experienced Saudi workers, especially when other insurance companies left the market after the new laws were passed in 2003. This helped us in two ways: (1) to

meet the legal requirement of hiring at least 50% Saudi employees, and (2) to expand into different regions and cities in Saudi Arabia.

Other participants, 6 members of SAMA and 2 actuaries, supported this claim, but they stated that few companies were actually able to secure a sufficient number of experienced Saudi workers.

The final category of experience that was highlighted through the data was that of experienced local partners. This category was mentioned by four participants from insurance companies, one actuary, and one SAMA member. Participants from insurance companies clearly stated that the experience of their local partners was one of the factors that pushed them into entering the Saudi insurance market. Explaining further, and giving examples of how local partners' experiences can be helpful, one general manager stated:

First, there has been a sharing of knowledge between our company and local partners; they are highly experienced and better educated about Saudi Takaful insurance. The sharing of knowledge was mostly at the higher team management and senior manager levels. Part of this knowledge from our partners regarded the ability to apply Sharia law faster and in complying with all legal requirements related to Sharia.

While these participants claim that they found local experienced partners, other participants argued that most local companies and partners were not particularly experienced. As one actuary explained:

To be honest, most companies were not carrying the business well, especially the local companies that entered the market right after 2003. When SAMA was entrusted to regulate the market, SAMA did not have enough experience itself in this regard, and regulations that were set at that time allowed many weak companies with poor experience to enter the market.

Over all the above categories, the contradictions that were apparent between participants' views are quite reasonable. First, actuaries and SAMA members who mentioned one or more of these categories stated that lack of experience was more an issue of companies that entered the market between 2003 and 2008. Second, there are a good number of insurance participants did not mention this factor at all. In addition, participants from SAMA, and indeed the actuaries on some occasions, supported statements made by the few participants from insurance companies claiming they had good experience.

5.2.1.2.2 Human resources

The findings of this research indicate an extreme need of concentration to human resources deciding to enter the Saudi insurance market. It shows that there are some unique factors that have to be addressed before penetrating the Saudi market. These factors or categories are enough experienced Saudi workers and Sharia committee.

As explained before in experience theme, 21 participants stressed how important human resources are for insurance companies. Out of these 21, 13 participants from insurance companies pointed out that the ability to find experienced Saudi workers played a role in the decision to enter the Saudi insurance market; one CEO noted:

[The] availability of educated and experienced Saudi workers was a major concern. We found the local partners had already acquired good percentages of experienced Saudi workers, and we were able to attract more well educated and experienced Saudi workers through higher compensation.

They argued that finding Saudi workers was not an issue; the issue, rather, was the scarcity of *experienced* Saudi workers. As explained before, the legal requirement or the so-called "Saudization" requires companies to have at least 50% Saudi workers on their workforce. With more insurance companies in the market, supposedly less experienced Saudi workers would be available.

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Actuaries and SAMA members agreed about the scarcity of experienced Saudi workers in the insurance business. They also mentioned that most companies have difficulties recruiting experienced and skilful Saudi workers. In addition, some participants argued that less experienced Saudi workers have been part of reason why companies are facing losses, as explained by a SAMA member:

Progress was hampered within many insurance companies because of the lack of an educated and experienced Saudi workforce. This still has its effect on insurance companies today. This problem has either played a role in causing losses or limited companies' abilities to implement and apply their plans. Unfortunately, many companies were, or still are, suffering from this problem.

In terms of Sharia committee, the importance of this category arises from the fact that insurance products need to comply with Sharia law, as on actuary explained:

As required by SAMA, insurance products have to be based on Sharia law. Islamic legal staff, Sharia committee, or a deep understanding of Islamic standards, are the foundations of most standards set by SAMA.

This statement refers to the need to acquire specific human resources as a key internal factor for insurance businesses. In fact, 10 participants from insurance companies claimed that having a Sharia committee was essentially a guarantee of being able to conduct business successfully within the Saudi insurance market. In other words, it was considered to be a particularly significant internal factor in the decision to enter the Saudi insurance market, as one CEO noted:

Our Islamic legal team helped us to make sure that we are applying Islamic legal standards of the Saudi insurance, Takaful. It also gained us increased credibility with customers that our products complied with Sharia law.

This quote explains how important it is to have a well-educated Sharia law team or Sharia committee to operate successfully in the Saudi insurance market. Furthermore, from statement above, there is a direct indication that sharia committee could gain insurance companies more customers by having sharia committee as a sign of applying sharia law; this is to be discussed more in relation with reputation factor more.

In short, some companies that entered the market considered human resources to be one of their internal strengths. First, they claimed they were able to secure a sufficient number of experienced Saudi workers in the insurance field; second, they argued that having a Sharia committee was also helpful to a comprehensive understanding of Saudi insurance law, to comply with Islamic legal rules, and to gain credibility with customers.

5.2.1.2.3 Reputation

A good reputation can be built through many aspects such as financial performance, quality management, quality of product, social responsibility, etc. In the case being studied in this research, the findings revealed two aspects of the categories constituting the main theme of reputation. These categories are Sharia committee and social responsibility. In terms of trust, the course of the discussion highlighted trust through one sub-category, which is the application of Sharia law.

Applying Islamic principles was reported here by nine participants. Out of these nine, five were from insurance companies, and they claimed that they were aware of how to gain people's trust before starting the insurance business, or otherwise immediately after starting the business. They all agreed that having a Sharia committee was key to gaining customers' trust in the Saudi insurance market. Their argument was that Saudi insurance law is based on Islamic principles, and the majority of the population are Muslims. Hence, one good way of gaining people's trust and creating a positive reputation is to appoint a Sharia committee to approve their insurance products. This is best illustrated by a CEO:

We knew it was a must to have all products we intend to provide with all prices has to be approved by an internal Sharia committee or an independent Muslim

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legal expert before gaining approval from SAMA to start underwriting..... To acquire our own sharia committee was our choice over independent Muslim legal expert...We believed this would save us more expenses. More importantly, it would buy us and help us maintain a good reputation among other companies applying the Sharia principles.

Supporting the above statement and giving the method some companies applied to gain increased trust and reputation, an actuary said:

Some companies were able from the start to build their market share applying the sharia law. In addition, their sharia committees had at least one of well-known Muslim scholar whose religious opinions or Fatwa had a particular influence on people.

A number of other participants, namely four SAMA's members, also agreed that only a few companies acquired a good reputation from the start by appointing Sharia committees, which helped them to gain more reputable names or brands.

Related to Sharia committees, out of nine participants, seven participants discussed reputation through surplus management. The reference to surplus here is the way in which surplus is managed or, more specifically, managing surplus based on Sharia law. Out of seven participants, two actuaries and three SAMA's members agreed that most insurance companies ignored the Islamic way of managing surplus. As argued by one member of SAMA:

While insurance companies are supposed to distribute surplus between shareholders and policyholders, most companies did not do this whenever there is an excess over claims. In fact, they were using policyholders to cover their expenses.

Explaining this further, another member of SAMA stated that:

Most customers were not aware of this right, and insurance companies did not inform them about it at all. Later, when SAMA formed its rules about informing policyholders of their share of surplus and distributing it within short periods, more people become more aware of their rights. As a result, the reputation of the business was badly damaged.

From insurance companies' side, only two participants discussed the category of Islamic surplus management. Both claimed that their companies had been practicing Islamic surplus management since they started operating in the Saudi insurance market. They also claimed that it was helpful in increasing their reputation and trust among customers, as one CEO commented:

For example, we were committed to the application of all rules and regulations, which are mostly based on Sharia rules. We acquired our Sharia committee from the outset, which reflected in the application of legal standards and gained us considerable trust among customers. In fact, we were among only a few companies that were distributing surplus.

To be referenced by only two participants from insurance companies confirms the claim made by actuaries and regulators; most companies do not apply Sharia rules in terms of surplus.

The second category of reputation is that of social responsibility. Yet, only one participant mentioned this category. While social responsibility can be any practice a company does to create value within society (Snider *et al.*, 2003), in undertaking that practice voluntarily (Kotler and Lee, 2008), this participant pointed out that his company had been launching social programs since entering the Saudi insurance market. As explained by this participant, a CEO:

Through our history in other markets, we built a good reputation about our free health insurance programs and our experience has accumulated in this area.

When we started in the Saudi market, we launched programs such as the free health insurance for orphans. This was helpful in gaining more customers at that time in the Saudi insurance market.

To summarise, 10 participants discussed the theme of reputation. Within this theme or factor, nine participants discussed it through Sharia committees gaining peoples trust and, consequently, increased reputation. In relation to Sharia law and Sharia committees, two participants referred to how the consideration of surplus management based on Sharia law had helped build their reputations in a positive manner. Five other participants argued that most companies did not manage surplus as based on Sharia law, which damaged their reputations. Finally, one participant referred to social responsibility in terms of launching free social programs once they started conducting business in Saudi Arabia in order to gain more customers and a reputable name.

5.2.1.2.4 Capital

Among the other legal requirements enforced by SAMA or the Saudi insurance regulator, SAR 100 represents the minimum requirement by which to start business in the insurance market. Through our discussions, some participant noted the role of capital for insurance companies to be able to enter the Saudi insurance market. References were made directly regarding capital as a main theme, and sometimes through another category, liquidity.

First is the discussion about how low the amount of required capital actually is. Some companies considered this low requirement to be attractive in terms of affordability and within companies' financial reach. Some other companies showed more capability and were able to start with higher than required capital. In total, eight participants from insurance companies discussed the role of capital towards their companies' decisions to enter the market. Five of these individuals noted that their plans were to start the business with more than that required by SAMA; they claimed that it turned out to be a major factor in acquiring a greater market share with greater profitability. One CEO argued:

Other than that, we started with much more than that SAMA requires in terms of capital; instead of starting with SAR 100 million, we started with SAR 450 million..... SAR 100 million set by SAMA is the minimum, and that might be enough for small sized companies. To us, we decided to start in the market as medium sized at least to expand in the market more than small companies and have better distributional networks. Later, we expanded more and formed a fair market share successfully.

The participant above explained that their main reason for having a greater amount of capital was to expand more in the market, which is itself linked to another theme (size), as will be explained later. Moreover, he argued that SAR 100 might be sufficient for small sized companies to operate in the market and successfully make profit. However, two other participants from insurance companies stated the opposite. Both argued that SAR 100 is barely sufficient to conduct business within the Saudi insurance market, as one CEO explained:

When SAMA set the required capital for insurance reinsurance companies, many inexperienced investors started their own companies because the capital was really low, in my opinion, and that resulted in one major issue, which was unfair pricing because these companies could not manage their risks well.

Three participants from SAMA and the two actuaries supported the above quote, namely that low capital requirements attracted many inexperienced local companies into the market. Several participants at insurance companies that started with the minimum capital stated, indirectly, that required capital was attractive in terms of entering the market, as one general manager explained:

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First, to enter the Saudi insurance market, the capital requirement, which is the minimum requirement to operate in the market, was affordable, and our financial position was strong.

However, an observation of this factor, capital, was made with more discussion, but this time through liquidity. One participant from the insurance companies, two actuaries, and five regulators discussed or mentioned practices by insurance companies suffering from a lack of quick access to funds because of major losses; these practices showed the poor ability of some companies to meet their liabilities through rapidly liquefiable assets. One CEO stated that:

This struggle has been creating chaos within the market as some companies have been trying to reduce their growth or have additional paid-on capital, and this did not work for many. For our company, we followed the option of issuing new shares in the capital market where we could have a new capital 10 times our real capital; this solution helped us in the long term.

Participants from SAMA, in addition to actuaries, mentioned companies' weak abilities to face major losses on different occasions. One member of SAMA explained his view about the capabilities of insurance companies entering the Saudi insurance market after 2003:

The performance was mixed among those insurance companies. In general, all companies showed their ability to underwrite high premiums at the beginning, but few were able to cover potential losses. Other companies had to go for different choices; some secured funding through borrowing, some had to liquidate some of their assets, but most many other raised additional equity capital.

In summary, a total of 13 participants pointed out how capital was one of internal factors that was considered as strength when their companies entered the Saudi insurance market. Some started with more than the required capital, while others had the minimum required

capital. Some participants, more so the actuaries and regulators argued that companies with low capital faced major losses and lacked enough liquidity, or could not otherwise manage to secure rapid funding.

5.2.1.2.5 Corporate governance

This theme was frequently noted amongst all three groups of participants, with 31 participants making some reference to it during their interviews. The basic argument about corporate governance in short is “the system by which companies are directed and controlled” (Cadbury, 1992). Based on this more general definition, many categories or internal factors can be classified under the main theme of corporate governance. The commitment to corporate governance can be applied through self-regulated or enforced by legalisation. Both these aspects were weak in the Saudi insurance market; for legalisation, many participants noted how inexperienced the regulator was in the first few years after being entrusted to regulate the market. In fact, some participants from SAMA agreed to such arguments, making different statements about how SAMA was setting different standards and new regulations over the years. For instance, one SAMA member noted the unfair pricing competition and late involvement of SAMA, stating that:

It was believed to but SAMA left the market open to any company that met the minimum requirements without assessing their actual capabilities, and did not control their practices through detailed regulations.... This is complicated and can take time explaining, but I'll give you specific evidence. In 2008, SAMA set out the official risk management standards that need to be practiced by all insurance companies. Before that, such standards did not exist, and pricing risks practiced by many companies were poor and many suffered major losses. In fact, if it was not for underwriting with low prices and experiencing major losses, SAMA could have taken more time to recognise such poor practice and set the legal risk standards.

The argument above was noticed throughout the discussions with three participants from SAMA, one actuary and 16 participants from insurance companies.

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On the other hand, there is a consensus about the weak self-regulation of corporate governance at many of these insurance companies from the beginning of the time SAMA was entrusted to regulate the market until major changes in regulation were enforced in 2008. Through the course of these discussions with 15 participants, specific categories were classified under the main theme of corporate governance. These categories are structure, business strategy, and audit committee. For the audit committee, a sub-category was also assigned which is transparency and disclosure. In total, 15 participants addressed these categories, nine participants from SAMA, two actuaries, and four from insurance companies.

In terms of structure, good corporate governance should clarify the composition of board of directors, and the ownership structure; with that, the division of responsibilities amongst top management members should also be clarified. However, 11 participants argued that there was unclear ownership, assignment of responsibilities, and the structure of many of the insurance companies that entered the Saudi insurance market between 2003 and 2008, as explained by one actuary:

Among most companies, except two companies, it was not clear who was in charge of taking decisions and monitoring the strategic objectives at other insurance companies; it was not even clear who owned what and how much. In the best-case scenario, we knew the chairman of the board. This was improved after many of the standards set more recently by SAMA.

In addition, transparency and disclosure, as sub category of audit committee, a basic practice providing reports to shareholders and a sign of good corporate governance overall. These reports should include information about such aspects as financial situation and performance, report of ownership, and issues and development, and provide it in a timely manner. This process of reporting is a result of a good audit committee. Yet, this was not the case for many insurance companies in the Saudi insurance market until 2008, when the government, through SAMA and the Capital Market authority companies, legislated for transparency and disclosure. The law was passed in 2003, requiring that the Saudi insurance companies must be publicly listed joint stock companies. However, it was not

until 2008 when the Capital Market authority enforced reporting and disclosure, as explained by member of SAMA:

At the beginning, most companies were not practicing disclosure monthly, quarterly, or annually although they were listed in the stock market. Much critical information was not publicly provided. In addition, it was rare to find companies that had independent audit committee teams, and if they had them, it is not clear who the members were and who assigned them.

The direct reference to audit committee was only made by the one participant above, but indirect reference through transparency and disclosure was made by another seven participants, who were either members of SAMA or actuaries.

However, two participants from insurance companies mentioned the good corporate governance practices their companies were applying. Both mentioned that their companies were aware of legal standards and meeting them through clear policies and tools of corporate governance. As one CEO stated:

Our qualified top management team was one of our main strengths; our company is in direct control, assigning the right teams for different tasks, all of whom are accountable and responsible of all their actions. This was helpful since the beginning in the market to easily meet legal requirements and easily adjust to any new regulation SAMA might make.

The above quote argues the efficiency of having different qualified parties with different rules and clear responsibilities in order to make sure that practices and procedures are put in place at all levels of an organisation's structure.

Furthermore, business strategy is another category that is related to, and can be classified under, corporate governance. Since corporate governance provides a company with an overall framework to implement its plans and reach its objectives, it is essential that

corporate governance encompasses the formation of a clear business strategy. In other words, lack of business strategy indicates poor corporate governance, which is the case for some companies in the Saudi insurance market. Two participants form SAMA and one actuary only claimed that some companies lacked appropriate business strategy, or that their strategy was otherwise weak. As explained by one SAMA member:

There are many companies are focusing on health and car insurance mainly while fraudulent and high rate of claims in these two products. They are still providing the same products and facing more losses yearly; they did not diversify their products, develop their human resources or expand in the market.

The above statement refers to a company's ability to shift their business strategy through awareness and innovation with regards to actual events in the market.

On the other hand, three participants from insurance companies explicitly stated the business strategy adopted by their companies targeted the Saudi insurance market. For instance, one participant stated:

There had been poor pricing competition in the market before SAMA controlled this, and for years we were providing health insurance and car insurance at higher prices than average. It cost us a reduced market share for long years, but it paid off in long term; many companies providing these products with low prices lost most of their market share because they ended up suspended from underwriting these products, or indeed all products, by SAMA.

In other words, this company's business strategy relied on prudent risk practises not to be involved in a race over better market share through low prices. A well-founded business strategy is a reference to superior controlling practice, namely that of corporate governance. On the other hand, the companies that were typically suspended formed examples of poor corporate governance.

In summary, corporate governance was highlighted and discussed by different participants in terms of structure and audit committee. Audit committee also was discussed through transparency and disclosure. Overall, a number of actuaries and SAMA members (11 participants in total) reported that a large number of companies, especially the ones entered the market between 2003 and 2008, lacked clear structure and audit committee. Companies started to observe transparency and disclosure practices in 2008 due to legal enforcement. On the other hand, two participants from insurance companies asserted the adaptation of good corporate governance within their companies. In other words, few companies reported that corporate governance was considered a powerful internal factor in the decision to enter the Saudi insurance market. The other groups of participants, SAMA members and actuaries, agreed that few companies were observing good corporate governance, especially in the time period between 2003 and 2008.

5.2.1.2.6 Internal control

Internal control is considered one of the main tools in the application of good corporate governance. However, separation of this theme is due to level of importance. Internal control, in the broader sense, is the processes and activities carried out by an entity in direct contact with the board of directors. The main goal of internal control is to provide a means of dealing with internal and external events to provide assurance or strengthen aspects such as compliance, adequate risk control, efficiency of operations. Through discussion with 23 participants, categories related to internal control that were mentioned were information technology and compliance.

In terms of information technology, most information in today's world is computer-based. This technology is essential to facilitate a company's processes, operations, and provide better communication channels. Moreover, most companies in different industries rely heavily on their information technologies' ability to store, document, secure data, and speed up operational process. Internal control provides the assurance that all these aspects are effective. For insurance companies, when evaluating an entity or possible client, past, current and future information is crucial. Based on the discussion offered by some of the participants, the majority of companies in the Saudi insurance market between 2003 and 2012 had no adequate databases to facilitate such evaluation. Eight members of SAMA and two actuaries argued that claim settlement was not as fast as it should be because of poor information systems and databases. In addition, the gathering of information that would otherwise be important to claim settlement was also weak, as one actuary explained:

Almost none of the companies was offering online claim settlement for any kind of insurance product, or providing guidance for customers on how to apply for settlement. Moreover, information gathered about claims did not include sensitive information that would help to reduce fraud. This practice was common among many companies in the time between 2003 and 2012... Because in 20012, SAMA set new regulations regarding the sharing of databases with relevant parties to reduce fraudulent practice.

In terms of sharing databases, another participant from SAMA stated that:

The insurance business in Saudi Arabia is still in its early stages, and historical data that matters to companies was not enough or available. Companies did not try to form the practice of sharing information with each other to acquire wider databases of their customers. At the same time, access to legal authorities' databases was not facilitated by SAMA. In fact, some of them have not been available until very recently.

In relation to information technology, 13 participants from insurance companies argued that their strong information technologies had been key to their compliance with regulation (compliance) since their entrance into the market. In other words, information technology and compliance at these insurance companies were quite advanced at the time they decided to enter the Saudi insurance market.

The time we decided to enter the Saudi insurance market, we anticipated the complexity of regulation based on the various official parties involved with different rules. We knew that we would have to be highly prepared for much of the required documentation and for reporting to these different legalities. Our advanced information systems facilitated this matter easily. It was also helpful to

meet further regulations...like the necessity to handle claims quickly or being subject to severe penalties.

However, not all companies showed good control through such compliance. When discussing transparency and disclosure, eight participants noted that disclosure was very poor in many companies when they entered the Saudi insurance market. If internal control were highly regulated and with high standards, effective communication with the external 'environment', and compliance with legal requirements, would have been considerably better.

In summary, two categories of internal control were highlighted by participants in this research, those of information technology and compliance. Different views were noted through the participants' expressed points of view regarding these two categories. Eight participants from SAMA and two actuaries argued that companies' information technologies and compliance were poor, especially for insurance companies that entered the market immediately after 2003. By contrast, 13 participants from insurance companies claimed they their advanced information technologies allowed them to exercise high levels of compliance.

5.2.1.2.7 Risk management

Similar to internal control, risk management is another tool of corporate governance; it is an essential tool in assessing threats and opportunities to a company's objectives. However, besides the risk management level of importance, it is separated due to the fact that risk is the core practice of insurance businesses. In other words, insurance companies are buying bearable risks of entities and people. In this research, through the course of discussion with participants, this main internal factor or theme was heavily discussed. Within this theme, underwriting, risk standards, risk strategy, and risk management structure, are categories frequently reported by participants and assigned under the risk management theme. A total of 35 participants pointed out one or more of these categories. However, the following analysis is based on direct references by participants related to risk management where quotations are provided, or on indirect analysis through previous themes and categories.

As in underwriting, this was mentioned by three participants form SAMA and one actuary only. They illustrated the poor practice of underwriting. The overall argument made by all

four of these participants is that a large number of insurance companies were not evaluating applicants' reputation or personal history, or the so-called "moral risk". In addition, the underwriting teams were not very experienced in looking at or evaluating the risks associated with each kind of policy. One actuary explained:

At many companies, for example, I witnessed some situations where there is no codes or a through thought process to investigate personal records. Moreover, much of underwriters are inexperienced about different circumstances and risks they need to be aware of about each policy; there are unable to deal with asymmetrical knowledge of risks which resulted in an inability to identify misrepresentation of facts before processing the insurance policy.

From previous discussions (see information technology factor) about companies' abilities to collect and share data to form their own databases, many participants noted that the companies were not able to obtain data from the relevant legal authorities' databases. In this sense, it would have been hard for underwriters to collect important facts and data for each applicant. In terms of inexperienced underwriters at those companies, three participants confirmed this argument, but these participants are not from insurance companies.

The lack of codes and thorough thought process mentioned by the participants above could be a result of the lack of risk standards and guidelines. SAMA requires companies to address a minimum of four risk standards: risk identification, risk measurement, risk mitigation, and risk monitoring. These standards were set by SAMA in 2008, as mentioned in the earlier discussion. Participants mentioned one or more of risk activities that refer to different risk practices that can be linked to different risk practices or standards, though this was mostly in the sense of companies entering the market between 2003 and 2008.

The issue most frequently reported by participants is that of pricing risk. Here, risk identification results in better process in allowing the identification of an adequate premium. A large number of participants discussed the bad pricing competition that occurred between 2003 and 2008 in the Saudi insurance market. All three groups, including nine regulators, two actuaries, and 26 participants from insurance companies

frequently mentioned the bad pricing competition. This kind of competition led to major losses for many of the companies involved. In this case, appropriate risks were not identified when providing insurance products for low prices. For instance, as one CEO explained:

The market suffered from unfair pricing competition, especially for health and car insurance. The low prices for car insurance were very low, while the rates of car accidents and mortality rate in car accidents were very high. Even for customers with better records, prices for car insurance policies were supposed to be much higher than those most companies were offering. ... It is complicated, but, in general, other factors were not included when selling car insurance; the use of mobile phones was not a violation based on local traffic rules, the high tendency for disobeying rules, and the generally high tendency to exceed speed limits.

In other words, the above quote refers to the surrounding conditions or environment that involves, or results in, potential losses that were not considered in the pricing risk. Failing to identify such risks resulted in both bad pricing and unfair pricing competition.

Second, risk avoidance, which is a practice of risk mitigation, is highlighted as well. Related to pricing risks, it is worth restating that car insurance and health insurance has accounted for the majority of premiums in the market since 2003. In addition, health insurance and car insurance in the market involve high risk, and most companies continued to providing more of these products as explained previously (see business strategy factor). For insurance companies that kept providing these products, which was witnessing unfair pricing completion, risk mitigation was not appreciated by a reduction in underwriting in these products and diversification of products.

Third, there is indirect reference to the failure to identify corporate governance risk and control risk. Previously, it was reported within some themes and factors (see compliance and audit committee factors) that most companies were not properly aligned with legal requirements. Transparency and disclosure were not practiced by many of insurance companies until 2008, when SAMA forced them to. Compliance with legal frameworks must be a priority to avoid severe legal penalties.

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Fourth, there is also an indirect indication of the inability to identify reputation risks. As discussed before (see reputation theme), there were bad reputation practices that signalled the inability of companies' to anticipate the outcomes of their actions. For instance, it was reported that there were many companies that were not informing policyholders of their share of surplus. Although this was included in the Takaful law passed in 2003, most companies did not do it until SAMA enforced them to in 2013. This practice caused them, and the business overall, to gain a bad reputation among customers. The business was perceived negatively more through the lack of reporting or disclosure to the public until SAMA also forced this issue, again in 2008.

The four indications above strongly imply the overall lack of risk strategy. Risk strategy is a structured and comprehensive process or standards that enable companies to assess and mitigate risks. These processes should be continuously reviewed, developed, and implemented through all organisational structure. For instance, but not limited to, the risk identification and risk mitigation are some of these main risk process. That being said, these standards were found to be poorly practiced at some companies, as explained above. The risk strategy could be designed by the companies themselves or, in some cases, designed in compliance with regulatory standards. For the Saudi insurance market, SAMA set minimum risk standards insurance companies need to comply. Interesting finding to these standards set by SAMA is these standards did not exist before 2008; SAMA introduced these standards as a response to the unfair pricing competition between 2003 and 2008.

As for risk management structure, which is arguably part of the risk strategy, there were a number of participants from all three groups that mentioned this category. Seven SAMA members and two actuaries mentioned on different occasions that a good number of companies lacked the expertise in risk management, and had failed to appoint risk management teams. This is can be a result of unclear overall ownership and responsibilities, as explained in the corporate governance section (see structure category). One SAMA member, when describing the price competition that was prevalent between 2003 and 2008, explained that:

Risks were managed by inexperienced individuals at these companies... Because the role of risk management was not good enough, or was not considered a core practice of their business in the first place.....Their knowledge and education was

not relevant to risk management at all. Only two companies demonstrated good risk management and qualified expertise.

Conversely, some references to risk management and/or the practice of risk management were made by a few of the participants from insurance companies (a total of 13 individuals). The findings in terms of the environmental theme indicate risk identification due to natural disasters by 10 participants. Moreover, two participants explicitly stated the consideration of a Sharia committee to increase both more reputation and the number of customers. Particularly, these participants explained that applying Sharia law, and distributing surplus whenever there is some to policyholders, increased their reputation. Another participant indicated the consideration of reputational risk through social programs their company began to provide immediately after penetrating the Saudi insurance market. In other words, strong indications of improved risk management were found at some companies.

In conclusion, the risk management theme was, directly and indirectly, discussed by many participants. The course of discussion with all three groups of participants shows that there is contradiction about level of consideration of risk management by insurance companies that entered the Saudi insurance market after 2003. On the one hand, SAMA members and actuaries argued that a few companies acquired better risk management practices in some categories, namely those of underwriting, risk standards, risk strategy, and risk management structure. On the other hand, some participants from insurance companies indicated the inclusion and consideration of risk management capability as a factor in the decision to enter the Saudi insurance market.

5.2.1.2.8 Size

For this theme, it was found that various different factors could play a role, such as availability of human resources, finance or funding, the scope of the market and demand, and regulations in the instance of international companies attempting to expand their base of operations. However, six participants from insurance companies, one actuary, and five participants from SAMA discussed this theme, or a total number of 14 participants. All argued the importance of geographic visibility in the Saudi insurance market.

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Based on the comments of participants from SAMA and the actuaries, most companies that entered the Saudi insurance market had a very limited geographical visibility. They argued that most companies were packed in few major cities, which limited their ability to overcome their losses and gain significant market shares. One member of SAMA illustrated this with the following:

Many companies started as small and medium-sized companies; their focus was mainly on three to four major cities. Many other cities and regions were only reached through three companies, and they were among the four companies that ultimately survived the pricing competition between 2003 and 2008.

Confirming part of the above quote, a general manager stated that:

At the same time, we concentrated on major cities that had larger populations and commercial activates; these cities have larger populations, major capital investment in different sectors, and more engineering projects. Second, we needed to build up our experience in the business before deciding to expand within the country.

Five more participants clearly stated that their geographic visibility was profitable. One CEO explained:

The first one is that one of our strategic goals was to make our brand recognisable from the beginning. Second, there were few companies in many of the cities in Saudi Arabia. So, one first plan was to expand into more than 41 cities across five regions.

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In summary, from SAMA's members and the actuaries' side, size is important in the Saudi insurance market but few companies considered how to penetrate the market to their best advantage. A few other companies confirmed this assertion, and stated that expansion within the market was considered before entering it.

5.2.2 Difficulties have been facing insurance companies in the Saudi market

This part of the findings shows difficulties insurance companies have been facing in the Saudi insurance market. It uncovers some factors that should have been considered by insurance companies, factors that involved high uncertainty, volatility, and complexity.

5.2.2.1 Problematic external factors after penetrating the Saudi insurance market

The findings here are based on the analysis of participants' answers to the main question, **“what difficulties have insurance companies been facing since penetrating the Saudi insurance market?”**, and other, more detailed questions designed to address each problematic factor further. Exploring these factors in this section, the findings herein introduce four main external factors or themes; each of these themes are derived through different categories and sub-categories, as shown in the table below, (2.14). In table (5.15), they are also shown based on which group of participants discussed it, while table (5.16) shows the number of participant at each group reporting themes and categories.

Table 5.14: Problematic external factors in the Saudi insurance market.

Themes	Categories	Sub-categories
Economic	Growth rate	
	Governmental spending	
	Individual income	
	Market growth and potential	Low demand and oversupply
Legal	Slow improvement actions	
	Misjudging the market capacity	
	Judicial system	
	Inability of full control	
	Many regulators	
Political	Political stability	
	Government involvement in the business	
	Government actions toward better business environment	
Socio-cultural	Social ties	
	Trust	
	Awareness of insurance benefits	
	Religion	

Table 5.15: Problematic external factor in the Saudi insurance market based on each group of participants.

Insurance companies (CEOs and general managers)		Advisory offices (Actuaries)		Regulators (SAMA)	
Themes	Categories	Themes	Categories	Themes	Categories
Economic	Growth rate	Economic	Growth rate	Economic	Growth rate
	Governmental spending		Governmental spending		Governmental spending
	Individual income		Individual income		Individual income
	Market growth and potential		Market growth and potential		Market growth and potential
Legal	Slow improvement actions	Legal	Slow improvement actions	Legal	Slow improvement actions
	Misjudging the market capacity		**		Misjudging the market capacity
	Judicial system		Judicial system		**
	Inability of full control		**		**
	Many regulators		**		Many regulators
Political	Political stability	Political	Political stability	Political	Political stability
	Government involvement in the business		Government involvement in the business		Government involvement in the business
	Government actions toward better business environment		Government actions toward better business environment		Government actions toward better business environment
Socio-cultural	Social ties	Socio-cultural	Social ties	Socio-cultural	Social ties
	Trust		Trust		Trust
	Awareness of insurance benefits		Awareness of insurance benefits		Awareness of insurance benefits
	Religion		Religion		Religion

** refers to category that is not mentioned by any specific group of participants.

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Table 5.16: Problematic external factor in the Saudi insurance market based on number of times these factors were mentioned by participants among each group.

	Participants from insurance companies	Participants from SAMA	Independent actuaries
Economic	23	8	2
• Governmental spending	15	3	2
• Individual income	5	1	1
• Market growth	21	8	1
Legal	19	4	2
• Slow improvement actions	10	1	2
• Misjudging the market capacity	3	2	
• Judicial system	9	0	1
• Inability of full control	19	0	0
• Many regulators	11	2	0
Political	22	5	2
• Political stability	15	7	2
• Government involvement in insurance business	16	3	2
• Governmental actions to improve the business environment	19	5	2
Socio-cultural	25	9	2
• Social ties	14	3	2
• Trust	11	6	2
• Awareness of insurance benefits	20	9	2
• Religion	16	5	2

5.2.2.1.1 Economic

The findings reveal three problematic economic categories, which are those of governmental spending, market growth, and individual income. Respondents from all three groups mentioned these categories. More participants from insurance companies than other categories addressed this theme. However, they all articulated how these categories have been affecting the insurance business in Saudi Arabia. All participants agreed that these categories have been problematic for two main reasons, which are geopolitics and recent governmental reforms.

Saudi Arabia has been in at war with the neighbouring country of Yemen, and this affected the insurance business through major changes in the governmental spending. The government has been allocating considerable financial resources to defence spending at the expense of other sectors such as governmental engineering projects; as one CEO described:

Since the war with Yemen started, the government expenditure was mostly dedicated to defence which reduced spending in other sectors. All governmental projects have been stopped for over two years now and many contractors have been reducing their businesses because their allocations have not been received yet from the government. As a result, many of their foreign employees have been moving back to their home countries.

Other participants confirmed the argument above. Moreover, some participants discussed governmental spending in terms of the recent economic reforms, or the so-called “Vision 2030”. This vision was set out by the Saudi government in 2016, which holds strategic plans and goals intended to diversify the economy, and ultimately build a better economy. However, this plan seems to be to the detriment of various current economic factors such as individual income, as one general manager described:

The new economic vision reduced expenditure in different sectors that affected people's day-to-day life. It has also affected their direct individual incomes through cuts to state workers' perks, and insurance demand consequently started to slow.

In terms of market growth, many participants noted various different issues. However, these issues mainly centred around low demand and oversupply. Through discussion with the participants, demand is not directly caused by oversupply in the market. With low demand, the issue was that most total premiums are attributed to compulsory products, and with little demand for non-compulsory products. As one CEO explained:

Since the new reforms within the Saudi insurance market, the nature of total premiums is still the same. Although it is slightly increasing for liabilities and saving products, compulsory products accounted for most of premiums taken out. Demand for other products is not changing to any great degree. As a result, the competition is very hard now, especially with the increase in number of insurance providers in the market.

In other words, since SAMA made health insurance and car insurance compulsory in 2003, not much has changed; most premiums are still those for health and car insurance products. Many participants discussed this issue further in relation to other factors; this will be explained later under relevant factors or themes (see socio-cultural theme).

5.2.2.1.2 Legal

Saudi insurance legalities have created a number of obstacles for many insurance companies. The associated problems were mentioned by 24 participants in total from all three groups. These problems and categories of legal themes are slow actions, misjudging the market capacity, judicial system, inability of full control, involvement of many regulators, and retention rules.

The first problem reported by participants is that of slow action by SAMA in regulating the market. SAMA did not produce a complete and detailed set of regulations and standards until the market had suffered various serious problems such as unfair pricing competition. Certainly, some companies were not involved in this practice, but the overall consequences of the losses incurred by the large number of companies that did created a severe lack of trust among customers regarding the insurance business. In addition, SAMA recently forced insurance companies to apply Sharia law in terms of surplus; this is an indication of weak control of the market by SAMA in its earlier years. As described by a general manager:

When SAMA interacted in 2008, it was late because SAMA itself did more work trying to solve the major losses of companies that were selling with low prices. It took them more than six years to make some of these companies stable again,

while some are still suspended. For other companies, the fight was how to gain customers' trust and increase demand again.

Another problem about legalisation is misjudging the market capacity, by allowing companies to enter the market without appropriate analysis of the market. The market is pushed by compulsory products, for the most part, while demand for other products remains low. This resulted in oversupply or hard competition over compulsory products. One member of SAMA noted:

SAMA has been part of the problem and it should have not have let this many insurance companies enter the market. The capacity of the market was misjudged; demand on insurance business is mostly limited to compulsory segments. The potential of the market is great in number, but there needs to be certain barriers that need to be overcome before allowing more companies to enter the market. We need to stimulate the demand for other segments first.

Moreover, many other participants noted SAMA's inability to properly control the market, which is the judicial system. This problem was mentioned by a few participants, who argued that customers do not believe the judicial system will help to file law suits, as one actuary argued:

Yes, the judicial system is problematic, and people lack strong faith in having their rights with insurance companies protected. The judicial system has no full interpretation of insurance policies and its contractual nature, and all courts are Sharia-based and judges have very little knowledge about insurance business.

Additionally, SAMA has shown an inability of full control over the market. SAMA cannot protect insurance companies from fraud regarding certain insurance products. In terms of

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car insurance, for instance, other official parties are involved where disputes seemed likely, as one CEO explained:

The traffic police had been in charge of determining degree of fault because there are no traffic courts. Dishonesty was noticed throughout the majority of police traffic departments when helping people through relative-based or friendship-based relationships. This was problematic until SAMA recently established a company to manage accident activities without the involvement of police. More involvement from SAMA is required in other segments of insurance to enforce regulations.

Another problem participants discussed is the involvement of many regulators in the market, each with different laws and regulations. Although SAMA has been entrusted to regulate the market since 2003, other official offices are nevertheless directly involved in the business; for instance the Council of Cooperative Health Insurance, which is involved in terms of rules and regulations related to employee health insurance in the private sector. Participants mentioned the large number of different regulators and different rules, as one CEO argued:

Not only do we need to pay attention and comply with the regulations set by SAMA, there are also regulations set by the Capital Market Authority and the Ministry of Commerce and Investment. Reporting on a regular basis is required, which is time consuming, and it is even harder with frequent changes in these regulations.

As some other participants did, one participant from SAMA confirmed the above argument and added some further points:

The degree of involvement by different official offices limits the ability of these companies to implement their plans and achieve their goals. In fact, the process of approving a new product a company intends to provide can take a long time with different official agencies while it should not. We are becoming aware of this problem, as the old staff did not address it to improve it.

A final problem regarding legalisation is the retention rules problem. In the Saudi insurance market, insurance companies have to have and maintain a good rating from recognised rating agencies. Similarly, reinsurance companies have to have or show the same. However, insurance companies in the Saudi market have to retain at least 30% of their total premiums. In addition, they have to reinsurance at least 30% locally and the remaining internationally with good rated reinsurance companies. However, the problem is that there is only one local reinsurance company. Describing how this is a problematic more, one CEO illustrated that:

It is illogical to be required by SAMA to reinsure specific percentage locally through a well-rated reinsurance companies. There is only one reinsurance company and we are at risk of fluctuated rate and performance of this reinsurance company.

In conclusion, the legal environment of the Saudi insurance market has been problematic for insurance companies. As discussed by the participants, these problems appear to fall into four categories, which are slow action, misjudging the market capacity, the judicial system, inability of full control, and involvement of many regulators.

5.2.2.1.3 Political

The political environment has been also been creating a number of obstacles for the insurance industry in Saudi Arabia. All three groups, 22 from insurance companies, five members of SAMA, and two actuaries, discussed problems related to this theme. The findings of this section allowed the categorisation of three problems: political stability,

governmental involvement in insurance business, government actions toward better business environment.

Regarding the stability of the government, the general argument among all the three groups of participants was about the war between Saudi Arabia and Yemen. This war has been affecting the industry through the economic factors explained previously in the economic theme section. Generally, the cuts in the governmental spending have affected commercial movement and individual income, and insurance demand overall.

In terms of the government involvement in insurance business, participants mentioned different problems. The first was due to the fact that the Saudi government kept issuing licenses to new entrants despite SAMA's recommendations to the contrary. SAMA is not in charge of issuing licenses; rather, the Council of Ministers holds this particular power. However, SAMA is against having more insurance companies due to the current low capacity of the market, but the council of Ministers is not in total agreement, as a member of SAMA explained:

We do not have the ultimate power whether or not to give licenses to insurance companies; our main role is to assess applicant's requests, and report that assessment with recommendations to the

Council of Ministers ... at the beginning, yes, it was misjudged, and no recommendations were made to the Council of Ministers to consider the market capacity. Recently, SAMA made it clear to the Council of Ministers giving licenses should have been stopped for last 4 years. However, the Council gave the license to a number of new entrants. The government has the tendency to keep issuing licenses, especially to local companies.

Second, the government, through the Capital Market Authority, imposed new restrictions about ownership of insurance companies' shares in 2009. Participants argued that this has been preventing the involvement of strategic partners. It also stops sharp falls in the stock market as many companies are still suffering reputational consequences. In explaining the effects of sharp falls in insurance companies' share values, another SAMA member stated that:

The volatility of insurance companies' shares in the stock market is not because of actual performance and financial reports; it is because of the image of many companies in customers' cognition..... People still perceive these companies as being dishonest and not applying Sharia law in distributing any surplus until SAMA forced them to. Moreover, many companies in the market have now started to receive profits after many years of accumulated losses, but people are still cautious when investing in these companies' shares.

Explaining this issue further, a CEO added the following:

[The] low prices of our shares in the market have been deterring us from issuing more shares for revenues and financing purposes.

In other words, the argument in the last two quotes explains the consequences of governmental restrictions regarding ownership in companies' stocks, which costs them potential strategic investors.

The third main political problem is that of governmental actions to improve the business environment. All participants here discussed associated problems. The first of these is the “Saudization” rules, where Saudi workers have to form at least 50% of any company’s workforce. This rule is set by the government to solve employment rate problems for Saudi citizens, and it has to be applied by all companies in all industries. For insurance businesses, finding a workforce is not the problem; rather, it is finding a Saudi workforce that is experienced and educated regarding insurance. A large number of participants, particularly those from insurance companies, reported this problem; as one general manager described it:

To find Saudi workers has been a challenge to us. We have been paying expenses to the experienced ones in higher functional and administrative levels and

training inexperienced ones in lower levels. Both ways have been a burden, but it is the only option as the legal penalties can be more expensive.

In short, governmental stability, governmental involvement in insurance business, and government actions toward better business environment are the main sources of obstacles within the political theme that have been facing insurance companies in the Saudi market since 2003.

5.2.2.1.4 Socio-cultural

For this theme, discussion with participants uncovered some particularly daunting challenges that have been influencing insurance companies in the Saudi insurance market since 2003. Although some of these challenges or problems were noted by a number of participants in the first section of the findings, more participants mentioned them at this stage. These challenges are social ties, trust, awareness of insurance benefits, and religion. All these categories were mentioned extensively by participants as being barriers to greater demand for the Saudi insurance market.

First, participants repeatedly discussed the social ties within Saudi society as one of the main reasons for low insurance demand. The argument about this problem is that lifestyles within Saudi society involve the basic insurance of its members. Namely, a member's family and clan present the main insurance providers in many cases. As one CEO explains:

Saudi society is deeply family- and clan-oriented. They are the first line of help or protection against many risks.... For instance, in case of sickness or disease that might not be treated through free public health services, relatives jump in and gather money to provide financial help.

What is more interesting in Saudi tradition is death compensation. If someone kills another person, accidentally or otherwise, his/her clan will compensate the dead person's family. This is very common over here, and courts give the right to the dead person's family members to decide if the killer should receive the death

penalty or be set free after paying compensation, which is also decided by the family rather than the court.... Even in weddings occasions, you will find that family members and friends give money to the couple on their wedding night. Therefore, saving money for such events is less common with these kinds of traditions.

These customs, as stated by a SAMA member:

Represent their identity and belonging, and providing help is a symbol of the clan's pride.

Trust is the second barrier that has been preventing customers from buying insurance products. Previous years within the Saudi insurance market witnessed some major losses for many companies, and indeed some are still incurring such losses. This historical performance is the result of a lack of trust in insurance companies amongst the populace, and, eventually, this resulted in reduced interest in buying insurance products, as reported by an actuary:

Between 2003 and 2008, many companies were losing within the [insurance] market, which created the bad perception among customers that companies in this industry were not able to meet their liabilities. Added to that, people still remember their bad experiences with insurance companies before 2003, when going out of the market and leaving claims pending.

The third social barrier is the awareness of insurance benefits among society. Some participants argued that the industry is, relatively speaking, new to society, and it needs more time become fully accepted. Others argued that people are not completely aware of how important the insurance business is to various aspects of their lives. To illustrate this point further, one CEO stated:

Awareness amongst the public with regards to insurance is not currently good. It needs to go a long way towards promoting the business, as people still think it is purely, or mostly, driven by profit. Many other people lack appropriate knowledge of how insurance products can provide many basic needs. Because of this, demand is mainly over compulsory segments.... The life insurance segment, for instance, is under-developed in the Saudi insurance market because of the low overall awareness of mortality-based products.

The fourth socio-cultural factor affecting the Saudi insurance market is the issue of religion. This category has been referenced in relation to many other themes, categories and sub-categories explained previously. However, there are some participants who explicitly stated that religion is directly involved, or as being a reason for the low demand, in the Saudi insurance market. Some of them linked it to governmental involvement in the business, as one general manager explained:

The decades-long ban on insurance was a result of Islamic views towards the insurance business. Even when the new Islamic version of insurance was approved by the government, not much changed. Although this version was approved by Saudi Muslim scholars, religious beliefs still heavily influence the general public.

Another participant, a CEO, explained why religious beliefs still influence people, even though the insurance business has been approved by Muslim scholars:

Another problem is that old Islamic views still have their influence among the people in Saudi Arabia...The answer to this goes back to the years before 2003. There had been always religious views within Saudi society that prohibited insurance and considered to be pure Riba. Later, the government used the official

religious parties to announce a Fatwa legalising insurance and creating an Islamic version of insurance called Takaful.

The above is similar to another quote in the first section regarding perceived external factors (see political theme). However, the indication of both these statements reveals the struggle between the government and the general public. Based on these statements, the government and official religious parties or scholars had little credibility with the public, and the denial of insurance among the populace still continues.

The Islamic ban on insurance businesses in Saudi Arabia indirectly influenced the business through education. One member of SAMA noted:

[The] scarcity of experienced Saudi workers is generated in part by the lack of support from educational systems in the country. Insurance was prohibited for decades, and it did not receive adequate attention from universities. There are not even private institutions as even these are not considered particularly desirable by the populace.

Overall, under the socio-cultural theme, findings outline four problem that have been influencing insurance business in the Saudi market. Social ties, trust, awareness of insurance benefits, and religion are found to decrease demand in the Saudi insurance demand.

5.2.3 External and internal factors need to be considered by new companies targeting the Saudi insurance market

Findings of this section involve four parts. The first one discusses external factors need to be considered in by new entrants targeting the Saudi insurance market. The second part explains internal factors that need to receive more considerations by these entrants. The following part uncovers interrelationship between all recommended factors for new entrants. The final part is a brief overview of variation of factors before and after penetrating the Saudi insurance market.

5.2.3.1 External factors recommended to be considered by new entrants

The findings of this section are separated into two parts. The first discusses the external factors that need to be considered by new entrants targeting the Saudi insurance market. These external factors are provided based on participants' addresses to the broader question of "**how attractive is the Saudi insurance market for new entrants?"**" with more detailed questions, the findings of which uncover four external factors or themes. These themes are derived through categories and sub-categories as shown in table, (5.17) In table, (5.18), themes and categories are shown in relation with groups of participants, while table (5.19) shows the number of participants at each group addressing these themes and factors.

Table 5.17: External factors of the Saudi insurance market that worth consideration by new entrants.

Themes	Categories	Sub-categories
Economic	Economic growth rate	
	Governmental spending	
	Individual income	
	Market growth	Less demand for optional insurance Many insurance providers
Legal	Improved insurance regulations	
	Saudisation	
	Many regulators	
Political	Political stability	
	Government involvement in the business	
	Government actions toward better business environment	
Socio-cultural	Social ties	
	Religion	
	Awareness of insurance benefits	
	Population	

Table 5.18: Worthy consideration external factors based on groups of participant.

Insurance companies (CEOs and general managers)		Advisory offices (Actuaries)		Regulators (SAMA)	
Themes	Categories	Themes	Categories	Themes	Categories
Economic	Economic growth rate	Economic	Economic growth rate	Economic	Economic growth rate
	Governmental spending		Governmental spending		Governmental spending
	Individual income		Individual income		Individual income
	Market growth		Market growth		Market growth
Legal	Improved insurance regulations	Legal	Improved insurance regulations	Legal	Improved insurance regulations
	Saudisation		Saudisation		Saudisation
	Many regulators		Many regulators		**
Political	Government stability	Political	Government stability	Political	Government stability
	Government involvement in the business		Government involvement in the business		Government involvement in the business
	Government actions toward better business environment		Government actions toward better business environment		Government actions toward better business environment
Socio-cultural	Social ties	Socio-cultural	Social ties	Socio-cultural	Social ties
	Social ties		Social ties		Social ties
	Awareness of insurance benefits		Awareness of insurance benefits		Awareness of insurance benefits
	Population		Population		Population

** refers to category that is not mentioned by any specific group of participants.

Table 5.19: Worthy consideration external factors based on number of times these factors were mentioned by participants among each group.

	Participants from insurance companies	Independent actuaries	Participants from SAMA
Economic	23	2	9
• Growth rate	12	1	3
• Governmental spending	18	2	9
• Individual income	22	2	9
• Market growth	22	2	9
Legal	25	2	9
• Insurance regulations	14	2	7
• Saudization	23	2	9
• Many regulators	19	1	0
Political	25	2	5
• Political stability	10	2	4
• Government involvement in insurance business	13	2	5
• Governmental actions to improve the business environment	22	1	4
Socio-cultural	20	2	9
• Social ties	9	1	3
• Religion	18	2	7
• Awareness of insurance benefits	20	2	9
• Population	11	2	7

The findings in this section show a high level of agreement concerning external factors that need more consideration among all participants, and indeed less overall contradiction is found. In general, participants were almost unanimous in their agreement that the Saudi insurance market still has potential. However, they also all pointed out that the market is not currently attractive to new entrants but will be in the near future. For particular external factors, participants expressed greater confidence that these factors will become more attractive over the next few years. On the other hand, participants were less confident about other factors changing in a positive manner in the near future, where most of these

concerns are based on the difficulties regarding the Saudi insurance market discussed in the previous section.

5.2.3.1.1 Economic

Participants asserted a general expectation of an improvement in Saudi economic conditions, but still have various related concerns. These economic conditions or categories are economic growth rate, governmental spending, individual income, and market growth.

Participants showed a degree of optimism with regards to further Saudi economic growth. For the most part, their speculation was centred around the new economic vision that the Saudi government has recently launched. Many participants noted, and indeed argued the fact, of how this vision could improve the economy and diversify its foundations. The all agreed that this vision would minimise dependency on oil, and create a more stable and strong economy. Further, they discussed the economic growth rate that might be expected in the future; as one general manager described:

The new economic vision came at a good time, in fact. The Saudi GDP has been relying on oil for decades and the decrease in oil prices pushed the government to announce this economic vision. ... it is going to create more industries and stimulate the private sector more. As a result, the contribution of the non-oil sector should increase and protect the economy from the effects of low oil prices.

However, whilst many participants agreed with the above, they stated that this will need time. As one CEO noted:

The expected economic transformation or change needs 5-10 years at least..... it needs time because this new economic plan is implementing cuts within the annual budget, and reallocating the associated funding to strategic investments ... though the projects that are expected to be launched through this economic plan

will not be finished before 2025. Until then, the Saudi economy is still depending on oil revenues.

This same argument was given by the majority of participants. Some even argued that the real outcomes or goals of this economic plan would not be realised before 2030. In other words, the Saudi economy's reliance on oil is most likely to continue for many more years. That said, oil prices have been decreasing for some years now, and might yet continue to decrease or remain low for many more. As a result, deflation in the Saudi economy is expected.

In terms of governmental spending, participants felt that the overall argument is the same as for growth rate in that they expect an increase in, and stability of, future governmental spending after the outcomes of the new economy are achieved. Until then, the increase or decrease in governmental spending will depend on the fluctuation in oil prices. However, many other participants discussed a further element besides that of the new economic vision or plan set by the government. This element is the Saudi government's involvement in its war with Yemen, as was explained by a member of SAMA:

Alongside the major cuts in governmental spending generated by the new vision, the war has been creating additional cuts ... in 2016 and 2017, major cuts were applied to infrastructure projects so as increase finances for the war, with all commercial insurance lines slowing down sharply.

Moreover, the speculation around the attractiveness of individual income in the future has the same argument as above. The expectation is one of increasing individual income in the long term, but a decrease is suspected in the short term. These speculations are linked to the effects of both the new economic plans and the war with Yemen. With regards to the effects of the new economic plan, one actuary argued:

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The new economic vision will introduce taxes to the Saudi economic system for the first time ever. Taxation on expats individual incomes will be implemented alongside a fixed annual tax on expats' dependents. For citizens, their individual incomes will be indirectly affected through consumption tax. Because of this economic vision, the government is applying energy-subsidy reforms by increasing gasoline and electricity prices.

With regards to the possible increase of individual income in the long term due to this economic plan, a CEO explained:

If doors are opened for further investment in different industrial regions of the private sector, more jobs would be created with fair wages, and unemployment rates would also decrease ... better wages because the average state workers wage is less than average wages in the private sector, and over 60% of the total Saudi workforce is now in the public sector.

From the above arguments, there is general agreement that, over the next 5-10 years, (1) a deflation is expected in the Saudi economy, (2) a decrease in governmental spending if oil prices remain low or kept decreasing, and (3) a decrease in individual incomes. Thereafter, the expectation of a flourishing economy in all three of these categories is expected. Until then, however, as one CEO argued:

The insurance business in Saudi Arabia will slow down gradually. There is uncertainty as to whether the war is ending soon or not, and if cuts in the governmental spending will be back to the way it used to before the war. In addition, it is not guaranteed that this economic plan would be implemented as planned to produce its expected outcomes on time, especially with this war.

As for market growth, all the participants indicated the potential of the Saudi insurance market in relation to other themes, and categories of these themes. Some of these links are positive; others are not, or concerns were at least raised about them. For instance, market growth is linked to population, as explained by one CEO:

Most of Saudi society is young, and more young people are expected based on the rate of population growth. I believe there will be more acceptance of insurance businesses among this generation.

Another individual, a SAMA member, linked this to governmental actions, stating that:

Currently, health insurance will soon become compulsory for any visitor to the KSA. This action will be made to reduce or shift the financial burden on the Saudi government to provide health care for the visitors to the two holy cities expected each year. To force around 30 million visitors to buy local health insurance policies represents an excellent means of improving the industry.

From the quotes above, it is clear that the insurance business is not currently thriving and is waiting for greater stimulation in terms of different aspects or factors. Because of this, a significant number of participants recommended that new entrants should wait a few more years before making the decision to enter the market. This entrance delay is recommended as based on the two sides of the associated argument raised by participants. The first of these is that there are many insurance providers, while the second is the reality behind premiums' composition within the market. Explaining this further, a general manager stated that:

The Saudi insurance market is not attractive, either now or in the future. The market has many players right now, mainly fighting over compulsory products. In the next few years, the demand might increase slightly through the increase in

health insurance that will follow the privatisation intended by the government.

Then it will start to slow down again, because the demand for other segments than compulsory products is very low; health insurance and car insurance account for over 80% of all premiums. Therefore, new entrants need to wait before attempting to penetrate the market.

The argument about the reduced demand and the oversupply was highlighted, or otherwise stated, by the majority of participants. In addition, agreement was drawn though their consistent arguments that the market will not be attractive, at least for in near future.

In short, the findings for the economic theme suggest a delay in any immediate decision by potential new entrants into the Saudi insurance market would be well advised. These suggestions were drawn around four categories, economic growth rate, governmental spending, individual income, and market growth. There is some uncertainty around these categories regarding the new economic vision and the war the government is involved into. Therefore, waiting to see the outcomes of this economic plan in the future, and to see the aftermath of the current war is recommended for new entrants.

5.2.3.1.2 Legal

The argument regarding the future legal environment of Saudi insurance indicates some improvement, but some concerns should also be clarified at the same time. The positive side of this theme may be noted through the improvement of insurance regulations that SAMA has been enforcing. Different policies and standards have been introduced to control and improve the industry overall. As argued by a CEO:

There are good sets of standards that have lately been set by SAMA to control the market. SAMA now is forcing all players in the market to use better controls and compliance to prevent a reoccurrence of the major losses that previously damaged the reputation of the market. SAMA is regularly reviewing the establishment-of-risk guidelines to make sure all companies are follow good policy and practice when conducting business. This will lead to improved performance among insurance companies, and create a good perception about the business among customers as a result.

However, concerns about legalities in the Saudi insurance market can be summarised in terms of two problems: Saudization, and the involvement of many regulators in the business. For the first problem, the legally required percentage of Saudi workers is set by the Ministry of Labour for companies in the private sector; however, SAMA is currently increasing the regulation around this legal requirement. This was best illustrated by an actuary:

The lack of an experienced Saudi workforce in the insurance business is getting worse than it was before. The legal requirement is that 50% of the total workforce have to be Saudi workers overall. SAMA now is forcing insurance companies to have specific percentages of Saudi employees in their leadership and technical positions. Previously, companies were employing most of the required Saudi workforce within their lower organisational levels because they lacked adequate knowledge and experience in the business. In some instances, companies will pay compensation to well-educated and experienced Saudis to employ them in higher-level positions. Moreover, some insurance company departments will have to have a 100% Saudi workforce soon, as demanded by SAMA.

In other words, the scarcity of an educated and experienced Saudi workforce has already proved to be a challenge in the Saudi insurance market. The education system does not support the industry with knowledgeable outcomes or an educated workforce, as explained in previous sections. In addition, this scarcity will be made worse by the fact that crucial positions at these companies are required to have specific percentage of Saudi workers. The dependence on expats to solve the problem of the lack of an experienced and educated Saudi workforce for insurance companies will be reduced. Therefore, these legalities need to be considered by new entrants to fully assess their abilities to operate in the Saudi insurance market without the need for a heavy dependence on expats.

As for the involvement of different regulators, the recommendations can be derived through some of the internal themes or factors explained earlier. New entrants need to

assess their corporate governance, internal control, and risk frameworks before penetrating the Saudi insurance market. The heavy regulations set by different regulatory bodies requires extensive record maintenance and control procedures to make sure that all rules and polices are properly in place.

Overall, in terms of legal environment in the Saudi insurance market, regulations and legality are improving and maturing. However, Saudization and the involvement of many regulators in the business require extensive consideration by new entrants.

5.2.3.1.3 Political

Respondents mentioning this theme argued that there are both good and troubling political aspects. In general, refraining from currently penetrating the Saudi insurance market, or indeed for a few years to come, is the main outline for potential new entrants. This recommendation is based on the argument around three particular categories, namely those of political stability, government involvement in the business, and governmental action to improve the business environment.

In terms of political stability, all participants who discussed this category agreed that it entails certain problems, and new entrants should stay away from the market until these particular threats have stabilised. They all indicate certain concerns about the stability of the government because of the war with the Yemen. Such concerns were also expressed concerning the effects of this political category on other factors such as governmental spending and overall economic conditions, as explained earlier. Hence, delaying any decision to enter the Saudi insurance market prior to a proper assessment of this category is highly recommended by current participants.

Most participants speculated about governmental involvement in the insurance business in a positive manner when discussing this theme. Most of this expectation is based on recent actions by the government such requiring all visitors to buy health insurance from Saudi insurance companies. Many others discussed health insurance further, particularly in terms of the government's intended privatisation. Discussing further examples of governmental actions that directly influence the insurance business, one individual argued that:

In addition to that, public transportation is mainly through cars and airplanes only, and a large portion of the population is either young or young adults who

currently are, and will be, more active on the roads. Moreover, a large increase in the number of drivers is anticipated, as it is expected that women will soon be allowed to drive.

The same positive expectations were expressed by many of the participants concerning governmental actions to improve the business environment overall. They agreed that these actions would even up or stimulate greater demand for different insurance products. This speculation was entirely based on the new vision or economic plan the government implemented in 2016. However, as stated in the economic theme earlier in this section, participants recommended more time before new entrants attempt to penetrate the Saudi insurance market. Their argument for such a delay is to allow this plan as much time as possible to start to produce positive outcomes.

In short, the political theme can be seen as unattractive regarding political stability, while being considered positive regarding governmental involvement in the insurance business. As for governmental actions improving the overall business environment, it is considered that it will likely be positive, though not in the short term. Hence, delaying the decision to penetrate the Saudi insurance market is recommended based on this theme.

5.2.3.1.4 Socio-cultural

Participants who discussed the attractiveness of the Saudi insurance market based on this theme showed greater concern than for other themes. They asserted that the negative influence of certain categories of this theme is less likely to change in the shorter term; in particular, social ties, awareness of insurance benefits, and religion. In the previous section, these categories were reported in the findings as problems that have been facing insurance companies in the Saudi insurance market, and it has been repeatedly noted in this section as being likely to result in the continuation of such problems into the future. On the other hand, one socio-cultural category, increasing population of the Saudi society, can be considered in a positive manner with regards to this theme.

Concerning the social ties issue, participants noted that local traditions that effectively prevent people from buying insurance products are less likely to fade in the near future. As explained previously with regards to problems that have faced the Saudi insurance market,

participants noted the same problems with regards to social ties. They further pointed out how the tradition/obligation to provide help within families and clans is one of the principal values of Saudi society. Although there were a few participants who expected such traditions to diminish with time, they could not predict with any certainty as to how long this might realistically take; as one CEO stated:

Over time, members of clans will separate, moving to different cities in search of better jobs and lives. With the economic expansion in Saudi Arabia, many cities are growing rapidly, thereby exhibiting changing demographics. At the same time, the established, large cities are growing as well and attracting Saudi people from different villages and towns, while educated people are mainly the ones travelling in search of better job opportunities. This process of moving cities will lead clan members to buy insurance policies because they are no longer under the umbrella of the clan's protection. However, this process will take time; just how long cannot be specified.

In terms of religion, many participants demonstrated the influence this category has on the demand for insurance. Some of the participants discussed religious beliefs among customers as posing a direct barrier to demand for insurance products in general, and for optional insurance in particular. As explained previously in this chapter, the Islamising process and of the requirement for certain insurance demanded by the government is not fully accepted within Saudi society. There is a certain resistance among customers, who claim that the new insurance law in Saudi Arabia does not comply with Sharia law. The most positive opinion regarding this category, as one SAMA member argued, is:

Religion still has its influence on the insurance business, but not in the way it used to. I believe it will weaken gradually with time.

In other occasions, the influence of religion was noted through other explanations and discussions with participants. For instance, the religious prohibition of insurance resulted

in having less educated Saudi workforce and scarcity of insurance programs through education system offers. Moreover, the reference to the increase in demand for car insurance that will result from allowing women to drive is another indirect influence or the role religion plays in preventing greater demand for insurance. In explaining the role of religion on insurance through legalities about fraud, one CEO stated that:

Fraud has been a major problem, especially in health insurance. SAMA, lately, has created a legal framework to face such fraudulent claims, but there are more parties involved that makes it hard to control. In terms of health insurance, there is high tendency among policyholders to allow uninsured people to use their policies, and health care providers either tolerate this or find it hard to identify such activities It is hard because if the policyholder is a woman, by law she is not required to reveal her identity as this is considered a non-Islamic practice.

However, many participants recommended the adoption of Sharia committees to gain greater acceptance, trust, and legitimacy among customers. In other words, the influence of religion could be mitigated through Islamic practices that companies could apply in order to increase insurance demand.

Awareness of insurance benefits is less likely to increase in the near future. As explained before, the awareness of insurance benefits within Saudi society is very low. With the exception of only a few participants, the vast majority argued that the likelihood is that this problem will continue into the foreseeable future. Participants who disagreed with this speculation argued that this problem is manageable, and indeed can be reduced in the future, as one actuary argued:

Awareness of insurance benefits remains low because insurance companies are not prompting their businesses sufficiently. Companies need to combine their efforts to introduce the business to people through a greater number of conferences and advertising. More importantly, the social security system the Saudi government provides is expected to reduce after the privatisation of most of its offices; people will start considering insurance products as one of their options.

On the other hand, the Saudi population is the only category of socio-cultural themes considered to be attractive to new entrants, as one general manager explained in some detail:

The population growth is expected to continue at the same rate, as is life expectancy because of the large young population. This young population has shown a high consumption of mobiles and the use of social media, which would be great opportunity for insurance companies to promote their businesses more.

In short, three categories of the socio-cultural theme are expected to affect the insurance business in Saudi Arabia in a negative manner, with little likelihood that this influence will decrease in the near future. These categories are social ties, religion, and awareness of insurance benefits. One category, however, that is expected to continue its positive effects on the Saudi insurance market is the growth of the population. Overall, new entrants are advised to consider these categories when making the decision to enter the Saudi insurance market.

5.2.3.2 Internal factor recommended for new entrants penetrating the Saudi insurance market

In this part, findings report the internal factors that found to be important to operate in the Saudi insurance market. In total, there are eight themes or internal factors that need more consideration in the Saudi insurance market. These themes are illustrated with relevant categories and sub-categories in three tables below; the first one, table (5.20), shows the overall of these themes, categories, sub-categories. In table (5.21), themes, categories, and sub-categories are shown in linkage with groups of participants. The final one, table (5.22), states the number of participant at each group reporting themes, categories, and sub-categories. After that, detailed description of each theme is provided based on participants' point of views.

Table 5.20: Overall recommended internal factors for new entrants targeting Saudi insurance market.

Themes	Categories
Experience	Experience in the business
	Experience in the Saudi market
	Experienced workforce
	Experienced local partners
Human resources	Enough Saudi workforce
	Sharia committee
Reputation	Assigning Sharia Committee
	Claim handling
	Islamic surplus management
Capital	Enough capital for expansion
Corporate governance	Structure
	Audit committee
	Business strategy
Internal control	Information technology
	Compliance
Risk management	Risk strategy
	Risk Standards
Size	Geographic visibility
Retention	

Table 5.21: Recommended internal factors based on groups of participants.

Insurance companies (CEOs and general managers)		Advisory offices (Actuaries)		Regulators (SAMA)	
Theme	Category	Theme	Category	Theme	Category
Experience	Experience in the business	Experience	Experience in the business	Experience	Experience in the business
	Experience in Takaful insurance		Experience in Takaful insurance		Experience in Takaful insurance
	Experienced Saudi workforce		Experienced Saudi workforce		Experienced Saudi workforce
	Experienced local partners		**		**
Human resources	Enough Saudi workforce	Human resources	Enough Saudi workforce	Human resources	Enough Saudi workforce
	Sharia committee		Sharia committee		Sharia committee
Reputation	assigning sharia committee	Reputation	assigning sharia committee	Reputation	assigning sharia committee
	claim management		**		claim management
	Islamic surplus management		Islamic surplus management		Islamic surplus management
Capital	Enough capital for expansion	Capital	Enough capital for expansion	Capital	Enough capital for expansion
Corporate governance	Structure	Corporate governance	Structure	Corporate governance	Structure
	Audit committee		Audit committee		Audit committee
	Business strategy		Business strategy		Business strategy
Internal control	Information technology	Internal control	Information technology	Internal control	Information technology
	Compliance		Compliance		Compliance
Risk management	Risk strategy	Risk management	Risk strategy	Risk management	Risk strategy
	Risk Standards		Risk Standards		Risk Standards
Size	Geographic visibility	Size	Geographic visibility	Size	Geographic visibility
Retention	*	*	*	Retention	*

** refers to category that is not mentioned by any specific group of participants. * refers to a theme that was not mentioned by any specific group of participants.

Table 5.22: Recommended internal factors based on number of times these factors were mentioned by participants among each group

	Participants from insurance companies	Independent actuaries	Participants from SAMA
Experience	24	2	9
• Experience in the business	14	1	4
• Experience in Takaful insurance	23	2	7
• Experienced Saudi workforce	27	2	9
• Experienced local partners	16	0	0
Human resources	19	2	9
• Enough Saudi workforce	27	2	9
• Sharia committee	22	2	3
Reputation	19	2	7
• assigning sharia committee	15	2	3
• claim handling	10	0	2
• Islamic surplus management	18	2	3
Capital	13	2	8
• Enough capital for expansion	13	2	8
Corporate governance	21	2	5
• Structure	7	2	1
• Audit committee	12	1	7
• Business strategy	18	2	5
Internal control	22	2	9
• Information technology	19	2	6
• Compliance	21	2	3
Risk management	24	2	9
• Risk strategy	24	1	6
• Risk Standards	28	2	8
Size	11	1	5
• Geographic visibility	11	1	5
Retention	3	0	1

5.2.3.2.1 Experience

This theme highlights three categories of recommendations related to experience that participants suggested new companies should consider when entering the Saudi insurance market. These categories are experience in Takaful insurance, experienced Saudi workers, and experienced local partners.

A fair number of participants argued that knowledge of or experience dealing with Takaful insurance (insurance based on Islamic principles) would be very helpful if a company decides to enter the Saudi insurance market. In response to a question about what Islamic principles of Takaful insurance new entrants should understand, one general manager stated:

Different models are used in providing Islamic insurance products. The 'Mudharaba'¹⁰ model is solely used in some markets, while the 'Wakalah'¹¹ model is used in some others. Some markets, like Saudi Arabia, use a combination of both models. However, it is crucial to understand that the main Islamic insurance concepts apply to any of these models. For an insurance company, acquiring extensive knowledge about 'gharar'¹², 'maysir'¹³, and 'riba'¹⁴ is very important because these concepts are the main standards behind the Islamic models. . . . If a new company had no experience in Takaful insurance, at least the main concepts of Islamic insurance should be well understood.

¹⁰ Mudharaba is an agreement between a company and participants sharing risks of profits and loss based on pre-agreed ratio.

¹¹ Wakalah means agency where the operator acts an agent for participants.

¹² Gharar "is an Arabic word that is associated with uncertainty, deception and risk"

¹³ Maysir is an equivalent term of gambling.

¹⁴ Riba is an equivalent term of usury.

This argument was confirmed by many participants, who advised new entrants to have a solid understanding of Islamic insurance even if they have never dealt with Islamic insurance before. Explaining this argument, many participants suggested helpful ways to make sure companies understand and apply these Islamic principles, such as working with a Sharia committee and other experienced partners. Those recommendations are both explained further in relation to other themes.

The category of recommendations that participants discussed more frequently is the ability to find an experienced Saudi workforce. As explained earlier in this chapter, employing at least 50% Saudi workers is a legal requirement. The problem is the scarcity of Saudi workers who are experienced and educated in insurance, as one member of SAMA explained:

The lack of an experienced Saudi workforce is still very challenging to all entrants; the tendency to study insurance is very low, and the education system does not provide good programs yet. Therefore, they have to be ready for tough competition in recruiting Saudi workers . . . tough because it is becoming very expensive to recruit key Saudi employees.

Explaining the same recommendation, another participant—a CEO—added:

Recruiting or training are both costly because trained employees will, possibly, be recruited by other companies, so it is more common to pay qualified Saudi employees well than to train inexperienced ones. . . . No, the market will not have enough experienced Saudi workers for a long time to come.

The final category of recommendations related to experience centred on the argument that finding experienced local partners is very important to operate successfully in the Saudi insurance market. Joint venture insurance is the only model companies can use to operate in

the Saudi insurance market, as explained before, and participants pointed out the importance of local partners in helping with two different aspects of setting up an insurance business in Saudi Arabia: meeting legal requirements and applying Islamic principles.

For the first aspect, some participants argued that experienced partners would help companies secure experienced Saudi workers, thereby helping them meet the legal requirement to employ at least 50% Saudi workers. The second aspect refers to choosing experienced local partners with business knowledge who can help companies apply Sharia law or Islamic principles. Explaining these two aspects, one CEO stated:

Experience in Takaful insurance can be gained by working with local partners local partners who are familiar with Islamic principles. Furthermore, local partners have already dealt with the legal requirement to employ the required percentage of Saudi workers.

Overall, the responses from participants show that new entrants to the Saudi insurance market need to consider three categories related to experience: gaining experience in Takaful, finding experienced Saudi workers, and finding experienced local partners.

5.2.3.2.2 Human resources

The theme of human resources received a fair amount of attention from participants. Responses identified two specific categories around this theme that new entrants into the Saudi insurance market will need to consider. The first one is the ability to find enough educated and experienced Saudi workers. As explained elsewhere in this chapter, this need arises from legal requirements for companies in the private sector to employ %50 Saudi workers. The previous section on experience includes some of the other reasons participants said it is hard to find Saudi workers experienced in the insurance business.

The second category participants identified is the importance of establishing a Sharia committee so that new entrants can gain a greater understanding of Islamic insurance. Further, it is a crucial factor in gaining credibility with customers, as discussed in the next section on reputation. In addition, some participants suggested that the Sharia committee could help companies with compliance, as explained more in the section on internal control. Explaining the recommendation to establish a Sharia committee, one general manager stated:

To establish a Sharia committee is important to operate in the Saudi insurance market easily. Islamic legal personnel will help in certifying any products the insurance company will provide in the market. In addition, they will provide better knowledge or understanding of Islamic insurance, or Takaful, adopted in the Saudi insurance market.

5.2.3.2.3 Reputation

Participants frequently brought up the theme of reputation and the importance of carefully managing it. Their recommendations for acquiring a better reputation fell into three categories: establishing a Sharia committee, practicing better claim handling, and practicing Islamic surplus management.

Besides helping the company understand Islamic insurance and certifying its products, a Sharia committee can help the company gain legitimacy among customers, as one actuary explained:

One way to stimulate demand in the Saudi insurance market is to build confidence among customers that the company is applying Sharia law. The easiest way is to assign well-known Muslim scholars to be part of the Sharia committee. This will have a positive influence on new entrants' survival in the Saudi insurance market.

Another ingredient of building a better reputation in the Saudi insurance market is practicing better claim handling. Although this should be a standard practice among insurance companies, participants observed that poor claims settlement could influence a company's reputation and its business much more in the Saudi insurance market than elsewhere.

Explaining this further, one general manager said:

The Saudi insurance market has a long way to go to be very strong and attractive for customers. . . . Customers will not easily forget what happened to their claims prior to 2003, when companies just left the market. They are still sensitive to any negative performance results or actions of a company. . . . For instance, if a company was flagged for a few days in the stock market, that would have a lasting influence on the company's business. In addition, if a company mismanaged claims, that information would spread quickly among customers, and it would be very hard to fix that again.

Another key category in maintaining a good reputation is Islamic surplus distribution. Participants argued that distributing surplus to policyholders is a very important aspect of building a good reputation. One CEO argued:

Although SAMA has started to monitor Sharia law in all companies, companies that were not sharing or distributing surplus with customers are still perceived badly among customers. Failing to distribute surplus would result in, first, costly legal penalties and, second, a very bad reputation among customers.

In short, participants identified reputation as a key theme for new entrants to the Saudi insurance market to consider. Three steps companies can take to build and maintain a good reputation are establishing a Sharia committee, practicing better claims management, and practicing Islamic surplus management.

5.2.3.2.4 Capital

Participants identified two aspects for new entrants to consider related to capital: gaining more geographic visibility and spending more on training programs. As explained before in this chapter, the minimum capital required to start an insurance company in Saudi Arabia is SAR 100 million. However, 24 participants suggested that a new company should start with much more than that, though they did not specify how much more. Most of these participants clearly linked the need for more capital to expansion in the market, as one CEO explained:

To operate successfully in the Saudi insurance market, more geographic visibility in the Saudi insurance market should be considered by any new company. More cities and regions are in need of more insurance suppliers, and SAR 100 million would not be enough.

In other words, how much capital is adequate would depend on the geographic coverage a new company desires to have.

A few participants pointed out the importance of allocating additional funds to train their Saudi workforces. This would require more capital, as explained by a member of SAMA:

To overcome this scarcity of experienced Saudi insurance workers, current and new companies should consider establishing their own training programs. Otherwise, the movement of qualified Saudi workers between companies will continue to happen on a regular basis, as employees are enticed to move though offers of high compensation.

In this sense, by not providing training programs, insurance companies would end up allocating more capital to luring qualified Saudi workers away from their current employers. In addition, this would become more expensive as more companies enter the market, as long

as there are not adequate education systems to support the industry with an educated workforce.

5.2.3.2.5 Corporate governance

Corporate governance was found to be another of the main themes participants, frequently recommended for consideration in the Saudi insurance market. Overall, the reference to this theme was mainly in relation to the continuous changes in regulation standards. In particular, structure, business strategy, and audit committee are the categories highlighted in relation to this theme during discussion with the participants.

Many participants mentioned the continuing process of regulation changes and improvement that require high levels of corporate governance to keep abreast of these changes and continue to *meet all* legal rules. As one actuary explained:

SAMA kept improving the business by introducing many set of standards and regulations. In the same manner as SAMA, many other regulators are making changes to the rules they are in charge of both making and monitoring. Companies need to follow these changes by ensuring that their requirements are reflected in their internal polices, particularly their corporate governance polices, to make sure all the associated legal requirements and changes are met in order to avoid legal penalties.

Explaining the above quote further, and additionally giving examples, one CEO stated that:

In the Saudi insurance market, it is becoming harder to follow legal changes. There is significant overlap in rules and regulations everywhere. For example, licenses for insurance companies are given by SAMA after gaining the approval of the Council of Ministers. However, licenses to provide health insurance products have to be obtained through the Council of Cooperative Health Insurance. Licenses from these

regulators come with different rules and standards and, recently, many of these standards have changed. New sets of standards were introduced in 2008, 2009, 2011, 2012, 2016, and there is a rumour that a new set of regulations is coming soon... for instance, in 2012 SAMA introduced the anti-money laundering and financing terrorism regulations, and fraud regulations which have not yet come into effect were set in 2009.”

Apart from regulators who are directly involved in the insurance business, another participant, a CEO, explained that:

Regulations formed by the Ministry of Labour concerning Saudisation keep changing. Before, it was annually checking the of percentage of Saudi workers at companies in the private sector, including insurance companies; now, it has to be quarterly, and being under the required percentage will result in the company being flagged in the stock market and be suspended if the situation continues for any significant length of time.

One SAMA member, with regards to Saudisation rules, added that:

SAMA is studying to apply a 100% of Saudisation in customer services and motor claims. This will further worsen the availability of experienced Saudi workers in the insurance business. In addition, there is also no guarantee that key expat workers will not be subject to the same action in the future.

As a result, excellent leadership in terms of boards, and highly qualified top management teams and senior managers is crucial to meet these ongoing legal requirements. In addition,

clear policies are required to distribute responsibilities among all these parties, as one actuary stated:

The legality process in the Saudi insurance market requires unique top management members and teams who are in clear and direct contact with their board of directors. In addition, different sets of policies have to be specified to specific teams who should be highly aware of their roles and responsibilities. It is very important for new entrants to evaluate their abilities to manage these standards. Otherwise, we will see more companies being suspended by SAMA.

In this sense, a clear structure, where responsibilities are clearly assigned to qualified expertise, is a key category of corporate governance that these participants are suggesting or recommending.

Moreover, some participants noted the importance of investigating the market thoroughly and develop a business strategies based on what the market is in greater need of. As argued by a general manager:

New companies need to be very cautious of the tight competition over health insurance and car insurance. Providing more insurance products would be a prudent strategy.

On many other occasions, as explained in the capital theme, a number of participants recommended a better expansion-based strategy to operate successfully within the Saudi insurance market. In this case, designing goals through specific and well-detailed business strategies in the Saudi insurance market should be expansion- and product diversification-based. Clarity of business strategy, in relation to clear structure and responsibilities, will provide better guidance towards achieving goals set in advance.

Finally, considerable attention was paid by the participants to the importance of new entrants reporting to these different legal parties on a regular basis. In this sense, a great number of audit committee teams, and their associated activities, are required to deal with the onerous reporting process in the Saudi insurance market. An audit committee is also required from a compliance perspective; this is explained in the next factor (compliance under internal control theme). However, one participant, an actuary, explained this category by saying:

..... new entrants need to address or appoint a good audit committee to be in charge of crucial responsibilities dealing with the process of financial reports and other reports regarding policies monitoring for compliance purposes.

In short, corporate governance is highly recommended for new entrants based on the nature of the volatile and complex legal environment in the Saudi insurance market. As a result, a clear structure is required to make sure these regulations are in control and can be easily met. Further, new entrants are advised to adopt an expansion- and diversification-based business strategy. Finally, the audit committee role needs to be properly addressed to ensure compliance with the various legalities, policies, and rules is in place.

5.2.3.2.6 Internal control

Simultaneously discussed with corporate governance, participants explained how important it is for new entrants to employ good internal control to ensure compliance with all different rules and standards released by the different regulators within the Saudi insurance market. The main categories highlighted or classified under this theme are information technology, and compliance.

Information technology was mentioned here more often with regards to easier internal contact within the organisation, and security purposes. Participants argued that that to facilitate the heavy reporting process, a good information technology infrastructure is important. In this sense, storage and documentation are also important to allow for the provision of data

whenever needed. At the same time, participants noted the security systems needed for protection proposes. As explained in the political theme, Saudi Aribia has recently experienced directed cyber-attacks due to political tension with other countries and this has affected many insurance companies, as one CEO explained:

For instance, among some other companies in the market, we were unaffected by the cyber-attacks that hit Saudi Arabia recently; we quickly recovered with no major issues.... Yes, many insurance companies were badly affected because they could not recover their IT systems for few weeks later. This is not the first time this has occurred, but it was certainly more serious than previous attacks.

In today's world, information security systems should be a basic consideration for both private and public organisations; this is even more true of Saudi Arabia. Based on the above quote, it is more likely that Saudi Arabia would be the subject of a cyber-attack than many other countries; Saudi Arabia is subject for more cyber-attacks because of the war with Yemen and increasing political tension currently between Saudi Arabia and some other countries in the region. This being the case, information security systems are a particular requirement in the Saudi markets generally, and for the Saudi insurance market in this situation.

With regards to compliance, all participants highlighted the importance of this category, both discussing and emphasising this point because of the high number of regulations, continuous changes in regulations, and the complexity of the regulators' roles and the rules they emplace in the Saudi insurance market. Surely compliance should be expected by current and new entrants, but the more regulations, regulators, and continuous change to these regulations there are, the more the possibility of an insurance company failing to comply with one or more of these regulations increases. Therefore, applying rigorous internal control is an overriding requirement for insurance companies in the Saudi insurance market, as one actuary stated:

Regularity and standards are improving in the Saudi insurance market, but these standards are changing rapidly now, from all regulators involved in the business ...

To comply with all these legal codes and standards is hard and needs more attention. Good internal control involves any actions or practices; for instance, among many others, maintaining records for monitoring purposes and disclosure, clear procedures for applying internal control, clear job descriptions for all managers and top management teams.

On different occasions, the same argument as given in the above quote was made by a large number of participants, and indeed from all groups of participants. Therefore, better compliance and compliance measures are important to insurance companies either currently in the Saudi insurance market, or in those targeting this market in the future.

Overall, this theme, internal control, needs considerable attention from new entrants to the Saudi insurance market. Within internal control, high information technology systems and better compliance performance and measurements need particular consideration.

5.2.3.2.7 Risk management

For this theme, all references by participants were under risk strategy and risk standards. They all argued that each company has to design its risk strategy based on the main or basic risk standards recently set by SAMA. In discussing this theme, participants both stated and recommended that four risk standards in particular be considered, which are risk identification, risk measurement, risk mitigation, and risk monitoring. In different occasions, references were made by a number of participants to specific practices of risk management regarding some or all these four standards.

First, through the course of my discussions with participants, it is clear that they are urging the need to consider a good risk strategy based on legal action. This risk strategy should be designed with due regard for the main risk standards released by SAMA. In addition, these standards were set after the bad risk management practices previously shown by various insurance companies; as one SAMA member stated:

The new standards of risk management were set by SAMA to ensure that companies have a comprehensive risk strategy in order to manage risks conducting their businesses. These standards have been introduced into all insurance companies' practices now, and are reviewed in quarterly meetings.

Explaining this risk strategy further, one CEO stated:

The risk strategy has to include the impact of any risk the company is exposed to ... it should consider risks arising from both overall market conditions and risks associated with each specific line of business ... a good start would be to define the responsibilities and assign expertise first.

The above quote explains the overall consideration of any source of risk that a reasonable risk strategy would need to include. In addition, it explains how a good strategy should start with clear demarcation of responsibilities and qualified expertise, which in effect is a reference to corporate governance through good organisational structure.

On many other occasions, participants pointed out more detailed risk management practices that are related to one or more of the four risk standards set by SAMA. For instance, one CEO explained a particular issue within the Saudi insurance market:

Health insurance and car insurance in the Saudi insurance market are still very risky. In recent years, there has been an increase in the rate of policy cancelation. New entrants need to pay attention to this problem to avoid liquidity problems.

The above statement is an example of a direct risk identification, namely that of a potential threat to liquidity. Similar indications were highlighted by examining the external and

internal factors discussed earlier in this section. For instance, there is clear indication of risks due to other countries, geopolitical risks, and IT-based risks through cyber-attacks and the war [with Yemen] that the Saudi government is currently involved with (see political theme and internal control theme). Moreover, there is an indication of risk mitigation regarding reputational risks through the application of Islamic insurance. Assigning a Sharia committee is a clear indication of risk mitigation, namely, reputational risk. However, the main risks worthy of consideration and evaluation in the Saudi insurance market are country risk, geopolitical risks, legal risks, and reputational risks in relation to socio-cultural risks generally.

Overall, most participants indicated the particular importance of the risk management role when conducting business in Saudi Arabia. For the most part, they noted that a well-designed risk strategy is required, which has to comply with the risk standards set by SAMA. These standards are risk identification, risk measurement, risk mitigation, and risk monitoring.

5.2.3.2.8 Size

In this theme, a reasonable number of participants argued that it is better to expand in the market by gaining more geographical visibility. A more specific consideration in this regard is to focus more on cities and regions that are less crowded with insurance providers.

However, there are some constraints that may be noticed through discussion with the participants of this research. The first of these is availability of [sufficient] capital, as discussed previously (see the capital theme). Second, there is the difficulty to find, or the availability of, an experienced workforce, namely a Saudi workforce. As explained previously, there is considerable lack of educated and experienced Saudi workers within the insurance business. At the same time, there is a possibility that the specific legal percentage of Saudi workers can be increased, again as illustrated previously (see corporate governance theme).

5.2.3.2.9 Retention

For this theme, the argument arises due to specific regulations. As explained under the legal theme (see retention and rating problem), insurance companies have to reinsurance at least

30% of their premiums locally. The problem, however, is that there is only one local insurance company offering reinsurance. Any difficulties this insurance company might experience would eventually be affected. Being forced to reinsure through one local insurance company involves definite risks; therefore, few participants argued or recommended that insurance companies need to keep the maximum limit of their premiums in house and reduce reinsurance rates. This was illustrated by one CEO:

Retention limits for health insurance and car insurance have opened by up to 100%, and many companies have maintained high premiums in these segments and suffered high rates of losses. On the other hand, these companies are keeping the minimum limit and reinsuring the remaining. Many opportunities are being missed regarding reinsuring the maximum in many segments Because they lack the technical abilities for retention.

The above statement was confirmed by another CEO and also a member of SAMA. Hence, it is recommended that new entrants to the Saudi insurance market consider improving their retention capabilities to avoid being subject to such a problem.

5.2.3.3 Interrelationships among external and internal factors

The overall external and internal factors that need more consideration by new entrants are shown in table 5.23, and which are explained above though section 5.2.3.1 and 5.2.3.2. However, this section of findings uncovers the interrelationships found between external and internal factors. These interrelationships are found between external factors alone, internal factors alone, whilst some are between external and internal factors. Applying causation coding techniques, as explained in the methodology chapter, many interrelationships were found or coded. These coded interrelationships were aggregated, preparing them as categories based on similarity (table 5.24 provides an example of this step). Later, another categorising step was conducted to assign similar categories to main themes with causal explanations. In total, twelve main interrelationships were categorised (see table 5.25).

Table 5.23: External and internal factors that need more consideration by new entrants targeting the Saudi insurance market.

External Factors	Internal Factors
Economic <ul style="list-style-type: none"> ➤ Economic growth rate ➤ Governmental spending ➤ Individual income ➤ Market growth <ul style="list-style-type: none"> - Less demand for optional insurance - Many insurance providers 	Experience <ul style="list-style-type: none"> ➤ Experience in the business ➤ Experience in the Saudi market ➤ Experienced workforce ➤ Experienced local partners
Legal <ul style="list-style-type: none"> ➤ Improved insurance regulations ➤ Saudisation ➤ Many regulators 	Human resources <ul style="list-style-type: none"> ➤ Sufficient Saudi workforce ➤ Sharia committee
Political <ul style="list-style-type: none"> ➤ Political stability ➤ Government involvement in the business ➤ Government actions toward better business environment 	Reputation <ul style="list-style-type: none"> ➤ Assigning Sharia Committee ➤ Claim handling
Socio-cultural <ul style="list-style-type: none"> ➤ Social ties ➤ Religion ➤ Awareness of insurance benefits ➤ Population 	Capital <ul style="list-style-type: none"> ➤ Islamic surplus management ➤ Sufficient capital for expansion
	Corporate governance <ul style="list-style-type: none"> ➤ Structure ➤ Audit committee ➤ Business strategy
	Internal control <ul style="list-style-type: none"> ➤ Information technology ➤ Compliance
	Risk management <ul style="list-style-type: none"> ➤ Risk strategy ➤ Risk Standards
	Size <ul style="list-style-type: none"> ➤ Geographic visibility
	Retention

Table 5.24: Example of coding process for interrelationships.

Antecedent	Moderating variable	Outcome category
Religious beliefs	Insurance business is not based on Sharia rules	Outcome category: market growth Less demand for optional insurance
Regulations	Sharia committee Approving insurance products based on Sharia law	Outcome category: reputation Trust among Muslim customers More credibility applying Sharia law
Religion	If health insurance policyholder Women won't uncover their faces	Outcome category: legalities Increase fraud
Religion	Insurance programs and education system	Outcome category: experienced Saudi workforce Shortage of educated workforce in insurance
Social ties	Family and clan's protection Family and clan's health care aid Family and clan's death compensation aid	Outcome category: Market growth Less demand for optional insurance Less demand for optional insurance Less demand for optional insurance

The following table shows the most noted interrelationships that explain how and why some factors affect others; these interrelations explain the sources of threats and opportunities to future operation in the Saudi insurance market. In addition, it emphasises the internal factors that might help to avoid problems in the Saudi insurance market and internal factors that might help in taking advantage of opportunities within this market.

Table 5.25: Interrelationships among external and internal factors.

Relationships	Casual explanation
Socio-cultural > Market growth	Socio-cultural factors appear to have considerable influence on market growth. These factors are more likely to continue

	<p>resulting in less demand on insurance. Particularly, it creates less demand on optional insurance. The religious beliefs behind insurance not being complaint with sharia law are still preventing Saudi citizens from buying insurance products. Likewise, traditions or social ties lower demand for optional insurance products. Finally, awareness of insurance benefits is not high within Saudi society, which creates another barrier. In total, demand on optional insurance is more likely to remain low.</p>
Religious beliefs > Human resources	<p>Decades of banning insurance businesses has created a scarcity within the Saudi workforce of individuals educated in the insurance business. Less insurance programs were provided through the education system. As a result, there is less of the Saudi workforce available for insurance business, and a large shortage of experienced ones.</p>
Religion > Legal	<p>Religion still influences the ability to implement certain insurance rules and the judicial system overall. For instance, because of religious teachings, some health insurance policyholders, women, cannot be identified. In addition, the role of religion can be noted within the courts where judges, for whom education is religious-based, have little knowledge about the contractual nature of the insurance business, which is a problem if a suit is filed by customers or companies.</p>

Economic > Market growth	<p>The Saudi economy has been relying on oil revenues for a long time, and oil prices have been decreasing the last few years. This drop in oil prices pushed the government to launch an economic plan called 2030 to create a new economy that depends less on oil production. However, most participants agreed that this economic change will have a negative effect in the short term, but a positive effect in the longer term.</p> <p>Based on short-term speculation, the new economic plan that the government is implementing is expected to decrease individual income and governmental spending. For instance, goods and services taxes will be applied overall, and the personal income of expats will be taxed. Moreover, the economic plan will affect governmental spending as well. With less individual income, less demand for optional income is expected. On the other hand, less governmental projects are expected, which would decrease demand on commercial lines such as engineering and property.</p> <p>After around 5 to 10 years, this new economic plan is expected to have positive outcomes that will ultimately increase demand for insurance.</p>
Legalities > Human resources	<p>The rule of Saudisation is problematic to all insurance companies in the Saudi insurance market because there are not enough educated and experienced Saudis in the</p>

	<p>insurance sector. It would be hard to secure the required percentage of Saudi workers if a company is aiming to recruit or search for experienced workers. In addition, this problem is expected to worsen when applying additional Saudiasation rules for insurance companies.</p>
<p>Political > Market growth</p>	<p>The Saudi government has been central to most actions in insurance market. Some of these actions could create more demand for insurance, for instance:</p> <ul style="list-style-type: none"> - With the new economic plan, a stronger and more diverse economy would create more industries and growth within the private sector. As a result, more commercial activities and jobs are expected to increase demand on commercial insurance. Moreover, with more jobs in the private sector, more demand for health insurance would be expected. - The Saudi government is in the process of privatising many areas of the public sector, and greater demand for health insurance, in addition to commercial insurance, is expected as a result. - The government will require that health insurance for visitors to Saudi Arabia is compulsory. This governmental action is to cut the spending the government allocates to preventing epidemics and other health issues could be caused millions of visitors to

	<p>holy places in the country. As a result, there would be a new group of people each year, around 30 million visitors, buying health insurance policies from insurance companies in Saudi Arabia.</p> <p>By contrast, there are a number of governmental actions that might affect the market negatively, such as:</p> <ul style="list-style-type: none"> - All expats in Saudi Arabia have to be insured by their employees. However, a new tax targeting personal incomes of expats might push them to leave the country, and they will be replaced by Saudi workers. Hence, compulsory health insurance is expected to remain the about the same in this case. <p>It has also been influencing the market through direct involvement in businesses, such as the Saudisation rules and involvement of many other governmental agencies. However, some positive governmental actions are expected to stimulate greater demand for insurance. In total, there are some governmental actions that might cause problems within the Saudi insurance market, and there are some positive actions that might help the market to grow more.</p>
Political > Insurance legalities	<p>The Saudi government is deeply involved in the legal environment of the insurance market. This high degree of involvement</p>

decentralised the regulatory power.

Although SAMA is the main regulator for the Saudi insurance market:

- Issuing licenses, initially, is managed by SAMA and approved by the Council of Ministers later. However, the Council of Ministers tends to approve applications by local insurance companies, ignoring SAMA's recommendations to minimise the number of insurance providers for the time being. Moreover, licenses for health insurance providers are given by the Council of Cooperative Health Insurance.

- General regulations and standards are set by SAMA, but more standards are set by the CCHI, and both are responsible for monitoring these standards.

- The government is also requiring all companies to be publicly listed joint stock companies, and this is problematic in relation with another rule required by another official agency. The Ministry of Labour requires all companies in the private sector to employ at least a 50% Saudi workforce. Any company failing to meet this requirement will be red flagged in the stock market as a sign or indication of a problem. This Saudization rule is reviewed monthly by the Ministry of Labour, and reported to the Capital Market Authority. Recently, as pushed by the Ministry of

	Labour, SAMA is in the process of having a 100% Saudi workforce in specific departments at insurance companies.
Political stability > Economic + Market growth	<p>Another problem that is worth consideration by new entrant is the effect of the political conditions of the Saudi government on economic conditions overall and insurance market in particular.</p> <p>The Saudi government is in war with Yemen, a neighbour country of Saudi Arabia. In many occasions, participants stated the effects of this war on insurance business through cuts of the governmental spending and cuts on subsidies and individual incomes. In addition, this war could result in more unstable and devastating outcomes as this war is putting people's lives, properties, and all commercial activities under threats. In other words, many insurance segments such as health insurance, car insurance, and liabilities would be at high risk.</p> <p>The business is expected be at higher risks based on increasing tension between Saudi Arabia and Iran, as few participants pointed out.</p>
Legalities > Risk management + Internal control + Corporate governance	One central issue noted through discussion with participants is the high degree of regulations through many regulators in the market, and all these regulators are in charge of setting and monitoring different sets of regulations and standards. Among

	<p>these standards, there is a major set of regulations regarding risk management and internal control. As for risk management, there are minimum requirements around risk strategy and standards that have to be adopted by insurance companies. Similar to risk management, insurance companies are required to practice a high level of internal control to show a good level of compliance. Practicing good risk management and internal control are key tools to building and achieving good corporate governance. Overall, companies main polices should match or serve the requirements of heavy legal polices by designing a strong corporate governance. This requires different key tools, but principally risk management and internal control capabilities.</p>
<p>Sharia Committee + Surplus management > Reputation</p>	<p>Another central issue noted through findings was the reputation of insurance business overall in Saudi Arabia. There is a common perception among the Saudi society that insurance companies are less likely to meet their liabilities. This is because of major losses most companies experienced before and after 2003. Before 2003, there were no insurance regulations or any official regulator, and companies were exiting the market leaving claims pending. After 2003, new regulations were passed, and official bodies were assigned to control the market. However, new regulations and regulators</p>

did not control the market fully until recently, and most companies were experiencing major losses between 2003 and 2008. As a result, trust in the business among society worsened even more. Besides lack of trust in companies being able to meet their liabilities, there were some practices being undertaken by certain companies that created a bad reputation; insurance companies were supposed to distribute their surpluses between shareholders and policyholders whenever contributions exceed claims, but this Islamic principle of Takaful was not widely practiced among insurance companies until 2012.

Therefore, most participants argued that along with all other Takaful principles, surpluses needed much more attention. Although insurance companies are now forced by the regulator to distribute surplus, non-compliance with this legal requirement is more costly than non-compliance with other legal requirements; surplus management is a direct communication with customers, and companies could gain more credibility among customers if their business were complaint with Islamic principles. Failure with regards to surplus management could cost companies their reputation, in addition to financial penalties and suspensions.

	Similar to surplus management, assigning a Sharia committee is highly recommended for promoting a business being conducted in compliance with Islamic principles.
Size + Human resources > Capital	<p>Another prominent outcome is the need to have more geographic visibility in the Saudi insurance market. Repeatedly reported in the findings, most insurance companies are conducting their business in major cities, where the competition is tough. This suggestion is directly linked to the ability to allocate more capital and the availability of more Saudi workforces who are educated and experienced in insurance business.</p> <p>Expansion would create more expenses, including human resources, and human resources is problematic; employing a 50% Saudi workforce is required by the government, especially in technical and leadership positions, and there is shortage of an educated and experienced Saudi workforce with regards to the insurance business. To fulfil such legal requirements, companies are left either giving more training programs or high compensation recruitment action. These two choices are costly, and could be more expensive with expansion plans.</p>
Legalities > Retention rate	<p>In the Saudi insurance market, there are specific regulations regarding retentions rates. Insurance companies are required to retain at least 30% and reinsurance 30% of their total premium locally. At the same time,</p>

local and international reinsurance companies have to have a good rating. However, there is only one local company whose core business is reinsurance only, and three other companies that are in the business of insurance and reinsurance simultaneously. In which case, insurance companies have less bargaining power and few alternatives. Because of this, some participants have suggested that insurance companies should improve their capabilities to retain higher than 30% of their total premiums.

5.2.3.4 Variation of factors before and after penetrating the Saudi insurance market

In this chapter, factors (external and internal factors) have been shown in two stages. The first shows factors that participants paid greater attention to, while the other uncovers factors that should have received greater consideration. A comparison of these two stages shows a difference between the factors that were considered and the factors that are recommended. For both external and internal factors, participants showed different levels of familiarity with different factors. This can be seen through number of participants highlighting each factor, as shown in tables (5.10), (5.13), (5.16), (5.19), and (5.22). For instance, risk management was mentioned by 17 participants from insurance companies in the first stage of internal factors (internal factors thought to be helpful before penetrating the Saudi insurance market), see table (5.13). At the same time, other participants from different groups were not in a total agreement that risk management represented internal strengths amongst the majority of insurance companies. Later, through recommended factors, as shown in see table (5.22), risk management was recommended by 24 participants from insurance companies.

Moreover, some factors were not mentioned or considered at the first stage by some participants, which are highlighted later in the factors recommended to be considered. Finally, there are some factors that were considered before penetrating the market but whose influence was different to initial expectations.

To sum up with, the level of consideration around external and internal factors have differentiated for insurance companies after penetrating the Saudi market. Possible reasons of why such differentiation or variation is further explained in the discussion chapter with more examples of factors varied before and after operating in the Saudi insurance market.

5.3 Conclusion

In this chapter involves two main section; the first one provides some examples detailed steps of data analysis (coding process), while the send one describes findings of this research. For the second section, the findings were presented in three stages. All of these three stages have addressed the research objectives. Based on these findings, it is concluded that market entry decisions are not box-ticking tasks; they are more complex than most of the literature suggests (this is discussed further in the discussion chapter).

The first stage revealed external factors that attracted insurance companies to enter the Saudi market, and internal factors though to be helpful by these companies penetrating this market. Opinions and level of consideration of factors turned out to be different after operating in the Saudi insurance market, as shown in the second and third stage. The findings in the third stage revealed the external and internal factors that are worth consideration by new entrants in the Saudi insurance market. The third stage, based on findings, proposes a conceptual framework of recommended factors for new entrants, and explains interrelationships between these factors to provide further guidance and knowledge about the source(s) of threats and opportunities in the Saudi insurance market. Finally, the third stage sheds a brief light on how the level of consideration around external and internal factors before penetrating the Saudi insurance market differentiated after operating in the market.

Chapter 6: Discussion

In this chapter, the findings are discussed in relation to (1) the research questions and the gaps in the current literature these questions address, (2) the research objectives, and (3) the theoretical perspectives used in this thesis.

6.1 Findings in relation with research questions and gaps

In this section, the discussion covers the research questions and the gaps in the current research highlighted by the literature review. The following table (6.1) provides a summary of the answers to the research questions and the gaps this research addressed. This section is constituted of three parts, each of which deals with a specific research question/s that addresses a specific research gap/s.

Table 6.1: Summary of answers to research questions that addressed research gaps based on findings

Research question	Answers to research questions using the case of the Saudi insurance market	Research gap addressed
How are market entry and market entry mode decisions made?	Market entry and market entry mode decisions cannot be considered rational notions as considerable uncertainty is involved	Managerial perspectives
What external factors need to be considered making market entry and market entry mode decisions?	- External factors vary based on location (country) and type of industry (a country- and industry-specific approach). External factors, therefore, cannot be generalised through different markets and type of industries.	Multiple markets vs. single market.
and: What internal factors need to be considered when	- By using the PESTLE analysis framework, external factors can be better navigated as macro-level and multi-level constructs. The use of this framework will lead to the adaptation of different theoretical perspectives to study external and	Manufacture vs. services industry. Limited theoretical

making market entry and market entry mode decisions?	internal factors when making market entry and market entry mode decisions. In the literature, generally speaking each theory is responsible for generating a specific stream of factors, so multiple theoretical perspectives are more suitable to mapping out the overall factors and interrelationships that might occur between them. <p style="margin-top: 20px;">- Internal factors are better identified by first examining the targeted market and type of industry; the external factors relevant to a specific type of industry within a specific context indicate the resources and processes required (internal factors) when making market entry and market entry decisions.</p>	perspectives Holistic approach
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6.1.1 External factors (country and industry-specific factors)

The findings reported in this section are a reflection of a specific research question: **What external factors need to be considered when making market entry and market entry mode decisions?** This question was developed from the literature review as a response to the following gaps in the current research: lack of holistic approaches to investigating external factors, the need for theoretical integration, and continuous and unsettled argument, as based on empirical evidence, as to whether market entry decisions should be based on the location (country) and type of industry.

However, the answer to the above question is that, first, the overall external factors can be represented by the factors incorporated within the PESTLE analysis framework (macro-level). Additionally, more detailed external factors could fall under one or more of the factors within the PESTLE analysis (multi-level construct). This hierachal structure is presented in table (6.1) where the findings pertaining to the external factors in the Saudi insurance market are

listed. Second, the overall external factors cannot be explicitly explained using a single theoretical perspective, as has commonly been assumed in previous studies. Thus, to understand the larger picture with regards to external factors, additional theoretical perspectives are required. Third, the overall external factors need to be considered when making market entry and market entry modes decisions as dependent on the location of the market and type of industry.

In other words, findings concerning external factors in this research improve the knowledge within market entry literature in main four areas: the macro-environmental; multi-level construct; limited theoretical perspectives; and country and industry-specific issues. These areas are explained and discussed below.

Table 6.2 Influential external factor within the Saudi insurance market.

Themes	categories	Sub-categories
economic	Growth rate	
	Governmental spending	
	Individual income	
	Market growth and potential	Total premiums
		New or old industry
		Competition
		Transportation
		Low demand and oversupply
Legal	Insurance regulations	Passing new laws
		Existence of insurance regulator
	Slow improvement actions	
	Misjudging the market capacity	
	Judicial system	
	Inability of full control	
	Many regulators	
Political	Saudisation	
	Government stability	
	Government involvement in the business	Islamising insurance business
	Government actions towards a better business environment	
	New and old political forces	
	Political stability	

Socio-culture	Population	
	Education	
	Religion	
	Trust	
	Social ties	
	Awareness of insurance benefits	
Environmental	Less probability of natural disasters	Weather
		Epidemics
		Earthquakes
Technological	Telecommunication and communication systems	

6.1.1.1 Macro-environmental factors:

First, this research used a more comprehensive tool, the PESTLE framework, which allows for the possibility of any potential external factors to be revealed rather than focussing on a specific factor, or factors, when screening new markets. Focusing on one or more markets, each study among those in the literature have focussed on and elucidated a small number of factors whilst ignoring, or being unable to obtain, the full picture or conditions in terms of external factors. Martín and Gaston-Breton (2011), for instance, proposed a model for decision-makers at organisations seeking new markets, and for policy-makers to improve public policies based on their study of 27 European Union countries. Their model, however, is based on two stages, or levels, the country level and the consumer level. For each level, they highlighted, tested then proposed principal affecting factors in light of other sub-factors as per the following:

Country level:

- Market size
 - GDP
 - Population
 - Imports
 - Energy consumption
- Market development
 - Employment rate
 - Gross domestic expenditure
 - Level of internet access
 - Corruption

Consumer level:

- Personal values
 - Religion
 - Democracy
- Social values
 - Obedience
 - Hard work
 - Determination, perseverance
 - Economizing and avoiding waste
 - Respect for other people
 - Sense of responsibility
 - Independence
 - Imagination

They categorised two main factors, each of which is based on different indicators or sub-factors. They then claimed that these factors were sufficient to screen and identify which European country or market is attractive if “we leave aside other strategic aspects – such as firm resources and characteristics, particular industries, and the factors of the macro-environment not considered by the model – and use general segmentation bases” (Martín and Gaston-Breton, 2011: 282). The conditions they draw represent the most significant difficulties other practitioners or scholars are having. The decision as to selecting a market would be ill-structured and ill-informed without considering the other macro-environments this model includes. In other words, the overall picture is not gained though a full screening of external factors of new markets, which is hard for decision-makers in organisations or even for other scholars who want to apply this model. This problem becomes even more difficult when investigating markets that were not within Europe, where, at least, Martín and Gaston-Breton clarified that this model is applicable for EU countries only. This specific limitation, that of not considering all potential macro-environmental factors, has similarly been found in previous studies in the literature, which is focussed either on one factor, such as in the research of Brouthers (2013a) (focusing on cultural differences), Min *et al.* (2017) (focusing on market size), or on several factors, such Sheng and Mullen (2011) (focusing on geographic distance, market size, economic density, cultural distance, language difference). If someone were to investigate a market in a given context, they would face the considerable obstacle of even determining the factors that need to be investigated. Each study investigating such a factor, or factors, usually provides factors that are entirely different from those found in other studies. For instance, López-Duarte and Vidal-Suárez (2010), who focused on

language differences as part of cultural distance studying market entry choice, found this to be an influential factor; however, other scholars, such as Ellis (2000), did not even include the study of cultural distance, but instead found other influential socio-cultural factors, such as social ties. The findings of these studies are not wrong, but the problem is rather that they focus – or are only capable of focussing – on small parts of the bigger picture, because they lack the tool(s) that could help in screening external factors of new markets.

A few studies have attempted to provide for the wider realities of external factors by providing broader external factors, such as the work of Zhao *et al.* (2004); Morschett *et al.* (2010); Laufs and Schwens (2014); Ozturk *et al.* (2015). Morschett *et al.* (2010), for instance, provide six main external factors: market attractiveness; cultural distance; uncertainty of targeted country; competition situation; legal conditions; and culture of the home country. However, these factors, as considered by Morschett *et al.* (2010), in a similar manner to other studies, are incomplete; while they found that legal conditions and cultural distance are external factors that are of importance in home countries, other scholars such as Ozturk *et al.* (2015) found that the demographic, political, economic, and socio-cultural environment are other important external factors.

Nevertheless, if this direction – that of not considering overall macro-environmental factors – were adopted in this research, many of the external factors provided in the findings chapter could not be emphasised. Adopting a specific tool, namely the PESTLE analysis framework helped the author to consider all possible major or main external factors within this research. These main factors, as shown in the table above, are political, economic, socio-cultural, technological, environmental, and legal in character. These main six factors might not necessarily be influential in *all* markets in different countries, however. Yet, based on the PESTLE framework, external factors of a given context consist of one or more of these six main factors and their related categories and sub-categories.

6.1.1.2 Multi-level construct

Another issue noted through the model by Martín and Gaston-Breton (2011) illustrated earlier in this chapter, and which as a model has been widely adopted amongst previous literature studies, is the poor classification of external factors. Through the literature relating to market entry and market entry mode, it may be noted that there are many important macro-environmental factors, such as economic, cultural, and political factors. However, these

studies do not provide a multi-level construct. Morschett *et al.* (2010), for instance, considered individual income and market size to be the only factors related to the broader factor of market attractiveness. Markets could appear attractive through the introduction of additional factors such economic development (Mitra and Golder, 2002). Moreover, individual income, in the first place, should be assigned to, or related to, economic factors that include economic stability, exchange rate, and gross domestic production (Goodnow and Hansz, 1972; Davidson and McFetridge, 1985; Delios and Beamish, 1999; Baek, 2003; Sanchez-Peinado and Pla-Barber, 2006; Martín and Gaston-Breton, 2011). De Villa *et al.* (2015) built a multi-level construct, but this was only for one external factor, that of political environment. The table above, as found in this research, provides such multi-level constructs, providing more broad or primary external factors with more detailed and related sub-factors.

Again, the multi-level construct built in this research would not be possible without the PESTLE analysis framework; it was much easier to assign factors related to other major factors without any redundant overlap, providing clearer connections and relatedness between the main external factors in a specific context.

6.1.1.3 Limited theoretical perspectives

A major problem in studies within the market entry literature is that most such have adopted limited theoretical perspectives. From the section above, it is clear that there has been only a limited consideration of the range of external factors that might be influential when making market entry decisions. This issue produced specific factors for some studies that are different to those found in other studies. As a result, there is a veritable ‘scattering’ of such external factors within the market entry literature. This issue is the ultimate result of assuming limited theoretical perspectives, which is why some scholars have recommended the integration of more than one theoretical perspective (Kogut and Singh, 1988; Delios and Beamish, 1999; Brouthers, 2002; Maekelburger *et al.*, 2012; Laufs and Schwens, 2014). The findings of this research support this claim. More regarding theoretical perspectives in relation with findings is discussed in later in section (8787).

6.1.1.4 Country and industry-specific factors

In the literature related to market entry and market entry mode, the vast majority of studies such as Erramilli (1991); Erramilli (1992); Erramilli and Rao (1993); Grønhaug and

Kvitastein (1993); Brouthers *et al.* (1996); Burgel and Murray (2000); Crick and Jones (2000); Shrader *et al.* (2000); Choo and Mazzarol (2001); Lu and Beamish (2001); Shrader (2001); Rasheed (2005); Blomstermo *et al.* (2006); Zain and Ng (2006); Carlos Pinho (2007); Li and Qian (2008); Schwens and Kabst (2011); Maekelburger *et al.* (2012); Ripollés *et al.* (2012) included multiple markets. By contrast, other scholars have argued that each market should be treated and investigated solely in terms of the external factors that allow the differentiation between different markets in different countries. Therefore, a growing number of studies have become country-specific, such as those by Shi *et al.* (2001); Nakos and Brouthers (2002); Ojala and Tyrväinen (2007); Brouthers *et al.* (2008); Cheng (2008). Furthermore, many studies have been industry-based, most of which are focussed on the manufacturing industry (Ekeledo and Sivakumar, 2004), see figure (6.1) that is designed by Canabal and White (2008) in their systematic review.

Industries/sectors examined in entry mode research (1980–2006)

Industry/sector	Number of studies
Multiple manufacturing or service	50
Manufacturing	38
Service	10
Chemicals	7
Computer software	6
Hotels	6
Other specific service	6
Electronic/electrical	5
Other specific manufacturing	3

Figure 6.1: Industry-specific based studies in literature according to Canabal and White (2008).

Between manufacturing and service industries, there is still considerable debate about whether factors found in manufactured-based studies are applicable in the instance of service firms, or otherwise. Some scholars argue that this scenario is indeed applicable (Terpstra and Yu, 1988; Agarwal and Ramaswami, 1992) while a few others have argued to the contrary (Erramilli and Rao, 1993). Lately, some scholars have started to investigate the applicability of determinants for manufacture industries on service industries from an empirical perspective. This investigation was based on a particular important distinction, that of soft services and hard services. Hard services are services that can be exported (Krishna Erramilli,

1990) such as software services (Blomstermo *et al.*, 2006). On the other hand, soft services cannot be decoupled, and there is a close physical proximity between producers and consumers, such as car rental services, health care, hospitality, and fast food (Krishna Erramilli, 1990). Few studies have empirically examined the applicability of factors in manufacturing industries for soft and hard service firms. The findings of Blomstermo *et al.* (2006) support the argument that factors important to manufacturing firms are not similarly appropriate to the service industries.

The findings of this research support the two main directions that are mentioned above. First, some factors have been found to be unique in the context being investigated, that is, Saudi Arabia, which supports the argument that market entry studies should be country specific. For instance, legality in Saudi Arabia over all kinds of businesses and industries is influential from the perspective of the Saudisation code. This legal requirement of pushing companies to hire specific percentages of Saudi workers is effectively an instrument by which to reduce the unemployment rate among the Saudi workforce. Alongside country-specific concentration, the findings support the arguments that market studies should also be industry-specific. In terms of legality within the Saudi market, the findings indicate that the required percentage of Saudi workers is dependent on the industry under consideration. As found in this research, insurance companies in the Saudi market are required to hire at least 50% Saudi workers, and it is expected that there be 100% Saudi workers in specific departments.

Another example of why studies into market entry should be country- and industry-specific is based on the influence of socio-cultural factors on the Saudi insurance sector. Findings show that the influence of religion, Islam, on insurance business in the Saudi market is of particular significance. One way in which this factor has influenced this business is that insurance has previously been prohibited from sale in Saudi Arabia due to religious beliefs. Islam, however, is not solely based in Saudi Arabia; Muslims form the majority of the populations of various other countries. However, how strongly attached Muslims are to Islam is not the same from one country to another (Rice, 1999); similarly, the views and interpretation of Islamic traditions by Muslim scholars may differ - the interpretation of different sects of Islam are not the same (Saeed, 1996). In addition, the involvement of Islamic tradition in the regularity systems in Muslim countries can differ considerably. In fact, Islam has little involvement or influence on political and economic systems within the majority of Islamic countries (Rice, 1999), yet in Saudi Arabia the dominant ideology is that of Islamic teaching; state rules and

regulations are based on the Quran's interpretations, and the teaching of, the Prophet Mohamad (Vogel, 2000). Therefore, Saudi Arabia is unique in terms of the extent to which religion influences the shaping of the Law of the State. Based on the testimony of some of the participants in this research, the Saudi government forced official religious parties to Islamise the insurance business in 2003, which indicates the heavy involvement of Islam in the political and regulatory systems. Moreover, forcing these Muslim scholars also indicates how closely attached the Saudi society is to religion, Islam. Overall, the influence of religion, as a single factor within the different socio-cultural factors, on the insurance business in Saudi Arabia further stresses the country- and industry-specific considerations that are required when investigating external factors of given contexts.

However, the knowledge surrounding industry-specific factors is still limited and needs further investigation. Namely, knowledge is particularly limited in terms of the service industries (Blomstermo *et al.*, 2006); moreover, there is very limited knowledge about insurance studies in the market entry literature (Altuntas and Gößmann, 2016). Studies focussing on the insurance industry from an empirical perspective, such as Schoenmaker *et al.* (2008); Berry-Stölzle *et al.* (2010); Parente *et al.* (2010), are having one or more of the issues mentioned earlier in this chapter. Mainly, they based their studies on multiple countries and markets, including the Saudi insurance market, so their studies are not country-specific. In addition, they studied factors in separate streams, without considering the full picture of the overall set of factors. Hain (2011), for instance, focused on a single market, the Saudi market, but included different industries (including the insurance business); his results do not reflect the overall macro-environmental factors at work due to a lack tools that could have helped consider all possible factors. However, the findings of this research added some new external factors that Hain and other scholars have already produced. For example, environmental factors such as weather and earthquakes have been found to play a role in the determination of market selection.

6.1.2 Internal factors

The findings in this section seek to answer the research question "**What internal factors need to be considered when making market entry and market entry mode decisions?**" This question was posed to articulate the following research gap: whether internal factors vary based on country and type of industry or otherwise. This country and industry-based

approach is also used as a guideline to the internal factors that could influence market entry decisions; this addresses the research gap of lacking a guideline that directs attention towards the internal factors that need to be considered by both researchers and practitioners. Finally, this approach stresses a number of factors that are unique to the insurance industry compared to other service and manufacturing industries.

6.1.2.1 Country- and industry-specific internal factors

As explained in the literature review, chapter 2, there has been more focus on external factors in previous studies than internal factors (Erramilli, 1992; Helfat and Lieberman, 2002), and little is known about how internal factors influence the knowledge of targeted markets (Lord and Ranft, 2000). Within the last 15 years, however, more attention has been dedicated to internal factors but with no specific guidelines, which has resulted in scattered factors among these studies. The inconsistency of the results obtained by these studies may be noticed thorough systematic studies of the market entry literature such as the work of Leonidou *et al.* (2007), Laufs and Schwens (2014), Ozturk *et al.* (2015), and Schellenberg *et al.* (2018). Many studies have found internal factors based on specific streams and theoretical perspectives similar to the directions conducted for external factors. Further, these studies were focussed on internal factors such as either the country specification or the industry specification, or sometimes both. This made it hard to find and follow a specific guideline investigating internal factors that could influence market entry decisions. The exploratory nature of this research provided a wide range of internal factors as seen in table (6.3). Most of these have been found in previous studies. This research however, as based on various findings, improves the state of our current knowledge by proposing a more specific guideline search and investigating internal factors penetrating new markets, which is the country and industry-specific guideline. In particular, it provides evidence that these factors could vary based on location, country or market, and kind of industry, as discussed below. This guideline also stresses that internal factors are better considered through external factors within a given context for a specific industry.

Table 6.3: Overall influential internal factors for insurance companies targeting the Saudi insurance market.

Themes	Categories	Sub-categories
Experience	Experience in the business	
	Experience in the Saudi market	
	Experienced workforce	
	Experienced local partners	
Human resources	Sufficient Saudi workforce	
	Sharia committee	
Reputation	Applying Islamic principles	
	Social responsibility	
	Assigning Sharia Committee	
	Claim handling	
Capital	Liquidity	
	Enough capital for Expansion	
Corporate governance	Structure	
	Audit committee	Transparency and disclosure
	Business strategy	
Internal control	Information technology	
	Compliance	
Risk management	Underwriting	
	Risk standards	
	Risk strategy	
	Risk management structure	
Size	Geographic visibility	
Retention		

Earlier in the literature review, it was stated that there would not be specified or detailed internal factors that would be investigated in the course of this research. Instead, a more general guideline was adopted based on the internal factors highlighted in the systematic review by Schellenberg *et al.* (2018). They found that control, asset specificity, and international experience are the most-studied internal factors in market entry literature.

Through findings on the factors in noted the table above, it is clear that the factors suggested by Schellenberg *et al.* (2018) provide, or reflect, only limited knowledge of reality. The factors they suggested are based on the empirical results determined by various scholars, in

which case internal factors have only been superficially investigated whilst other detailed factors were underlined in literature, with only limited knowledge being formed around them. The results of this research reshape this reality by indicating a number of other factors that have been underlined and providing further unique insights to factors that have been previously investigated.

6.1.2.2 Internal factors imposed by external factors of a specific context and specific industry

The findings of this research confirm the main generalised factors suggested by Schellenberg *et al.* (2018) and stress other underlined internal factors investigated before in terms of country specification, industry specification, or both country- and industry-specification. Experience, or international experience, for instance, have been intensively investigated and were found to influence market entry and market entry mode decisions (Anderson and Gatignon, 1986; Gatignon and Anderson, 1988; Hennart, 1991; Delios and Beamish, 1999; Chang and Rosenzweig, 2001; Tatoglu *et al.*, 2003; Lu *et al.*, 2014; Hollender *et al.*, 2017). Yet, there is little evidence as to how this experience is influential. This research extends the importance of this internal factor through further related internal factors (more insights). Findings reveal that the Saudi insurance market lacks a sufficient number of skilful and experienced workers. The prohibition of insurance businesses in the country before the government approved the practice resulted in a scarcity of educational insurance programs within the education system in the country. At the same time, the Saudi government requires insurance companies have at least a 50% Saudi workforce. This has become problematic to many insurance companies; they ended up paying compensation to recruit experienced workers or spending more money training inexperienced workers. Still, companies are at risk of losing their workers after training them. In sum, religious beliefs (prohibition of the business), legal requirements, and the education system as external factors have affected the availability of the required human resources in the Saudi insurance market. Many studies have found that experience is an important factor when beginning to operate in a new market, but almost none have discussed the availability of experienced workers in the targeted markets as influenced by external factors. Few studies have discussed the availability of experienced workers and or human resources overall in the targeted markets, such as Zitta and Powers (2003). Overall, the availability of experienced Saudi workers for the Saudi insurance market is an underlined factor of the so-called experience in the literature.

However, the lesson learned here is that internal factors are to a greater extent imposed by external ones (Couturier and Sola, 2010). As shown above, experienced Saudi workers in the Saudi insurance business imposed the allocation of additional costs; this internal factor is greatly affected by different external factors such as legal factors and socio-cultural factors of the Saudi insurance market (country- and industry-specific). That being said, external factors vary based on country and industry, and the required internal factors, consequently, should vary based on the variation of countries and industries. However, the direction of country- and industry-specific internal factors is not greatly appreciated in the market entry literature, although it has been extensively adopted for external factors, as explained previously. There have been a growing number of studies based on the type of industry, but they rarely focus on a single country and specific industry at the same time. For instance, focusing on US firms expanding into different markets within the telecommunications industry, Dowell and Killaly (2009) found that experience influences market entry. Other studies have focussed on a specific market or country but not on any specific industry. Johnson and Tellis (2008), with no specification as to type of industry, found that control influences the modes of market entry for firms targeting Chinese and Indian markets. Limited studies have taken this consideration (country- and industry-specific) but have still followed imitated streams conceptualising and testing a few external and internal factors or studying internal factors alone with a limited explanation as to how these internal factors were first generated. For instance, focussing on electronic chines companies, Omar *et al.* (2009) found that corporate reputation is an important strategy for international brand market entry. Similarly, focusing on one single factor, control was found to impact market entry and market entry modes for Swedish service firms (Blomstermo *et al.*, 2006), while financial funds, profitability, and firm size were found to influence companies targeting the Spanish hotel industry (Quer *et al.*, 2007). Overall, based on this guideline, country- and industry-specific, there are more internal factors that are still not understood or are less investigated.

Another example of how internal factors are better understood and considered through external factors is via the role of reputation, as shown in table 38. First, reputation has been investigated by a number of previous studies in the market entry literature. For instance, as per the studies of Omar *et al.* (2009), companies focussing on electronic chines found that purchasing brands are affected by credibility and trust. In this research, for insurance companies in the Saudi market, it has been found that applying Islamic principles or Sharia law is important to gain customers' trust, namely that of Muslim customers. In addition, some

companies have established Shari committee teams to effectively ‘buy’ more credibility among these same Muslim customers. The new insights concerning reputation confirm the claim that factors vary as based on market and industry. In other words, findings concerning reputation in this research added new insights to reputation management and its crucial role in targeting new markets and specific industries. Nevertheless, Ekeledo and Sivakumar (2004) found that a company’s reputation is a valuable asset that should be considered a major competitive advantage in new markets, and would affect the choice of entry mode.

Overall, the consideration of required internal factors is extensively combined with external factors in a specific market (country-specific) for specific industry (industry-specific). The evidence for this has been observed through the different internal factors found in this research in addition to experience and reputation. Most of the themes or main internal factors in table 38 can be explained through different related factors (new insights or underlined factors), which are generated through other external factors related to a specific country, Saudi Arabia, and a specific industry, insurance. Therefore, it is best to use the lenses of country and industry to consider which internal factors are required to penetrate new markets. This guideline for internal factors would be useful if research were conducted, simultaneously, with an investigation of external factors for the markets so targeted.

6.1.2.3 Insight around internal factors for insurance business

As discussed in chapter 2 and the previous sections of the current chapter, internal factors have seen less investigation of the service industries compared to the manufacturing industries (Contractor *et al.*, 2003; Blomstermo *et al.*, 2006), and even less investigation of this particular service industry (insurance business) (Malhotra and Papadopoulos, 2007; Altuntas and Gößmann, 2016). Based on findings, and in relation to specific literature, this section explains the internal factors that pertain more, or are even unique, to the insurance business; to this end, internal factors that are common to other industries are discussed. Second, internal factors that are more extensively discussed in the insurance industry are explained. Finally, a discussion of internal factors that seem to be exclusive to the insurance business is provided.

First, some internal factors relating to the insurance business are found to be shared among different industries (manufacturing and service industries) such as size, human resources, internal control, capital and financial funds for service firms such as the hotel industry and

consultancy businesses (Erramilli, 1992; Batt, 2002; Quer *et al.*, 2007), and reputation in manufacturing industries such as the electronics industry (Omar *et al.*, 2009), control in the consultancy business (Erramilli, 1992), and capital and financial funds for the hotel industry (Quer *et al.*, 2007). Yet, for these common factors among other industries, our findings provide new insights to them. The consideration of these factors in the insurance business takes different concepts in relation to other external factors that impose required internal factors. As explained earlier, reputation can influence the market entry decisions of insurance companies due to a number of socio-cultural (effect of religious beliefs) and legal factors (Saudisation requirement). The role of religion has been discussed in many other studies that have focussed on factors influencing insurance demand such as Ward and Zurbruegg (2002), Beck and Webb (2003), Chui and Kwok (2008), and Chui and Kwok (2009). However, this research produced more aspects relating to the influence of religion, Islam in this case, on many other factors that influence the insurance business overall. For instance, religion is found to affect the availability of an experienced and educated Saudi workforce in the insurance sector, as educational institutions were not providing insurance due to the former prohibition of this industry in the country. In addition, it is clarified in the findings as to how the role of religion in the Saudi insurance market has shaped insurance legality, where the insurance business has been 'twisted' as based on various Sharia law principles in 2003; one of these principles is that surpluses have to be shared with shareholders as well as policyholders, though in different percentages. The findings also stressed the role of applying Sharia law in order to build a good reputation and gain credibility among Muslim customers. In other words, this research provides new aspects such as applying Islamic principles (categories in table 38 around a number of principal factors such as reputation (themes in table 38) which previous research failed to observe. Claim handling, as found in this research, is a unique aspect or category related to reputation in the insurance business as this aspect has not been discussed in studies focusing on other industries in the market entry literature.

Second, some internal factors appear to be more extensively discussed in market entry studies that focussed on the insurance business more than other industries, in particular corporate governance and risk management factors. Studies that have discussed these factors did not provide sufficient knowledge or a full discussion. First, corporate governance has not receiving any particular attention among previous studies in the market entry literature. Among the few studies that have discussed corporate governance is that by Luo and Tung (2007) who argue that corporate governance or legal frameworks in the emerging market are

poor and, consequently, are poor for firms operating within these markets. For firms in these markets that are trying to expand into other markets, Luo and Tung argued that when these firms form, they expand in a more regulated and healthy market, and would still suffer from the weak corporate governance in the parent firms. Hence, the success of these firms “hinges upon frontline units' initiatives, commitment, and performance” in order to improve “internal transparency, decision effectiveness, and corporate image”, and these firms “may place top executives (e.g., CEOs) of key frontline units on the parent firm's board or supervisory committee” (Luo and Tung, 2007:). This argument indicates that corporate governance is either self-regulated or enforced by legalisation suggested by the host country. In the Gulf countries, including Saudi Arabia, there has been improvement and increased awareness in corporate governance of legal frameworks (Abdallah and Ismail, 2017). However, the “adoption of governance practices and transparency measures still faces challenges as a result of the conservative and protectionist investment culture in the region which is manifested by weak disclosure of information, and unwillingness to relinquish ownership and control by large block-holders” (Abdallah and Ismail, 2017: 99). Based on the findings of this research, the legal framework associated with the insurance business in the Saudi insurance market was not good at the beginning in 2003. Over recent years it has improved, forcing all insurance companies to apply minimum corporate codes. Disclosure and transparency is one of these codes, which is why all participants stressed the importance of assigning an audit committee team to keep up with the heavy reporting required by all the different governmental offices in Saudi Arabia. Beside the audit committee, structure is implicated in finding and assigning the correct parties with specific qualifications who will have specific responsibilities. In terms of structure, few studies in the market entry literature have investigated the role of top management teams from an empirical perspective, especially CEOs and the board of directors from a corporate governance point of view, such as Doherty (2000). A possible justification as to why corporate governance has not been discussed or empirically tested to any great extent is that corporate governance practices are likely different for each industry (Hutchinson and Gul, 2004); supporting this claim, the findings revealed a specific category, claim handling, which is a principal factor of corporate governance. Through findings, participants addressed claim handling as an important aspect that is monitored by strict regulations. In the Saudi insurance market, it has been found that insurance companies now have to handle claims within a maximum of 15 days or they will be subject to costly legal penalties. In comparison with the literature review of market entry, claim handling has not been mentioned or investigated in other studies focussing on industries other than insurance.

Risk management is another internal factor that has its advance explanation in studies of market entry that focused on insurance business. Apart from studies focussed on the insurance business, where the “risk” is used extensively in the market entry literature, though with limited perspectives. Mainly, the reference to risk in these studies is used to highlight the different external risks such as political risks, economical risks, socio-cultural risk, country-based risks, and legal risks (Rothaermel *et al.*, 2006; Johnson and Tellis, 2008; Brouthers, 2013b; De Villa *et al.*, 2015). These studies, in the same manner as many other studies, for the most part argue that dealing with such risks is through the market entry modes that will provide firms more internal control (e.g., wholly owned mode) or others that would reduce the associated risks (e.g., joint venture mode), and many other modes based on external environmental risks. Studies that focussed on the insurance business in the market entry literature also suffer the inclusion of internal factors that focus mainly on external factors such as Ma and Pope (2003) and Lee *et al.* (2013).

However, the few studies that have discussed internal factors provide more advanced perspectives of risk or risk management. For instance, Schoenmaker *et al.* (2008), focusing on European insurance companies, found that risk management frameworks are central among all companies but are more advanced in larger companies. In general, they found that the size of the firm, adopting international accounting standards and advanced risk models, and better use of available knowledge within the organisation could help to design better central risk management and a capital management framework. Moreover, Hain (2011) stressed the role of risk management when penetrating Middle Eastern countries including Saudi Arabia. He analysed the risk management practices of different companies, including insurance companies, based on principal driven risk factors, political risks, financial risks, economical risks, and cultural risks. He found that large firms were able to apply better approaches to risk management practices, which “entails the identification, estimation and evaluation, treatment, and monitoring of potentially negative influences on performance” (Hain, 2011: 822).

The results of this research support these advanced perspectives of risk management. Participants, first, stressed the importance of risk management for insurance companies targeting the Saudi insurance market. They also explained how the poor risk management practiced by some companies during the early stage of the market led the regulator passing new legalisation and codes concerning risk strategy, risk standards, underwriting, and risk

management structure. Insurance companies that are currently in the Saudi insurance market are, for example, required to provide a risk strategy that includes the main risk standards such as risk identification, risk measurement, risk mitigation, and risk monitoring. Further explanation included certain risk practices to mitigate risk, for example, by choosing local partners with high levels of experience and familiarity with local conditions.

Nevertheless, risk management appears to be a core concept for the insurance industry to a greater extent than in other industries. This is maybe because “insurance exists because of risks, and therefore it goes without saying that risks and insurance are definitely correlated” (Lee *et al.*, 2013: 69).

Third, this research reveals a factor that is unique to the field of market entry literature. To the best of the researcher’s knowledge, retention has not been included in any study in the market entry literature before apart from studies focused on insurance business. Retention “is defined as the decision of the risk manager to retain part of the total of the preloss financing decision” (Outreville, 2012: 183). Retention is associated with corporate governance and risk management. The findings of this research demonstrate the minimum retention levels required by the Saudi insurance market regulator; insurance companies in this market are required retain at least 30% and reinsurance at least 30%. Of the 30% required for the need to reinsurance, 30% has to be reinsured locally, while there are a very limited number of local reinsurance companies. Corporate governance of these companies is responsible for meeting these legal polices, but the risk management department is where decisions as to which risks need to be reinsured are made. Overall, the factor of retention has been found to be unique to the insurance business among all other kinds of study in the market entry literature. Legalities pertaining to this factor and conditions pertaining to reinsurance suppliers are effectively imposed by the location of the market, Saudi Arabia.

6.1.3 Managerial perspective

In comparison with the findings of this research and those in the literature, this section discusses the managerial perspective in market entry decisions and answers the research question “**How are market entry and market entry mode decisions made?**” This question was highlighted through the literature review, which indicated the gap associated with ignoring managerial perspectives in market entry and market entry mode studies. Specifically, this question inquires as to the irrationality of making such decisions and examining the

uncertainty involved in making them. Between the factors, external and internal, that were considered before penetrating the Saudi insurance market and what has been found to actually matter, or what should have been considered, considerable uncertainty is involved. In this sense, a possible application of decision behaviours in deciding to enter the Saudi insurance market by these companies might have taken a place. Through the findings, there is a variety of opinions regarding the external and internal factors before and after penetrating the Saudi insurance market. The next two tables, (6.4) and (6.5) show the variations for both external and internal factors.

In the first table, (6.4) it is clear that the opinions towards external factors have changed after penetrating the Saudi insurance market. Moreover, some factors were not considered in the first place. Factors coloured in red in the table are those that have the companies have changed their opinions about or that they had not considered in the first place. For instance, for main factors, economic factors including all relative categories, the time they entered the Saudi insurance market was considered attractive. Later on, many of participants reported difficulties in these regards. The main justification for this problem, according to participants as shown in the findings, is that oil prices dropped sharply in the last few years, and the Saudi economy relies heavily on such natural resources in an economic sense. However, there are some factors that were not anticipated by those companies deciding to enter the Saudi insurance market. Social ties, for instance, were reported as being a problematic factor in terms of its effects on the demand for insurance products within the Saudi market. In particular, findings show that Saudi society is deeply family oriented, and relatives within this society help each other in instances of sickness, accidents, and death compensation. Therefore, family and relatives are considered to constitute first-line protection against these risks, which has resulted in a decreasing demand for insurance in the Saudi market.

Table 6.4: Observed variation around external factors before and after penetrating the Saudi insurance market.

External factors considered attractive when deciding to enter the Saudi insurance market			Perceptions of external factors after operating in the Saudi insurance market		
Economic	<ul style="list-style-type: none"> • Growth rate • Governmental spending • Individual income • Market growth and potential 	<ul style="list-style-type: none"> - Total premiums - New industry - Few insurance providers - Transportation 	Economic	<ul style="list-style-type: none"> • Growth rate • Governmental spending • Individual income • Market growth and potential 	<ul style="list-style-type: none"> - Less demand for optional insurance - Many insurance providers
Legal	<ul style="list-style-type: none"> • Insurance regulations 	<ul style="list-style-type: none"> - Passing laws - Existence of insurance regulator 	Legal	<ul style="list-style-type: none"> • Slow improvement actions • Misjudging the market capacity • Judicial system • Inability to assume full control • Many regulators • Improved insurance regulations • Saudisation • Political stability 	
Political	<ul style="list-style-type: none"> • Political stability • Government involvement in the business • Government actions toward better business environment • New and old political forces 	<ul style="list-style-type: none"> - Islamising insurance business 	Political	<ul style="list-style-type: none"> • Political stability • Government involvement in the business • Government actions toward better business environment 	
Socio-cultural	<ul style="list-style-type: none"> • Population • Education • Religion 		Socio-cultural	<ul style="list-style-type: none"> • Population • Social ties • Religion • Trust • Awareness of the benefits of having insurance 	
Environment al	<ul style="list-style-type: none"> • Probability of natural disasters 	<ul style="list-style-type: none"> - Weather - Epidemics - Earthquakes 			
Technological	<ul style="list-style-type: none"> • Telecommunication and communication systems 				

* Red colour highlights the factors have been problematic or have met with mixed opinions based on participants' responses.

As for internal factors, factors coloured in red (table 6.5) represent the less-considered factors. Mainly, they are coloured because participants from SAMA, the regulator for the Saudi insurance market, and actuaries are the participants who claimed that companies that had penetrated the market lacked these factors. Moreover, a number of other participants, CEOs and general managers, made the same claim about other insurance companies though not about their own companies. In fact, some CEOs and general managers did not mention some of these factors when asked about the internal factors they wanted to be their companies' strengths when penetrating the Saudi insurance market. Later, they pointed out these factors after being asked what internal factors they recommend new entrants would need to consider when targeting the Saudi insurance market.

Table 6.5: Observed variation around internal factors before and after penetrating the Saudi insurance market.

Internal factors considered when deciding to enter the Saudi insurance market		Recommended internal factors after operating in the Saudi insurance market	
Experience	<ul style="list-style-type: none"> • Experience in the business • Experience in the Saudi market • Experienced workforce • Experienced local partners 	Experience	<ul style="list-style-type: none"> • Experience in the business • Experience in the Saudi market • Experienced workforce • Experienced local partners
Human resources	<ul style="list-style-type: none"> • Sufficient numbers of Saudi workers in the workforce • Sharia committee 	Human resources	<ul style="list-style-type: none"> • Sufficient numbers of Saudi workforce • Sharia committee
Reputation	<ul style="list-style-type: none"> • Applying Islamic principles • Social responsibility 	Reputation	<ul style="list-style-type: none"> • Applying Islamic principles • Social responsibility • Assigning Sharia Committee • Claim handling
Capital	<ul style="list-style-type: none"> • Liquidity 	Capital	<ul style="list-style-type: none"> • Sufficient capital for expansion
Corporate governance	<ul style="list-style-type: none"> • Structure • Audit committee • Business strategy 	Corporate governance	<ul style="list-style-type: none"> • Structure • Audit committee • Business strategy
Internal control	<ul style="list-style-type: none"> • Information technology • Compliance 	Internal control	<ul style="list-style-type: none"> • Information technology • Compliance
Risk management	<ul style="list-style-type: none"> • Underwriting • Risk standards • Risk strategy • Risk management structure 	Risk management	<ul style="list-style-type: none"> • Risk standards • Risk strategy
Size	<ul style="list-style-type: none"> • Geographic visibility 	Size	<ul style="list-style-type: none"> • Geographic visibility
		Retention	

* Red colour refers to factors that have contradictory or different opinions among the three groups of participants.

These differences in opinions concerning external and internal factors confirm the uncertainty involved in market entry decisions (Morschett *et al.*, 2010). Uncertainty “refers to the unpredictability of environmental or organizational variables that have an impact on corporate performance” (Miller, 1993: 694). Uncertainty also refers to the lack of confidence in any knowledge obtained relating to the matter (Malhotra and Papadopoulos, 2007) and imperfect information (Jaffee and Russell, 1976). In other words, decision makers were not relying on concrete inputs or visible threats and opportunities. Instead,

they are mostly facing a high degree of uncertainty with regards to the external factors of a specific market, and, consequently, around the associated internal factors.

In this sense, market entry decisions are not as rational as the market entry literature suggests. Market entry decisions in the market entry literature are rationalised, and decision makers are assumed to respond to all conditions within the targeted markets based on objective information gathered in a systematic manner (Ellis, 2000), and ‘entry mode research has almost exclusively focused on rational choice models’ (Brouthers and Hennart, 2007: 415).

Theoretically, uncertainty has its roots in the majority of theories used in the market entry literature. For instance, one of the three main components of the TCA framework is uncertainty with regards to external and internal factors (Geyskens *et al.*, 2006). Scholars adopting this theory took the approach that uncertainty would affect the contractual solutions for firms entering markets. Yet, an optimal solution may be specified as “external uncertainty makes it difficult to specify in advance all possible contingencies in a contract, whereas internal (or behavioural) uncertainty makes it difficult to verify performance later” (Brouthers and Hennart, 2007: 403). Therefore, scholars have adopted different theoretical perspectives to specify sources of uncertainty. As a result, these scholars produced different sources of uncertainty; for instance, cultural distance and country risk for some researchers (Zhao *et al.*, 2004), or political risk, cultural distance and language for others (López-Duarte and Vidal-Suárez, 2010). Furthermore, the concept of country risk is not an extensively detailed concept that can be broken down into specific components to be investigated. Therefore, there is a variation in the specific factors tested by different scholars measuring country risk. Delios and Beamish (1999), for instance, focused on economic risk as a measure of country risk. Using other theoretical perspectives such as institutional theory, other scholars such as Pan (2002) focused on formal and informal institutional influences. However, theories such as TCA, OLI, RBV, and institutional theories, as adopted in this research, fail to highlight the role of decision makers in market entry and market entry mode selection (Schellenberg *et al.*, 2018).

Moreover, the limitations to these theories also resulted in the failure to understand how these decisions are actually made, and decision-making process (Schellenberg *et al.*, 2018). Studies into market entry and market entry mode provide a wide range of external and internal factors, but they rarely touch on the area of how these decisions are actually made (Shaver, 2013).

However, the answer as to how decisions, including market entry decisions, are made is explained in other theories that the market entry and market entry mode literature have seemed to have avoided for decades. Theories such as Models of Bounded Rationality theory and Upper Echelon theory explain the crucial role of managerial perspectives when making decisions. Both theories explicitly state the limited capacity of human cognition when making decisions, especially when decisions are made under uncertainty. These theories also explain the possible effects of bounded rationality such as the use of heuristics and biases.

However, this thesis, as supported by its findings, contradict the rational notion adopted by the majority of previous studies into market entry and market entry mode proving, empirically, that uncertainty is an inherent feature of such decisions. Therefore, studies into market entry and market entry mode decisions should always consider managerial perspectives. Although this research does not involve any empirical investigation concerning decision makers and the decision-making process, it stresses one of the associated causes, which is uncertainty, that could lead to certain behaviours by parties involved in making market entry decisions. This research is constructed around the idea that the current market entry literature is normative, where all models either ignore or fail to include such a deterrent in their proposed models, as intended for decision makers or fellow scholars. As a result, this research includes this component that of including managerial perspectives in the final theoretical framework.

6.2 Findings in relation with research objectives

This section discusses how the research objectives were addressed through the associated findings. The objectives of this research were designed as follows:

1. To explore external factors that have attracted insurance companies (industry-based) to enter the Saudi market (market-based) since 2003. Similarly, to explore the internal factors that encouraged these companies to enter this specific market.
2. To identify external and internal factors that insurance companies recommend that new entrants should consider, and to explain the relationships between these factors.
3. To shed light on possible managerial perspectives through an investigation of the variation between factors that attracted/encouraged these companies to enter the Saudi insurance market with those that new entrants were recommended to consider. In other words, this objective is the result of a comparison between

objective 1 (factors considered before operating in the market) and objective 2 (factors recommended for consideration after having operated in the market for a short while).

With regards to the first two objectives, the findings revealed a wide range of factors that cannot be explained by a single theoretical perspective. In terms of external factors, the findings showed that the overall external factors, in a more abstract sense, could be one or more of the factors highlighted by the PESTLE framework: political, economic, socio-cultural, technological, legal, and environmental factors. Moreover, more detailed factors were found to relate to one or more of these main factors in a multi-level construct. Finally, the findings support the approach that external factors in market entry and market entry decisions are country- and industry-based. Focussing on the Saudi insurance as explicitly stated in these objectives, the country- and industry-based approach is supported, as shown in the earlier sections of this chapter. For instance, the insurance industry was banned for decades in Saudi Arabia because of religious boundaries and beliefs. This issue within the Saudi context still has an influence on the insurance business; the findings indicate religious beliefs are still resulting in a low demand for non-compulsory insurance products.

In terms of internal factors, the findings indicate that the overall internal factors cannot be generalised for different industries. However, a guideline can be concluded to specify internal factors that could be influential when making market entry and market entry mode decisions. Specifically, it was found that internal factors are better allocated or specified through the influential external factors that pertain to a specific industry and specific context (country). For instance, insurance companies are forced to have a so-called ‘Sharia committee’ by the Saudi government in order to ensure that their products are based on Islamic Shari law. Yet, as explained above, insurance demand is mostly generated through compulsory insurance and there is little market demand for optional insurance products. However, insurance companies first had to search for qualified Sharia committees to meet this legal requirement; second, due to religious resistance, cultural factors influence, towards optional insurance products, some insurance companies in the Saudi insurance market have employed popular Islamic scholars as part of their Sharia committee, ‘buying’ increased credibility and trust among the Saudi Muslim population. As part of the second objective, the interrelationships between overall factors confirms this sense of internal factors being imposed by external factors

Finally, the findings of the first two objectives helped to address the third objective. In the first objective, the associated findings articulate the factors considered to be influential

before penetrating the Saudi insurance market. On the other hand, the findings also uncovered those factors considered to be influential after operating in the Saudi insurance market. As for the third objective, the associated findings are based on the variation between the findings of the first and second objectives. However, the findings of the third objective showed a great deal of variation. Before and after operating in the Saudi insurance market, the perception or consideration of influential factors by decision makers at insurance companies have differed considerably. Some factors were considered attractive prior to penetrating in the Saudi insurance market. Later, some issues or obstacles pertaining to these same factors were reported. In addition, certain other factors were not considered before penetrating the Saudi insurance market, but were recommended for the consideration of new companies targeting the Saudi insurance market. Section (6.2) in this chapter provides many examples of such variations.

To summarise, the findings reported in chapter 6 have fully addressed the research objectives.

6.3 Findings in relation with theoretical perspectives of this research

As explained in the literature review in chapter 2, this thesis rests on theories that are used in two different disciplines: the market entry literature and the analysis of decision making under uncertainty. The findings in this section are discussed in relation to the theories adopted from each of these disciplines. A theoretical framework is then presented as a result of the theoretical perspectives which explain the findings in this research.

6.3.1 Findings in relation with TCA, RBV, OLI, and institutional theory

Within market entry and market entry mode literature, different theoretical perspectives have been used but, TCA, RBV, OLI, and institutional theory are the most commonly used (Brouthers and Hennart, 2007; Laufs and Schwens, 2014; Wulff *et al.*, 2016). Besides being the most used theories, in this research, these theories are adopted together have a wider theoretical ground to explain external and internal factors making market entry and market entry mode decisions. Each theory is responsible of generating a specific stream of external and internal factors (Martín and Gaston-Breton, 2011). Thus, scholars such as Brouthers and Hennart (2007) and Brouthers (2013b) recommended adopting different theoretical perspectives in order to identify further factors that could explain market entry

and market entry modes. However, this thesis adopted such suggestion. At the same time, it is support through the findings.

As explained in the literature review (chapter 2), the vast majority of market entry studies have adopted a single theory, that of TCA (Brouthers and Hennart, 2007), and indeed a number of frameworks have been proposed based on the meta-analysis of TCA-based studies, such as that by (Zhao *et al.*, 2004). The TCA theory of Williamson is concerned with three factors, asset specificity, frequency, and uncertainty (Geyskens *et al.*, 2006). Uncertainty in this model or theory is problematic in terms of asset specificity, yet TCA lacks the inclusions or ability to identify all possible sources of uncertainty. Many scholars have tried to specify the various sources of uncertainty, but for the most part found that this was essentially a country-specific risk. This risk was considered and investigated effectively in isolation in each instance, which produced inconsistency between results. For instance, economic and political stability risks were found by Brouthers (2013a), whilst market size risks were found by Contractor and Kundu (1998). This inconsistency is a direct result of the limited theoretical perspectives adopted by these studies, and this is why other external factors remain ignored or unidentified. TCA cannot explain or explicitly express issues such as formal and informal factors within a specific culture. Based on the findings herein, there is a wide range of socio-cultural factors that have the potential to affect the decisions reached by insurance companies when targeting the Saudi insurance market. These cultural factors can be explained though an eclectic framework or OLI theory and institutional theory. However, besides the ability to explain cultural differences (Kogut and Singh, 1988), institutional theory is able to explain formal and informal effecting forces (North, 1990). Hasan *et al.* (2016) found and classified external factors under two main categories, namely those of formal institutional factors (economic, political, infrastructural, administrative) and informal institutional factors (cultural, knowledge, demographic, and connectedness). In this sense, the informal socio-cultural factors found in this research – such as trust, religion, and awareness – can be explained by institutional theory; by contrast, the external factors found in this research are better explained by OLI theory, as are factors related to the [physical] environment such as the weather and earthquakes. Based on OLI as developed by Dunning (1977), three main advantages – ownership, location, and internalisation – can determine market selection. Some of the findings of this research indicate that a number of insurance companies felt the very geographical location of Saudi Arabia to be advantageous because of the reduced probability of natural disasters (e.g., weather and earthquakes).

Similarly, TCA stresses the crucial influence of international experience when penetrating new markets. In fact, it tends to use international experience to measure the uncertainty associated with internal factors, and indeed this internal uncertainty decreases with better international experience (Anderson and Gatignon, 1986). Yet, experience in this theory is limited to the experience of the firm operating in different global markets. The findings of this research introduce new aspects of 'experience'. In addition to the firm's experience in the Saudi insurance market, it was also found that searching for experienced workers in the Saudi insurance market is costly, as only less experienced workers seem to be available. At the same time, it was found that the availability of an experienced Saudi workforce is influenced by religious beliefs (socio-cultural influences) that have seen insurance business as non-Islamic based business for decades; such business was not in people's interest to pursue and, thus, the Saudi education system does not support the insurance business in general within its various programmes. In addition, the Saudi government requires insurance companies to have a specific percentage of Saudi workers in their workforces (legal influence). Nevertheless, an explanation for the legal and socio-cultural factors would always be limited in studies based on a TCA theoretical perspective, which has been extensively adopted in the market entry literature. These legal and socio-cultural factors related to or affecting experience are best explained by OLI and institutional theories; this confirms the claim that more theoretical perspectives allow scholars to gain a wider consideration of many possible factors for specific industries within specific markets.

Reputation is another example that confirms the need of integrating theoretical perspectives in market entry and market entry mode studies. This internal factor is best explained by RBV as this theoretical perspective indicates the rare, valuable, hard to imitate, or unique resources that a firm possesses to be its competitive advantage (Wernerfelt, 1984; Barney, 1991). Again, this theoretical explanation is another example of why more than one theoretical perspective is needed for effective market entry studies. In summary, the country- and industry-based investigation of this research revealed further insights or underlined factors related to reputation.

Overall, external and internal factors found in this research cannot be explained through the prisms of only one or two theoretical perspectives. They are rooted within, or explained by, a number of different theoretical perspectives. Some of these factors can be explained through more than one of these theories, but it should be noted that some theories explain specific factors better than others. Limited theoretical perspectives would not help to better consider, screen, or understand all the possible factors of any given market, and indeed

further studies of market entries would just continue to provide the same limited understanding of any market realities. For instance, institutional theory is concerned with an institutional environment, and studies adopting this perspective provided different kinds of risks as based on specific factors of the host countries' markets. "Although these studies helped develop our understanding of differences in institutional environments between home and host countries and how these differences might influence the mode choice decision, they tend to lack a theoretical basis on which to select the risk factors to be included in each study. Hence, each study seems to use those risk factors that are deemed appropriate (or available) by the authors" (Brouthers and Hennart, 2007: 406). The explanation for different external and internal factors being explained through different theoretical perspectives in this research supports the recommendations made by different scholars, as mentioned earlier, to incorporate different theories investigating factors of markets into given contexts.

6.3.2 Findings in relation with behavioural or bounded rationality theories

The second set of theories used in this thesis is concerned with bounded rationality in decision analysis under uncertainty. Specifically, the Models of Bounded Rationality theory and Upper Echelon theory underpin this research with regards to managerial perspectives.

The use of these theories is in response to a major gap that was identified, namely ignorance of managerial perspectives, in the market entry and market entry mode literature. Studies in this domain have largely attempted to rationalise market entry and market entry mode decisions (McNaughton, 2001; Brouthers and Hennart, 2007; Schellenberg *et al.*, 2018). This ignorance of managerial perspectives is rooted in the theoretical perspectives used in this domain (Kumar and Subramanian, 1997; Brouthers and Hennart, 2007). Therefore, there is a lack of understanding as to how market entry and market entry mode decisions are actually made (Martin, 2013).

Moreover, these decisions are made under uncertainty where surrounding environmental factors are typically subject to dynamic change (Zhao *et al.*, 2004; Maitland and Sammartino, 2015). The findings of this research confirm the presence of such uncertainty and dynamic change within the Saudi insurance market. As shown in section (6.2) earlier in this chapter, there has been some considerable variation in opinions about the influence of external factors in the Saudi insurance market, and which is reflected in the

consideration of influential internal factors by companies that have entered the Saudi insurance market. For instance, the legal action taken by the Saudi government to pass new laws to regulate and control the market is considered attractive by most companies included in this research. At a later stage, namely after operating in the market for some time, companies started to witness certain different legal changes that have caused them some considerable difficulties. The Saudi government made certain amendments to insurance law, as started in 2003; one such example is that insurance companies were forced to move around 60% of their capital into the stock market. In addition, different governmental offices started to become involved in the regulatory environment, with each one becoming responsible for a specific set of rules and regulations. Internally, insurance companies have found themselves having to meet such rules through intensive internal control. However, some companies were unable to keep up with such continuous rule changes, as enacted by multiple regulatory bodies, and accordingly they faced costly legal penalties.

Overall, the findings particularly demonstrate how decision actors in these companies have changed their interpretations of influential factors before and after starting their operations in the Saudi insurance market. In other words, market entry and market entry mode decisions usually involve uncertainty, and it is generally difficult for decision actors to have the luxury of rational choice. However, this sense of uncertainty and its effects in decision making has no existence among theories used in market entry and market entry mode decisions (Brouthers and Hennart, 2007).

On the other hand, for many decision-making theorists such as Cyert and March (1963), uncertainty is considered a basic feature of organisational decision making. With uncertainty, decision actors cannot by definition act in perfect rationality (Cyert and March, 1963; Simon, 1976; March and Olsen, 1979; Hambrick and Mason, 1984). As a result of uncertainty in decision making, decision actors are subject to cognitive bias (Simon, 1976; Simon, 1982; Simon, 1997).

The use of cognitive bias is more expected in more complexed and uncertain situations, namely strategic decisions. Unplanned, non-programmed, complex, non-structured and non-rational decisions are some of the characteristics of a typical strategic decision (Cyert and March, 1963; Mintzberg *et al.*, 1976; Dean and Sharfman, 1996; Elbanna, 2006). At the same time, market entry and market entry mode decisions are considered to be strategic decisions (Benito and Welch, 1994; Canabal and White, 2008; Crick and Crick, 2016).

However, complex decisions are the results of behavioural factors (March and Simon, 1958; Cyert and March, 1963; Hambrick and Mason, 1984).

Decisions with regards to market entry and market entry mode decisions should not be excluded from this notion. The findings reveal how uncertain market entry and market entry mode decisions are, “complex problems involve uncertainty and ambiguity for decision-makers” (Schwenk, 1984: 111). In this sense, behavioural factors represent a major determinant in making such decisions. One aspect of these behavioural factors is the use of a cognitive simplifications process (Simon, 1982) to cope with uncertainty involved and limited information caused by it. In addition to cognitive biases, the various characteristics of decision actors could also play a role. As explained by Hambrick and Mason (1984) and Hambrick (2007), the values, experiences, and personalities of decision actors play a significant role in interpreting information in addition to the role of cognitive biases. He explicitly emphasised the consideration of these factors by executives and top management teams.

6.3.3 Theoretical framework for market entry and market entry mode studies

Based on the discussion above, a theoretical framework for market entry and market entry mode studies should be effectively decided by three main determinants: external factors, internal factors, and behavioural factors or managerial perspectives, as explained in figure (6.2).

External factors, known as environmental factors, come first in this framework. The organisational environment is defined as “the totality of physical and social factors that are taken directly into consideration in the decision-making behaviour of individuals in the organisation” (Duncan, 1972: 314). Duncan (1972) also argued that external environmental factors are those outside the boundaries of the firm, while internal environmental factors are those that fall within its boundaries. However, the process of scanning these factors when making market entry decisions should start with external factors through the ‘general’ and ‘task’ lenses (Bourgeois III, 1980). According to Bourgeois III (1980), the general lens is defined by overall conditions, such as the economic and political conditions in a specific market, while the task lens is that of the external factors in a given context but which have a more direct impact on the firm’s strategy, such as regulatory bodies and rivals. Therefore, external factors have to be identified after specifying the country that the company will be operating in, and the industry that will be competed in. In addition, these external factors

must be analysed or scanned with an additional lens, that is, the type of industry. Based on findings in this research and some previous studies, such as those by Contractor *et al.*, (2003) and Blomstermo *et al.*, (2006), external factors can be seen to vary based on the type of industry.

However, this step of scanning external factors is better achieved using the PESTLE analysis framework to gain a wider proxy of all possible external factors. As shown earlier by discussing the findings in terms of the theoretical perspectives used in market entry and market entry mode studies, each theory is limited to the generation and explanation of a specific stream of factors. Assets specificity, as pointed out through TCA theory, is more related to the contractual nature in market entry and market entry mode decisions which is a concern of legal factors. However, TCA fails to a large extent to introduce the role of cultural factors, which are best explained through institutional theory highlighting formal and informal cultural aspects or factors. In short, the PESTLE analysis framework leads to the consideration of the analysis of different theoretical perspectives and external factors.

After scanning external factors, two main determinants of these factors can be seen to act together; internal factors and managerial perspectives. As explained multiple times in this research and as based on its findings, external factors effectively specify the internal factors an organisation should acquire when penetrating a specific market (Zhao *et al.*, 2004). Therefore, internal factors should be analysed as based on external factors being previously scanned or examined. For instance, hot political issues in the targeted market might result in a reduced commitment of resources by an organisation, or indeed a refusal to commit in the first place. This responsive relationship considers internal factors at a later stage, after scanning external factors.

At the same time, the allocation of internal factors is influenced by how such objective external factors are perceived by decision actors. As indicated though the literature and confirmed by the findings in this research, market entry and market entry mode decisions are always made under uncertainty. Thus, in dealing with the uncertainty involved with external factors, decision actors are subject to cognitive biases (Simon, 1982), and their values, experiences, and personalities could also influence their interpretations (Hambrick, 1984).

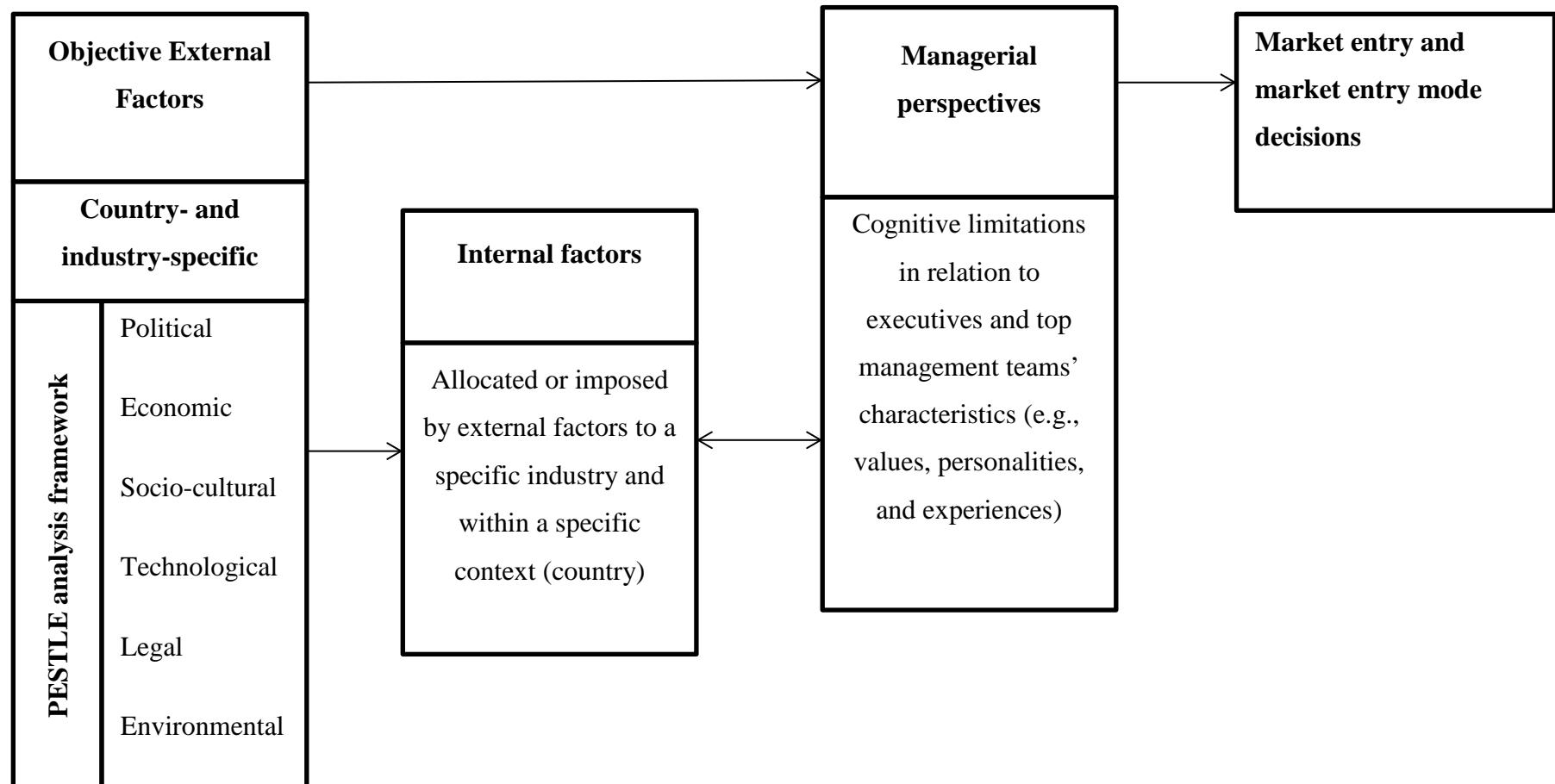


Figure 6.2: Theoretical framework proposed based on findings for all market entry and market entry mode studies

6.4 Conclusion

This chapter has provided a discussion of the results found in this research in three main areas: the findings in relation to the research questions and gaps, the findings in relation to the theoretical perspectives adopted in this research, and the findings in relation to the research objectives. In the first section, the findings were discussed in relation to the three main research questions, articulating multiple research gaps. Within this section, in terms of external factors it was shown that the existing literature presents a wide range of factors, yet it lacks a holistic approach (macro-environmental) due to the limited theoretical perspectives adopted in these studies. It also lacks a multi-level construct that shows what relates to what in terms of external factors. These two limitations are addressed in this research by employing the PESTLE analysis framework, providing evidence that the analysis of external factors should be performed on a country- and industry-specific basis. As for internal factors, the analysis of our findings provides further evidence that the consideration of internal factors should also be based on the market or country and the kind of industry and imposed by these external factors. The use of the Saudi insurance market confirms these requirements as there are a number of external factors within this specific market and industry that require the consideration of specific internal factors.

Moreover, the first section of this chapter included a discussion of the findings associated with managerial aspects, providing reasons for behavioural decisions. In particular, the findings clearly indicate the uncertainty involved in these decisions, and that market entry decisions are less informed under uncertainty. It also explained how uncertainty is addressed in the market entry literature, but studies rarely explain the role of decision makers and the decision-making process when making market entry decisions. As a result, this research stresses the need to include such a managerial perspective in models of market entry decisions.

In the second section of this chapter, the findings were discussed in relation to the theoretical perspectives adopted in this research. This section concludes with the design of a theoretical framework that should be adopted by studies inquiring into market entry and market entry mode decisions in the future. Finally, this chapter discusses the findings in relation to the research objectives. An explanation is provided as to how the three objectives of this research were met or addressed through these findings.

Chapter 7: Conclusion

This chapter aims to provide an overall conclusion of the research. The following discussion reviews the research aims, objectives, gaps, and how these gaps were addressed through the research design that was adopted in this research. This chapter also describes the contributions made by this research and its further implications before stating the limitations of this research in relation to any future work in this area.

7.1 Review of research gaps/aims/ and objectives

The aims and objectives in this research were designed after identifying the research topic, as based on gaps in specific areas of the literature. Thus, the following review explains the research topic within literature review through the research gaps highlighted in the literature review. It also explains how the research aims and objectives were designed and why they were designed in this manner as a response to these gaps.

7.1.1 Research topic in academic discipline in relation to research gaps

Within studies of international business, the topic of market entry and market entry mode decisions is a classic topic (López-Duarte and Vidal-Suárez, 2010) although it has been located in many different journals, 45 journals in the case of systematic review by Canabal and White (2008). Still, it is more of a common topic of International Business Studies journal and International Business review Journal as observed in different systematic reviews such as Zhao *et al.* (2004) and Canabal and White (2008). In their review paper, Canabal and White (2008) included 126 studies and found that this type of decision has been previously published in 45 different academic journals, but for the most part in the Journal of International Business Studies and the International Business Review, see table (7.1). Similar observations can also be noted through other systematic reviews such as those by Laufs and Schwens (2014) and Schellenberg *et al.* (2018).

Table 7.1: top 10 outlets (journals) for the research topic according to Canabal and White (2008)

Journal name	Number of articles
Journal of International Business Studies	34
International Business Review	11
International Marketing Review	5
Journal of Business Research	5
Journal of Management Studies	5
Management International Review	5
Strategic Management Journal	5
Journal of International Marketing	4
Thunderbird International Business Review	4
Entrepreneurship Theory & Practice	3
Multinational Business Review	3
Organization Science	3

Nevertheless, as explained in chapter 2, literature of market entry and market entry mode decisions involves number of limitations, which are highlighted in key theoretical and systematic review papers such as those by, Brouthers and Hennart (2007), Canabal and White (2008), Brouthers (2013b), Shaver (2013), Laufs and Schwens (2014), and Schellenberg *et al.* (2018). The following describes these gaps and how some of them give this topic a multi-disciplinary nature.

1- Market entry and market entry mode decisions are only based on two main determinants, external and internal factors, if one otherwise ignores behavioural factors or managerial perspectives. This gap has been noticed by various scholars in this domain of the literature. For instance, in his examination of entry mode decisions in the literature, Brouthers (2013b: 15) stated that “mode choice is a managerial decision, and managers might make decisions that are inconsistent with the framework being examined” and “our models do not normally capture these other decision-making factors, either because they are not known or because they are not measurable”. Thus, there is a clear lack of knowledge as to how market entry and market entry mode decisions are actually made (Martin, 2013; Shaver, 2013; Hennart and Slangen, 2015; Schellenberg *et al.*, 2018). In

other words, studies have largely ignored a third determinant that is likely to influence market entry and market entry mode decisions, namely that of behavioural factors or managerial perspectives.

However, the effects of behavioural factors in making decisions are the subject of other academic disciplines, in particular the **Psychology of Higher Cognitive Processes**. Studies cornering decision making under the notion of psychology are rooted in behavioural theories of decision making or bounded rationality theories. However, some of these studies such as Gigerenzer and Gaissmaier (2011) the application of heuristics depend on the type of context. Thus, these studies are reviewed with an additional lens which is the literature of strategic decisions. In this domain of literature, some types of cognitive biases are more likely to be used in strategic decisions (Vuori and Vuori, 2014). Because market entry and market entry mode decisions are strategic decisions in nature (Crick and Crick, 2016), in this research, cognitive biases are reviewed in relation with strategic decisions literature. Nevertheless, the theoretical perspective adopted in this discipline is used in this thesis to articulate this gap by introducing the behavioural factors from these domains of the literature into that of market entry and market entry mode studies.

2- Studies within literature of market entry and market entry mode decisions have focussed on a limited theoretical perspective, producing specific components of the associated external and internal factors (Brouthers, 2013). Each time a different theoretical perspective is adopted, a different stream of these factors is produced. Thus, the integration of multiple theoretical perspectives has been suggested by different scholars such as Brouthers and Hennart (2007) and Brouthers (2013b). At the same time, there has been a tendency in previous studies to focus more on external factors, with internal factors neglected in a relative sense within the literature.

3- Although market entry and market entry mode decisions are country-specific (external factors) and firm-specific (internal factors) (Brouthers and Hennart, 2007; Brouthers, 2013), systematic review papers, such as those by Zhao *et al.* (2004) and (Laufs and Schwens, 2014), have shown that a large number of the previous studies have focussed on multiple markets.

4- There is still some debate as to whether external and internal factors are, or should be, industry-specific. Although it has been argued for decades that factors which are influential in manufacturing are not similarly influential in the service industries, see Erramilli (1992),

the majority of previous studies have focussed on manufacturing industries, see the review paper by Zhao *et al.* (2004) and Canabal and White (2008). Furthermore, the service industries themselves are quite disparate in this same regard, where the influence of any given factor can vary considerably between them (Contractor *et al.*, 2003); an additional problem is that relatively little is known about the insurance business as a service industry within the market entry and market entry mode decision literature (Altuntas and Gößmann, 2016). Efforts in this regard are further hampered by the fact that those that have investigated the insurance industry suffer one or more of the above limitations.

5- Within limitations 3 and 4, there is scant evidence available about the Saudi insurance market in particular, and in keeping with limitation 4, studies that have included the Saudi insurance market themselves suffer one or more of the above limitations. For, instance, Hain (2011) focussed on the Saudi context but included different industries, including the Saudi insurance market. At the same time, the small number of studies that did adopt the country- and industry-specific approach by focussing on the insurance industry within the Saudi context provided few examples of the components (factors) affecting this industry in Saudi Arabia, see examples of these studies in table (4.2) section (4.2.1) in the methodology chapter.

Nevertheless, with regard to disciplines reviewed in this research, a number of specific aims and objectives were designed to address all the limitations described above.

7.1.2 Research aims and objectives

The aims and objective of this research were designed in such a way to address the above limitations or gaps. First, the aims of this research are:

1. To better understand the factors that do, or may, affect market entry and market entry mode decisions. The logic behind this aim is the literature indicates three particular forms of determinant: external factors, internal factors, and factors relating to managerial perspectives. However, as explained above, two determinants are empirically investigated, which are external and internal factors, while the third, managerial perspectives, has been ignored. The findings showed that behavioural factors must be considered.
2. To build a theoretical framework that improves market entry and market entry mode decisions.

In addressing these aims, and ultimately the research gaps, three objectives were designed as follows:

- 1) To explore external factors have attracted insurance companies (industry-based) to enter the Saudi market (market-based) since 2003. Similarly, to explore the internal factors have encouraged these companies to enter this specific market.
- 2) To identify external and internal factors that the current insurance companies recommend that any new entrants to the market consider, and to explain the relationships between these factors.
- 3) To shed light on the possible managerial perspectives through an investigation of the variation between factors that initially attracted/encouraged these companies to enter the Saudi insurance market and those that new entrants were subsequently recommended to consider. In other words, this objective is the result of a comparison between objective 1 (factors considered before operating in the market) and objective 2 (factors recommended to for consideration after having operated in the market for a short while).

First, the difference between the findings in the first objective and the second objective addressed the main gap, the role of managerial perspectives in market entry and market entry mode decisions. In the findings and discussion chapters, it was found, empirically, that these decisions are made under uncertainty. As a result, theoretically, behavioural factors such as the use of cognitive biases are particularly expected under uncertainty. In other words, there is a third determinant, behavioural factors, in additional to the other two determinants, external and internal factors.

Furthermore, the first and second objective addressed further gaps. A wide range of external and internal factors was revealed through the findings in this research. These factors were found to be explained from different theoretical perspectives rather than a limited theoretical perspective as commonly followed in previous studies. In addition, these factors were found to be country- and industry-specific in the case of the Saudi insurance market. Moreover, the factors revealed though this research indicate that certain factors are unique to the insurance industry, even among other service industries.

Finally, the internal factors were found to be imposed by the external factors for a specific industry within a specific context (country). PESTLE analysis was found to be suitable as a wider proxy through which to investigate the overall external factors that would enable one

Chapter 6 Discussion

might build into a multi-construct by identifying main and sub-factors and interrelationships between them and other internal factors as result.

In summary, the aims of this research have been addressed through these objectives, which stress that market entry and market entry mode decisions depends on three determinants: external factors, internal factors, and behavioural factors (first aim). Based on this, a theoretical framework, see figure (7.1), was developed (second aim).

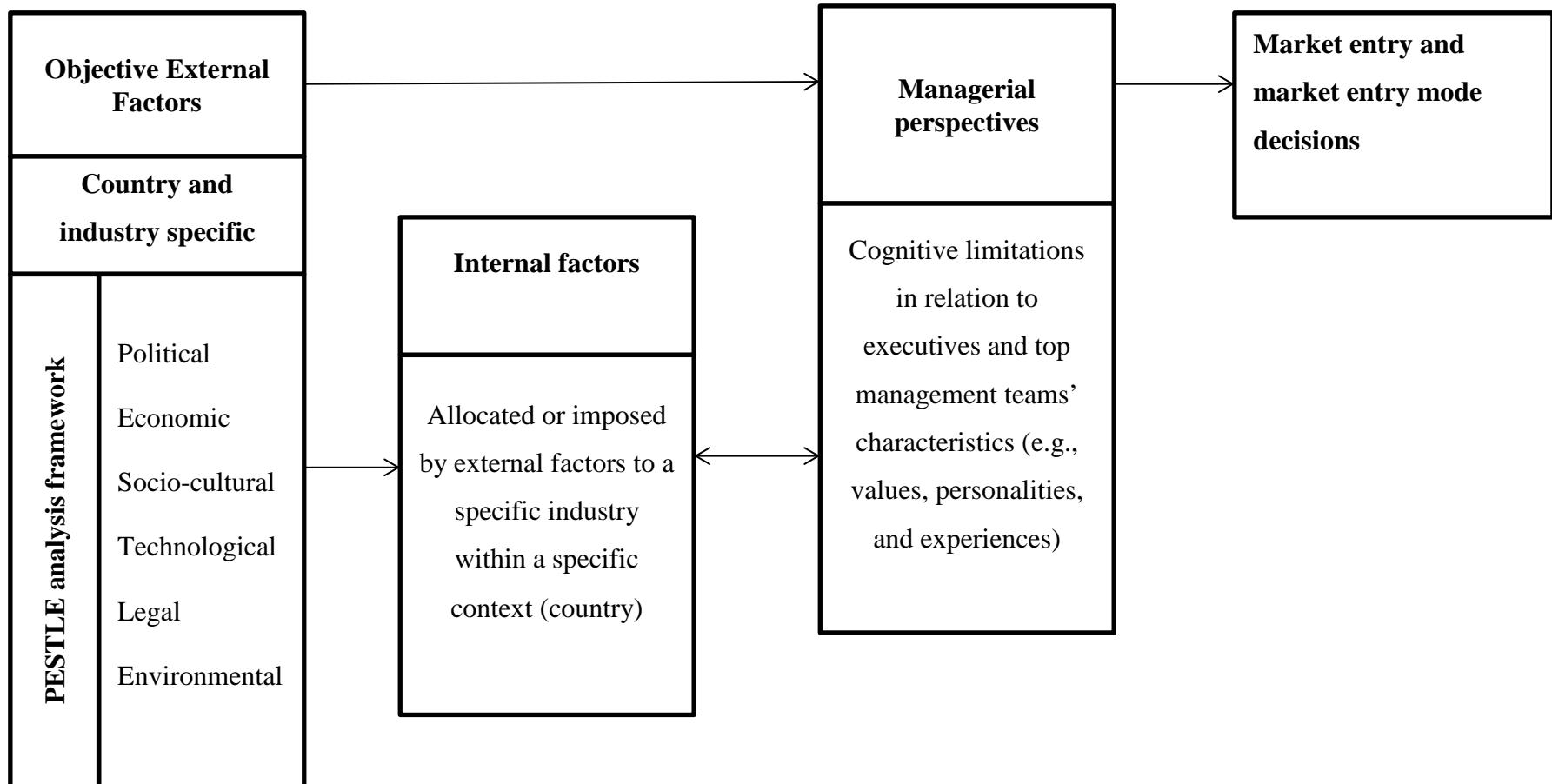


Figure 7.1: Addressing the second aim of this research by building a theoretical framework for market entry and market entry mode decisions

7.2 Research design and challenges involved

The above findings would not have been possible without the choices and decisions made when designing the methodology of this research. As explained in the methodology chapter, this research is based on an exploratory qualitative approach. This is because the philosophical position adopted in this research is that of interpretivism with regards to the phenomenon of market entry and market entry decisions. The philosophical assumptions behind this phenomenon are (1) on an ontological level, the reality in this research is based on complex contexts and multiple realities, some of which are socially constructed, and multiple meanings; (2) on an epistemological level, knowledge is based on the perceptions of social actors, namely decision makers in this research; and (3) on an axiological level, the researcher is not value-free.

Therefore, closer interaction with decision actors is considered to be crucial to understand how market entry and market entry mode decisions are made. In addition, based on particular conditions such as the type of research questions and on specific components such as the role of theory in this research and unit of analysis, this phenomenon was investigated through a case study research strategy using the case of the Saudi insurance market. That said, semi-interviews were designed to collect the data, and thematic analysis was employed to analysis the data and present the findings. After data was collected, several steps were employed to apply thematic analysis.

Overall, the choices made in the methodology chapter were based on a deep understanding of the research gap and the nature of the research topic. This methodological design enriched our understanding of how market entry and market entry decisions are actually made, highlighting behavioural factors. It also built a wider picture of the overall factors, external, internal and behavioural factors, involved in making these decisions. It also helped to demonstrate a more general classification or guidance to highlight external and internal factors. Apart from behavioural factors, the empirical results of this research provide a wide range of detailed external factors that have been demonstrated to be a country- and industry- specific that could be indicated starting with PESTLE analysis framework for external factors. Later, and based on these findings, a theoretical framework was designed which described how all three determinants should be adopted by studies into market entry and market entry mode decisions. Without the qualitative side of this research being used in addition to data collection and data analysis, achieving such a

summary would not have been possible. Instead, any findings would only have reflected particular components, or exhibited a certain ‘frailty’ in addressing the research problem.

7.3 Challenges conducting this research

During the process of conducting with this research, two types of challenges had to be dealt with: operational challenges and methodological challenges. The operational challenges were rooted to the data collection methods employed in this research.

7.3.1 Operational challenges

In conducting the research interviews, the researcher faced a number of operational challenges; one, specifically, was the problem of reaching out to some of the participants. As illustrated in the methodology chapter, the participants were chosen as based on specific criteria of the purposive sampling technique. However, at the beginning, reaching these participants, in particular those from insurance companies, through e-mail or official contact numbers at the beginning was not an option as none of their contact numbers was, or indeed is, available on their organisations’ webpages; the same was true even for their secretaries and assistants. Thus, the researcher had to travel to Saudi Arabia and approach the participants personally in their front offices through their personal secretaries. In addition, the researcher had to visit different cities in Saudi Arabia as some of the head offices of the insurance companies were not located in Riyadh, though the majority are. Nevertheless, most of these costly visits ended up without being able to meet participants in person to initiate contact and gain their initial approval, either because they were not in their offices at the time or were too busy to hold a meeting. Thus, it was agreed that the researcher would be allowed to contact them via e-mails that would be sent to their secretaries, and accordingly the business cards of these secretaries were collected. After sending the appropriate e-mails for forwarding to the CEOs or general managers in question, 13 replies were received, though some were apologies for not being able to take part in the research.

Therefore, the process of contacting participants reattempted but on this occasion with the help of other key participants that the researcher knew personally; specifically, these participants are some of the members of the General Department of Insurance Control at the Saudi central bank (SAMA), who helped the researcher to contact more participants. This is because the researcher had previously worked for the Saudi central bank for several

years and was still in contact with his former co-workers, including some in the General Department of Insurance Control. However, the researcher would have preferred to avoid such an approach to reaching participants, especially those at insurance companies (CEOs and general managers). This practice involved a huge risk that participants might feel that they were forced to participate by some of the most powerful entities in the Saudi insurance market, so honest and thoughtful answers during interviews might not be obtained. Therefore, the researcher had to determine some means of preventing participants from insurance companies feeling as though they had been forced to be part of this research.

The researcher asked for a hard copy of a letter written, signed, and stamped by a specific member of General Department of Insurance Control at SAMA, who also participated in this research himself. The content of this letter was a polite summary asking and encouraging particular people (i.e., CEOs and general managers) at the various insurance companies to participate in this research if their time allowed for such an interview. The individual who wrote the letter stressed that this study would help SAMA to understand the further issues these companies are struggling with in order to encourage them to participate.

After gaining this letter, the researcher personally visited these companies again, giving each secretary at each company a copy of the letter and a copy of the researcher's personal contact details. After this process, many participants confirmed their initial approval to participate through e-mail or by telephone. Despite this, many of these participants ultimately had to be excluded from the research due to the considerable delays that had occurred or because the contact process had stopped at that point; in some cases, no replies were received as to appropriate dates and times for interviews.

Finally, the researcher wanted to reach out to another group of potential participants, that of independent actuaries. However, the researcher had some difficulties in finding participants within this group based on the criteria of the purposive sampling technique used in this research. Thus, a snowballing sampling technique was applied. The same member of SAMA listed five independent participants that he believed would have sufficient knowledge and experience in the Saudi insurance market.

Overall, conducting the interviews reported in this research was costly and time consuming. Without help from certain members of SAMA, the number of interviews could

have been considerably fewer or the time required to collect a sufficient amount of data to allow for a confident analysis could have been much longer. The actual process of collecting data from the beginning, the initial contact with the potential participants, to the end, conducting the interviews, lasted seven months.

7.3.2 Methodological challenges

The main methodological challenges in this research stem from the use of semi-structured interviews and analysing data manually using thematic analysis. With such choices of methods, there are usually concerns about potential data quality issues such as biases when collecting and analysing the data, and the validity and reliability of any associated findings. These challenges represent the classical criticisms of social research in general, and those that are conducted qualitatively in particular. The following is a discussion of these challenges and how they were treated.

7.3.2.1 Strategy to control biases during data collection and data analysis

First, the researchers acknowledge the value-laden manner in which this research was conducted, but specific practices were employed to limit and control biases. These practices were applied throughout the data collection and data analysis as biases are more related to these areas of research (Easterby-Smith *et al.*, 2012; Saunders *et al.*, 2016).

To control biases during data collection, as explained in the methodology chapter, interview questions were designed around more general themes, as suggested by Saunders *et al.* (2016), that were derived from the market entry and market entry mode literature. Specifically, probing interview questions were based on two determinants: those external and internal factors that had influenced, and could influence, market entry and market entry mode decisions. For instance, one probing question was **“what external factors should new companies consider when targeting the Saudi insurance market?”** In other words, specific external factors such economic and legal factors were left to be determined by participants; more detailed questions were developed based on their responses.

Although the research has considered the period since the official beginning of the Saudi insurance market since 2003 and all major conditions that have affected or that drive the business, the participants were left to lead the interview discussion after each probing question. The researcher’s knowledge about the Saudi insurance market was used before

the actual and tape-recorded interviews were conducted to demonstrate the researcher's level of knowledge regarding the topic of the interview. This preview discussion was used as a key introduction to "encourage the interviewees to offer a more detailed account of the topic under dissection" (Saunders *et al.*, 2016: 401) because once the official interview starts, the researcher stops expressing any type of opinion so that biases are controlled by not directing answers towards any particular direction that the researcher believes should be discussed.

In terms of the data analysis, biases were controlled through the interpretation of the interview answers or responses. As illustrated in the methodology chapter, the first step in the analysis was to transcript all audio tapes. During this step, the transcription process "can be done at different levels of detail, from the "uhs," "ers," pauses, word emphasis, mispronunciations, and incomplete sentences of and apparently incoherent speaker (whose facial expressions, explanatory gestures, and tone of voice cannot be typed up), to a smooth, apparently straightforward summary of the main ideas presented by the speaker" (Miles and Huberman, 1994: 51). Transcription of data in this research, however, was based on *what* was said, rather than *how* it was said or expressed. To limit biases further, incomplete sentences were excluded so the research avoided the assumption of what the intending meaning in such sentences actually was.

In summary, the above discussion describes the practices were applied during data collection and data analysis to control the researcher's biases.

7.3.2.2 Trustworthiness of findings

Other methodological concerns about this research were related to the reliability and validity of the findings, which are collectively known as its trustworthiness.

7.3.2.2.1 Reliability (replicability or dependability)

Reliability refers to the ability of achievin the same findings by replicating the same research design (Saunders *et al.*, 2016). In this research, which is not an exempt to repeat other qualitative research efforts, reliability is not a concern for the researchers in terms of the specific external and internal factors highlighted in this research. As explained in various chapters in this thesis, environmental or external factors within markets, especially new markets, are generally in a state of dynamic change (Maitland and Sammartino, 2015). With such dynamic change, the issue of specifying internal factors would also be in a state

of continuous change because internal factors are largely imposed by associated external factors, as shown through the findings reported in this research. Thus, the replication of the findings of this research with regards to external and internal factors is not anticipated.

This research aimed to understand the overall factors that might influence market entry and market entry mode decisions. This phenomenon is complex because these decisions are usually arrived at under uncertainty due to the changing nature of environmental factors. With such uncertainty and change in organisations' environments, decision behaviours come into action through multiple decisions actors within each organisation.

The only window for claiming reliability in this research is that decisions about market entry and market entry itself are based on factors that do not otherwise lie outside the three determinants, external factors, internal factors, and factors regarding behavioural decisions; this sense is presented throughout the theoretical framework and concluded though findings of this research.

In other words, if this research were to be replicated using the same data collection and analysis methods, specific external and internal factors might be different if this replication in the longer term compared to the time over which this research was conducted. This expected difference would not be generated by methods used to collect or analyse data; instead this would be related to the changing nature of the environmental factors that can affect organisations. Moreover, decision makers' perceptions of these factors depend not only on the manner in which they change, but also on the changes among decision actors. In time, top management teams are subject to changes in their members who hold different goals that could influence the organisation's strategy itself (Cyert and March, 1963). Those new members have specific personal characteristics (e.g., experience and personality) that might affect their cognitive biases (Hambrick and Mason, 1984) and ultimately their interpretation of these factors.

To summarise, replicating the same research design used in this research would only produce similarity in terms of the main determinants that affect market entry and market entry decisions: external factors, internal factors, and behavioural factors.

7.3.2.2.2 Validity (credibility and transformability)

As explained in the methodology chapter, validity is the concern of credibility according to Lincoln and Guba (1985), and is known as internal validity according to Saunders *et al.*

(2016), whilst transformability, according to Lincoln and Guba (1985), is known as external validity according to Saunders *et al.* (2016).

Credibility, or internal validity, is not a major concern in this research. “The adaptation of internal validity to qualitative research is generally not seen as a problem since in-depth nature of qualitative methods means that the theoretical relationships that are proposed can be shown to be well grounded in a rich collection of data” (Saunders *et al.*, 2016: 205).

Using semi-structured interviews in this research, interview questions involved prodding questions that were shaped and designed around two determinants. These determinants are rooted and explained from different theoretical perspectives. The rich data collection in this research brought these themes or determinants, along with their theoretical grounds, together through the findings reported in this research. Of particular importance is the fact that this research incorporates the theories of bounded rationality in decision making with theories that are commonly used in the market entry and market entry mode literature.

However, one particular tactic was applied during data collection to provide improved data quality and empower internal validity, triangulation of data source. This tactic, as suggested by scholars such as Lincoln and Guba (1986) and Miles and Huberman (1994), was applied to increase the validity or credibility by using different sources of data. As explained in the methodology chapter, the data reported in this research was based on primary data derived from semi-structured interviews. The non-probability sample in this research involved three groups of participants. The first group were participants from insurance companies, namely CEOs and general managers, due to their direct involvement in decision making. The second group were members of SAMA, the main official regulator of the Saudi insurance market, while the third were specific independent actuaries from advisory offices.

At the same time, these themes were explored qualitatively from the field to provide a rich understanding of how they were constructed and interrelated with each other, classifying them as top, main factors, to bottom, sub-main factors (hierarchical structure). This understanding was reached through the specific steps explained and suggested through the systematic analysis suggested by Braun *et al.* (2015). The application of some of these steps was enabled through other scholars of thematic analysis, such as Saldana (2016).

As for the **transformability** or external validity, the findings of this research can be generalised to some extent. The final theoretical framework produced, as based on the

findings of this research, consisted of three main themes of determinants: external factors, internal factors, and behavioural factors. On the one hand, these determinants should be the same for all market entry and market entry mode decisions, regardless of the context of the market and type of industry. On the other hand, specific or detailed factors, specifically those related to external and internal factors, cannot be generalised. As argued in the literature review, and empirically demonstrated in this research, these specific factors could vary based on the context of the host market and type of industry. Thus, the detailed findings relating to external and internal factors cannot be transformed to another context or type of industry.

7.4 Contributions

The contribution of this research is explained at different levels: theoretical, methodological, contextual and practical. These contributions are listed from the most important contribution to the least important contribution.

7.4.1 Theoretical level

Regarding the research gaps highlighted through the literature relating to market entry and market entry mode decisions, one major gap was the ignorance of managerial perspectives (Schellenberg *et al.*, 2017). In previous literature, market entry and market entry mode decisions are treated as rational decisions. Although this gap has been proposed for a long time; see Benito and Welch (1994) and Maignan and Lukas (1997), we still lack the empirical knowledge of how these decisions are actually made, see studies such as Martin, (2013), Hennart and Slangen (2015), and Schellenberg *et al.* (2018). Thus, previous studies “almost exclusively focused on rational choice models” (Brouthers and Hennart, 2007: 415).

However, in this research, this type of decision was not different from that of any other strategic decision. It was found that these decisions were made under uncertainty, and indeed such findings have been proposed by many scholars such as Werner *et al.* (1996) and Morschett *et al.* (2010). This finding necessitates the inclusion of behavioural decisions in market entry and market entry mode decisions. Thus, based on the findings, a theoretical framework was built by incorporating another theoretical stance to those that are commonly used within the market entry literature. Specifically, this theoretical framework incorporates some of the concepts of bounded rationality theories, namely the

models of bounded rationality theory and upper echelon theory. By doing so, studies of market entry and market entry mode decisions, besides external and internal factors will have to look for, and consider, behavioural factors such as cognitive simplification processes (Simon, 1982). They will also have to consider decision actors' characteristics, such as experience and personalities, as these characteristics could influence their interpretations of the information provided for any given situation (Hambrick, 2007).

Moreover, this research addressed another gap related to theoretical perspectives that has been commonly used within the market entry and market entry decision literature. In market selection studies, “theory development has been impeded by a high degree of fragmentation, which has resulted in various different streams studying the same general issues from widely different perspectives” (Martín and Gaston-Breton, 2011: 132).

Although the literature about market entry and market entry mode involves a wide range of theoretical perspectives, these theories are not often integrated among studies. Thus, a wide range of factors were found that lack a holistic approach and censuses. Most studies used the TCA theoretical framework (Brouthers, 2002; Brouthers *et al.*, 2008; Chen and Chang, 2011); however, TCA does not perfectly tackle other factors, such as institutional and cultural factors (Kogut and Singh, 1988; Delios and Beamish, 1999; Brouthers, 2002).

Lately, many studies have used institutional, OIL or RBV theories, but very few of these studies have used more than one theory. Studies of each theoretical perceptive have mostly produced factors that are different from those reported by other studies that followed other perspectives. Hence, the inconsistency between results is not necessarily because of scholars using the wrong theoretical perspectives; instead, it is because they are using limited ones. Furthermore, scholars in market entry and market entry mode studies tend to use factors produced by previous studies, which already lack theoretical integration. In this case, the same theoretical limitation continues to produce the specific streams of factors regarding each study. Using the institutional theory, for instance, “Each study seems to use those risk factors that are deemed appropriate (or available) by the authors” (Brouthers and Hennart, 2007: 406).

In this research, TCA, OLI, RBV and institutional theories were used; each explains at least one of the factors found in this research. For instance, socio-cultural factors such as the role of religion have been shaping other factors formally and informally. In a formal aspect, a factor like religion shapes the Saudi legal framework (legal factor) and its institutions (political factor). In an informal aspect, religious beliefs have been creating less

demand for specific insurance products such as life insurance. These formal and informal aspects regarding cognitive and norms among societies are the core concept of the institutional theory by North (1990), which other theories such as TCA fail to explain clearly. Moreover, the use of the PESTLE analysis framework opened up the venue for this research to highlight different streams of factors that are explained by divergent theoretical perspectives.

7.4.2 Methodological level

In market entry studies, most research has adopted the quantitative approach (Ellis, 2000). This is because scholars in market entry and market entry mode studies tend to use factors produced by previous studies, which already lack theoretical integration. In this case, the same theoretical limitation continues to produce the same specific streams of factors regarding each study. Using the institutional theory, for instance, “Each study seems to use those risk factors that are deemed appropriate (or available) by the authors” (Brouthers and Hennart, 2007: 406).

Another possible explanation for this tendency towards quantitative research methods is that most studies of this type have been conducted mostly in the Western world. These studies have provided a wide range of factors that further studies have hypothesised and statistically tested. However, most developed markets are located in Western countries, and developing or emerging markets are not similar to developed markets. They differ in terms of many external aspects such as political, legal, economic and cultural environments (Ghauri and Holstius, 1996). Much is known about these factors within the developed, Western countries, but little is known about other developing countries. In addition, most studies tend to investigate underdeveloped markets; they follow streams of factors produced in studies conducted within Western markets, such as (Hain, 2011). As much as a quantitative approach is critical and provides solid ground for validity, it does not reflect on or draw the whole picture of all the factors that need to be considered when investigating specific markets. The exploratory nature of this research provided a much deeper understanding of a developing country, Saudi Arabia. It also uncovered different factors that have not been explored by other studies conducted in the overall market entry literature or market entry studies focusing on the insurance business (e.g. retention as an internal factor).

7.4.3 Contextual level

From a practical point of view, this research enriches and improves the state of knowledge of the market entry literature in divergent directions. These directions will create more debate about the state of the field and draw directions for other researchers to follow or test.

First, it provides a more holistic approach or tool investigating external factors and specifies guidelines investigating internal markets. For external factors, this research used the PESTLE analysis framework to highlight main external factors. In addition, this analysis framework, as found in this research, helped to list all the different external factors in a more classified structure (multi-level construct). Until another tool or approach is suggested and empirically tested, this approach facilitates the screening or searching process for external factors in a given context. The dependency on systematic review papers that summarised previous empirical evidence suffers serious problems. On one hand, studies they include or provide results that are based on a limited theoretical perspective. As a result, each single study they include is concentrating on specific streams of factors that are similar to most other studies included in their systematic review papers. For instance, Schellenberg *et al.* (2018), in their systematic review paper, summarised four main factors: cultural differences, environmental uncertainty, market attractiveness and legal environment. In this research, with the help of the PESTLE analysis framework, six main factors were found to be influential in market entry decisions. Indeed, the literature review provides evidence for all these six factors. The use of PESTLE actually tidies these factors, giving them the right reference in terms of meaning. For instance, *environment uncertainty* could refer to uncertainty regarding an external factor (e.g. legal conditions, economic conditions, cultural conditions and political conditions). Yet Schellenberg *et al.* (2018) categorised environmental uncertainty as a separate external factor besides others such as the legal environment. Similar to the uncertainty environment, market attractiveness could be developed concerning economic conditions, an improved legal structure and regulations regarding all industries. In addition, these main factors that are proposed, found and sometimes tested through systematic review studies do not extend these main factors into more related factors. In other words, they do not build a clear tree of related factors that could fall under each main factor, in which case, other practitioners search again for these related factors in the literature. For economic factors, for instance, the exchange rate was found to be influential for Pan (2002), while it is GDP for Delios and Henisz (2000). Both studies hypothesised and tested these two factors based on previous studies, but could they have found other economic factors such as individual

income influential as well? They did not include other economic factors or explain why other factors were not included.

The last issue, providing exchange and GDP separately as parts of economic factors, shows how scattered main factors and their related factors are in literature. Therefore, the PESTLE analysis provides a wider proxy in which all related factors (categories and sub-categories) could be classified into main external factors (a multi-level construct in a hierarchical way).

Another fragmentation this research is improving and highlighting for further research and assessment is country- and industry-specific. For country specification, a large number of studies in the market entry literature are focusing on multiple countries, and most studies that focus on one single country are mostly investigating developed countries. This is best seen in systematic reviews and meta-analysis studies such (Zhao *et al.*, 2004). The evidence of this research supports country-specific research especially for emerging markets, which some scholars such as (Luo, 2001) have suggested.

For industry specification, there is no total agreement yet whether the factors that matter for manufacturing are similar to service firms. There is a contradiction about claims and results, although most studies have focused on manufacturing industries. The evidence within this research supports this claim and empirical evidence. See Blomstermo *et al.* (2006) that these factors are not similar. Furthermore, focusing on the insurance business only, this research adds another block to the growing grounds of the argument and research about whether factors are differentiated within the service industry.

As for internal factors, this research supports the little evidence concerning the variation of internal factors based on country and industry. In the literature, there is an imbalanced investigation level between external and internal factors; massive attention has been dedicated to external factors. This unequal concentration is because of the lack of specific guidelines for internal factors, which this research provides. As the findings of this research prove, there are a good number of internal factors that are imposed by specific external factors that seem unique to the Saudi context. Some of these internal factors are similar to other internal factors in other industries, but they are more classically found within the insurance business literature. Therefore, this research suggests a country- and industry-specific guideline investigating internal factors that matter in market-entry decisions.

By following these approaches, this research adds rich insight about a specific industry, insurance, within a specific context, Saudi Arabia. A few studies have investigated the Saudi insurance market before, but they have suffered one or more problems or limitations introduced in this research. For instance, few scholars have studied factors that influence insurance demand and included the Saudi insurance market in their research, such as Enz (2000), who focused on external factors, and Ozturk *et al.* (2015), who studied external and internal factors. However, these studies were conducted quantitatively, focusing on specific streams for different countries. Some other studies focused solely on the Saudi Arabian context, but for different industries, including the insurance business, such as Hain (2011). As found in this research, there is a strong indication that factors vary based on the context, country and kind of industry.

Finally, this research illuminates an important aspect that the market entry literature remains empirically silent about. Namely, this research addresses the managerial perspective that could play a role in making market-entry decisions. This research by, theoretically, borrowing evidence from strategic decision making (SDM), empirically providing one cause, uncertainty, that could influence market-entry decisions and brings more debate concerning this aspect.

7.4.4 Practical and policy level

This research draws a bigger picture about conditions regarding the Saudi insurance market that could benefit decision makers. Namely, the conceptual framework proposed, see table (7.2) based on these findings addresses different external and internal factors that need to be considered by *decision makers* targeting the Saudi insurance market. In addition, this conceptual framework is followed by a table of interrelationships, see table (5.25) in Section 5.2.3.3; this table explains why and how these factors should be considered, stressing opportunities and threats or concerns in this market. This framework might be useful for insurance companies in other countries that are relatively similar to the Saudi context. Furthermore, it might be helpful for similar industries in Saudi Arabia.

Table 7.2: Factors insurance companies need to consider targeting the Saudi insurance market

External Factors	Internal Factors
Economic <ul style="list-style-type: none"> ➤ Economic growth rate ➤ Governmental spending ➤ Individual income ➤ Market growth <ul style="list-style-type: none"> - Less demand for optional insurance - Many insurance providers 	Experience <ul style="list-style-type: none"> ➤ Experience in the business ➤ Experience in the Saudi market ➤ Experienced workforce ➤ Experienced local partners
Legal <ul style="list-style-type: none"> ➤ Improved insurance regulations ➤ Saudisation ➤ Many regulators 	Human resources <ul style="list-style-type: none"> ➤ Sufficient Saudi workforce ➤ Sharia committee
Political <ul style="list-style-type: none"> ➤ Political stability ➤ Government involvement in the business ➤ Government actions toward better business environment 	Reputation <ul style="list-style-type: none"> ➤ Assigning Sharia Committee ➤ Claim handling
Socio-cultural <ul style="list-style-type: none"> ➤ Social ties ➤ Religion ➤ Awareness of insurance benefits ➤ Population 	Capital <ul style="list-style-type: none"> ➤ Islamic surplus management ➤ Sufficient capital for expansion
	Corporate governance <ul style="list-style-type: none"> ➤ Structure ➤ Audit committee ➤ Business strategy
	Internal control <ul style="list-style-type: none"> ➤ Information technology ➤ Compliance
	Risk management <ul style="list-style-type: none"> ➤ Risk strategy ➤ Risk Standards
	Size <ul style="list-style-type: none"> ➤ Geographic visibility
	Retention

On a policy level, this research demonstrates different issues that could be improved by **policy makers** in the Saudi insurance market. As findings suggest, the legal framework, especially the insurance legal framework, needs more improvements and less involvement of multiple regulators. The Saudi insurance market lacks the stimulation to increase the insurance demand, and this problem is exacerbated when other insurance companies enter the market. The capacity of the market is full in comparison with current demand. Not giving new licenses in the short term, at least, would make the market more attractive for

new investors or entrants. Continuing to give licenses, especially for local companies meeting minimum legal requirements, would damage the image of the business, which is still damaged among the public. Part of the legality issue is floating part of their capital into share markets, posing a real danger or problem for insurance companies. The share market is sensitive to different factors including companies' reports, and new entrants might not report profits in the first few years. That being said, reputation of insurance business is not good among the public due to historical events, and this requirement might decrease the demand. If policy makers put a time of withhold, legalities should improve, the current companies recover from some losses, awareness among customers become better, and then reputation of the business overall become better.

7.5 Limitation and further research

This research involves some limitations that could be focused on and improved in the future. First, this research has included all insurance companies in the Saudi insurance market, and these companies vary in terms of size and level of products diversification. In literature, the size of enterprises has its direction among many studies. Much of these studies focused on large companies, while small, medium, and large-sized companies have different characteristics (Laufs and Schwens, 2014). To enter a market, companies choose different entry modes based on level of control they desire (Anderson and Gatignon, 1986), risks they could bear, and resource commitment degree needed (Hill *et al.*, 1990). As seen in this research or the case of this research, insurance companies are limited in terms of market entry mode. Based on legal rules for the Saudi insurance market, the only available choice for non-Saudi companies is joint venture mode with limited ownership. Although the size of the firm found to matter and some participants recommended enough resources to expand in the Saudi insurance market, this research dose not relate answers of participants to size of their companies. The differentiation of answers for participants based on size of their companies, other factors should be included in this variation process. For instance, the level products concentration has to be included as well. Factors influence the demand for life insurance are different from others influencing non-life insurance. The inclusion of such a firm's characteristics was limited, principally because the anonymity of the participants was guaranteed in this research; for instance, if data was linked to the types of products these insurance companies provide, the identities of some of the participants could then be tracked. To illustrate further, in the Saudi insurance market there is only one insurance company that focusses exclusively on health insurance products, so if one of the

findings in this research was linked to the type of insurance product each company provides, the identity of the participants from this company could be deduced.

However, it is known for fact now that small, medium, and large-sized companies entered the Saudi insurance market through the same market entry mode, joint venture. This contradicts with results in studies of market entry and market entry mode such as (Hill *et al.*, 1990). This contradiction brings a valuable opportunity for further research. For much better insights, a comparison study of three companies, small, medium, and large-sized companies will uncover whether specific factors are more related to specific size of companies or not. It will also identify factors found in this research are classical or shared among all sizes of companies, and which are unique for specific size. The foundation of factors explored in this research set the ground for more quantitative examination. If it was not anonymity promised and provided to participants in this research, factors could have been linked to each company, and this could have highlighted factors based on different characteristics of companies (e.g. size, performance, and concentration of insurance product/s). Overall, it is a promising chance to investigate these factors in relation to firms' characteristics.

The second limitation in this research is the inability to investigate, empirically, the influence of decision makers and decision-making process on market entry decisions. First, because of a practical difficulty, this research included only two participants or decision makers from each company, and this would not serve the aim of investigating managerial perspectives. As noted by Hambrick and Mason (1984), there is an important others top management team members in making strategic decisions. Therefore, it would be inadequate to investigate the role of managerial perspectives based on evidence from two members. At the same time, one main question in this research is "How market entry and market entry mode decisions are actually made?" To answer that, different opinions had to be included to enrich the knowledge about this problem being investigated in order to, empirically improve gaps around the other two determinants, external and internal factors. Although findings about uncertainty managed to shed a light, theoretically, on managerial perspectives, this research did not investigate how uncertainty affected decision makers or decision-making process. In other words, the exact behavioural factors (e.g., cognitive simplification process) applied by decision actors as a result of uncertainty was not empirically specified. To investigate such factors, an experiment study has to be designed with help of psychologists. Second, decision makers at insurance companies might not take

part in such experiments because managers are reluctant to participate in psychological tests (Hambrick and Mason, 1984). In short, investigating behavioural factors would require more experts in other fields, namely psychology, and the study would have been at risk of taking considerably more time than was otherwise available for this thesis. Therefore, the knowledge regarding market entry decisions should be shifted to further empirical investigation about managerial perspectives or exact behavioural decisions could be applied in market entry and market entry mode decisions.

Besides suggestions above, which are related to limitations explained, it might be a great contribution if further research focuses on specific cognitive limitations could be applied by decisions actors during market entry and market entry decisions. As argued by Gigerenzer and Gaissmaier (2011) different heuristics are applied based on type of decisions, it would be insightful if future research examine heuristics and biases that are found in the strategic context, as found by and found by Vuori and Vuori (2014), are the same in market entry and market entry mode decisions. In addition, it would be more insightful if heuristics and biases are linked to top management team's characteristics as suggested by Hambrick and Mason (1984) to examine if these characteristics modify or differentiate the use of heuristics among decisions actors.

7.6 Conclusion

Within this chapter, a reflective overview of the whole research was provided about the research aims, objectives, and gaps that are addressed though the chosen research design. In addition, it included an overview of research contributions and limitation in relation with further research. This research has resulted in a theoretical framework that incorporates a number of different theoretical perspectives for application in studies of market entry and market entry mode. In addition, this theoretical framework stresses on the country- and industry-based approach or guideline searching for external and internal factors. Finally, this research has built a details grounding for the Saudi context and the insurance industry within this context, so further studies would be able to benefit from the specific factors highlighted within the findings in this research and to further examine them; this examination could also benefit from the interrelationship between these factors that was provided thorough the findings in this research.

Appendices

Appendix 1 – The Saudi population based on administrative area¹⁵

Administrative Area	Total	Females	Males	Non-Saudi	Saudi
Al-Riyadh	8,216,284	3,352,018	4,864,266	3,557,962	4,658,322
Makkah Al-Mokarramah	8,557,766	3,693,182	4,864,584	4,041,189	4,516,577
Al-Madinah Al-Monawarah	2,132,679	938,251	1,194,428	756,435	1,376,244
Al-Qaseem	1,423,935	602,625	821,310	414,392	1,009,543
Eastern Region	4,900,325	1,958,849	2,941,476	1,759,963	3,140,362
Aseer	2,211,875	1,001,739	1,210,136	461,744	1,750,131
Tabouk	910,030	398,617	511,413	187,366	722,664
Hail	699,774	313,564	386,210	161,675	538,099
Northern Borders	365,231	164,049	201,182	76,310	288,921
Jazan	1,567,547	718,898	848,649	360,278	1,207,269
Najran	582,243	259,365	322,878	144,202	438,041
Al-Baha	476,172	221,645	254,527	93,734	382,438
Al-Jouf	508,475	219,061	289,414	128,724	379,751
Total	32,552,336	13,942,863	1,710,473	12,143,974	20,4080,362

¹⁵ <https://www.stats.gov.sa/en/854-0>

Appendix 2 – The Saudi population based on age group¹⁶

Age Group	Total	Females	Males	Non-Saudi	Saudi
0-4	2,729,420	13,38,056	13,91,364	558,256	2,171,164
5-9	2,829,879	1,388,283	1,441,596	708,104	2,121,775
10-14	2,480,081	1,218,464	1,261,617	580,559	18,99,522
15-19	2,261,756	1,107,108	1,154,648	472,587	1,789,169
20-24	2,521,971	1,179,394	1,342,577	503,914	2,018,057
25-29	3,106,310	1,393,713	1,712,597	1,169,910	1,936,400
30-34	3,142,086	12,99,730	18,42,356	13,94,354	1,747,732
35-39	3,495,921	1,311,434	2,184,487	1,968,402	1,527,519
40-44	3,124,863	1,137,967	1,986,896	1,840,530	1,284,333
45-49	2,322,766	793,049	1,529,717	1,252,612	1,070,154
50-54	1,622,877	517,043	1,105,834	769,796	853,081
55-59	1,122,377	381,069	741,308	466,536	655,841
60-64	741,144	279,657	461,487	261,810	479,334
65+	1,050,885	496,896	553,989	196,604	854,281
Total	32,552,336	13,831,863	18,710,473	12,143,974	20,408,36

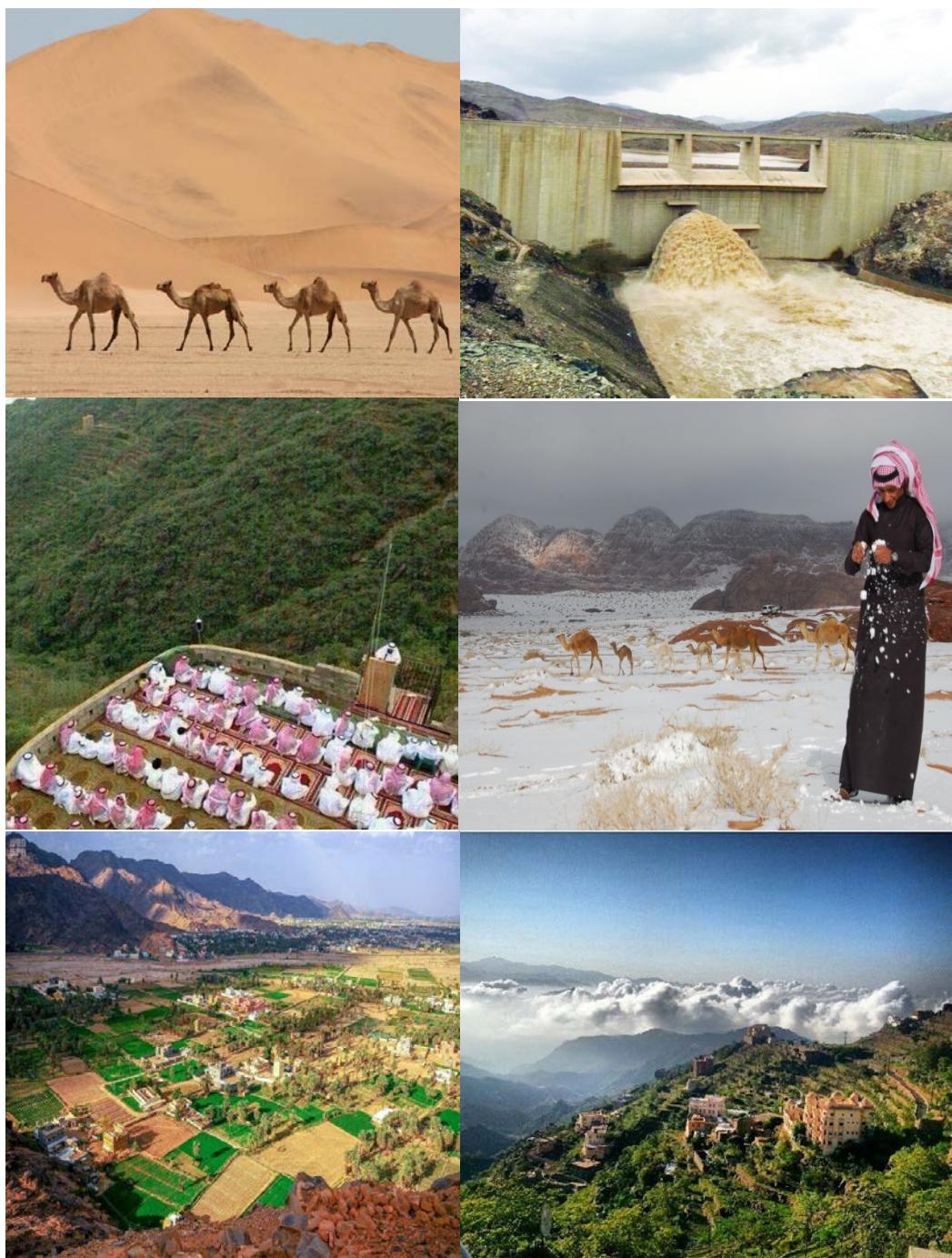
¹⁶ <https://www.stats.gov.sa/en/854-0>

Appendix 3 – Variation in temperature for two cities located in different regions in Saudi Arabia

Central Region (Riyadh)			
Element	Mean	Max	Min
Winter	15	16.6	12.6
Summer	35.5	36.8	33.8
Southwest Region (Abha)			
Winter	19.4	22.1	15.5
Summer	24.3	27.3	18.8

*This table is result of study by Tarawneh and Chowdhury (2018).

Appendix 4 – Different landscapes of Saudi Arabia¹⁷.



¹⁷ [* http://www.bucurestifm.ro/wp-content/uploads/sites/2/2018/01/Maroc-ninsoare.jpg](http://www.bucurestifm.ro/wp-content/uploads/sites/2/2018/01/Maroc-ninsoare.jpg) *
http://b.top4top.net/p_398fhz431.jpg * <http://www.sauditravel.com/wp-content/uploads/faifa-Mountains.jpg>
* <https://makkahnewspaper.com/uploads/images/2017/04/01/741715.jpg> *
<https://vid.alarabiya.net/images/2018/09/01/c03dd69f-1811-4db1-b5ba-6af7d616fa7f/c03dd69f-1811-4db1-b5ba-6af7d616fa7f.jpg> * https://twasul.info/wp-content/themes/twasul/timthumb/?src=https://twasul.info/wp-content/uploads/2016/07/13606492_1729622110632692_7050872075714450355_n-1.jpg&w=472038&h=

Appendix 5 – Number of insurance of companies operating in the Saudi insurance market and their sizes based on number of employees

Company	Size (Number of employees)			
	51-200	201-500	501-1000	1001-5000
Tawuniya				✓
Bupa Arabia			✓	
Medgulf			✓	
Malath Insuranc		✓		
AlRajhi Takaful			✓	
AXA Cooperative		✓		
Walaa		✓		
Trade Union	✓			
Allianz SF		✓		
UCA			✓	
SAICO		✓		
Arabian Shield		✓		
Salama		✓		
WAFA Insurance		✓		
ACIG		✓		
Wataniya	✓			
Buruj			✓	
AICC	✓			
ATC	✓			
Alinma Tokio M		✓		

Al Alamiya				
Gulf Union		√		
Solidarity	√			
Gulf General			√	
CHUBB	√			
METLIFE AIG ANB	√			
SABB Takaful	√			
Sagr Insurance		√		
Amana Insurance	√			
Al-Ahlia		√		
Enaya	√			
Jazira Takaful		√		

*Data in this table is retrieved from the Saudi stock market known as Tadawul¹⁸.

¹⁸
https://www.tadawul.com.sa/wps/portal/tadawul/markets/equities/indices/today!ut/p/z1/rZLRTsIwFlafppfQM1hAvVslzJUlgjCYvVIKV6Vxa5f24NCnt3BHokOi564535em_1_KaE6Z5u_qlaMymlf-MxGxWAwuQluQ0ghHQcQjWJlFo_hMJ4B3XQBEAeUXeXHyXwMOSK6X8_WK-8P_-ZD-DsffpgILvkPlwCf4A6xuSNAoG3bvtWFwFqAoe60o5AY01JoOTI8aORBITRKDUSsNKZvRWyJ0xVSXEsxFEmdtxigdypQuyt9WTh_NJYmq-SZfLf1yHfJrqUB5qnyqEsJ6ZuuFbS-eBY59PnQTdw-hvnwDfldwLHdk9AR31LbmITZ1mWf6Zy03t7mr5EX5DeyeU/dz/d5/L0IHSkovd0RNQU5rQUVnQSEhLzROVkvUvZW4!/

Appendix 6 – List of insurance companies based on market share in the Saudi insurance market

	Insurance market Share	3Q 2016	3Q 2017
1	Tawuniya	22.5 %	23.7 %
2	Bupa Arabia	22.2 %	21.8 %
3	Alrajhi Takaful	5.4 %	9.0 %
4	MEDGULF ⁽¹⁾	8.9 %	7.5 %
5	AXA Cooperation	3.2 %	4.2 %
6	Walaa	2.8 %	3.1 %
7	Allianz SF	2.3 %	2.6 %
8	Trade Union	2.7 %	2.3 %
9	SAICO	2.2 %	2.3 %
10	Salama	1.6 %	2.1 %
11	Malath Insurance ⁽²⁾	6.1 %	2.1 %
12	Arabian Shield ⁽³⁾	2.1 %	1.7 %
13	UCA ⁽⁴⁾	2.3 %	1.6 %
14	Wataniya	1.4 %	1.6 %
15	Buruj	1.2 %	1.4 %
16	WAFA Insurance ⁽⁵⁾	1.5 %	1.4 %
17	ACIG ⁽⁶⁾	1.4 %	1.2 %
18	Gulf Union	0.8 %	1.0 %
19	METLIFE AIG ANB	0.6 %	1.0 %
20	ATC	1.0 %	1.0 %
21	Sagr Insurance	0.5 %	0.9 %
22	AICC	1.2 %	0.9 %

23	Alinma Tokio M	0.9 %	0.8 %
24	Enaya	0.4 %	0.8 %
25	Al Alamiya	0.9 %	0.7 %
26	CHUBB	0.6 %	0.6 %
27	Gulf General	0.7 %	0.5 %
28	Al-Ahlia	0.5 %	0.5 %
29	SABB Takaful	0.5 %	0.5 %
30	Solidarity	0.7 %	0.4 %
31	Jazira Takaful	0.2 %	0.2 %
32	Amana Insurance	0.5 %	0.2 %
<p>⁽¹⁾ Banned from issuing or renewing compulsory motor insurance policies from Nov 28, 2016 until March 5, 2017.</p> <p>⁽²⁾ Banned from issuing or renewing compulsory motor insurance policies from Aug 20, 2017 until Nov 6, 2017.</p> <p>⁽³⁾ Banned from issuing or renewing compulsory motor insurance policies from Jan 9, until March 12 and from Aug 20, 2017 until Nov 11, 2017</p> <p>⁽⁴⁾ Banned from issuing or renewing compulsory motor insurance policies from Dec 6, 2016 until Apr 5, 2017</p> <p>⁽⁵⁾ Banned from issuing or renewing compulsory motor insurance policies from Aug 20, 2017 until Dec 28, 2017</p> <p>⁽⁶⁾ Banned from issuing or renewing compulsory motor insurance policies from Dec 1, 2016 until Feb 2, 2017</p>			
<p>* This report was issued in May 10, 2018 by Bank Albilad¹⁹</p>			

¹⁹ http://www.albilad-capital.com/Research_EnglishReport/InsuranceSectorQ417EN.pdf

Appendix 7 – Example of transcribed interview with initial coding process

<p><u>Participant 7</u></p>	
<p>What external factors do you think attracted your company to enter the Saudi insurance market?</p>	<p>²²¹ “market growth”</p>
<p>During the time we were studying the Saudi insurance market, there were two major factors that particular captured our attention. The market growth²²¹, or the written premiums, were not only increasing but almost doubling²²². Second, it was the golden age of oil prices, and that increased the Saudi GDP considerably²²³.</p>	<p>²²² “increasing premiums”</p>
<p>What else you can name?</p>	<p>²²³ “strong increase of the Saudi GDP”</p>
<p>Investigating the market further, we found that the high premiums were due to one particular reason, which was the new law set by SAMA that made some segments of the market mandatory²²⁴. This gave us confidence that the insurance business in Saudi Arabia was going to be healthy and improve quickly.</p>	<p>²²⁴ “SAMA’s actions making some insurance products compulsory”</p>
<p>But it could have taken more time to thrive and be healthier?</p>	<p>²²⁵ “desire to have market share before others”</p>
<p>But with an official regulator, and a positive economy, we believed it would be a rapid process, and we sought to be in a good position from an early stage²²⁵.</p>	
<p>When deciding to enter the Saudi insurance market, what internal factors did your company think would be helpful to succeed in the market?</p>	
<p>There are many things I could name here that were equally important. Our investment in the Saudi insurance market was, primarily, based on our financial capacity without effecting our</p>	

<p>business in different markets outside the KSA. The SAR 100 million required by SAMA was well within our abilities²²⁶.</p>	
<p>At the same time, we believed such an investment would work based on our experience²²⁷ in the Middle East and the network we have built with trustworthy partners²²⁸. We have dealt with the Saudi market before, partially insuring a number of engineering projects before the new law was passed in 2003, so we are at least familiar of some of the conditions of the market²²⁹</p> <p>²³⁰.</p>	<p>²²⁶ “ability to invest more than the required capital without effecting our national business”</p>
<p>Our experience dealing with Islamic Takaful was also a key factor in helping us to take the steps necessary to enter the Saudi insurance market.</p>	<p>²²⁷ “experience in middle east area”</p>
<p>Can you elaborate more on the Takaful insurance and how that helped to enter the Saudi insurance market?</p>	<p>²²⁸ “have built up networks with trustworthy local partners”</p>
<p>Takaful is a slight twist on what is called the Islamic Insurance Frameworks, as it is known in other Muslim countries. We have been applying Islamic insurance principles in some of these countries for decades, so to understand the Saudi version of Islamic insurance, or Takaful, was not particularly hard. Also, we were able to assess and design our profitability scale in the market with this Takaful framework²³¹.</p>	<p>²²⁹ “dealing with Saudi market before insuring engineering projects”</p>
<p>How different is the Islamic insurance in Saudi form other countries that adopting Islamic insurance?</p>	<p>²³⁰ “familiarity with local conditions”</p>
<p>The major difference is the maximum limit or percentage the company can use out of surplus and the percentage that has to be returned to policyholders. At the same time, all products we intend to provide and all associated prices have to be approved by our internal sharia committee or an independent Muslim legal expert before approval can be obtained from SAMA to start</p>	<p>²³¹ “experience in dealing with Islamic insurance Takaful in other Muslim markets”</p> <p>²³² “having sharia committee and independent Muslim legal expertise approving our products”</p>

<p>underwriting²³².</p> <p>Which one of these two options were you thinking of before entering the Saudi insurance market?</p> <p>To acquire our own sharia committee.</p> <p>Why?</p> <p>We believed this would, first, save us increased administrative expenses. Second, it would buy us, and help us maintain, a reputational name among other companies applying sharia principles.²³³</p> <p>In addition, we were able to secure other required resource in terms of a human resources section with adequate knowledge of the Saudi insurance market²³⁴.</p> <p>You mean the sharia committee?</p> <p>Not only that, but people who have connections with different governmental agencies.</p> <p>How is that?</p> <p>Conducting a business in Middle East in general and Saudi Arabia in particular is always easier when you have connections. With connections, you build up mutual interests, and it helps you remain a few steps ahead of your competitors. All you need is to build up good relationships with key powerful personal figures in the industry,²³⁵ especially people with governance power, the best way by which to achieve this being to hire workers who have, or may have, connections with such key people²³⁶.</p> <p>What kind of problems has your company have been facing</p>	<p>²³³ “having Sharia committee saved us more expenses and built up our reputation among Muslim customers”</p> <p>²³⁴ “our workforce’s knowledge about the Saudi insurance market”</p> <p>²³⁵ “having connections with key personals in the industry”</p> <p>²³⁶ “having connections with key personals in the government hiring people who have connection with them”</p> <p>²³⁷ “SAMA is helping some struggling companies because of their powerful</p>
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<p>since entering the Saudi insurance market?</p> <p>The first problem was the lack of full regulations²³⁸.</p> <p>But wasn't it considered an attractive factor to have an official regulator?</p> <p>It was believed to be, but SAMA left an open door to the market for any company that meets the minimum requirements without assessing their actual capabilities²³⁹, and who did not control their practices through properly detailed regulations²⁴⁰.</p> <p>Can you explain that further?</p> <p>This is complicated and might take some time to explain, but I'll give you specific examples. Until 2008, SAMA set out the official risk management standards that need to be practiced by all insurance companies²⁴¹. Before that, such standards did not exist, and the pricing risk practiced by many companies was poor. In fact, underwriting with low prices and experiencing major losses led SAMA to recognise the poor practices of risk management. While it should be the sole practice of insurance businesses²⁴²; we are buying and covering risks, and such basic knowledge was not practiced by our competitors, nor pushed by the regulator for any specific amount of time.</p> <p>And how has that affected your business?</p> <p>We had to go for the lowest prices our risk assessment allowed us to go for, just to cover up most of our operational costs and not losing our market share²⁴³.</p> <p>Another problem is the fact that the market suffers from an uncontrollably high number of fraudulent claims²⁴⁴. Although SAMA designed its anti-fraud regulations in 2008, the level of control required is well beyond SAMA's scope²⁴⁵.</p>	<p>shareholders”</p> <p>²³⁸ “lack of full regulations”</p> <p>²³⁹ “allowing weak companies to enter the market”</p> <p>²⁴⁰ “SAMA did not control bad practices”</p> <p>²⁴¹ “legal risk standards were set late in 2008 by SAMA”</p> <p>²⁴² “pricing risks were poor in the market and SAMA did not control them”</p> <p>²⁴³ “we were selling at minimum affordable prices to keep our market share”</p> <p>²⁴⁴ “high degree of fraudulent claims”</p> <p>²⁴⁵ “fraudulent claims beyond SAMA’s ability to control”</p>
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<p>So SAMA also did not control the issue of fraud until 2008 as well?</p> <p>They did not control it; you mean they set regulations and systems to address fraud but these have not yet solved the problem, which remains difficult.</p> <p>Why is that?</p> <p>In my opinion, the set of regulations and the determination of different governmental agencies involved with the insurance business in Saudi Arabia are not the same. While SAMA is serious about applying its regulations, people still can find their way out through other loopholes²⁴⁶. For instance, we were not allowed to assess car accidents until 2013. Before that, we have to accept the police department's reports, which were subject to manipulation²⁴⁷. The same can be said about health insurance claims; we encountered people that were using other policyholders' cards in hospitals, and the staff in those hospitals were allowing such practices to continue²⁴⁸. At the beginning, we did not have any histories or indeed records for our customers, but through our medical specialist with the help of our records, we were able to minimise fraud²⁴⁹.</p> <p>How attractive is the Saudi insurance market for new entrants?</p> <p>The Saudi market still carries great potential from many perspectives. The first thing that new entrants and even current players need to keep watching is the outcomes of the new vision announced by the government, which is called 2030²⁵⁰. This vision sets out a positive economic change to the Saudi economy, and the insurance sector is going to benefit</p>	<p>²⁴⁶ “many governmental agencies allowed loopholes for fraud”</p> <p>²⁴⁷ “car accidents were subject to manipulation through the police department”</p> <p>²⁴⁸ “fraud was practiced by the staff of hospitals”</p> <p>²⁴⁹ “lack of available records or databases of customers”</p>
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<p>accordingly very well.</p> <p>How is that?</p> <p>As announced in detail by the Crown Prince, one of the major goals of this vision is to diversify the Saudi economy rather than continue to depend so heavily on oil revenues²⁵¹. We are expecting to see the start of new and different industries very soon. The insistence of this vision may be also noticed through the establishment of the Public Investment Fund, which is chaired by the Crown prince himself, to lead the transformation programme whose intention is to reform the economy and diversify revenues²⁵². The Public Investment Fund is going to be a major investor for any significant investment or projects inside the country, which will doubtless attract major foreign investors²⁵³. The vision already requires that before 2020, three major economic cities will be announced for imminent construction²⁵⁴.</p> <p>If these programs and projects are going to be undertaken as planned, new opportunities are doubtless to come for the insurance business and better demand is expected²⁵⁵.</p> <p>This demand also is expected to continue through the increasing Saudi population and the expected increase in foreign employees when more companies begin to enter the market in different industries^{256 257}.</p> <p>However, the insurance market industry itself still needs a greater push in reforming the regulations, combining all relevant parties involved in regulatory system in one official body.</p> <p>So, you believe regularity issues and regulation could be a barrier?</p> <p>It can be that way to be honest²⁵⁸, but not for a long time I</p>	<p>²⁵⁰ “New positive economic plans set by the government”</p> <p>²⁵¹ “expected new industries in the country due to economic plans”</p> <p>²⁵² “direct political involvement creating and managing new national funds”</p> <p>²⁵³ “more foreign direct investment is expected”</p> <p>²⁵⁴ “economic cities are expected to be built soon”</p> <p>²⁵⁵ “demand for insurance will increase with economic changes in KSA”</p> <p>²⁵⁶ “insurance demand will increase with growing population”</p> <p>²⁵⁷ “more foreign workforce is expected”</p>
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<p>believe. Based on the knowledge I share with people in SAMA, this issue has been addressed in different meetings of the insurance department in SAMA, and it is something they are working on with the Saudi Council of Ministers²⁵⁹.</p>	<p>to come with the increasing number of industries starting in the country”</p>
<p>What internal factors do you think new companies need to acquire to be successful in the Saudi insurance market?</p>	<p>²⁵⁸ “many regulators in the market currently”</p>
<p>A particular understanding of Islamic insurance principles is vital²⁶⁰, and can be even better if there is experience with Islamic insurance in other markets²⁶¹. In addition, they need to find good experienced local partners, which is crucial as there are few such individuals²⁶².</p>	<p>²⁵⁹ “less involvement of different official agencies is expected in the future”</p>
<p>But why can't they hire a sharia legal personal to help them operate in compliance with the Islamic insurance?</p>	
<p>In that case you are building new experience, which is far different than someone who has already had experience with Islamic insurance.</p>	<p>²⁶⁰ “understanding of Islamic insurance”</p>
<p>How would that help then?</p>	<p>²⁶¹ “experience in dealing with Islamic insurance”</p>
<p>Employees in the Sharia committee are there to help the underwriting of policies as based on sharia law or the standards set by SAMA. However, different personal deals with different governmental agencies through different Islamic sharia laws, so you need far more employees who understand the Islamic insurance principles²⁶². This is, I believe, a crucial aspect of success in the Saudi insurance market.</p>	<p>²⁶² “finding experienced local partners as it hard to find”</p>
<p>Further, new companies need to be very careful with their surplus management practices as this will affect their reputation</p>	

<p>and business overall.</p>	
<p>How is that?</p> <p>Surplus must be shared between shareholders and policy holders according to a percentage set by SAMA²⁶³. However, only one company besides our own have been giving the surplus to their policyholders. This helped us to gain great credibility among customers and to help in the further promotion of our products²⁶⁴.</p>	
<p>But is not that required by SAMA?</p> <p>Unfortunately, SAMA made it mandatory in 2017 for companies to notify their customers of their share of the surplus, and for the customer to be paid this amount back in a very short time.</p>	
<p>We have been practicing the Islamic insurance principles and applying them since we entered the market. In the long run, we beat our competitors in terms of buying customers' trust²⁶⁵. Other companies started losing it after SAMA announced that the repayment of surplus is one of the participant's or policy holder's rights.</p>	<p>²⁶³ "careful surplus management based on Sharia law"</p>
<p>Don't they already know?</p> <p>Most of them did not. Insurance business is new to Saudi society and knowledge about insurance businesses is still relatively low.</p>	<p>²⁶⁴ "surplus management buys credibility among Muslim customers and build reputation"</p>
<p>What other factors can think of as internal factors?</p> <p>The ability to have a large capital to start with²⁶⁶. The required capital would not be enough under the current market conditions, unless the company focusses on specific lines rather than health insurance and car insurance²⁶⁷; these two segments carry high</p>	<p>²⁶⁵ "gaining customers trust applying sharia law"</p>

risk with regards to frequent fraudulent claims, so to compete in these two segments will eat up any capital very quickly, which would be low in the first place.

In other words, good capital resources with careful underwriting standards²⁶⁸ would allow for one to end up with a stable start rather than major drop in the market, but patience is required as this would not bring profits in the short term, but would instead thrive in the long run. Also, good capital would also help them enter different regions where insurance businesses do not currently exist, so there are many places in the country that are waiting to be competed over²⁶⁹.

²⁶⁶ “to have big capital”

²⁶⁷ “focusing on health insurance and car insurance eat up capitals”

²⁶⁸ “better risk management and underwriting polices”

²⁶⁹ “enough capital to expand in different cities in the country”

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