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Turcan, Romeo V.

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De-internationalization: A Conceptualization[⊥]

The minute you establish an
organization, it starts to decay.

Ross Johnson, CEO, RJR Nabisco
(in Burrough and Helyar, 1990)

INTRODUCTION

At the early stage of the international business research, the choice of an international market and of mode of entry to serve that market have been identified as a frontier issue in the cross-border activity of a firm (Wind and Perlmutter, 1977; Young et al., 1989). Recent advances in cross-border research broaden the scope of this frontier by addressing the issues of mode combinations (Benito et al., 2009; Petersen and Welch, 2002) and mode change (Pedersen et al., 2002). Acknowledging the substantial progress made by IB scholars in the domain of international entry mode, Brouthers and Hennart (2007, p.413) ask '…where to go from here', e.g., what issues still need to be explored, and what theories will help gain further understanding. In the same vain, Benito et al. (2009) maintain that there is still no entirely adequate explanation of how companies operate in foreign markets despite the decades of research in international business.

In response to the above concerns, this paper aims to encourage a dynamic scholarly conversation about de-internationalization with the aim to further the progress of international business research. Indeed, the notion was earlier advanced to view de-internationalization as part of the broader perspective of the overall cross-border strategy of a firm (Benito and Welch, 1997; Calof and Beamish, 1995; Turcan, 2003; Welch and Luostarinen; 1988). However, to date the research on de-internationalization remains somehow scarce and needs additional research (Turcan, 2006). While the extant literature has emphasized the role of

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domestic and foreign country factors on the initial choice of foreign market entry mode, less is documented on the effect of changes in the external environment, or indeed internal changes within the firm on the continuance of internationalization beyond selection decisions (Turcan, 2003). To aid researchers in this quest, this paper will put forward a typology of de-internationalization, address issues related to mode change and discuss future research directions.

DE-INTERNATIONALIZATION CONCEPTUALIZED

De-internationalization as a concept was introduced by Welch and Luostarinen (1988) who maintain that 'once a company has embarked on the process [of internationalization], there is no inevitability about its continuance' (p.37). The same concept (though termed as *de-investment*) was embedded into the definition of cross-border activity of a firm put forward by Calof and Beamish who defined internationalization as 'the process of adapting firms' operations (strategy, structure, resources, etc.) to international environments' (1995, p.116). Benito and Welch (1997) also place de-internationalization in the broader context of a firm's international activities, asking whether the driving forces that move a firm forward internationally over time operate in reverse, perpetuating a withdrawal process. In the same vain, Buckley and Casson (1998), exploring the impact of flexibility on the growth of the multinational enterprise, conclude that de-internationalization must be considered as a serious strategy. To the above, Turcan (2003) suggests to view the process of cross-border activity of a firm as a cause-effect relationship between internationalization and de-internationalization.

Calof and Beamish (1995) view de-internationalization as a process whereby a firm deliberately chooses to reduce its degree of international exposure. Benito and Welch (1997, p.9) define de-internationalization as 'any voluntary or forced *actions* that *reduce* a company's engagement in or exposure to current cross-border activities' (emphasis added). These authors looked at de-internationalization from three theoretical perspectives: economic, strategic management, and internationalization-management. From an economic perspective, a firm would de-internationalize in response to changing economic circumstances and returns (e.g., rising costs, falling demand). From a strategic management perceptive, a firm would consider de-internationalizing in relation to its product portfolio and business life cycle (e.g., market maturity, strategic fit, liquidity concerns). From an internationalization-management perspective, internationalization is viewed as a barrier to de-internationalization, e.g., managerial escalating commitment to firm's internationalization is regarded as a barrier to withdrawal from a cross-border activity.

Benito and Welch's (1997) definition allows for cross-border activities of a firm to be investigated holistically by understanding the how's and why's of de-internationalization decisions and processes. However, the constructs emphasized in Benito and Welch's (1997) definition, *reduction* and *actions*, require further investigation in order to improve our understanding of the de-internationalization phenomenon. The construct *reduction* implies a negative and undesirable feature associated with de-internationalization that, more often than not, is seen as a failure, as opposed to internationalization efforts of the firm, which are seen as growth. This leads to the perception of de-internationalization as being undesirable. However, by de-internationalizing, the firms may in fact be correcting an error previously made, e.g. having internationalized too quickly. Moreover, when a company changes the foreign market servicing mode and/or withdraws from a foreign market and focuses on serving the local market only, its engagement in and exposure to the current cross-border activities might actually *increase*. As such, it might be argued that despite decreasing the level of internationalization, the overall growth of the firm would be towards an increased level of cross-border activity.

Since Benito and Welch (1997) derived their definition from the research streams of a multinational enterprise, the question is whether it is possible to explain by the same *actions* the process of de-internationalization in small firms. For example, from the entrepreneurship research path perspective, the question is whether de-internationalization can be viewed as an entrepreneurial activity. In an attempt to address this concern, Turcan (2003) put forward a conceptual framework of de-internationalization of the small firm that is based on three constructs: (i) commitment of entrepreneurs which is influenced by project, psychological, social and structural factors; (ii) change in dyadic networks, that is triggered by a critical event, and depends on the actions and intentions of dyadic partners; and (iii) time, that is experienced in the present by entrepreneurs by relating themselves to codes and memories (past), and congruence and horizons (future). In the same vein, in their review of international entry mode research, Brouthers and Hennart (2007) argue that the extant research on the determinants of the choice of the international boundaries of the firm shall be supplemented with 'more realistic strategic decision making perspectives' (p. 419) taking also into account the actions, beliefs and attitudes of decision makers.

To the above conceptualization of de-internationalization, the method of constructing typologies by reduction Glaser (1978) is employed to further delineate the domain of scholarly research on de-internationalization. According to Glaser (1978), all typologies are based on differentiating criteria, e.g., being internal or external to a concept, or being its dimensions or degrees. To construct a typology by reduction, one shall cross-tabulate the internal or external distinction of a concept. For example, one dimension might represent the life continuum of a firm: success vs. failure; or still in business vs. out of business. The other dimension might be related to a unit of analysis and represent its continuum by using appropriate coding families (Glaser, 1978) or logical simplification (Dubin, 1978), e.g. total vs. partial; dependent vs. independent. In terms of degree of de-internationalization, Benito and Welch (1997) recognize the importance of differentiating between partial and full de-internationalization. In terms of outcomes, de-internationalization could be viewed as a dichotomy of either in business or out of business. A typology of de-internationalization is generated then by cross-tabulating the polar dimensions of de-internationalization: total vs. partial and in business vs. out of business (Figure 1).

Insert Figure 1 about here

Quadrant I represents a state of total de-internationalization, whereby firms positioned in this quadrant withdraw totally from international markets and focus entirely on serving their domestic markets. Firms positioned in Quadrant IV also represent a state of total de-internationalization, the only difference from firms in Quadrant I being that they would have ceased trading at or shortly after de-internationalization. This view considers market withdrawal to represent an extreme case of total de-internationalization. Firms in Quadrant II have remained internationally active, but have partially de-internationalized. Firms in Quadrant III logically can not exist, or as Glaser (1978) argues, this is a non-empirical cell. For example, if a firm is out of business, then this will represent an extreme case of total de-internationalization. In other words, a firm that partially de-internationalizes is assumed to be still in business.

MODES OF DE-INTERNATIONALIZATION

By adding the above mentioned facet of mode combination and mode change to the frontier issue in international marketing, there emerges key questions that most need to be addressed by firms, policy-makers and researchers: to what extent is the mode of operation continuing to deliver returns and positive performance, and if less than optimal, what change would better effect attainment of projected targets? This question raises two concerns. One relates to the definition of a mode and the other to the process nature of de-internationalization. Root (1977, p.5) defined a mode as ‘an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country’. It is observable, Root’s definition does not accommodate firms’ options to de-internationalize. For a more holistic approach, we suggest adding ‘exit from’ into Root’s definition. For example, a mode is defined as an institutional arrangement that makes possible the entry into or exit from a foreign country of a company’s products, technology, human skills, management or other resources. Another option would be to adopt Benito et al.’s (2009, p.1458) definition of foreign operations modes as ‘the organizational arrangements that a company uses to conduct international business activities’.

Building on the above definitions, as well as on the emerged typology of de-internationalization, de-internationalization can take the form of either completely or partly withdrawing from a foreign market (Figure 2). In the latter scenario, a firm can either reduce foreign operations in that market, or switch to entry modes that entail a lesser commitment of resources. A company may reduce its foreign operations by focusing for example on an earlier version of the product, providing services, divesting a brand, re-organizing, or cocooning while keeping the structures it built in a foreign market intact. It is also important distinguish between de-internationalization of ownership and de-internationalization of control (see e.g., Casson, 1986).

Insert Figure 2 about here

As regards the exit modes, a firm may decide to de-invest, de-franchise, or de-export. De-investment can be achieved through franchising, contracting-out, selling-out, leverage buy-out, spin-off, or asset-swap (Coyne and Wright, 1986). From franchising a firm may switch, for example, to exporting (Fraser, 2001); and from exporting to inward-activities, importing, licensing-in, R&D contracting, etc (Jones, 1999). Although not built in Figure 2, it is pivotal to consider what Benito et al. (2009) call mode package, and mode package change. For example, Benito et al. (2009) use the word 'de-emphasize' (p.1461) when discussing changes from a joint venture to licensing and exporting. These authors also advance the concept of mode dynamics to emphasize that the modes 'evolve in response to foreign market involvement and developments over time, displaying the characteristics of evolutionary dynamics' (Benito et al., 2009, p.1464)

As regards the process nature of de-internationalization, it has been suggested that firms experience international 'evolution' followed by international 'episodes' for example of consolidation or retrenchment, that may lead to rapid international expansion or de-internationalization, and that international 'epochs', which are characterized by a specific pattern and an underlying idea which dominates the stream of international activities for a certain period, comprise both international 'evolution' and international 'episodes' (Kutschker *et al.*, 1997). Such international fingerprint of a firm (i) shows that a firm might increase (or decrease) its level of international economic involvement or inward-outward connection, (ii) assumes that for some minor decreases in the level of internationalization, the overall development of this firm is towards an increased level of internationalization, and (iii) leads to the idea of the internationalization process as a cause-and-effect chain, in which changes in the stages of internationalization will gradually facilitate a reaction to momentary events. In addition to the above efforts, the existence of different internationalization ‘epochs’, ‘pathways’, ‘trajectories’, and non linear “patterns” and “profiles” (Kutschker and Baurle, 1997; Jones, 1999; Eckert and Mayrhofer, 2005; Bell et al., 2003), and of ‘time-spans’ to foreign market entry (Oesterle 1997; McNaughton, 2000) have been acknowledged and explored.

DECIDING TO DE-INTERNATIONALIZE

Further burning issues in relation to international withdrawal are how and when to de-internationalize. Or, is the decision to de-internationalize an attempt to correct an error previously made while internationalizing, e.g., in relation to the pace of internationalization, the target market, the entry mode or mode packages, or the international marketing mix? For example, in relation to divestment decisions, Belderbos and Zou (2009) argue that the key factor influencing international withdrawal is the size of switching costs between modes of entry; the higher the switching costs, higher the inertia will be. In terms of decisions to exit a market, Ansic and Pugh (1999) maintain that a ‘…firm will exit only when the current losses exceed the present value of expected profits’ (428). Ansic and Pugh (1999) further maintain that sunk costs are also an important determinant of market exit decisions under uncertain conditions as sunk costs are known with certainty. However, as argued by Fredrickson (1984), a more complex or turbulent environment requires less rationality. Moreover, sunk costs could be of economic and cognitive nature and lead to suboptimal course of action (Kahneman and Tversky, 1979). That is, the problem with sunk costs as a measure of point of exit is that in an emerging uncertain environment sunk costs of entry incline firms to ‘wait and see', and the propensity of 'wait and see' increases with the scale of sunk costs (Ansic and Pugh, 1999).

Sunk costs are believed to invoke a choice between losses which induce escalation behavior (Kahneman and Tversky, 1979), and people may get entrapped into a suboptimal line of activity through the passage of time itself (Becker, 1960). If decision makers are not flexible enough, and get entrapped in a failing course of action, then any of their decisions to alter their course of action will not be successful and will lead to failure. Hence further questions, when is it not too late to make and enact de-internationalization decisions? In this regard, Casson (1986) views international withdrawal as an error correction mechanism. Casson distinguishes between error of omission and error of commission. It is an error of omission when companies should have de-internationalized earlier but failed to do so, and it is an error of commission when a company should not have de-internationalized earlier but did so. Error of omission is also known as escalating commitment or escalation defined as a situation in which costs are incurred, negative feedback is perceived, and where there is an opportunity to withdraw or to persists, but the consequences of withdrawal or persistence are uncertain (Staw and Ross, 1978). As put by Brockner (1992), escalation situations include repeated decision making in the face of negative feedback about prior resource allocations, uncertainty surrounding the likelihood of goal attainment, and choice about whether to continue.

In line of the above, Benito and Welch (1997) suggest an inverse relationship between de-internationalization and internationalization arguing that with the passage of time the probability of withdrawal from international operations declines as the commitment to these operations increases. The longer a person persists with a specific line of activity, the more difficult it becomes to change direction even though it may be economically wise to do so

(Drummond, 2004). Moreover, firms 'not only end up 'drifting idly towards eternity', but they can reach a point of 'no return', where they have become so run down as to be almost financially worthless' (Drummond, 2004, p.487).

Escalating commitment has been attributed to four sets of forces that come into play over time (for review see e.g. Staw and Ross, 1987; Ross and Staw, 1993; Drummond, 1994): (i) project, (ii) psychological, (iii) social, and (iv) organizational. Project factors concern the objective aspects of a project, such as its closing costs, its salvage value, the causes of setbacks to its completion, and the economic merits of pursuing or dropping it. As compared to the above objective factors, psychological factors that influence the way information about courses of action is gathered, interpreted, and acted upon are less obvious to entrepreneurs. These are reinforcement traps (e.g. difficulties in withdrawing from a previously rewarded activity), information biasing (tendencies to skew data in the direction of pre-existing beliefs), and self-justification (interpreting bad news about a project as a personal failure). To the above, decision-makers may persist also because they do not want to expose their mistakes to others, persistence then becomes a matter of face saving. Social factors include desires to justify losing projects to potentially hostile audiences, cultural norms favouring consistent, or strong leadership, and job insecurity. The last factor, organizational, as argued by Staw and Ross (1987), is the simplest element impeding withdrawal from losing projects. It includes for example such variables as the level of political support for a project within an organization, and the extent of the project's institutionalization within the organization.

As regards the weight of each factor upon the escalation process, psychological and social factors are important at the beginning and middle phases of the escalation episode, and do not appear influential at the final stage (Ross and Staw, 1993). Project variables in turn are an important force for commitment at both the earliest and latest stages of the episode; whereas the organizational factors play an important role in escalating during the final stage of the project. Drummond (1994) argues however that escalation is basically cyclical in nature, revolving around structural and social pressures; whereas psychological and project factors play a secondary role in escalating the commitment. Later Drummond (1994) observed that the link between rationality and chaos in escalating situations actually highlights the limitations of linear thinking originally suggested by Staw and Ross (1987). She argues that the relationship between 'cause' and 'effect' is not invariably straightforward.

De-escalation of commitment could be seen as a way to facilitate de-internationalization. The relationship between escalation and de-escalation (for review of de-escalation literature see Montealegre and Keil, 2000) is basically one of opposites (Bowen, 1987; Staw and Ross, 1987; Drummond, 1995). Hence, withdrawal mostly occurs in conditions opposite to those favouring persistence, when either: (i) commitment to a course of action does not exist, regardless of the interpretation of the quality of feedback; or (ii) the enactment of feedback is unequivocal and negative, and therefore sufficiently convincing that to continue in a course of action would be "throwing good money after bad" regardless of the decision-maker's commitment to that strategy (Bowen, 1987: 61).

Drummond (1995) corroborated Bowen's model and extended it by arguing that escalation is a function of commitment and that perceived power with information is an important component of that power. She argues that withdrawal is most probable under conditions of low commitment and high perceived power to enact withdrawal, and is possible but less likely under high commitment and high perceived power (Drummond, 1995: 278). Montealegre and Keil (2000) developed a model that depicts de-escalation as a dynamic process that is simultaneously constrained by actions in the antecedent episode, yet capable of constructing new patterns of commitment to alternative courses of action. Hence, the basic theoretical constructs of the model are the triggering events that are measured by observations of incidents. These triggering events are (i) problem recognition; (ii) re-examination of prior course action; (iii) search for alternative course of action; and (iv) implementing an exit strategy.

Simonson and Staw (1992) were among the first to test several de-escalation techniques derived from two theoretical mechanisms relating to escalation behaviour: self-justification and decision vigilance. These techniques are: (i) thorough decision making – instructing decision makers to prepare a detailed outline of the advantages and disadvantages of each action alternative prior to reaching a decision; (ii) minimum goal setting – instructing decision makers to outline minimum target levels which if not achieved will lead to a change in policy; (iii) threat reduction – reducing concerns about both self- and external justification; (iv) self-diagnosticity – informing decision makers that their decisions are reliable indicators of their abilities; (v) accountability for decision process – informing decision makers that their decisions will be evaluated on the basis of the effectiveness of their decision process; and (vi) accountability for decision outcome – informing decision makers that they will be evaluated on the effectiveness of their initial investment decisions. Not all the above de-escalation techniques proved to reduce the escalating commitment. The findings of their research strongly suggest that by setting specific minimum target levels, emphasizing the decision process rather than simply focusing on decision outcomes, and making decision makers less fearful of the consequences of failure, the desire to save a course of action at almost any cost may be diminished. All in all, decision-making mechanisms not only need to allow for the possibility of failure, they must be designed to facilitate withdrawal where appropriate (Drummond, 1995).

METHODOLOGICAL CONCERNS

Before proceeding with the discussion, several facets of de-internationalization phenomenon ought to be considered. One, de-internationalization is perceived as something negative and undesirable, as a failure. Two, it might not be so much a challenge to locate a company that de-internationalized, but it is a challenge to negotiate access, because human nature has a tendency to suppress admission of failure. Three, it is also a challenge to conduct longitudinal studies given the high mortality rate that to a certain degree is associated with de-internationalization. Four, sampling bias is also an issue since the extant research tends to focus primarily on positive business growth and does not study companies that ceased to trade, or chose to withdraw from their international activity along the way, thus focusing on obtainable rather than on important data. Five, the choice of research methodology and methods is pivotal in order to able to fully appreciate the richness of data on de-internationalization.

Managers' decisions to either reduce the international engagement or leave the foreign market completely should not, a priori, be viewed as a failure (Pauwels and Matthyssens, 1999; Crick, 2004). As discussed earlier, de-internationalization may in fact be viewed as an error correcting mechanism (Casson, 1986). Or, de-internationalization may also be viewed as an entrepreneurial posture (Berry, 2010). This issue of attitude change may also become important when determining the trade support that might be required by and available to managers. For example, trade support might be needed to encourage withdrawal from foreign operations rather than to avoid it so that for example to allow the firm to maximize on domestic market opportunities or prevent it from going bankrupt. Furthermore, by embracing de-internationalization phenomenon, policy makers may mitigate the risk of misrepresenting the outcomes of the research that studies only successful and surviving firms. For example, policy makers risk presenting these firms' behavior as success factors when in fact they may easily be the factors that increase the risk of failure (Davidsson, 2003). Such approach to research resembles the study of factors that lead to success at gambling on race horses, in which one studies only people who have won money (received net gain), and concludes that gambling is profitable: the more you bet, the higher your gains; the more unlikely winners you bet on, the more you win (Davidsson, 2005).

At the methodological level, the challenge is twofold. First, choice of methodology and methods is important for the advancement of theory, especially in an emerging research domain such as de-internationalization. Clearly, the choice of methodology and methods is driven by the research questions, and thus it is not our aim to discuss the variety of choices available to researchers in such article (for review, see for example Marschan-Piekkari and Welch, 2004). However, we would like to draw international business researchers' attention to a method that we believe allows researchers to capture the nature of de-internationalization phenomenon. We refer to critical incident technique (CIT).[1] The basis for such method lies in the view that de-internationalization could be seen as a critical event in the life of firm. For an event to be critical, the requirement is that it deviates significantly, either positively or negatively, from what is normal or expected (Edvardsson, 1992).

[1] Examples of employing critical incident technique could be found in organizational studies (see e.g., Butler, 1991) as well as in entrepreneurial studies (see e.g., Chell and Pittaway, 1998; Kaulio, 2003), and international entrepreneurship (Turcan, 2008).

CIT has its origins in the research undertaken by Flanagan (1954), and is defined as '...a qualitative interview procedure that facilitates the investigation of significant occurrences (events, incidents, processes or issues) identified by respondent, the way they are managed, and the outcomes in terms of perceived effects' (Chell, 1998, p.56). CIT provides a set of guidelines for in-depth interviewing and data analysis. For example, for in-depth interviewing, researchers shall (i) indicate to the interviewee the authority on which the interview is being held; (ii) make a statement about the purpose of the study; (iii) explain why the interviewee has been chosen to comment; (iv) convince the interviewee of the anonymity of the data; (v) the main question should state that an incident or actual behavior is desired; (vi) allow the interviewee to do most of the talking and avoid asking leading questions; (vii) control the interview, by probing the incidents and clarifying one's understanding; (viii) ask follow-up questions to ensure that a comprehensive and detailed account has been given; (ix) conclude the interview; and (x) take care of ethical issues.

As per CIT guidelines for data analysis, researchers shall initially describe the incidents. As maintained by Dubin (1978), the very essence of description is to name the properties of things, and the more adequate the description, the greater the likelihood that the concepts derived from the description will be useful in subsequent theory building. As a next step, researchers choose a frame of reference so that it is much easier and more accurately to classify and analyze the data. For example, one frame of reference could relate to the level of analysis, for example, decision maker, the firm, the home market, and/or the international market. Or, the other frame could relate to various time periods to help map the chronological flow of critical events. Category formulation follows next; it represents an induction of categories from the basic data in the form of incidents. The last step in data analysis focuses on determining the most appropriate level of specificity-generality to use in reporting the data.

For example, middle-range theorizing may help researchers manage the complexity of data. According to Weick (1989, p.521), middle-range theories are solutions to problems that contain a limited number of assumptions and considerable accuracy and detail in the problem specification.

Second challenge is about sampling and sampling criteria. The proposed typology of de-internationalization could be employed by researchers to deal with a challenge that relates to carrying out theoretical sampling in a proper manner, e.g., in recognizing appropriate polar cases when the strategy of seeking polarity has been selected (Eisenhardt 1989; Yin 2003). From a theory-building perspective, the typology of de-internationalization could be also seen as a framework that makes it possible to predict the state of a system without knowing how it was produced, a situation termed by Dubin (1978) as the precision paradox. As part of the sampling selection strategy, the typology of de-internationalization makes sure that critical events are transparently observable in the selected companies cases; thus ensuring the researchers investigate and observe the same phenomenon across all cases.

In addition to the above, researchers shall also develop further sampling criteria in order to mitigate the effects of attribution errors on data collected when studying critical events, such as de-internationalization; thus contributing to the enhancement of reliability. According to Lovallo and Kahneman (2003), the typical pattern of such attribution errors is for people to take credit for positive outcomes and to attribute negative outcomes to external factors, no matter what their true cause. At the time of data collection, it becomes critical to mitigate the likelihood of misattributing by decision-makers the cause of the events that led to withdrawal from international operations. To minimize the effect of such attribution errors, hence to increase the construct validity, the research study could be confined to a *homogeneous* *empirical context*. For example, one sampling strategy could be to control for the effect of the external environment (e.g. legislation, market size, market structure across industries and countries, effect of time) on selected companies. The other strategy could be to minimize the potential effect of resource bias; for example, in case of small firms smallness could be defined as a company having less than 100 employees (Storey, 1994). Data triangulation also help minimize the attribution errors by corroborating the data collected from decision-makers via the data collected from their stakeholders and other sources, including secondary data.

CONCLUSION

The aim of the paper was to engage researchers in a dynamic conversation about de-internationalization since de-internationalization, as part of the broader perspective of the overall cross-border strategy of a firm, is understudied and needs additional research. To further delineate the domain of scholarly research on de-internationalization a typology of de-internationalization is put forward, de-internationalization modes, as well as how and when de-internationalization decisions are made are discussed. Methodological challenges are also addressed, and suggestions in terms of sampling, data collection and analysis are provided.

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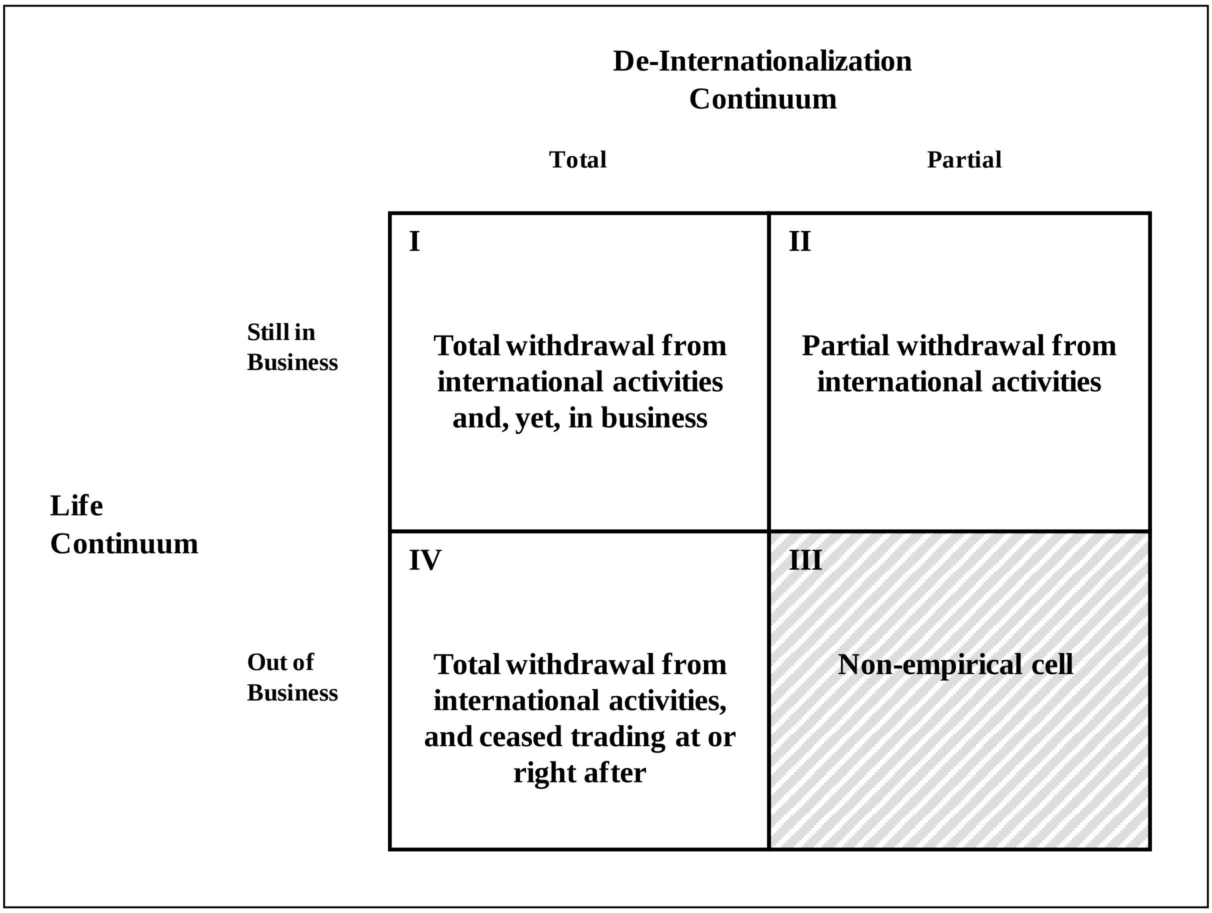
Figure 1. Typology of de-internationalization



Source: Turcan, 2006

Figure 2. Modes of de-internationalization