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A Business Model Perspective

Sort, Jesper Chrautwald; Turcan, Romeo

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De-internationalization: A Business Model Perspective

Jesper C. Sort
Romeo V. Turcan

Aalborg University, DK

Abstract

Through business model theoretical lenses, we explore the impact of de-internationalization on firms and their industries and challenges in re-configuring their business models and re-thinking their value propositions in response to de-internationalization. This is a conceptual paper. We put forward a multilevel framework to advance our understanding of this intersection.

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

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

Introduction

In this paper we explore through business model theoretical lenses the impact of de-internationalization on firms and their industries and challenges in re-configuring their business models and re-thinking their value propositions in response to de-internationalization. The challenge of this paper is threefold. One, the extant research in business models (BMs) focuses mainly on the outcomes of business model changes when companies grow (Chesbrough, 2007; Gambardella and McGahan, 2010) or are disruptive (Hwang and Christensen, 2008), but it is rather scarce on understanding how companies reinvent themselves and their BMs in situations such as de-investing, de-exporting, back-shoring or re-shoring. Two, de-internationalization that undeniably adds to the variance and complexity of the international business field has received little consideration from the international business scholars (Turcan, 2003; 2013; 2016). And

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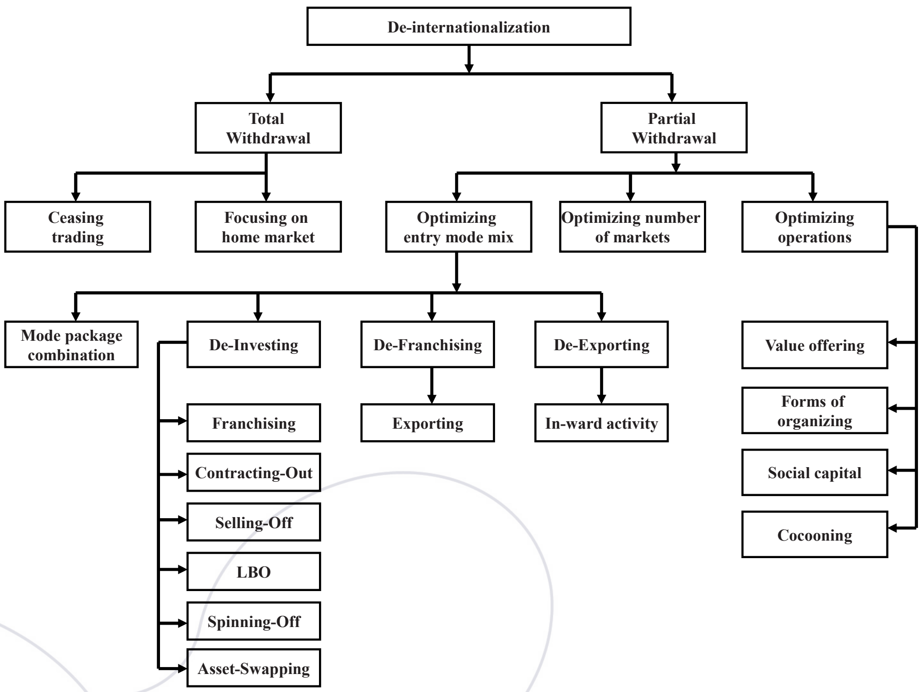
three, as logically expected, theoretical and empirical research at the de-internationalization and business model intersection is virtually non-existent. With this paper we aim to address this knowledge gap.

Approach

This is a theoretical paper. We draw on a number of sources to develop a multilevel framework to advance our understanding of the de-internationalization and business model intersection. First, we build on business model theory (Foss and Saebi, 2017; Nielsen *et al*. 2019) and de-internationalization theory of the firm (Turcan, 2006) and conceptualize the intersection. Second, we bring the idea of analysing publicly available data and trends, anecdotal evidence where de-internationalization-business-model intersection we study is explicitly observable.

Key Insights

The last decade has witnessed a number of global trends that affected in a dramatic way industries and global value chains nationally and internationally. These trends include, but not limited to: *rise of nationalist and protectionist policies* on trade and economic development in Europe, UK, and US, contributing to unfair competition, the reorganisation of the global economy , incl., *de-internationalization* (such as de-investing, de-licensing, de-exporting; see Figure 1) of national firms by brining production or other parts of their corporate value chains back to home country, hence also contributing to dramatic reconfiguration of global value chains and global alliances; *development of innovative and disruptive technologies*, contributing to large scale displacement of labour force and other resources; disrupting, dismantling and reconfiguration of industries, global value chains and global alliances, incl., *re-shoring, back-shoeing and near-shoring* (Figure 1); challenging firms to open up and collaborate with each other and other potential knowledge holders; at the same time, making it easier for firms to communicate and manage across borders. The above-mentioned global trends have contributed to the disruption, dismantling and reconfiguration of industries and global value chains, e.g., by eroding advantages of scale and arbitrage; downsizing internal markets for trade to 1/3 with external value chains doing the rest; making



Source: Derived from Turcan 2006

Figure 1: De-internationalization modes

global value chains more knowledge intensive, service oriented; making industries and value chains that tried to globalized work best when national or regional (see e.g. Economist, 2017; Economist, 2018) In response to these global trends, firms de-internationalize or withdraw from international markets partially or totally (Figure 1) and as a result rethink their business models.

Both research streams – de-internationalization and business models – suffer from *selection bias* (Chesbrough and Rosenbloom, 2002; Chesbrough, 2007; Hwang and Christensen, 2008; Gambardella and McGahan, 2010; Turcan 2013). Business model research stream focuses mainly on BM design and reconfiguration in successful companies seen as best practice examples (Chesbrough and Rosenbloom, 2002; Hwang and Christensen, 2008; Gambardella and McGahan, 2010). Indeed, the need for companies and entrepreneurs to adapt to changing environment (e.g., Massa and Tucci, 2014; Osiyevskyy and Dewald, 2015) and understand their business model configuration and the possibilities to reconfigure said configuration to take advantage of new opportunities (Massa and Tucci, 2014; Massa *et al*., 2017) are not new in business model research. However, research on how changes, evolution and externalities affect firms' BMs is in its infancy. To the above selection bias, the business model research is also dominated by a *theoretical bias*. According to Nielsen *et al.* (2018), knowledge and research is lacking to connect specific types of business models with specific performance measures, as well as testing how BM elements predict financial values.

De-internationalization is seen as inconvenient, undesirable research endeavour as it is perceived as a failure (Turcan, 2003; 2013). Overall, research in international business focuses on positive growth and ignores firms that failed or chose to withdraw from their international activities (Turcan, 2006; 2010). We side with Turcan (2003; 2006) who maintains that de-internationalization should not be seen as a failure, but an opportunity to re-grow and comeback with an even stronger value proposition to the market than before.

Extant knowledge at this intersection of de-internationalization and business model is scares. With this paper, we aim to explore how and why firms de-internationalize with specific focus on what business models these SMEs adopt while de-internationalizing, what lessons they have learned, what business models they create in order to re-internationalize, and how de- and re-internationalization effect the rebuilt of value propositions at industry, firm and global value chain levels.

Discussion

Massa and Tucci (2013) suggest splitting the notion of business model innovation into two different categories: business model design and business model reconfiguration. The former relates to inventing new businesses and business models, whereas the latter is about restructuring and generating new ideas within existing business models. From business model perspective, de-internationalization could be seen as a process of restructuring and generating new ideas within existing business models.

De-internationalization framework (Figure 1) offers initial point of departure to study how withdrawal from international markets affects firms' business models. Was the initial business model appropriate for the international market? Was the value proposition imperfect? Or how will or can a firm change or adapt its business model in response to international market withdrawal activities and make it more competitive to drive firm's re-internationalization efforts?

In Taran *et al*. (2016), McDonalds and Starbucks are exemplars of franchising, emphasizing 'positive' side of the phenomenon. But, as part of 'optimizing entry mode mix', de-internationalised company might view franchising as a potential for reconfiguration of the company's business model aiming to re-internationalize. In this as in the other similar processes the challenge is to identify consequences or obstacles in business model re-deign before considering a company 'unsuccessful' or 'successful'.

Selling-off or contracting-out, fairly common in the strategic literature, further contributes to our understanding of the intersection by asking how they affect firm's business model and its reconfiguration. Is the company selling-off in an attempt to reconfigure into a more 'core-focused' reconfiguration or contracting-out to achieve a configuration of an 'external sales force'?

Another interesting question that the intersection generates is what companies are trying to achieve when they are optimizing operations and/or their value offering? From a business model perspective, optimizing could mean re-configuration of several business models. A new value offering could mean anything from 'full service provider' to a 'no-frills' solution depending on the reasons for de-internationalization.

Conclusion

This is the first attempt to propose a conceptualization in the de-internationalization-business-model intersection. The above insights not only contribute to theorising this intersection, they also demonstrate its relevance to decision makers. We call for future conceptual and empirical studies to understand it across various global, reginal, national, global value chain, industry, and firm levels, setting out a number of relevant directions for future research into the de-internationalization-business-model intersection. For example, what are the benefits or downsides of de-internationalization? What are the implications of de-internationalization on the firm' business model? Which parts of firm' business model are affected most, how and why by de-internationalization? How value creating, capturing and delivery activities are affected by de-internationalization; how they are redesigned not only to cope with the effects of de-internationalization but also to prepare the firm to re-internationalize.

With this paper we aim to achieve cross-fertilization between business model and de-internationalization research streams. We expect business model frameworks help enhance our understanding why and how firms de-internationalize. At the same time, we foresee that de-internationalization of firms will contribute to our understanding how firms re-configure or re-invent their business models during failures, growth declines, or (strategic) departures from what is normal or expected. Clearly this intersection poses at this time more questions than answers, but this is what makes it an interesting venue for future research.

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