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A Case of De-Internationalization

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THE PHILOSOPHY OF TURNING POINTS: A CASE OF DE- INTERNATIONALIZATION

Romeo V. Turcan

ABSTRACT

This paper introduces and discusses the concept of turning points from the ontological, epistemological, and methodological perspectives, applying it to the de-internationalization phenomenon to exemplify its deployment. As a concept that adds to the variance and complexity of the international business and management field, the turning point is seen as a valuable unit of analysis within the research field. It is expected that this paper will encourage a dynamic scholarly conversation about the concept of turning point and how it can aid international business researchers in the development of a generalizable international business and management theory.

They said, "You have a blue guitar,
You do not play things as they are."
The man replied, "Things as they are
Are changed upon the blue guitar."

Wallace Stevens (1937)

INTRODUCTION

In the early period of the evolution of the field of international business (IB) research the choice of an international market and of the mode of entry into that market were identified as the frontier issues in the cross-border activity of the firm (Wind & Perlmutter, 1977). Recent advances in IB research broaden the scope of this frontier by addressing the issues of mode combinations (Benito, Petersen & Welch, 2009; Petersen & Welch, 2002) and mode change (Pedersen, Petersen & Benito, 2002). Acknowledging the substantial progress made by IB scholars in the domain of international entry mode, Brouthers & Hennart (2007, p. 413) ask "...where to go from here"; i.e., what issues still need to be explored, and what theories will help gain further understanding. A consensus is emerging that current IB theories do not provide adequate explanation of how firms operate in foreign markets despite the decades of research in IB (Benito et al., 2009; Buckley, Devinney & Louviere, 2007; Devinney, Pedersen & Tihanyi, 2010).

A number of opportunities have been identified to address the above-named critical aspects and, in the end, contribute to the advancement of the IB field. For example, Buckley et al. (2007) posit that a greater appreciation of the scope of the domain of dependent and independent variables is needed in order to develop a generalizable IB theory. Devinney et al. (2010) suggest viewing the variance and the complexity of the IB phenomenon, as well as the complex structure of IB models as the critical aspects that make the IB phenomenon distinctive. Furthermore, in order to move the IB field forward, more innovation in theory-building and in new construct development are needed, as well as more creative and innovative research methodologies and methods that would allow the IB researchers to investigate the IB phenomenon beyond the traditional models and boundaries (Buckley et al., 2007; Devinney et al., 2010).

One area of IB research that undeniably adds to the variance and complexity of the IB field and that, regrettably, has received little consideration from IB scholars is *de-internationalization*. It is the central thesis of this paper that in order to stimulate and advance the research on de-internationalization, it is critical for IB researchers to understand the concept of *turning points*, which, according to Abbott (2001, p. 249), are "... more consequential than trajectories because they give rise to changes in overall direction or regime, and do so in determining fashion".

The aim of this paper is to introduce and discuss the concept of turning point, applying it to the de-internationalization phenomenon. To set the scene, the paper will first provide a brief review of the de-internationalization phenomenon. The concept of turning point will next be introduced and discussed from ontological, epistemological, and methodological perspectives, linking it to the de-internationalization phenomenon. The paper will conclude with implications for the IB field. It is expected that this paper will encourage a dynamic scholarly conversation on the adoption of the concept of turning point in the IB research with the view to further the progress of the IB field.

DE-INTERNATIONALIZATION EMERGING

Welch & Luostarinen (1988, p. 37) introduced the notion of de-internationalization in maintaining that "once a company has embarked on the process [of internationalization], there is no inevitability about its continuance". Calof & Beamish (1995, p. 116) embedded the same notion (though termed de-investment) into their definition of cross-border activity, which they defined as "the process of adapting firms' operations (strategy, structure, resources, etc.) to international environments". These authors view de-internationalization as a process whereby a firm deliberately chooses to reduce its degree of international exposure.

Benito & Welch (1997) made the first attempt to conceptualize de-internationalization, grounding their definition in the research streams of a multinational enterprise. Benito & Welch (1997) argue that commitment to internationalization inhibits or decreases the probability of de-internationalization and 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) (p. 9). To explain the process of de-internationalization in small firms, Turcan (2003) put forward a conceptual framework of the de-internationalization of a 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, which is triggered by a critical event, and depends on the actions and intentions of dyadic partners; and (iii) *time*, which is socially constructed and experienced in the present by entrepreneurs by relating themselves to codes and memories (past), and congruencies and horizons (future).

Compared to internationalization de-internationalization appears to be one of those areas that, while important, is either not convenient, or is perhaps undesirable, to research. And the literature supports this assertion. To date, the research on de-internationalization has been sparse (for exceptions, see, e.g., Crick, 2004; Matthyssens & Pauwels, 2000; Mellahi, 2003; Pauwels & Matthyssens, 1999; Reiljan, 2004; Turcan, 2006; Turner & Gardiner, 2007) due to the seemingly negative and undesirable features associated with this phenomenon (Benito & Welch, 1997); i.e., because human nature has a tendency to suppress the admission of failure (Clarke & Gall, 1987). But it may also be a practical concern regarding the difficulty in getting longitudinal data (Benito, 1997), or in researching perceived failures. For example, the construct *reduction*, as emphasized in Benito & Welch’s (1997) definition, implies a negative and undesirable feature associated with de-internationalization that, more

often than not, is seen as a failure, as opposed to the 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, firms may be correcting an error previously made; e.g., having internationalized too quickly or having gone to too many markets, a step which has turned out to be unmanageable. In this context, Casson (1986) views de-internationalization as an error correction mechanism.¹ Moreover, when a firm 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.

Few attempts have been undertaken to explain and understand the phenomenon of de-internationalization and eventually integrate it into the cross-border activity of a firm. While Benito & Welch (1997) place de-internationalization in the broader context of a firm's international activities, asking whether, over time, the driving forces of internationalization operate in reverse, thus perpetuating a withdrawal process, Turcan (2003) suggests viewing the process of the cross-border activity of a firm as a cause-effect relationship between internationalization and de-internationalization. In addition, the existence of different internationalization pathways and trajectories (Bell, McNaughton, Young & Crick, 2003; Kutschker & Baurle, 1997), and of time-spans to foreign-market entry (McNaughton, 2000; Oesterle, 1997), have been acknowledged and explored in an attempt to provide a holistic view of the cross-border activity of a firm that incorporates de-internationalization. These attempts (with the exception of Benito & Welch, 1997 and Turcan, 2003), however, just scan the phenomenon of de-internationalization, and, oftentimes, mention it as an endnote. Despite

¹ Casson (1986) 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.

all the above attempts, the extant research on de-internationalization is still emerging: it remains somehow scarce and needs more empirical data, new conceptualization and theorizing, and new methodologies.

In this paper I argue that one of the factors that stifles the research on de-internationalization is the pathway- or trajectory-based approach to the cross-border conceptualization. Such an approach provides rather limited scope for theorizing about de-internationalization since trajectories are inertial, withstanding a “large amount of minor variation without any appreciable change in overall direction or regime” (Abbot, 2001, p. 248). In other words, trajectories do not allow researchers to explore and understand relatively abrupt and divisionary moments such as de-internationalization. To account for such discontinuousness and unpredictable departures from the past (Van de Ven & Poole, 1995), as de-internationalization is, IB researchers should delve into the concept of transitions that could be seen as radical shifts – turning points – redirecting the paths (Abbot, 2001).

THE CONCEPT OF A TURNING POINT

The concept of a turning point is conceptualized both quantitatively and qualitatively from the life-course or life-cycle perspectives to explore (processes of) change; e.g., in the criminological literature (Carlsson, 2011), healthcare literature (Teruya & Hser, 2010), individual and familial development (Hareven & Masaoka, 1988; Rutter, 1996), organizational studies literature (Bullis & Bach, 1989), political science literature (Penkower, 2004; Wimmer & Feinstein, 2010), and applied economics literature (Krolzig & Toro, 2005; Yamada, Honda & Tokutsu, 2007). In these literatures, a turning point is viewed as a road-mark along a life-course (e.g., Hareven & Masaoka, 1988) and is defined as “...a particular

event, experience, or awareness that results in changes in the direction of a pathway or persistent trajectory over the long-term” (Teruya & Hser, 2010, p. 189).

In the IB literature, however, research employing the concept of turning point to explore the process of the cross-border activity of a firm is scarce; virtually nonexistent. Exceptions include Petersen, Pedersen & Lyles (2008), who employ the concept of turning point to explain the knowledge gap in the internationalizing firm, or Turcan (2006), who employs the concept of turning point to explore the process of de-internationalization in small high-technology firms. The lack of sustained research on both de-internationalization and turning point concepts in IB research makes the task of conceptualizing de-internationalization as a turning point more challenging, but nonetheless attainable. A number of challenges could be singled out in this endeavor; for example, related to finding a viable ontology in the world of turning points, the epistemological origins of turning points, as well as the methodology appropriate to collect, analyze and interpret data related to turning points.

Ontological level

At the ontological level, the question is whether turning points (e.g., de-internationalization) exist. According to Abbott (2001, p. 247), “a process has turning points because it has regular sub-processes between which we switch only rarely”, and these rare switches Abbott calls turning points. Indeed, from the IB perspective, de-internationalization could be viewed as that rare switch (between various internationalization trajectories) that decision-makers may pursue. The issue, however, is whether decision-makers believe that such rare switches *do* exist. A number of project, psychological, social, and organizational factors (Ross & Staw, 1993) that might be associated with the internationalization process of the firm in fact contribute to the denial of the existence of such switches as de-internationalization. In his

research on exploring de-internationalization in small high-technology firms, Turcan (2006) found, that, in their narratives, managers and policy makers were often questioning whether de-internationalization exists, and/or were denying that the firms in question actually had de-internationalized.

The perception of de-internationalization as a business failure (Benito & Welch, 1997; Casson, 1986) contributes to such a state of denial. One way to resolve such an existential dilemma could be to view de-internationalization as an error-correction mechanism (Casson, 1986) rather than a failure. This reality implies, however, that *internationalization* is an error, perhaps a failure that de-internationalization may correct. In other words, conceptualizing de-internationalization as an error-correction mechanism implies contemplating that internationalization *was* a failure and admitting it. We are back where we started; due to various project, psychological, social, and organizational factors, decision-makers would be reluctant to admit that internationalization was an error and/or failure, thus denying the existence of the rare switch, in this case that of de-internationalization. One may argue that this is not so much an ontological dilemma; it could be rather a divide or a gap between the way practitioners and IB researchers understand and perceive the reality of turning-points.

Epistemological Level

At the epistemological level, temporality plays a central role in shaping our knowledge about turning points (e.g., de-internationalization); it may eventually contribute to the solution of such ontological dilemmas as discussed above. According to Abbott (2001, p. 245), turning point, as a concept, "...inherently refers to two points in time", implying that turning points are processes with duration in time. This is not sufficient basis, however, for a turning point

to exist; there should be a passage of sufficient time between the two points, making sure that the direction of the course (trajectory) has been changed either in direction or in nature.

In light of the above, de-internationalization, could be viewed as an event between two points in time, as an effect where a firm may totally or partly de-internationalize (Benito & Welch, 1997) by re-focusing on the home market, optimizing the number of foreign markets, changing the entry modes and/or reducing operations by focusing on earlier versions of the product, providing services, divesting a brand, or re-organizing (Figure 1). As regards de-internationalization modes (as a switch between two points), 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. From franchising a firm may switch to exporting, and from exporting to inward-activities, importing, licensing-in, or R&D contracting.

Insert Figure 1 about here

It is also important to distinguish between de-internationalization of ownership and de-internationalization of control (Casson, 1986). Likewise it is pivotal to consider what Benito et al. (2009) call mode package and mode package change. For example, Benito et al. (2009, p. 1461) use the word “de-emphasize” 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)

The temporality of the turning point further suggests that we can only define a turning point *a posteriori*, rather than *a priori*. The arrival and establishment of a new trajectory, according to Abbott (2001), define the turning point itself; in other words, the beginning and the end of the turning point can be defined only after the whole turning point has passed. Such hindsight character of turning points suggests that the analysis of turning points “...makes sense only after the fact, when a new trajectory or system state is clearly established” (Abbott, 2001, p. 250).

Applying this *a posteriori* principle of a turning point to de-internationalization would mean that we can study de-internationalization only in hindsight; for example, after a new international business or growth strategy is clearly established. Such *a posteriori* conceptualization of turning points should also allow for negative outcomes to occur, such as failures, bankruptcies, and ceasing trading.

The concept of uncertainty further contributes to the definition of turning points. Abbott (2001) suggests relaxing the assumptions about the nature of trajectories on either side of the turning point by assigning to one or the other a degree of uncertainty (or randomness). Abbott (2001) distinguishes between *focal turning point* and *randomizing turning point*: the former is becoming when an event moves from uncertainty (or a relatively random trajectory) to a trajectory that is certain (yet could be risky) and directional; the latter is becoming when an event moves from certainty (or a stable trajectory) to a trajectory that is uncertain (or random).

Generalizing de-internationalization as a focal turning point and a randomizing turning point would allow IB researchers to explore the process of de-internationalization in young, emerging firms and established firms, respectively. This argument is based on the assumption that a young, emerging firm attempts to move from an uncertain decision-making setting

towards a risk decision-making setting, whereas an established firm moves from a relatively stable and directional trajectory to a new, uncertain trajectory.²

I further introduce what Abbott (2001, p. 252) calls the *irrevocability* aspect of turning point, hence the concept of a *point of no return*. The concept of a point of no return is viewed as being part of the cutting point family of codes and plays an important role in the process of theory development since it indicates "... where the difference occurs which has differential effects" (Glaser, 1978, p. 76). From the de-internationalization perspective, the concept of a point of no return may explain various change options decision-makers might pursue when the attainment of a firm's international objectives and international growth strategy is or becomes uncertain.

The concept of a point of no return (Figure 2) distinguishes between two types of points of no return: real and false.³ A *real* point of no return⁴ refers to the point in the life of the firm beyond which the transition to a new viable organizational gestalt, which consists of mutually supportive organizational system elements combined with appropriate resources and behavioral patterns (Slevin & Covin, 1997), becomes uncertain. A *false* point of no return refers to an illusory point of no return that is the result of a process of illusion and self-deception. Shaded areas on both sides of the real point of no return represent the entrapment situations decision makers find themselves in.

² A risk decision-making setting is similar to the rolling of a traditional die, which is balanced and fair; hence it is possible to calculate the probability of the outcomes. An uncertain decision-making setting resembles rolling a die with an infinite number of sides, without knowing whether the die is balanced and fair. Under these circumstances, it is impossible to calculate the probability of the outcomes.

³ For a full discussion on the emergence of the concept of point of no return as a middle range theory to explain the process of de-internationalization please refer to Turcan (2006).

⁴ Use of the term here is analogous to its use in aviation, where the real point of no return is a point midway in the flight of an aircraft beyond which it would not have the fuel to return to its airport of origin. The implications of this are, for example, that if the target airport cannot receive it, the decision must be made to either return to the starting airport, or fly to other airports that are within range, while still not being sure whether the other airports can receive the aircraft.

Insert Figure 2 about here

The shaded area on the right side of the real point of no return refers to an error of omission (Casson, 1986); i.e., when companies should have de-internationalized earlier but failed to do so. The error of omission in this case is the difference between the real and false points of no return. If decision-makers are not flexible enough, get entrapped in a failing course of action, and as a result orient their decision-making by a false point of no return (lying beyond the real one), then any of their decisions to de-internationalize will not be successful and will lead to failure. The shaded area on the left side of the real point of no return refers to a *safety net* where firms have a reasonable chance to successfully turn around. In the context of cross-border activity of the firm, de-internationalization may then refer to *the firm's capacity to reduce tensions in the organizational gestalt before or at the real point of no return*. If decision-makers eventually do recognize that the existing organizational gestalt is less than optimal, and decide to stop committing further organizational resources, the question then becomes at what point too little is still not too late.

Methodological level

The choice of research methodology and methods is pivotal in order to be able to fully appreciate the richness of data on turning points. Clearly such choice is driven by specific research questions, and thus it is not our aim here to discuss the variety of choices available to researchers in investigating turning points. However, defining de-internationalization as a turning point, we will employ a number of facets of de-internationalization to discuss related methodological challenges.

For example, de-internationalization is perceived as something negative and undesirable, as an error or a failure. De-internationalization, having a hindsight character, can be analyzed only after the fact. It might not be so much a challenge to locate a company that de-internationalized, but it is rather a larger challenge to negotiate access to decision makers or what Buckley et al. (2007, p. 1087) call “the domain of the management decision-maker”, as human nature has a tendency to suppress admission of (perceived) failure. It is also a challenge to conduct longitudinal studies given the high mortality rate that to a certain degree is associated with de-internationalization, as well as given the *a posteriori* nature of de-internationalization. Sampling bias is also an issue since, for example, the extant IB research tends to focus primarily on positive business growth and does not study firms that ceased to trade, or chose to withdraw from their international activity along the way, thus focusing on obtainable rather than on important data.

Building on the above facets of de-internationalization, several challenges of discovering and studying de-internationalization as a turning point are identified. One challenge is about sampling and sampling criteria. A typology of de-internationalization (at the level of theory driven sampling) could be employed by researchers to deal with a challenge that relates to carrying out theory driven sampling in a proper manner (Turcan, 2011a). 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 between two points 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 could make sure that turning points are transparently observable in the selected cases, thus ensuring the researchers investigate and observe the same phenomenon across all cases.

In addition to the above theory driven sampling, IB researchers should also develop further sampling criteria in order to mitigate the effects of attribution errors on data collected when studying (perceived) negative turning points, such as de-internationalization. According to Lovallo & 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 decision-makers misattributing the cause of the events that led to de-internationalization. To minimize the effect of such attribution errors, 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 cases. The other strategy could be to minimize the potential effect of resource bias, controlling for the size of the firm. Data triangulation also helps minimize the attribution errors by corroborating the data collected from decision-makers via the data collected from their stakeholders and other sources, including unobtrusive data (Webb, Campbell, Schwartz & Sechrest, 2000).

As to the data collection and data analysis tool, I would like to draw IB researchers' attention to a method that I believe allows capturing the nature of turning points (in this case of de-internationalization phenomenon). I refer to critical incident technique (CIT), defined as "a qualitative interview procedure that facilitates the investigation of significant occurrences (events, incidents, processes or issues) identified by the respondent, the way they are managed, and the outcomes in terms of perceived effects" (Chell, 1998, p. 56).⁵

⁵ For review of CIT, please refer to Flanagan (1954) and Chell (1998). Examples that employ CIT could be found in organizational studies (Butler, 1991; Edvardsson, 1992), entrepreneurial studies (Chell & Pittaway,

CIT has its origins in the research undertaken by Flanagan (1954). Flanagan defined an incident as any observable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the person performing the act. To be critical, Flanagan argues that an incident or an event must occur in a situation where the purpose or intent of the act seems fairly clear to the observer and where its consequences are sufficiently definite to leave little doubt concerning its effects. Edvardsson (1992) further suggests that for an incident or an event to be critical, the requirement is that it deviates significantly, either positively or negatively, from what is normal or expected.

From the point of view of CIT method, a turning point could be seen as a critical event or a critical incident in the life of the firm. For example, generalized as a focal turning point, de-internationalization could be treated within CIT as a critical event or incident that leads to a relatively fixed and directional trajectory; if generalized as a randomizing turning point, de-internationalization would be looked at as a critical event or incident that moves a firm from a stable and directional trajectory towards an uncertain (random) trajectory.

IMPLICATIONS AND CONCLUSION

In this paper I introduced and discussed the concept of turning point from the ontological, epistemological and methodological perspectives, applying it to the de-internationalization phenomenon to exemplify its deployment. I strongly believe the concept of turning point could be applied as a valuable unit of analysis to other IB areas as well. It is not the scope of this paper to cover them all, however, several pointers are considered below.

Questioning the way IB researchers have restricted the domain of independent and dependent variables and pointing to the adverse effect such restrictions have had on the

1998; Kaulio, 2003; Turcan, 2008), international business studies (Turcan, 2012) and international entrepreneurship studies (Turcan, 2011b).

development of the IB theory, Buckley et al. (2007) differentiate between *considered* and *actual* internationalization decisions. Buckley et al. (2007) demonstrate in a structured experimentation that decision makers follow fairly rational rules when they *consider* internationalizing, but when it comes to making *actual* internationalization decision, their behavior appears less aligned to traditional IB models. To enhance our understanding of the complex decision-making underlying internationalization, I suggest designing into such structured experimentation methods the concept of turning point, aiming to explain differences in the decision-making process between *considered* and *actual* choices.

Further in depth understanding of such decision-making processes employing the structured experimentation method could be achieved by designing in the concept of point of no return. In this situation, inter alia, the concept of point of no return aims to capture the *captive* state of the decision-making underlying internationalization. For example, by making fixed decisions (e.g., on the acquisition target or target market), decision-makers exclude future opportunities by definition, becoming captive to their own decisions. Such decisions become irreversible; in other words they pass the real point of no return with no options to change the course of action. The logic of the *captive* state suggests that it lies between the *consider* set and *actual* set of choices; although this should be empirically tested.

As discussed earlier, turning points may be conceptualized as processes with duration in time between two points, generating radical changes that redirect the path or trajectory. Van de Ven & Poole (1995, p. 522) refer to such mode of change as *constructive*, arguing that it "... generates unprecedented, novel forms that, in retrospect, often are discontinuous and unpredictable departures from the past". Following Van de Ven & Poole (1995), IB researchers may theorize the process of the constructive mode of change as a teleological process or dialectical process. According Van de Ven & Poole (1995), dialectical process is

based on conflict, dialectical materialism, pluralism and collective action assumptions, whereby dialectical conflict between antithesis and synthesis changes the status quo, for better or for worse. Teleological process relies on goal setting, planning, functionalism, social construction and symbolic interaction assumptions, being unable to specify the trajectory a firm will follow. Theorizing about the process of the turning point as a teleological process or as a dialectical process, IB researchers may enquire for example which transitions are routine and incremental, and which transitions are indeed turning points.

By introducing and discussing the concept of turning point herein, I do hope this paper will encourage a dynamic scholarly conversation about the concept of turning point and how it can aid IB researchers in the development of a generalizable IB theory.

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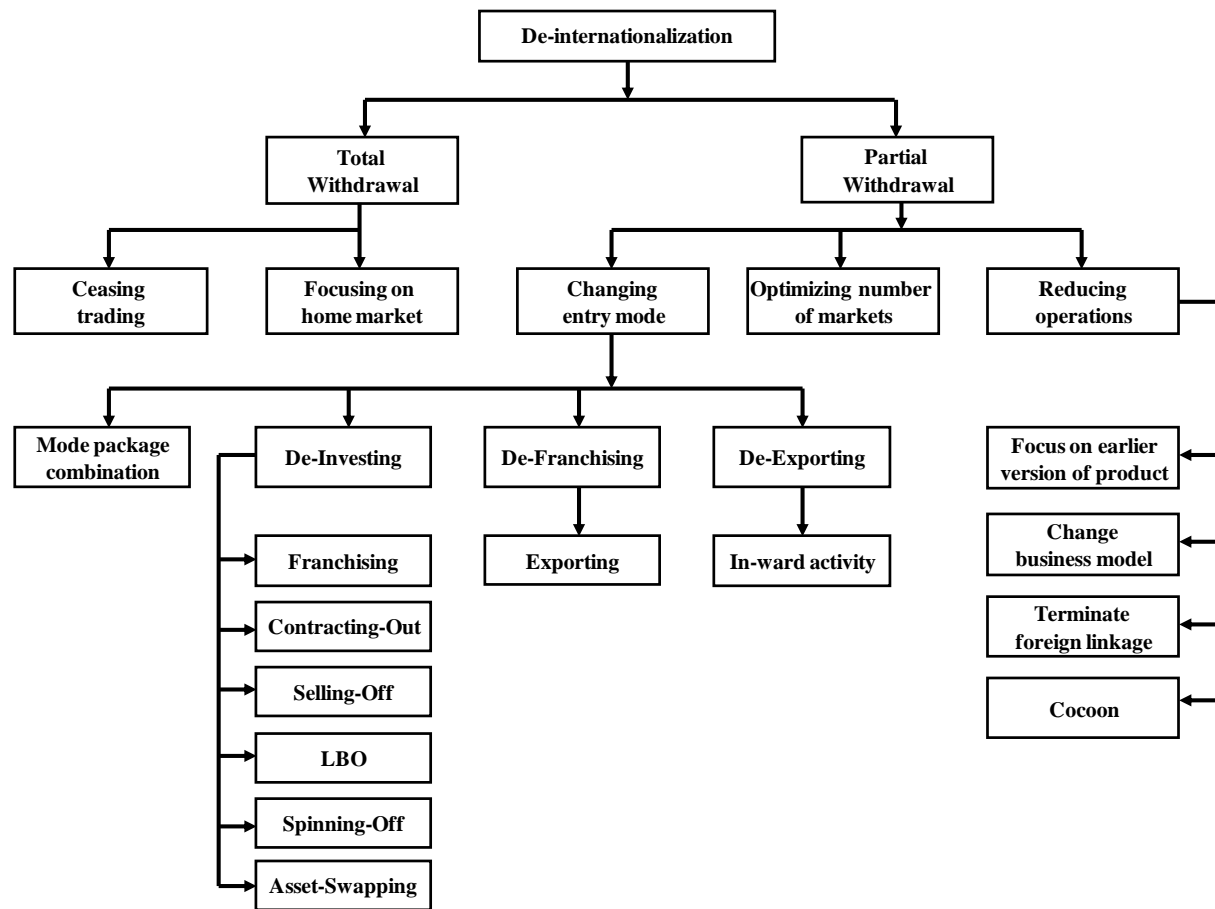
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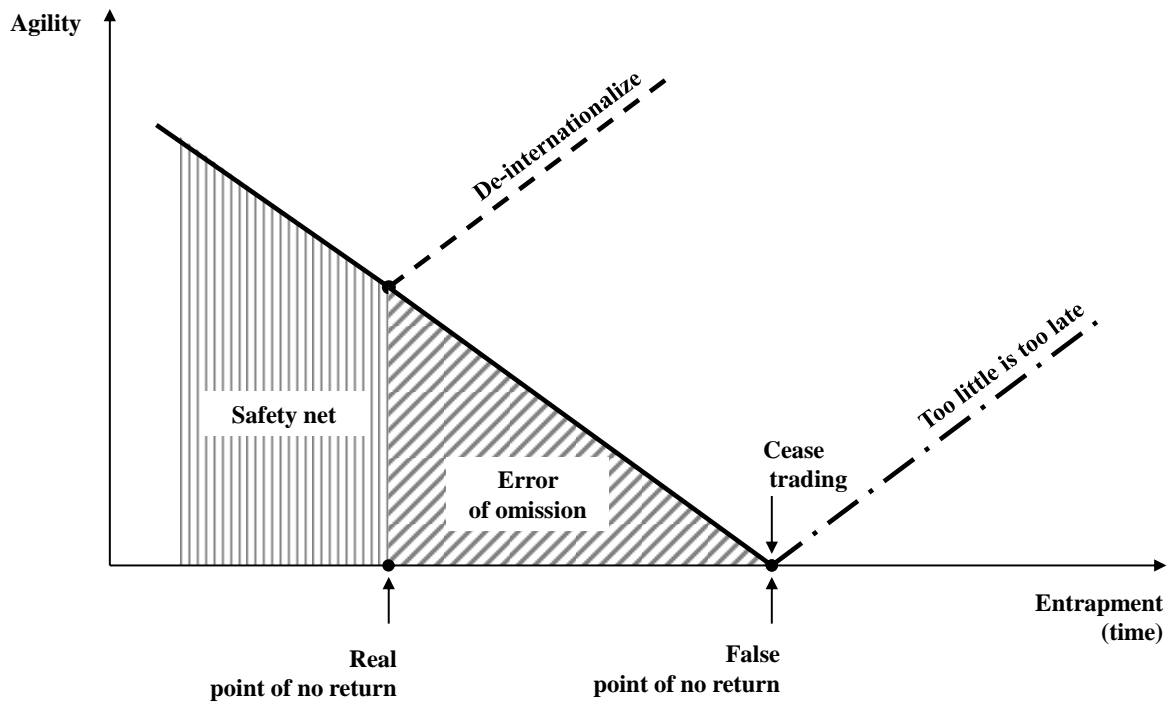
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Figure 1. De-internationalization modes



Source: Turcan, 2011a

Figure 2. Concept of point of no return



Notes: The right downturned line depicts the inverted relationship between agility and entrapment that emerge as the two major behavioral constructs that discriminate between success and failure.

This inverted relationship builds on Benito & Welch's (1997) postulate that, with the passage of time, the probability of withdrawal from international operations declines as the commitment to these operations increases.

Agility is defined as flexible decision-making and a flexible cost-base structure that allow decision-makers to scale up and, more importantly, to scale down according to the activity level that the firm is experiencing (Turcan, 2008).

Entrapment refers to situations where people become bound to a suboptimal line of activity through the passage of time itself (Becker, 1960).

Source: derived from Turcan (2006)