

Handbook of Research on Corporate Restructuring and Globalization

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Chapter 7

De-Internationalization of SMEs: A Case Study

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ABSTRACT

Existing literature has devoted high attention to the topic of internationalization. A common assumption is that companies progressively commit to international operations; however, with the increase of competition in international markets, there may be a backwards perspective towards international operations. In this chapter, the topic of de-internationalization is examined, and a case study of a Portuguese SME that de-internationalized conducted. The featured case highlights the drivers and the main challenges of internationalization, as well as the factors and the difficulties in a de-internationalization process. The chapter findings highlight the need to expand the existing research on the topics of de-internationalization and re-internationalization.

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INTRODUCTION

The internationalization and expansion to foreign markets is a key topic in the field of international business (Griffith, Cavusgil, & Xu, 2008). With the development of the globalization process, the internationalization of business activities has acquired a greater relevance. As a result, the topic of internationalization has gathered increasing attention from the scientific community since the 1960s (Benito, 2005; Ribau, Moreira, & Raposo, 2015). A common assumption is that the international development of companies follows an incremental outward path (Sousa & Tan, 2015).

Actions such as divestments, market exits, downsizing of operations and de-commitment to international operations contradict this notion (Benito & Welch, 1997). The possibility of a negative evolution of international operations has remained far less explored in the literature than that of expanding operations (Freeman, Deligonul, & Cavusgil, 2013). While there have been several theories put forward to explain the process of internationalization (Ribau, Moreira, & Raposo, 2015), the same has not happened regarding the negative development of international operations (Kotabe & Ketkar, 2009). Moreover, there have been few attempts in the literature to explain the de-internationalization process of companies (Benito, 2005; Silva & Moreira, 2019). Existing research has also examined specific forms of de-internationalization, particularly, export withdrawal (Pauwels & Matthyssens, 1999) but the understanding of the strategic antecedents of other forms of de-internationalization, particularly the ones involving the reversal of international operations with higher levels of commitment, have been less explored.

Among the reasons that may help explain the lack of research in de-internationalization is the fact that while internationalization is associated with growth, a de-internationalization implies a contraction process and may be negatively related with failure (Benito & Welch, 1997; Karakaya, 2000). In addition, expansion outward activities such as mergers and acquisitions are received with enthusiasm, contrariwise to contraction activities such as divestments (Silva & Moreira, 2019).

Small and medium-sized enterprises (SMEs) are increasingly internationalizing, which can be explained by the opening of new markets that were previously closed (Hessels & Parker, 2013; Onkelinx & Sleuwaegen, 2008; Ribau, Moreira, & Raposo, 2018a) and the existence of support programs to foster SMEs growth by country governments and the European Union (OECD, 2009). The spread of both the globalization process and the availability of new information and communication technologies have made internationalization easier for companies with fewer resources, allowing them to provide support for distant markets and the ability to easily communicate with potential customers, suppliers and international partners (Keupp & Gassmann, 2009). As a result, a higher number of companies are internationalizing driven by an increase in domestic competition, a limited internal market and a search for new market opportunities, growth, or simply to follow an international expansion path (Keupp & Gassmann, 2009; Kuivalainen, Sundqvist, Saarenketo, & McNaughton, 2012). However, internationalization may not guarantee the survival of the company because the risks and costs involved in the process can be substantial (Onkelinx & Sleuwaegen, 2008; Ribau, Moreira, & Raposo, 2018a).

This chapter focuses on the topic of de-internationalization, particularly of SMEs. The focus of the research on SMEs stems from the fact that when compared to large companies or multinational corporations (MNCs), SMEs traditionally have fewer resources, less research and development activities, face higher uncertainties and barriers to innovation (Zeng, Xie, & Tam, 2010), and are less connected to international knowledge networks (OECD, 2017). Because SMEs do not have abundant resources, they face higher difficulties managing and planning their internationalization process (European Commission, 2003) due to managers lack of technical capabilities and limited time availability. In 2015, SMEs¹ represented 99%

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of all enterprises in the European Union (Eurostat, 2018); thus, SMEs are well-suited and of interest to conduct research in the field of de-internationalization. The literature on SMEs de-internationalization is also limited, as most of the existing research focuses on MNCs (Turcan, 2003; Turcan 2013).

Considering the abovementioned gaps, the objective of this chapter is to address the process of de-internationalization of a SME in Portugal, particularly:

- How the company managed its de-internationalization process;
- What happened after its de-internationalization;
- How the company made up for the loss of an external market;
- How the company faced re-internationalization after a market exit.

To achieve these research objectives, an exploratory case study of an SME that de-internationalized from Morocco was conducted, exploring the main reasons as to why the company de-internationalized. The results of this chapter seek to contribute to the discussion of an under-researched topic such as de-internationalization, and to provide companies with knowledge on what can go wrong on an internationalization process. It will also contribute to identify the underlying causes of a de-internationalization decision and to bring clarity into the internationalization/de-internationalization relationship.

The chapter is structured as follows. After this introduction, the following section presents the literature on internationalization and de-internationalization. Then, the methodology used is described and the case study presented, after which follows the analysis and discussion of the main findings. The chapter ends with the conclusions, its limitations and the future research proposals.

THEORETICAL BACKGROUND

In this section, the literature on internationalization is reviewed such as the main theories for firms' internationalization, the reasons to engage in international activities and the choice among the various modes of entry. Then, the literature on de-internationalization is reviewed approaching topics such as the modes of exit like export withdrawal, market exit, reverse internationalization or re-internationalization.

Internationalization

Internationalization is "*the process of increasing involvement in international operations*" (Welch & Luostarinen, 1988; p. 36). Internationalization allows companies to have access to markets other than the domestic one, and to take advantage of their capabilities to create value for the company and to address market needs based on their competences and capabilities. Internationalization happens whenever there is a flow or an exchange of raw materials, finished and semi-finished goods, services, money, people or even ideas between two different countries (Etemad, 2004).

A company's decision-making to expand abroad is one of the most important strategic moves to a company's growth. However, the international business environment is more complex and difficult than the domestic market and the probability of failure in an external market is higher due to increasing competition and the lack of market knowledge, among others. The increasing number of companies that internationalize their activities has been evolving over time by the spread of the globalization process in

which companies are embedded today. Furthermore, the internationalization is an important factor for the survival of SMEs (Lee, Kelley, Lee, & Lee, 2012; Ribau, Moreira, & Raposo, 2018b).

Theories of Internationalization

Several theories have been put forward to explain the process of internationalization of firms but among the most consensual ones are the Uppsala model, Dunning's eclectic paradigm or the network theory (Ribau et al., 2015).

The *Uppsala model* is an internationalization stage model based on the assumption that firms follow a sequential pattern of entry into foreign markets and an increasing commitment to each market. The increase of commitment is an important factor in the Uppsala model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977) as firms intensify their commitment to a certain foreign market as their experience on that market grows. Accordingly, firms first gain experience in the domestic market and then gradually move to culturally and geographically more distant markets. Likewise, firms begin international operations using a low level of commitment to international activities such as exports and then gradually move to higher modes of commitment to international activities such as Greenfield investment.

Dunning's eclectic paradigm discusses the importance of Ownership, Location and Internalization (OLI) variables in foreign direct investment (FDI) decisions (Dunning, 1988). Accordingly, firms only engage in FDI when the following three advantages are simultaneously met:

1. Ownership advantage: the firm should own an asset (e.g., a patent, a copyright, the reputation of the brand, etc.) that has enough value to offset the costs of engaging in international production;
2. Locational advantage: there must be an advantage to the firm to operate in a certain location such as favorable transportation costs, tariffs or labor costs;
3. Internationalization advantage: it should be more profitable to the firm to maintain international activities within its boundaries (e.g., to protect its ownership advantage, an asset or know how) than to engage in modes of internationalization such as alliances or licensing.

When one of these OLI conditions is not met, it may be more profitable for firms to engage in other modes of internationalization other than FDI. For example: (1) without the ownership advantage, it may be difficult for the firm to produce enough value to maintain its activity at all; (2) without a location advantage, it may be more profitable to manufacture in the home market and to export to foreign markets rather than to manufacture abroad; and (3) without an internalization advantage, the firm could license its production process to a partner that would instead manufacture that good.

The *network theory* assumes that firms should not be understood as standalone actors in an industrial system as these are composed by: actors (e.g., individuals, firms and groups), activities and resources (e.g., tangible and intangible resources). According to the network theory, the actor (firm) is dependent on the resources controlled by other actors, establishing with them long-term relationships that go beyond the mere transaction. The relationships held by the firm in its domestic network can be used as a connection to other networks located in other countries (Johanson & Mattsson, 1988). Entering a new market constitutes an opportunity for the firm to develop new relationships, thus, internationalization is understood as the evolution of the firm's network. The network theory is among the most well-accepted to explain the internationalization process of SMEs (Ahokangas, 1998).

Reasons for Internationalization

There are various endogenous and exogenous reasons for the internationalization of companies. The literature presents several factors for the internationalization of companies (Keupp & Gassmann, 2009; Kontinen & Ojala, 2010; Kuivalainen et al., 2012; Ribau et al., 2018b).

Dunning (1993) argues that the main reasons for the internationalization includes: the search for new markets, resources, efficiency and strategic resources.

- The *search for markets* focuses on the demand side to find new markets that the company can explore, allowing the company to gain access to new target markets. The saturation of the domestic market may trigger companies to search other options to sell its products and increase its income by selling in international markets.
- The *search for resources* involves searching for a resource, tangible or intangible, such as know-how, that is not available in the company's country of origin. Nowadays, companies often seek for cheap hand labor to decrease production costs and maximize profits. Companies may also search for highly skilled human resources or countries which have cutting-edge technology.
- The *search for efficiency* seeks to rationalize the investment structure established by the company to increase its competitiveness through the management of multiple production facilities, and to optimize the value chain and maximize the efficiency of the company's resources (Dunning, 1993).
- The *search for strategic resources* involve the search for intangible resources which may include the company's core technologies and competencies (Dunning, 1993). These intangible strategic resources can be patents, knowledge and other skills of employees that are necessary for the development of a competitive advantage.

Dunning (2000) notes that that the search for new markets and resources is among the most important reasons for firms to internationalize. However, the internationalization occurs more because of opportunities encountered by the company, than by threats from competitors. Companies internationalizing for the first time favor the search for new markets and resources, whereas companies that have already internationalized often seek to continue to expand their activity and favor the efficiency and the strategic resources to gain a competitive advantage (Dunning, 2000)

Modes of Entry in International Markets

The mode of entry into the foreign markets is one of the most important critical strategic decisions firms must take when entering foreign markets (Young et al., 1989). The choice of the mode of entry in the foreign market is a complex and difficult decision to undertake. The choice of the mode of entry can make the business thrive or alternatively, lead to its termination. Although Rothaermel et al. (2006) consider three main ways to enter foreign markets – exports, licenses and/or direct investment – they can be expanded into the following ones (Aliouche & Schlenrich, 2011; Pla-Barber & León-Darder, 2004; Rodríguez, 2002): exports, licensing, franchising, strategic alliances, joint ventures or wholly owned subsidiaries.

- *Exports* can be classified as direct and indirect (Simões, 1997). Indirect export occurs when a company is not responsible for the sale of the product that manufactures and instead, uses an intermediary to carry out the business, i.e., the sale is made to a third party who in turn makes the international sale. The advantage of this type of internationalization is that the company only has to deal with the intermediary. On the other hand, the company's commitment is very low and there is a lack of control over the commercialization of the product in the foreign market (Simões, 1997). Direct export occurs when the company makes the decision to internationalize, selling its products directly in the foreign market. An advantage of direct over indirect exports is a greater control over the products sold. However, in direct sales, the company must be aware of the legal procedures and there is a higher commitment from company in terms of human and financial resources (Simões, 1997). Export is considered the first step for entering international markets, thus, serving as a platform for future expansions of the company. Export is the initial step and can be complemented with other modes of entry (Kogut & Chang, 1996). It is considered as the most used entry mode by SMEs because of the lack of resources these companies have, and the low level of risk and commitment required.
- *Licensing* is an agreement between two parties where one party assigns the right over an intangible property (e.g. a patent) to another party for a specified period. The party that wants to use the intangible property pays a monetary sum to benefit from the agreement (Hill, 2007). Traditionally, the license is granted for a particular region or country, nonetheless, each agreement has different characteristics, depending on the agreement between the parties.
- *Franchising* is a contractual agreement between two parties in which the franchisor authorizes the franchisee to use its image, among other things. The franchisor provides the image, know-how and other tangible and intangible goods to the franchisee, and the franchisee in turn, yields a percentage of its sales or profits to the franchisor. This agreement allows the franchisee to use the franchisor's name and image to create a business, however, the franchisee is also obliged to accept some rules of how to run its business, the type of products provided and the locations of the assets.
- *Strategic alliances* are a set of voluntary agreements between companies, characterized by reciprocity or by combining efforts and skills between the various actors. Yoshino & Rangan (1995) argue that no company is isolated in the business world and that it is important to establish relationships with other companies.
- *Joint-ventures* are a relationship between two parties that agree to participate jointly in a project, with the risk being shared between the two, although it is possible that there may be differences according to the contract. A joint-venture can be beneficial because the two companies can complement their skills, allowing each company to focus on what it does best.
- *Wholly owned subsidiaries* include two types of strategies, Greenfield investment and acquisitions. Greenfield investments are more complex and potentially costlier, but in turn allow a full control of the activities and have a higher potential to generate above average returns. Acquisitions allow a fast mode of entering a foreign market and expand the international activities, representing a lower risk than Greenfield investments because the outcomes can be estimated more accurately. Acquisitions are attractive when there are already well-established companies in operation but have some disadvantages such as problems in integrating two companies' cultures and control systems.

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The mode of entry depends on degree of commitment to international operations as some modes require a higher commitment to international operations than others (e.g., wholly owned subsidiary requires a higher commitment than exports) (Aliouche & Schlenrich, 2011; Pla-Barber & León-Darder, 2004).

De-Internationalization

De-internationalization should be considered as a viable strategic option by managers (Turcan, 2011). The topic of de-internationalization can be associated to different terminologies such as closure, shut-down, dissolution, insolvency, mortality, exit, divestment or bankruptcy (Turcan, 2013). De-internationalization may have a negative connotation since the term is usually associated with the failure of a company's internationalization process.

Welch and Luostarinen (1988; p. 37) mention about internationalization that "*once a company has embarked on the process, there is no inevitability about its continuance*", i.e., internationalization is not a non-reversal activity nor the solution to all companies' issues. Turcan (2011) organized de-internationalization into total and partial. Total de-internationalization includes the termination of commercial exchanges and the focus on the market of origin. Partial de-internationalization includes the reduction of international operations, market optimization and a change of the mode of entry chosen by the company.

Mellahi (2003) defines de-internationalization as a voluntary decrease in international operations. According to Reiljan (2004), this definition does not include the involuntary process, which is based on the external unpredictability such as the beginning of a war, or a coup d'état. Reiljan (2004) argues that de-internationalization can be voluntary, where the company proactively takes the initiative to de-internationalize, or involuntary, where the company reacts to market changes. De-internationalization can also report to a complete withdrawal from the market and the full discontinuation of the exports, or partial, such as withdrawing only some products from a market with the purpose of decreasing the commitment of the company to the external market without meaning its complete abandonment from the foreign market.

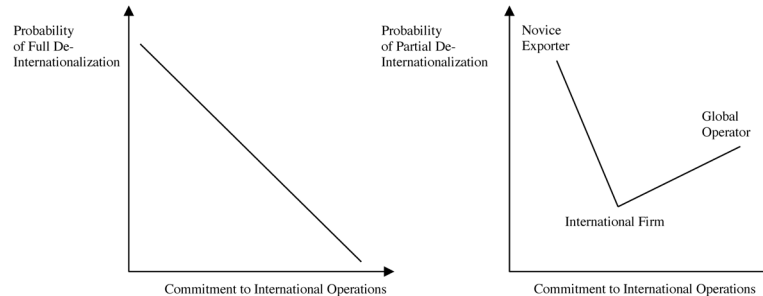
Benito and Welch (1997; p. 17) argue that the "*probability of complete withdrawal from international operations declines as the commitment to these operations increases*", i.e., a total de-internationalization is more likely to happen in the first stages of the internationalization process because the level of commitment to international operations is lower, however, a partial de-internationalization has a higher likelihood of occurring both in the initial and final stages of internationalization as shown in figure 1.

Pauwels and Matthyssens (1999) argue that de-internationalization can happen because of endogenous or exogenous factors. Endogenous factors involve the lack of commitment to the market or a poor implementation of the business strategy. Exogenous factors refer to situations outside the control of the company, where the company's strategy is no longer adjusted to the market because of changes in the environment. The authors conclude that a company's withdrawal from international activities should not necessarily be considered a failure as it can be the outcome of a change in the business strategy. Pauwels & Matthyssens (1999; p. 32) claim "*that a successful strategic withdrawal may lead to a better strategic foundation of the entire international market portfolio.*" In other words, when a company withdraws from a market it may obtain relevant information that may be helpful in future internationalization processes.

Boddewyn (1979) identified several reasons that lead to the divestment of foreign operations: financial considerations, poor pre-investment analysis, adverse environmental conditions, lack of fit and resources, structural and organizational factors, external initiating pressures and foreignness and national differences. Based on Boddewyn's work, Reiljan (2004) organized the de-internationalization factors

Figure 1. Probability of total and partial de-internationalization

Source: Benito & Welch (1997)



into three main categories: lack of international experience; change in strategy; and poor performance or increase in costs. Table 1 provides an overview of the three main categories.

- Lack of international experience.** Decision errors on the pre-internationalization activity are usually made by companies that lack international experience because they “often do not realize the necessity of a careful target market selection process and tend to underestimate the importance of a thorough analysis of the target market” (Reiljan, 2004; p. 61). This is because companies overestimate the importance of a selection process and an in-depth analysis of the target market. Poor decisions can be made if data collection is misdirected or if there is insufficient data to make an adequate decision. De-internationalization can also be avoided if the company conducts more market research and is more careful planning before venturing into internationalization. The choice of the entry mode into a target market can also be a reason for de-internationalization (Reiljan, 2004). SMEs often invest few resources in foreign markets because they want to ensure that they have the possibility of leaving the market at the lowest possible cost to the company (Bonaccorsi, 1992) and as a result, tend to avoid investments abroad that could have been successful (Reiljan, 2004).
- Change in the strategy.** Changes in market conditions or strategic changes are identified as external factors of de-internationalization (Welch & Wiedersheim-Paul, 1980). Accordingly, the development of foreign markets need to be monitored regularly to make informed strategic decisions as much as possible (Reiljan, 2004). Elango (1998) states that positive changes may be possible such as a rapid growth of the domestic market. Withdrawals from markets can be caused after a company obtains a more in-depth knowledge about that particular market. Based on companies’ acquired knowledge through internationalization processes, companies may recognize that the entry mode used could not have been the most suited to that particular market. Thus, the company can withdraw temporarily or permanently from that market (Reiljan, 2004). Other factor presented by Boddewyn (1983) is ‘following the leader’, i.e., to follow stakeholders such as clients or suppliers that have abandoned certain market for various reasons.
- Poor performance or increase in costs.** Reiljan (2004) identified a third group of factors including financial considerations such as weak performance which has been recognized as an important reason for exiting a market (Pauwels & Matthyssens, 1999; Torneden & Boddewyn, 1974).

De-Internationalization of SMEs

Table 1. Groups of reasons for de-internationalization

Category	Reasons for divestment of foreign operations
Lack of international experience	Insufficient pre-internationalization analysis
	No previous outward or inward internationalization
	Too rapid and/or early expansion to the foreign market
	Inadequate interpretation of market signals
	Decrease in the value of previous experience and knowledge due to the rapid changes in target market
	Choice of inappropriate target market and/or operational mode
	Misfit or product and/or insufficient adaptation to the market
	Insufficient attention to foreign markets (focusing on sporadic export)
Change in the strategy	Focusing on core markets and/or core activities
	Change of target markets due to increase in demand at home and/or insufficient growth in the target market
	New managers and/or owners with different strategic perspectives
	Constraints of manufacturing capacity, scarcity of resources and qualified personnel
	Maturing of the product in the target market
	Change of operational mode
	(De-)internationalization of related industries
	External shock (including government intervention)
Poor performance or increase in costs	Increase in production costs
	Increase in transportation costs and/or tariffs
	Increase in competition (from the home country, host country or third country)
	Poor performance

Source: Reiljan (2004)

Figure 2 presents the variables that might influence the decision to de-internationalize.

Reiljan's (2004) de-internationalization decision framework proposes several factors that contribute to a company's de-internationalization. The impact of these reasons varies according to the stage or degree of internationalization of a company.

The *reasons for internationalization* are related with the mode of entering a market, i.e., the entry mode chosen can affect the decision to de-internationalize a company. As the commitment to international operations increases, there is the possibility of a change in the mode of internationalization as the company invests more in own branches. This can change the mode of entry to a next level, e.g., from exports to a Greenfield investment. The *knowledge from external sources* includes the knowledge gathered by other actors in the market. The knowledge from external sources can concern to contacts that the company has collected through its internationalization process into a certain market. The *costs related to the de-internationalization* can represent a burden to the company's exit from the market. Companies may choose to remain in a market because of the high sunk costs of withdrawing from that market as occasionally, the costs of exit can be higher than those of entering a market. Because of the investment made and the commitment to the international operations, companies are often reluctant to divest because of the sunk costs they have already incurred. On the other hand, with the increase in the

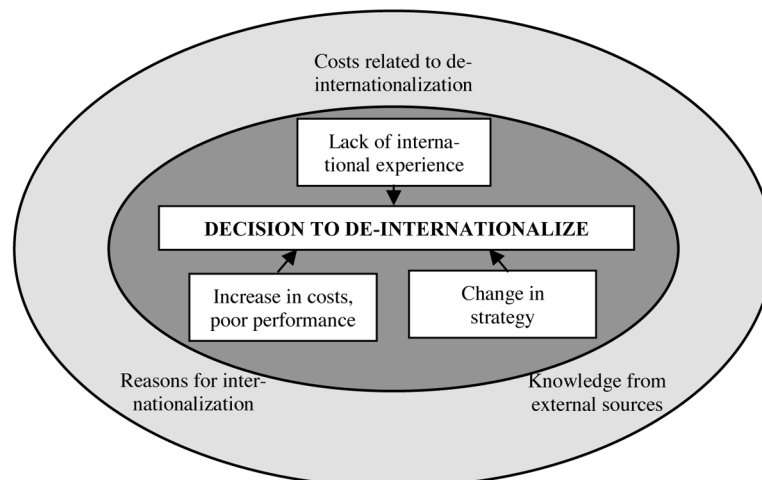
international experience, the company may be able to decrease the costs of a complete or partial exit from the market. The impact of the costs of the de-internationalization on the decision-making depends on the level of commitment and the experience of the company on foreign operations.

The remaining factors may have an impact on the timing of the de-internationalization. The *lack of foreign experience* is more important in the early stages of an internationalization process because the market research may not correspond to the real market conditions. However, during the internationalization processes, companies are simultaneously collecting data from the market. The *increase in costs and poor performance* is more likely to occur after a long period of time and the possibility that they will lead to de-internationalization is unlikely in the beginning of the international activities. In the case of MNCs with large-scale international activities, the impact of the costs on de-internationalization is moderate, as these companies use transfer prices or their bargaining power (among others) to offset the effects of higher costs – thus, the impact of the costs and performance is more significant after the middle of the internationalization process. The *change in the strategy* is more likely to happen in the final stages of internationalization as MNCs may want to restructure their international activities and focus on their core activity. These factors may influence de-internationalization because whenever companies internationalize, they may learn they were not as competitive as they wanted to be or that they do not have enough capacity to respond quickly to environmental changes. There are several ways to de-internationalize: export withdrawal, market exit, inverse internationalization, or a re-internationalization.

Export Withdrawal

Export withdrawal can be defined as the abandonment or the discontinuation of a product or market (Matthyssens & Pauwels, 2000). This type of de-internationalization can be compared with a withdrawal from the market or a complete exit from the internationalization of the company (Porter, 1976). Export withdrawal can report to the discontinuation of a product from a market or the exit of the company from that market. Pauwels & Matthyssens (1999) note that export withdrawal is more likely in SMEs

Figure 2. Framework for de-internationalization decisions
 Source: Reiljan (2004)



De-Internationalization of SMEs

because these companies typically use exports as the main internationalization mode since they have scarce resources and exports are among the entry modes that require the fewer resources and levels of commitment from companies.

Pauwels and Matthyssens (1999) argue that exports withdrawal should not be necessarily seen as a failure because a re-evaluation of the portfolio may be necessary so that the resources can be used more effectively in other markets. Welch and Wiedersheim-Paul (1980) claim that exports are often seen as an experiment by companies. In the case of SMEs, exports can be understood as a stage in the internationalization process. According to Bonaccorsi (1992), only a few exporting companies hold a stable export activity as industrial SMEs exhibit a high export and market mobility. This phenomenon can be explained by the fact that SMEs accept orders from foreign companies for economic reasons, thus, after the first export and inherent sale, exports might be technically withdrawn since the results or the mode of entry were not as strategic as the company wanted to be.

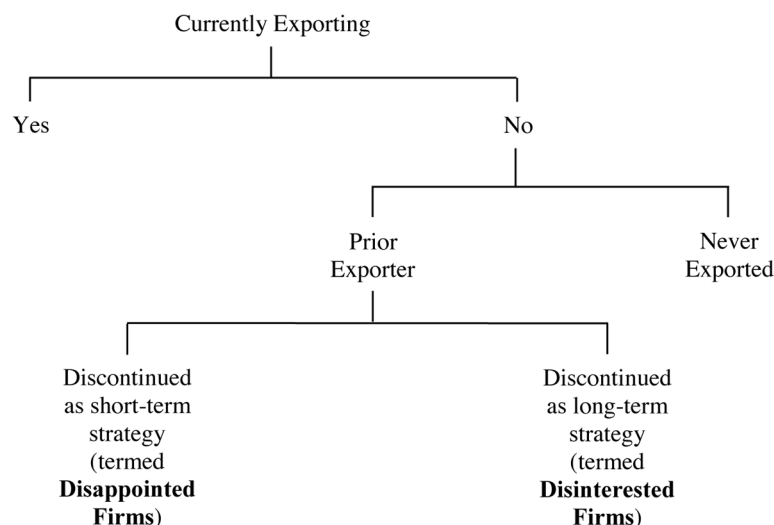
Crick (2004) found differences in the companies that discontinued exports such as the duration of the de-internationalization, i.e., one group considered the discontinuation of short-term exports while the other group considered the discontinuation of the long-term exports. Crick (2004) classified the first group as disappointed companies and the second group as disinterested companies. Figure 3 presents Crick's typology of companies that discontinued exporting activities.

Market Exit

For Benito and Welch (1997) when companies exit international markets, they normally do it inverting the internationalization process with the aim of reducing the commitment and activities in a particular market. Exiting from a market means that the product is no longer available in the target market. According to Karakaya (2000), different actions can be taken such as the discontinuation of a product or product line, the closing of subsidiaries, or the sale of all the assets in a certain country. These actions

Figure 3. Companies participating in Crick's study

Source: Crick (2004)



may be indicative that those products no longer generate profits for the company, that the products are going to be replaced by new models, or because of the bankruptcy of the company (Karakaya, 2000).

A market exit can be voluntary or involuntary. Voluntary exits aim to free resources which can later be invested in more attractive markets (Karakaya, 2000; Matthyssens & Pauwels, 2000). Hadjikhani (2015) argues that in extreme cases, the involuntary exit from the market may be due to a war that has started in the country where the company was internationalizing.

Reverse Internationalization

The literature on internationalization has generated models including various aspects of companies, industries and geography such as the Uppsala model, the network-based model and the born global perspective. These concepts are based on a positive/forward movement of internationalization (Gnizy & Shoham, 2014). Oppositely, reverse internationalization is described as negative/backward movement of internationalization (Gnizy & Shoham, 2014).

Gnizy and Shoham (2014) use the term reverse internationalization (RI) to describe a negative/backward change in foreign markets leading companies to decrease their involvement and exposure to international operations. According to (Gnizy & Shoham, 2014; p. 263) a “*RI is common in a world of globalization and rapid changes in which firms opt or are forced to abandon or reduce their level of involvement in foreign markets.*” The authors argue that RI is a multidimensional construct based on four dimensions: the number of foreign active markets; the width/length of the product lines; the stage of internationalization; and the pace of internationalization.

The first dimension is the *number of active foreign markets*. Some authors consider exiting from a market as a reverse internationalization (e.g., Pauwels & Matthyssens, 2004). Gnizy and Shoham (2014) interviewed international executives of international companies that mentioned that although they were in some markets, they were exiting from others in what they understood as a reverse action to that of internationalization. The second dimension is the *width/length of the product lines*. For Gnizy and Shoham (2014), withdrawing a product at different stages of its life cycle reflects a downsizing of the international portfolio of products. Benito (2005) notes that divestment can be seen from the point of view of the product life cycle. Gnizy and Shoham’s (2014) study’s interviewees understood a reduction in the length and width of the product line in one or more markets as a reverse internationalization. The third dimension is the *stage of the internationalization*. RI is also considered when switching to a lower degree of commitment to the internationalization mode and to a lower degree of committed resources to the internationalization of the company (Gnizy & Shoham, 2014). Benito and Welch (1997) note that the company’s commitment affects the decision to have a reverse internationalization. Pauwels and Matthyssens (2004) argue that a cease in the commitment generally leads to an exit from the market. Gnizy and Shoham (2014) see a backward movement in the process of internationalization as a RI. The fourth dimension is the *pace of internationalization*. Zorzini, Stevenson, and Hendry (2011) argue that internal and external conditions influence the pace at which companies commit their resources to foreign markets. Gnizy and Shoham (2014) argue that negative changes or a stagnation in the pace of internationalization may be indicative of a market withdrawal or RI barriers.

Re-Internationalization

Luostarinen (1979) was one of the first to define re-internationalization as a withdrawal from inward and outward international operations before a subsequent international re-entry. Welch and Welch (2009; p. 568) conceptualize re-internationalization “*as a process involving a period of international business activity, then exit from international operations, followed by a time-out period of some duration, then a process of international re-entry, concluding with successfully renewed international operations.*”

Vissak (2006) notes that de-internationalization can be followed by a new internationalization processes, in other words, a re-internationalization. Vissak (2006; p. 4) states that re-internationalization can be full or partial, “*a firm might return to all the markets from which it retreated, but it can also only decide to re-enter only one or some of them. Similarly, it may decide to use the same operation modes it used before or only some of them or even use a different mode: for instance, it may have exported to a certain country before, but now it may decide to establish a production subsidiary.*” Vissak (2006) argues that a company should only re-internationalize if its business environment becomes favorable, if the company develops unique resources and capabilities, if its new managers are more oriented to internationalization, and if the company was able to create new and retain previously valuable network relationships.

Welch and Welch (2009) developed a framework on the process of re-internationalization based on the influences of Johanson & Vahlne (1977, 1990) that internationalization is guided by the relationship between market knowledge and the commitment of resources in the foreign market. According to Welch and Welch (2009), the re-internationalization is a process that initially implies an international experience, then leaving the market for a period of time where the company has no involvement in international operations, and eventually re-internationalize based on renewed international operations. Figure 4 exhibits Welch and Welch (2009) re-internationalization process, which is explained below:

- **Initial international experience.** McGrath (1999) argues that a failure may also bring benefits, allowing the company a greater facility to recognize what failed than to explain a successful outcome, i.e., it is easier to identify and modify an error in the process than to change something that worked for a certain market, but may eventually not work in a different market. When a company de-internationalizes, it gains an intangible knowledge that can use later. The acquired knowledge depends on each company, but may include knowledge about external relations, management skills and attitudes towards internationalization factors which may be considered the company’s international heritage. The acquired knowledge comes from the initial internationalization of the company and its positioning in the international market. The international heritage includes the length of internationalization, the number of markets and the degree of committed resources to international operations. According to Roth (1995), companies that have a short internationalized lifetime can obtain some knowledge that can be helpful when re-internationalizing, but the level of knowledge obtained is less than that of companies with a higher level of commitment regarding the duration of the internationalization, the number of markets served, and the degree of resources committed.

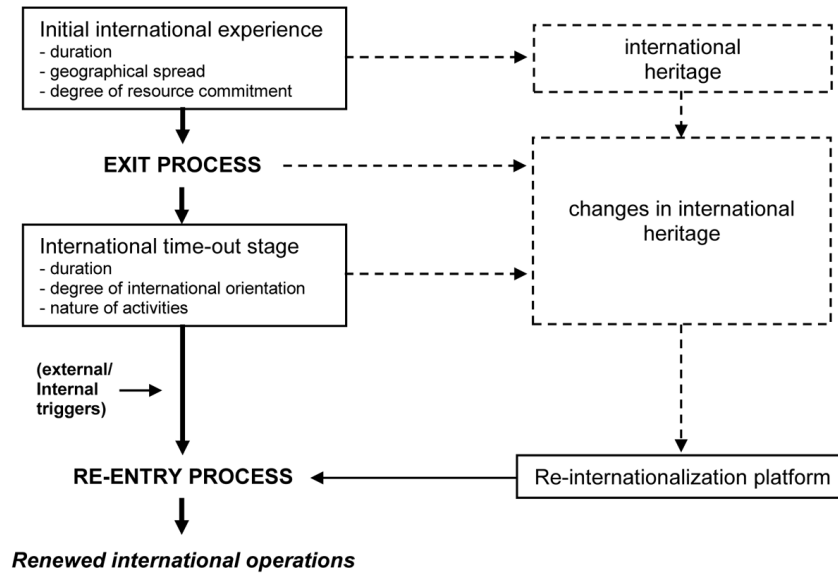
- **Exit process.** Besides the international heritage, the exit process of a company may also influence the decision to re-internationalize. The decision to withdraw from the international market may occur after a decrease in international sales, but also because of an external cause to the company that forces it out of the market. The exit from an international market inevitably involve the dissolution of existing relations that the company had in that market. For SMEs, the exit process can be simpler since decision-making is often undertaken by the company's owner and its implementation is relatively quick (Rao & Naidu, 1993). In some cases, the exit can be traumatic because of the investment made by the company which may lead to its later closure. Likewise, the consequences of that failure can make companies not to consider the possibility of re-internationalization for some time.
- **International time-out stage.** Crick (2004) classified de-internationalized companies into two groups: those that discontinued their export activity based on a short-term strategy (disappointed), and those that discontinued their export activity based on a long-term strategy (disinterested), as referred before. Re-internationalization seems to be more appealing to companies that have a strong commitment to international operations. In this case, these companies were not too traumatized by the exit process and may have retained (or even extended) their international heritage, networks, employees and other resources developed during their internationalization. For companies that do not intend to re-internationalize because of their (poor) international experience, they may have to undergo major internal and external changes before considering a re-internationalization. These changes may include orders from foreign companies, a recessive domestic market and in some cases, a change of leadership that may bring to a new attitude towards internationalization. The period without international operations (i.e., away from the international markets) can be beneficial to some companies that have de-internationalized since it allows them to hire new employees, to conduct internal restructures and to reshape its network.
- **Re-entry process.** Regardless of exiting from international operations, some companies may have the desire to re-enter the international market driven by several reasons that make them look to internationalization under a new perspective. The re-entry process can be driven by internal and external triggers and the renewed interest in international opportunities may be the outcome of strategic changes. The knowledge acquired by the company in the initial process will help the company in the process of re-entry as the management team is more aware of the causes that made the initial internationalization more difficult. There can be a difference regarding the initial internationalization of the company as it now has prior knowledge on how the internationalization process works – allowing the re-entry process to be faster. During a re-entry process of a re-internationalization, the expansion process is faster because the company makes use of its larger base of knowledge (than the one it had previously).

According to figure 4, during the initial process of internationalization, the company obtains knowledge about the market – which the literature designates as international heritage. When a company de-internationalizes, the knowledge obtained thus far is changed as it may undergo a 'more or less' turbulent de-internationalization. After the company leaves the market, it goes through a period of retraction where it focuses in its domestic/original market. Dependent on the nature of the previous internationalization activities of the company and on the resources recovered, the company may have collected information about some markets it had contact with – which can be used latter. The recovered assets may later

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Figure 4. Re-internationalization process

Source: Welch & Welch (2009)



constitute an added value for the company and contribute to build a greater confidence for a stronger process of re-entry.

After the review of the literature on internationalization and de-internationalization, the following section presents the methodology used to conduct the research.

METHODOLOGY

The empirical section of this chapter focuses on a Portuguese SME that de-internationalized from Morocco. Because the objective of this study is to explore and describe a specific case related to a de-internationalization of a SME, a qualitative approach was used. The qualitative approach is more descriptive and interpretative and was considered more suited for this case since this method allowed an in-depth understanding of the phenomena, i.e., the de-internationalization process. A single case was used on the analysis. The choice of a case study was based on the possibility that the research could gain a deeper understanding of the organizational and managerial process. The use of the case study is also adequate when answering questions such as 'how' and 'why' (Yin, 1994) as is the case of this research. A theoretical sample technique was chosen because the researchers were already aware of a SME that de-internationalized its activities abroad and after contacting its responsible, he showed openness to participate in the research. In addition, the featured firm met the following criteria:

- It was an SME;
- It held international operations;
- It has de-internationalized;
- It was in Portugal and thus, accessible to the researchers.

The primary data used in the analysis was semi-structured interviews to the company's owner. The analysis of the company's brochures and reports allowed the researchers to triangulate the data and to deepen the analysis.

THE CASE STUDY

The objective of this chapter is to contribute to increase the knowledge about the topic of the de-internationalization of SMEs. Because de-internationalization is a highly sensitive and confidential topic often seen with dislike by managers, the anonymity of the company was preserved, therefore and henceforth we will call the featured company TANGO.

TANGO was founded in 1989 by two partners. However, the history of the company began years before when one of the partners created a single member company. Later, it joined a partnership creating a new company in 1982. In these early stages, the company focused on marketing and technical assistance of sewing machines. In 1986, the two partners acquired another company (alongside with its portfolio of customers) expanding its operations beyond sewing machines to machinery and components for the footwear industry. In 1989, because of the company's need to operate in multiple industries, the previous company was shut-down and a new one was created with a different designation but maintaining its existing structure. TANGO began its activity with the production of computer numerical control (CNC) machines and the commercialization of CNC equipment, particularly for the footwear industry.

TANGO's portfolio of activities includes marketing services, the commercialization of CNC machines and the development of complete industrial solutions, i.e., from the creation of the layouts to the installation of the production lines. Table 2 presents an overview of TANGO's key information.

According to its owner, among the objectives of TANGO are:

- Anticipating and satisfying its customer needs through an innovation-based policy;
- Maintaining a high-quality product standard;
- Developing and building long-lasting partnership relationships;
- Adapting to the demands of globalization.

TANGO's internationalization process began in 2004 when the company chose to internationalize to Morocco. The main reason to internationalize to the Moroccan market was the evolution and flow of the footwear industry from Northern European countries (England, Netherlands, Italy, Spain and Portugal) to southern European countries and particularly to North African countries (Morocco, Algeria

Table 2. TANGO's general information

Year of foundation	1989
Core industry	Footwear
Core business	Commercialization and development of CNC machines for the textile and footwear industries
Size (employees)	97
Main product	CNC machines
Market position	Leader on the domestic market of CNC machines

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and Tunisia) because of the availability of cheaper hand labor factors. TANGO saw in the Moroccan market an opportunity to make business because Chinese companies were also entering this market at the time. Nonetheless, and to differentiate from its competitors, TANGO sought to introduce higher quality products than those offered by competition in those markets. Besides the search for new markets to sell its products, other of the reasons for TANGO's internationalization to Morocco was its proximity to the Portuguese market. Finally, the Moroccan market was also considered attractive for TANGO because the Portuguese domestic market was becoming saturated.

In the early stage of its internationalization process, TANGO established a strategic alliance with a Moroccan entrepreneur who knew the local market and held activities in the manufacturing of footwear components. The entry mode chosen was the establishment of a subsidiary to supply CNCs to the Moroccan market. TANGO was responsible for the know-how and the production of the CNC machines whereas its Moroccan partner was responsible for the bureaucratic, legal and market issues. Later, a third Portuguese partner joined this strategic alliance. We will BETA call this strategic alliance between these three parties. BETA focused on a higher product quality and avoided competing with Chinese companies which were competing with low prices achieved due to economies of scale.

BETA went through difficulties in its internationalization process initially because of cultural asymmetries between Portugal and Morocco. BETA experienced difficulties in the management of human resources, namely regarding the recruitment or personnel and the levels of absenteeism. Regardless the support provided by its Moroccan partner, TANGO/BETA's manager soon realized: *“that they entered a new world without having made a thorough study on the difficulties they would encounter”* (TANGO's manager).

BETA's difficulties increased when its Moroccan partner went into bankruptcy. This situation brought about administrative issues to BETA since its 'daily life' activities required the signature and agreements between the three parties involved in the strategic alliance. The existing cultural differences between the three parties were further aggravated by this issue. Later that year and shortly after the Moroccan partner entering into bankruptcy, the Portuguese partner also went into bankruptcy and TANGO was left alone with a subsidiary that was not able to manage administratively.

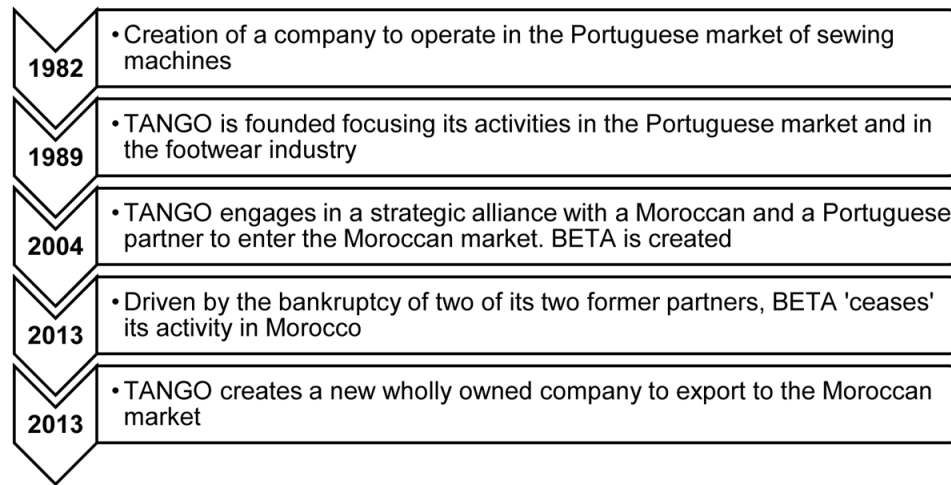
BETA 'ceased' operations in 2013 with heavy losses for TANGO. Even though BETA does not hold any commercial or administrative activity, the company is still active in the Moroccan market because it was not able to present a requirement signed by the former three partners to formalize its closure. Despite all these setbacks, TANGO remained committed to international operations and in 2013 successfully created a wholly owned company to export components for the Moroccan market and footwear industry. Figure 5 presents the timeline of TANGO's main events.

ANALYSIS AND DISCUSSION

One of the reasons for TANGO's internationalization was the search for new markets because of the saturation of its domestic market. Among the various modes of internationalization, TANGO chose to enter the Moroccan market through a strategic alliance and a Greenfield investment.

The internationalization process of TANGO does not fully fit the Uppsala theory of internationalization. Accordingly, TANGO internationalized to a geographically close country but a culturally distant one but more importantly, TANGO's internationalization process began with a high degree of commitment to international operations as is the establishment of a subsidiary abroad (without any previous

Figure 5. TANGO's timeline and main events



international experience). However, based on the network theory, TANGO could have made use of its network and existing relationships to engage in a strategic alliance with its foreign partner.

The lack of experience of TANGO in international market and the company's entry mode conditioned its international path. According to Turcan (2011), one can assume that TANGO partially de-internationalized because it changed its internationalization mode from a Greenfield investment to exports, i.e., TANGO decreased its level of commitment to the Moroccan market but did not fully abandoned it.

While Benito and Welch (1997) argue that a partial de-internationalization is more likely in the beginning and latter stages of an internationalization process, TANGO's internationalization process did not follow the traditional pattern of a gradual increase of commitment to international operations. Instead, in the case of TANGO, both its lack of experience and entry mode were important reasons for its de-internationalization. This case highlights the complexity of de-internationalization and the need to examine partial and full de-internationalization as the outcome of the interplay between entry mode and international experience, rather than based on the international experience exclusively.

It can be assumed that the de-internationalization process of TANGO was caused by the lack of international experience of the company, as it failed to carefully assess the target market and underestimated the need of an in-depth analysis of that market but also, because of the entry mode chosen, which was not the most suited one as seen.

Welch & Welch (2009; p. 568) note that re-internationalization "*considers companies that have withdrawn from international operations but maintain domestic business activity before re-engaging in international market activity*". The featured case differs from the existing theory on re-internationalization. TANGO's re-internationalization process does not include the 'exit process' nor the 're-entry process' stages as proposed by Welch & Welch (2009) since TANGO has not effectively left the Moroccan market from a legal standpoint. TANGO's activities in the Moroccan market were based on a strategic alliance between three parties and a subsidiary called BETA. BETA's activities began to decline because of exogenous factors to TANGO such as the bankruptcy of two of its strategic alliance partners. Nonetheless, during the turbulent period undergone by BETA, TANGO remained committed to the Moroccan market to the point that it created a new wholly owned company to export to this market. The results however

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support Welch and Welch (2009) claim that a re-internationalization is a process that implies a previous international experience and that the knowledge gathered through a failed international experience is an important factor that determines the chances of success of a re-internationalization. Accordingly, during the re-internationalization, TANGO's managerial team was aware of the causes that went wrong in the initial internationalization and changed its *modus operandi*.

Crick (2004) presented two categories of companies that have withdrawn export activities: disappointed and disinterested. The first seek to re-internationalize in the short term whereas the later in the long term. In the case of TANGO, the company remained legally international for the whole period, however, its international activity decreased as the company sought for a new strategy to re-internationalize. TANGO initially engaged in a strategic alliance and a Greenfield investment but because of issues with its partners and acquired market knowledge, decreased the level of commitment of its international operations and changed from FDI to exports.

The case of TANGO highlights the importance of selecting the adequate mode of entry, the need to properly know the target market before internationalizing and the need for assistance and support when engaging in foreign operation. It also underlines the legal difficulties in de-internationalization as due to disagreements between its former strategic alliance partners, TANGO was not able to legally close its foreign subsidiary. While Crick (2004) conceptualizes export withdrawing companies as disappointed or disinterested companies, in the featured case, TANGO entered the market through a strategic alliance and a Greenfield investment, remaining committed to internationalization for the whole period and re-internationalized using a lower level of commitment to foreign operations.

One can argue, according to Reiljan (2004), that TANGO did not go through the pre-internationalization process and internationalized as soon as an opportunity emerged. This internationalization was based on the market knowledge of the Moroccan partner, which led to the involvement of a third partner. This insufficient pre-internationalization analysis was complemented by a large cultural difference between Portugal and Morocco.

According to the information gathered on the interviews, there were no problems in terms of costs or scarcity of resources, so that operations in Morocco, despite the cultural differences, were running smoothly. The market target/segment was not a problem either. However, the mode of entry was a heavy burden to TANGO as, according to what was referred in the interviews, the cost of entry became real burden as soon as the other two partners were bankrupt, as TANGO realized there were two options at the table: to withdraw and leave the Moroccan market behind or to stay and try to internalize marketing and operational knowledge and keep in touch with the Moroccan market. Closing down BETA's activities would mean a total withdrawal and closure of all operations in Morocco. Moreover, it would mean losing future sales to Morocco and refocusing all activities in the Portuguese market that was shrinking. It could also mean a negative/traumatic experience that could jeopardize internationalization processes. Staying in Morocco would mean difficult times ahead but not all the investment would be wasted as BETA could still save the Moroccan market and would not need to invest in expanding relational marketing activities and to invest again in tearing entry barriers.

Although TANGO cannot be considered a disappointed firm or a disinterested firm, as it never withdrew from the Moroccan market, TANGO'S owner argued in the interview that with the experience he went through, it would have been much more adequate to have used exports as entry mode than Greenfield investment that led to the partnership. However, he also claimed that had TANGO used exports to the Moroccan market to maintain internationalization costs low, TANGO'S experience would not be as broad and rich as it was culturally and business wise.

It is important to mention that one of the main challenges in the internalization process is the high expectation of most managers. Although one can claim that TANGO'S owner was certainly driven when embracing internalization through an alliance process, being overly dependent on their partners is a huge risk, which was the case of TANGO. Moreover, as soon as the Moroccan partner went bankrupt, TANGO realized that its entry in the Moroccan market was a gamble as TANGO needed to assure all activities in which it lacked most of the core competences. A more rational decision, and a less risky one, would have been to have opted for a safer entry mode as export is, which is what the Uppsala model prescribes and is usually expected by SMEs.

CONCLUSION

This chapter addresses the topic of the de-internationalization process of a Portuguese SME. In the theoretical background, internationalization was found to be driven by the search of market, resources, efficiency and strategic resources. The entry mode was also found to have an impact on the process of de-internationalization.

This chapter highlights the reasons for an SME's internationalization such as the search for new markets for its products, the proximity to the target market and the saturation of its domestic market. The case also highlights the main challenges of internationalization, particularly for SMEs, such as the difficulties leading with cultural asymmetries, the importance of choosing the adequate mode of entry and the need to know the target market.

In the case of TANGO, while the strategic alliance was initially beneficial as one of the partners had knowledge of the target market and contributed to solve bureaucratic issues, its bankruptcy and existing cultural issues increased the difficulties of running a subsidiary abroad. It should be emphasized how TANGO's manager realized too late that the company was not prepared to internationalize with that degree of commitment such as a Greenfield investment. The findings also highlight existing challenges when de-internationalizing such as legal issues, which did not allowed TANGO to formerly shut down its foreign subsidiary.

The findings of this chapter underline the challenges of internationalizing to developing and culturally distant countries and the need to increase the knowledge on the drivers of de-internationalization, particularly on SMEs as they often have few resources than large companies.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

One of the limitations of this research stems from its qualitative nature. The findings are based on a single case study, nonetheless, this approach also allowed the discussion of the intricacies of a real case of de-internationalization. Future studies could focus on the various challenges of de-internationalizing from developed and developing countries, as well as the decision-making of the re-entry process such as: which markets de-internationalized companies choose to re-enter afterwards and whether they choose a higher or lower level of commitment to international operations compared to their previous internationalization experience.

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KEY TERMS AND DEFINITIONS

Commitment: The effort and time invested in order to continue in a certain relationship.

De-Commitment: A decrease or a movement backwards regarding the existing level of commitment.

Divestment: The partial or complete disposal of a company's resources such as a whole company, a segment of business, a division, a subsidiary, a unit, or a tangible asset like machines, or intangible such as marketing activities.

International Business: All the activities such as the trade of goods, services, technology, capital, skills, and knowledge between two countries.

Internationalization: A strategy where a company performs business activities outside its country of origin.

Market Entry Mode: Strategy chosen to enter a foreign market involving a higher or a lower risk and commitment of a company's resources.

Market Exit: The strategic decision to abandon a certain country or market because of financial losses, a decrease in the profitability or a change in the business strategy.

Strategic Alliance: An agreement between at least two parties which usually have complementary resources or skills and share a common goal while remaining independent companies.

ENDNOTE

- ¹ The category of SME is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million (EUR-Lex, 2003).