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**Small Firm De-Internationalization:
An Entrepreneurship Perspective**

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Abstract

This study aims to further the understanding of international entrepreneurship among small firms by conceptualizing the process of de-internationalization from an entrepreneurship research path perspective. As per findings, de-internationalization is defined as a new economic activity that creates a dialogue between *entrepreneurial cognition* and *organic growth* directed towards *new value creation*. In turn, organic growth, seen as a transition from one gestalt to another, creates a dialogue between *perceived resource availability* and *entrepreneurial orientation*. As an eventual level of analysis within international entrepreneurship research, several key research issues that await the empirical researchers have been discussed. It is expected that with better understanding of the factors that are likely to influence de-internationalization and post-de-internationalization decisions, policy makers will develop more inclusive trade support strategies.

Small Firm De-Internationalization: An Entrepreneurship Perspective

INTRODUCTION

International entrepreneurship paradigm arose as a new area of research activity in mid-1990s (Wright and Ricks, 1994) at the intersection of two research paths, i.e. entrepreneurship research and cross-border research (McDougall and Oviatt, 2000). To date, however, IE research to a certain extent mirrors the traditional entrepreneurship (Davidsson and Wiklund, 2001) and cross-border research (Benito and Welch, 1997) in that it does not study companies that failed or chose to withdraw from their international activity along the way (Jones and Coviello, 2002). From a policy-making standpoint, Davidsson (2000) advocates that the enquiry into firms that failed or chose to withdraw [from international activity, i.e. de-internationalized], will allow policy makers to avoid giving normative advices on the basis of factors that both increase the likelihood of success and failure but actually are interpreted as 'success' factors. Being part of the cross-border research path (see e.g. Benito and Welch, 1997; Turcan, 2003), de-internationalization, also, needs to be positioned within the entrepreneurship research path so that it becomes a legitimate area of enquiry within the international entrepreneurship research. Taking an entrepreneurship perspective, the major construct this work is built upon is whether de-internationalization is (i) a new means-ends activity, or (ii) an entrepreneurial error, a notion which clearly deserves to be more developed in the current discussion of practical entrepreneurship? In other words, *is de-internationalization an entrepreneurial activity or not?* To answer this question, the review of de-internationalization phenomenon from a cross-border perspective will be firstly provided. The review of entrepreneurship literature will follow next, and the development of a de-internationalization conceptual model will conclude the paper.

CROSS-BORDER PERSPECTIVE ON DE-INTERNATIONALIZATION

Welch and Luostarinen (1988) introduced the term 'de-internationalization' arguing that once a firm has embarked on the process [of internationalization] there is no inevitability about its continuance. Benito and Welch (1997) defined de-internationalization as '... any voluntary or forced actions that reduce a company's engagement in or exposure to current cross-border activities' (p.9). Taking a holistic view on the cross-border activity of small firm, Turcan (2003) further suggests to define cross-border as a cause-effect relationship between internationalization and de-internationalization, whereby a firm can not de-internationalize (the effect) without having internationalized (the cause). As such, a small firm might de-internationalize in the same way as it has internationalized by demonstrating the same but reverse behaviour.

To date the research on de-internationalization is far less common (Benito and Welch, 1997; Crick, 2002; Matthyssens and Pauwels, 2000; Pauwels and Matthyssens, 1999), probably due to the seemingly negative and undesirable features associated with these phenomena (Benito and Welch, 1997), e.g. stigma of failure¹. The managers' decisions to either reduce the international engagement or leave the foreign market completely should not, however, be viewed as a failure (Crick, 2002; Pauwels and Matthyssens, 1999). As Turcan (2003) argues, despite the decreased level of internationalization (or alternatively increased level of de-internationalization), the overall growth of the firm might be towards an increased level of cross-border activity. From a policy-making standpoint, Davidsson (2000) advocates that the enquiry into firms that failed or chose to withdraw [totally or partially from international activity] will allow policy makers to avoid giving normative advice on the basis of factors that both increase the likelihood of success and failure but actually are interpreted as 'success' factors.

Despite the recent attempts to develop a holistic approach towards cross-border activity (e.g. Bell et al, 2001; Fletcher, 2001; Jones, 1999), the concept of de-internationalization has not been fully developed and integrated within the cross-border literature (Benito and Welch, 1997; Turcan, 2003). Benito and Welch (1997) and Turcan (2003) undertook one of the first steps to develop a conceptual framework of de-internationalization process within large and small firms respectively. According to Benito and Welch (1997), the probability of withdrawal from international operations declines as the commitment to these operations increases. They argued that de-internationalization, with advanced internationalization, should be seen as part of the broader perspective of overall [cross border] strategy of a firm. From a small firm perspective, Turcan (2003) suggests conceptualizing de-internationalization process on the basis of the following three constructs (i) *commitment* of entrepreneurs that is influenced by project, psychological, social, and structural factors; (ii) *change* in dyadic networks, that is triggered by a critical event, and depends on the actions and intentions of dyadic partners; and (iii) *time*, that is experienced in present by entrepreneurs by relating themselves to codes and memories, and congruence and horizons (emphasis added).

As regards the empirical research, divestment literature would seem to be concerned with withdrawal from foreign operations. However, viewed as the end result of strategic decisions regarding e.g. reallocation or concentration of productive resources at a national, regional or global level, change of foreign market servicing mode, or complete withdrawal from a host country (Benito, 1997), divestment research has focused on product and business exits, rather than on exits from international markets (Matthyssens and Pauwels, 2000). This makes it difficult, if not impossible, to make any inferences e.g. on how and why a small firm might change the foreign market serving mode (Turcan, 2003).

Several recent studies are trying to minimize the above gap. For example, Alexander and Quinn (2002) found that divestment had an impact on subsequent market entry mode, i.e. initially the firms established subsidiaries through a high control mode of entry, and then they switched to franchising as their favored market entry mode. Wheeler et al (1994) suggested, inter alia, cyclical influences on intermediary choice in importing whereby a firm may switch e.g. from sales subsidiary to independent agent/distributor. Crick (2002: 70) proposed a comprehensive list of reasons for discontinuing export activities. Matthyssens and Pauwels (2000) and Pauwels and Matthyssens (1999) postulated that de-internationalization process could be explained by: (a) the escalation of commitment; (b) the creation of strategic flexibility; and (c) the confrontation between the above process (a) and (b).

As it may be noticed from the above discourse, theoretical understanding of de-internationalization process within both large and small firms is in its infancy. As argued by Benito and Welch (1997:19), 'it [will take] us a limited distance in terms of providing an appropriate conceptual setting for de-internationalization moves and in seeking to explain them'. From small firm international performance point of view, the questions that most need to be addressed by firms, policy makers, and researchers is 'to what extent is this mode of operation continuing to deliver returns and positive performance, and if less than optimal, what change would affect better attainment of projected targets?' (Turcan, 2003:217). From an international entrepreneurship perspective, this study puts forward the question whether de-internationalization is (i) a new means-ends activity, or (ii) an entrepreneurial error, a notion which clearly deserves to be more developed in the current discussion of practical entrepreneurship. In other words, *is de-internationalization an entrepreneurial activity or not?*

A REVIEW OF ENTREPRENEURSHIP RESEARCH PATH

Advances in entrepreneurship research

Agreement on the content of a field of knowledge – including its theories, methods, beliefs of causality, and standards – is important in the development of the field through its paradigms (Kuhn, 1962). Although not exhaustively, but to a certain extent comprehensively, Table 1 below presents the quotes taken from various entrepreneurship scholars about the advancement of theory building in the entrepreneurship field. The excerpts are arranged in ascending order to capture the status of change of the field during the past decade or two. Hence, the ultimate objective is to determine whether there is a consensus about the state of the field, and if there is, then of what kind.

Table 1. State of entrepreneurship theory to date

Low and MacMillan	1988	[I]t seems likely that the desire for common definitions and a clearly defined area of inquiry will remain unfulfilled in the foreseeable future.
Bygrave	1989a	The entrepreneurship paradigm has yet to develop distinctive methods and theories of its own.
Gibb and Davies	1990	The production of... comprehensive theory of small and medium enterprise development... in the near future is unlikely.
Bygrave and Hofer	1991	[Entrepreneurship] lacks a substantial theoretical foundation. In fact, it is extremely difficult to develop even “useful” entrepreneurship models.
Kirchhoff	1991	[T]he absence of a widely held theory of entrepreneurship constrains not only economics but also all of the disciplines that extend their interests into the entrepreneurship arena.
Gartner et al	1992	The garden of entrepreneurial theories is ready for a variety of seeds from many different disciplines and perspectives.
MacMillan and Katz	1992	It is becoming increasingly apparent that we need a cohesive theory of entrepreneurship... Until we have this theory, we will continue to face significant, perhaps insurmountable, problems in many areas of entrepreneurial studies.
Sandberg	1992	If the boundaries of strategic management are permeable, those of entrepreneurship are downright porous. The prospects for developing a theory of entrepreneurship seem brighter than might have been imagined a mere decade ago.
Amit et al	1993	[It] may be too ambitious to expect a complete and robust theory due to the interdisciplinary nature of entrepreneurship.
Bull and	1993	Despite the number of published papers that might be considered related to the

Willard		theory of entrepreneurship, no generally accepted theory of entrepreneurship has emerged.
Aldrich and Baker	1997	Judging from normal science standards, entrepreneurship research is still in a very early stage.
Brazeal and Herbert	1999	The study of entrepreneurship is still in its infancy. In retrospect, we may have contributed to more confusion in, than convergence toward, a unified theory of entrepreneurship.
Hitt and Ireland	2000	Entrepreneurship [field is] relatively young compared with [its] counterparts in management and business.
Shane and Venkataraman	2000	To date, the phenomenon of entrepreneurship has lacked a conceptual framework... [It does not] constitute rather a unique conceptual domain
Gartner	2001	I am not sure that the entrepreneurship field has reached some sense of theoretical clarity during the past decade.
Gregoire et al	2001	[I]f there is convergence in entrepreneurship research, it is more on an object of study, and not (yet) on a specifically distinct body of knowledge – at least from a theoretical point of view.
Low	2001	Entrepreneurship is in its adolescence. Accordingly, there is no need for a theory of entrepreneurship.

As Table 1 reveals, there are two distinct issues of concern among entrepreneurship scholars, i.e. (i) the age of the paradigm; and (ii) the substance of it. For both issues, there appears to be a consensus among the scholars. That is, as regards the former issue, the scholars agree almost unanimously that the entrepreneurship paradigm is *still* in its infancy. As regards the latter issue, there is also an agreement on the view that as of today there is no unified theory of entrepreneurship.

And this is not surprising since, within the substance continuum, the scholars disagree on whether there is a need or not for a (unified) theory of entrepreneurship on the whole; with gravitation towards the yes-but-difficult-to-achieve end of the continuum. When there is no consensus on a paradigm, or at least on the main research object of the field, researchers tend to speak after one another, rather than to one another (Greenfield and Strickon, 1986)². Hence, it can be inferred from the above ‘global’ consensus that the entrepreneurship paradigm is *still* in its infancy, and its (unified) theory has *yet* to be developed.

When trying to understand why it has not been possible *yet* to advance theory building in the entrepreneurship field, first argument that is brought to the fore is the lack of an agreed definition of entrepreneurship and a concern over what entrepreneurship constitutes as a field of study (Gartner, 1990). The lack of an agreed definition, however, may not be the major cause to the impediment of entrepreneurship theory development. It can be argued, that it is an effect of ideological control over the conventional entrepreneurial discourses (Ogbor, 2000). Arguing that an important instrument for explaining, advocating or justifying social order is the ideology, Ogbor, following postmodernist philosophy³, deconstructed entrepreneurial discourse and observed, *inter alia*, that ideology had a pervasive influence on the methods of inquiry (2000: 622), i.e. imposing the positivist paradigm. Therefore, almost certainly the researchers will have to have a willingness to discuss and debate conscious and unconscious assumptions in order to advance theory development (Gartner, 2001).

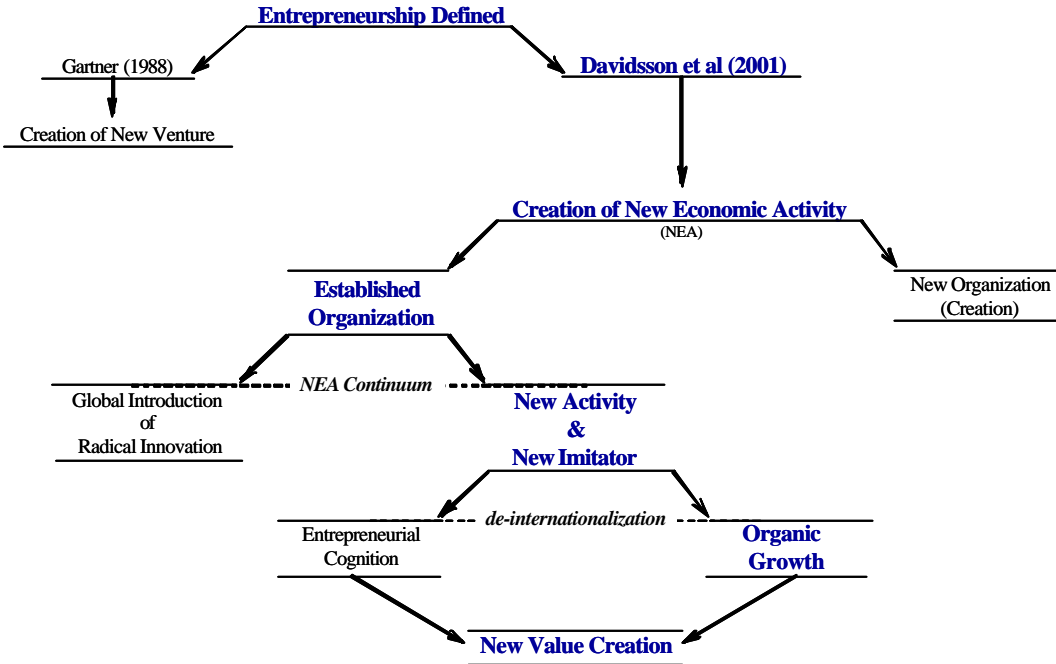
At the same time, a convergence can be seen as far as the focus of the entrepreneurship research is concerned⁴. From the economics point of view, for example, entrepreneurship is seen more as a non-equilibrium phenomenon (Sarasvathy, 1999). From socio-psychological perspective, the emphasis shifted towards the examination of entrepreneurial cognition (Ucbasaran et al, 2001). From the management perspective, a call for research on continued entrepreneurship has been put forward (Davidsson, 1991). This funneling process encouraged the development of various models of small firm growth (e.g. Bygrave, 1989; Covin and Slevin, 1991; Davidsson, 1991; Naffziger et al, 1994; to name a few). Also, apart from conceptualization efforts, some progress has been made related to the identification of level(s) of analysis (Davidsson and Wiklund, 2000; 2001).

Entrepreneurship defined

Yet, a 'good' definition (Bygrave and Hofer, 1991) is pivotal to the growth of the entrepreneurship research field. In an attempt to synchronize the dancer and the dance, Gartner (1988: 26) postulated

that ‘entrepreneurship ends when the creation of the organization ends’. This definition, however, does not leave any room for including growth in the concept of entrepreneurship (Davidsson et al, 2001). Having analyzed alternative contemporary discourse on the meaning of ‘entrepreneurship’ (e.g. Low & MacMillan, 1988; Shane and Venkataraman, 2000; Stevenson and Gumpert, 1985; Stevenson and Jarillo, 1990), Davidsson et al (2001) preferred to define entrepreneurship as *creation of new economic activity*. According to this view, an opportunity to establish a new economic activity can be pursued either within an existing organization or by establishing a new one (see Fig. 1).

Figure 1. Definition of entrepreneurship: an evolution



Considering new economic activity, Davidsson et al (2001) suggested that as a minimum, a new or established firm introduces what internally is a new activity and what appears to be at the same time a new imitator in a market. At the high end of the new economic activity continuum, there will be the

global introduction of radical innovation (Fig.1). As regards the contribution of growth in understanding entrepreneurship, Davidsson et al (2001) further argue that early growth, applied to new venture creation, and organic growth, applied to existing organizations, are more likely than later growth and acquisition growth to satisfy criteria set by given entrepreneurship definition. This suggests that organic growth may be a reasonable indicator of entrepreneurship when it comes to the study of de-internationalization (Fig.1). As organizational growth is seen as inherently a dynamic measure of change over time (Weinzimmer et al, 1998), Davidsson et al's (2001) concept of the study of entrepreneurship and growth can be extended by incorporating strategic experimentation construct for new ventures and strategic change construct for established ones (Nicholls-Nixon et al, 2000).

Davidsson et al's (2001) definition is worth adopting for several good reasons. First of all, it reflects currently emerging consensus on the focus of the entrepreneurship research. It brings together the yin and yang of thought, i.e. equilibrium and non-equilibrium phenomena of entrepreneurship. Also it stresses the importance of entrepreneurial cognition when it comes to identification of emerging opportunities and of decision making when it comes to pursuing identified opportunities by means of organic growth.

Second of all, proposed definition is also important to policy makers. In practice, public policy towards promoting entrepreneurship in small firms has been mainly concerned with two sometimes incongruent issues, i.e. encouraging the number of business start-ups (new venture creation) and assisting existing businesses with growth potential (growth) (Storey, 1994)⁴. In this respect, Davidsson et al's (2001) definition offers new insights into the development of public policy towards promoting entrepreneurship in small firms. For example public policy to promote entrepreneurship in the early stage of a small firm creation can be based on early growth and

strategic experimentation constructs, whereas public policy to promote continued entrepreneurship to support a small firm growth can be based on organic growth and strategic change constructs.

Finally, the way Davidsson et al (2001) defined entrepreneurship is critical to the present study of de-internationalization process in small firms. De-internationalization process may be regarded as a new activity at the low end of the new economic activity spectrum, i.e. when established firms introduce what internally is a new activity and appears at the same time as a new imitator in a market through organic growth. Thus for de-internationalization to take place, emerging opportunities have to be detected and pursued by recombining the existing resources. In other words, de-internationalization may be seen as a dialog between entrepreneurial cognition and organic growth directed towards new value creation.

ENTREPRENEURSHIP PERSPECTIVE ON DE-INTERNATIONALIZATION

Entrepreneurial cognition

In the context of entrepreneurship paradigm, the entrepreneurial cognition has been defined as the extensive use of individual heuristics and beliefs that impact decision-making (Alvarez and Busenitz, 2001). As argued by Busenitz and Barney (1997), under conditions of environmental uncertainty and complexity, without the use of biases and heuristics many entrepreneurial decisions would never be made. Central, then, to the entrepreneurial cognition research is to understand how entrepreneurs identify overlooked opportunities and make decisions to pursue them.

However, the reason why individuals become entrepreneurs may differ from the reasons they continue as entrepreneurs (Gartner et al, 1992). The very behaviour that led to the successful start-up may deter the eventual growth of the firm (Davidsson, 1989), as conservative bias is often introduced into subsequent firm development (Maidique, 1980). For de-internationalization process

to be successful, the entrepreneur should seek to minimize the adaptation time involved in moving from one viable organizational gestalt to another (Slevin and Covin, 1997) by deploying heterogeneous resources. Indeed, heterogeneity is a common attribute of both resource-based and entrepreneurship theory – although resource-based logic has tended to focus on heterogeneity of resources while entrepreneurship paradigm has tended to focus on heterogeneity in beliefs about the value of resources (Alvarez and Busenitz, 2001). Alvarez and Busenitz (2001) argue that this conflict between the two theories could be solved if the beliefs themselves about the resource [availability and access] are recognized as resources.

Recently, Brown and Kirchoff (1997) studied the effects of resource availability and entrepreneurial orientation on firm growth. They established that *perceived environmental munificence*, i.e. the extent to which critical resources exist in the environment, and *resource acquisition self-efficacy*, i.e. perception about a person's ability to gather the required resources, positively influence entrepreneurial orientation that in turn has a positive impact on the small firm growth. Inter alia, Brown and Kirchoff (1997) argue that if the resource acquisition self-efficacy measure can be shown to influence entrepreneurial orientation and be positively associated with the perceived opportunity set, then individuals can be taught skills to raise their level of self-efficacy.

Hence, in the light of recent materialization of entrepreneurship research (Gregoire et al, 2001) and international entrepreneurship research (McDougall et al, 1994) drawing from a resource-based theory, as such, the resource-based theory may also provide a true foundational framework from which to understand [international] entrepreneurship in the process of growth transitions (Arbaugh and Camp, 2000).

Firm growth

It has been argued that growth leads to increased complexity and uncertainty (Arbaugh and Camp, 2000; Covin and Slevin, 1997) and requires a redefinition of type and state of elements in the organizational gestalt (Covin and Slevin, 1997). How entrepreneurs manage growth transitions, i.e. from one gestalt to another, is critical as the ability to manage growth is vital to a firm's continued success (Sexton and Bowman-Upton, 1991). Thus, for the growth transitions to be successful, the entrepreneur must assemble and deploy heterogeneous and idiosyncratic resources (Barney, 1991) in order to reduce the tension that builds within the gestalt as a consequence of growth (Covin and Slevin, 1997).

In this respect de-internationalization process can be seen as transition from one gestalt to another that requires entrepreneurs to make quantum changes to the organizational system quickly (Slevin and Covin, 1998) in light of ever-new growth opportunities. The importance of this adjustment process comes into fore when it is acknowledged that, for example, opportunities initially identified are often not the ones that subsequently are being pursued; or when entrepreneurs are susceptible to the escalation of commitment to the failing course of action; or when entrepreneurs' intentions change.

As regards the contribution of (international) growth in understanding entrepreneurship, early growth, applied to new venture creation, and organic growth, applied to existing organizations, are more likely than later growth and acquisition growth to satisfy criteria set by the above given entrepreneurship definition (Davidsson et al, 2001).

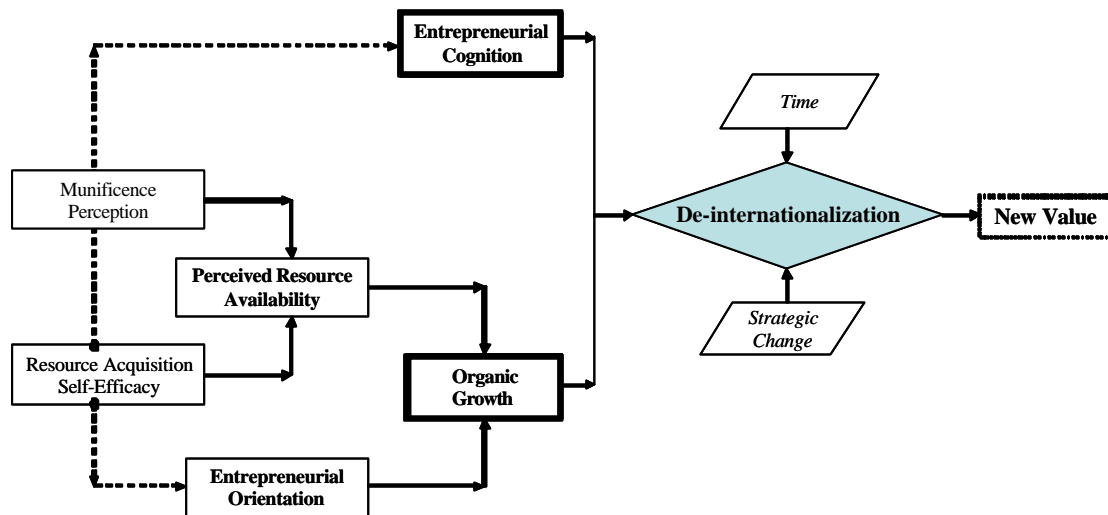
De-internationalization conceptual model

As discussed above, de-internationalization phenomenon is regarded as a new activity at the low end of the new economic activity continuum (see Figure 1). As new activity is contingent upon identification and pursuit of overlooked opportunities (Kirzner, 1997a), de-internationalization

creates a dialogue between entrepreneurial cognition and organic growth. Under conditions of environmental uncertainty and complexity that (may) affect de-internationalization, biases and heuristics are regarded as an efficient and effective guide to decision-making (Busenitz and Barney, 1997). As regards the firm growth it is believed that organic growth (Davidsson et al, 2001) is a reasonable indicator of entrepreneurship for small firms during their de-internationalization process.

As growth leads to increased complexity and uncertainty (Arbaugh and Camp, 2000; Covin and Slevin, 1997), de-internationalization process is seen as a transition from one gestalt to another that requires entrepreneurs to make quantum changes to the organizational system quickly (Slevin and Covin, 1998) in light of ever-new growth opportunities. Fundamentally, it is the [lack of] resources of the firm that constrain[s] the choice of markets it may enter, and the levels of profits it may expect (Wernerfelt, 1989). Furthermore, the [lack of] resources not only constrain[s] growth, but also limit[s] entrepreneurial activity that leads to growth (Covin and Slevin, 1991; Penrose, 1959). Therefore successful transition from one gestalt (e.g. foreign direct investment mode) to another (exporting mode) and also successful assembly and deployment of heterogeneous and idiosyncratic resources will depend on perceived environmental munificence, resource acquisition self-efficacy, and entrepreneurial orientation (Brown and Kirchhoff, 1997). Also, time (Jones and Coviello, 2002; Slevin and Covin, 1998) and strategic change (Nicholls-Nixon et al, 2000; Sandberg, 1992) will have a role to play in achieving success (or failure) during growth transitions (for review see Turcan, 2003). Based on the above discourse, Figure 2 below conceptualizes de-internationalization phenomenon as the eventual level of analysis within international entrepreneurship research.

Figure 2. De-internationalization: a conceptual model



CONCLUSION

This paper aimed at positioning de-internationalization process of small firms within the entrepreneurship research path. As findings suggest, de-internationalization has been defined as a new economic activity that creates a dialogue between entrepreneurial cognition and organic growth directed towards new value creation. In turn, organic growth, seen as a transition from one gestalt to another, creates a dialogue between perceived resource availability and entrepreneurial orientation.

As an eventual level of analysis (e.g. Davidsson and Wiklund, 2000; 2001) within international entrepreneurship research, several key research issues await the empirical researcher. The primary concern would be what constitutes ‘new economic activity’ – is it definable; is it stable over time (Davidsson et al, 2001)? If contribution to continued entrepreneurship is seen in young small firms then the question is ‘how old is young’; ‘how small is small’? If de-internationalization is a result of an entrepreneurial error, how then these failed attempts fit ‘new economic activity’ paradigm, and how they can be studied longitudinally? As Davidsson et al (2001) admit these are tough challenges.

It is expected that the present conceptualization of small firm de-internationalization process from an entrepreneurship research path perspective will have a twofold contribution. It will further theoretical understanding of international entrepreneurship among small firms. And, if there is a better understanding of the factors that for example are likely to influence de-internationalization and post-de-internationalization decisions, this will help policy makers develop more inclusive trade support strategies.

NOTES

1. One of the criticisms of personal trait theories comes from the cultural bias (Chell et al, 1991) embedded in McClelland (1961) theory whereby e.g. stigma attached to business failure is not evident in USA (McClelland and Burnham, 1995); whereas the reverse is true for Europe (Storey, 1994).
2. For example, Low (2001) in his search for trends in the entrepreneurship literature during 1987-88 and 1998-99 needed a 120-cell matrix to classify a total of 131 articles! Whereas e.g. Dery and Toulouse (1996) in their empirical study of 237 articles published in the Journal of Business Venturing between 1986 and 1993 observed that more than half of the references were books and, inter alia, that the [entrepreneurship] field seemed in some sort to resist the frequent calls for unity launched by some of its more influential members.
3. Although not explicitly defined, Ogbor (2000) followed epistemological approach that suggests that the world is constituted by our shared language and that we can only 'know the world' through the particular forms of discourse our language creates (Welge and Holtbrugge, 1999)
4. This convergence of research was supported to a certain extent by Gregoire et al's (2001) findings. In their analysis of 13,593 references cited in the 752 papers published in the Frontiers of Entrepreneurship Research Proceedings between 1981 and 1999, they observed five converging axes that have been attracting entrepreneurship scholars over time, i.e. (i) personal characteristics of the entrepreneur; (ii) factors affecting new venture performance; (iii) venture capitalist's practices and their impact on entrepreneurship; (iv) the influence of social networks;

and (v) research drawing from a resource-based perspective –the latter axe being depicted in the period between 1996 and 1999.

5. In Storey's (1994) view, the latter strategy, i.e. to assist existing businesses with growth potential would yield rather greater public returns than the former, i.e. to encourage new start-ups

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