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Strategic flexibility in export expansion: growing through withdrawal

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Abstract *This paper investigates export market withdrawal as a possible manifestation of strategic flexibility in the export expansion of the firm. A focus on strategic flexibility contributes to current export marketing theory, which fails to explain the dynamic character of export expansion as observed in today's markets. The present study reflects on the strategy process of 12 cases of export market withdrawal to reveal the character of strategic flexibility and its generative mechanisms. If strategic flexibility materialises, it results from the generation of a new strategic option at boundary-spanning middle levels of the organisation, and from political processes through which this alternative option challenges and eventually overtakes the old export strategy.*

Introduction

Recently, Eisenhardt (2002) argued that the global, "high-velocity playing field" creates unstable business conditions which make strategy temporal. She concluded that:

The speed of play on the field is lightning fast. The scale and pace of change are unpredictable. The economics of disequilibrium and information have moved to center stage (p. 91).

In this journal, Axinn and Matthyssens (2002) have stressed the turbulence of today's unlimited world and pinpointed the limitations of internationalisation theories in fully accommodating the new realities. In line with these observations, we endorse Leonidou and Katsikeas (1996) and others who have criticised the static nature of most export expansion models.

This paper builds on the premise that strategic flexibility plays an increasingly important role in explaining firm performance, and more particularly in successful export development (Grewal and Tansuhaj, 2001; Johnson *et al.*, 2003). In general, the label "flexibility" is attached to (multinational) organisations with the ability to respond to fast and unpredictable context changes (Aaker, 2001). More specifically, strategic flexibility refers to dynamics in the export product market portfolio. It implies the creation, maintenance and even realisation of strategic options at the level of the export development path (Kogut and Kulatilaka, 2001).

A focus on strategic flexibility is promising to enrich our understanding of observed irregularities in export expansion. To illustrate this potential, this paper presents a strategy process study of 12 cases of export market withdrawal. Focusing on this



extreme form of dynamism in export expansion, we investigate the character of strategic flexibility and try to unravel and explain its manifestation.

The remainder of this paper is structured as follows. First, we briefly discuss the academic attention paid to flexibility in the context of the internationalisation process of the firm. Then, the research questions of this study are presented. The third section presents a two-dimensional typology of strategic flexibility, which forms the analytical platform of this study. Section four focuses on the strategy process methodology. Two subsequent sections discuss the analytical findings regarding export market withdrawal and strategic flexibility in export expansion. In the final section we reflect on the limitations of this study and on implications for both scholars and managers.

Flexibility and the international firm

Kogut (1985) argues that the unique feature of an international strategy lies less in its content than in creating the flexibility to profit from uncertainty regarding exchange rates, government policy and competitor's moves. Indeed, it has long been maintained that the net rent of multinational enterprises (MNEs) over domestic firms rests in the (potential) flexibility of the MNE (Kogut, 1985). However, a large gap seems to exist between a MNE's potential and its actual exercising of flexibility. Although empirically unexplored, it is expected that inertia, co-ordination, switching and opportunity costs impede controlled flexibility. Therefore, Buckley and Casson (1998) identify flexibility as the "*leitmotiv* of the new agenda" (p. 23) for modelling the multinational enterprise.

Within this new agenda, the analysis of strategic flexibility in the internationalisation process of the firm deserves special attention. Indeed, since the mid-1970s export marketing research has been founded on our understanding of and perspective on the firm's internationalisation process. A clear sight of how flexibility in the internationalisation process is induced and controlled is a prerequisite for more applied export marketing research to embed strategic flexibility as a central explanatory construct.

Today, the theoretical platform for this endeavour is at hand. In a reaction to the rigidity of the "stages" models of internationalisation as defined in the 1970s and early 1980s, a more dynamic perspective on internationalisation has emerged since the mid-1990s. For instance, Barkema *et al.* (1996), Eriksson *et al.* (2000) and Forsgren (2002) among others have built on the tenets of the original internationalisation process theory (Johanson and Vahlne, 1977) to upgrade the explanatory role of experiential learning and its effect on international market commitment. Thereby they refute the narrow operational character of the "stages" models as a point of departure for empirical export marketing research (Hadjikhani, 1997). This and other recent theoretical upgrades have opened the door for the accommodation of strategic flexibility in internationalisation process theory.

Various studies have described – but not explained – leapfrogging and discontinuities in the export expansion of firms (e.g. Calof, 1993; Benito and Welch, 1993; Calof and Beamish, 1995). A clear understanding of strategic flexibility in the internationalisation process of the firm would allow for the explanation and prediction of these dynamics. The present study takes a step in that direction.

Export market withdrawal

As a contribution to the understanding and explanation of flexibility in export expansion, this study focuses on export market withdrawal, which may be considered as an (extreme) empirical expression of flexibility in a firm's export path. Export market withdrawal (EMW) is defined as a firm's deliberate action to dramatically reduce its engagement in market-related activities in an export market. This way, EMW can be applied as a strategic instrument for performance optimisation in the short and long terms (Benito and Welch, 1993). Assuming that a firm optimises its export performance within the constraints of a permanently changing inner context (i.e. a limited but changing stock of resources and ambitions) and dynamic outer context (i.e. a limited set of temporally relevant threats and opportunities), the firm will manage and balance its portfolio of export product market combinations through expansion, extension *and* withdrawal decisions (Douglas and Craig, 1996).

In the context of a contemporary understanding of the internationalisation process, EMW may be conceptualised as a materialised strategic option (i.e. a manifest strategic flexibility) that results from increased international experiential knowledge. In this case, EMW is to be considered as an expression of a higher degree of internationalisation (Benito and Welch, 1993; Liesch and Knight, 1999). Indeed, EMW is presumed to be more than a tactic or operational adaptation within the limits of an export strategy and a given export product market portfolio.

For the present study, we set the following two research questions:

- Q1. How does strategic flexibility materialise through export market withdrawal?
- Q2. What is the character of export market withdrawal as a manifestation of strategic flexibility in the context of export expansion?

It is presumed that underlying processes of strategic flexibility are more transparent in the case of an empirical extreme such as export market withdrawal. Yet, the logic of the subsequent findings is expected to be transferable to other (and less extreme) expressions of flexibility in export expansion or in the internationalisation process of the firm.

A typology of strategic flexibility

Research on strategic flexibility clusters around three interrelated focuses:

- (1) Resource flexibility (Kogut and Kulatilaka, 2001).
- (2) Pprocess flexibility (Sharfman and Dean, 1997).
- (3) Strategic options (Sanchez, 1993).

At the level of resources, strategic flexibility builds on the notion of slack (Bourgeois, 1981; Sharfman *et al.*, 1988). Resource flexibility is greater when there is a larger range of alternative uses to which a resource can be applied, the switching cost between different uses of a resource is low, and the time required to switch is low. Contemporary research, however, illustrates that strategic flexibility at the level of resources alone is not capable of explaining a great proportion of performance (e.g. Greenley and Oktemgil, 1998). In contrast, Sanchez (1997) presents resource flexibility as a "flexibility bottleneck" (p. 74) that limits the development and the ultimate stock of strategic flexibility.

A complementary perspective focuses on strategic flexibility in and through strategic processes (Smith and Zeithaml, 1996; Tienari and Tainio, 1999). The central thesis is that it is unlikely that organisations can be flexible enough to activate resources and create strategic alternatives when necessary unless the decision-making process itself is flexible. However, in turn, process flexibility is “necessary but not sufficient for adaptation” (Sharfman and Dean, 1997, p. 192).

Ultimately, a business unit has the capability for strategic flexibility only when it is able to build and activate an optimal set of strategic options in the current strategic paths of the firm (Sanchez, 1993; Buckley and Tse, 1996). This contemporary viewpoint encompasses the resource and process perspectives on flexibility to focus on the dynamic capabilities that allow a firm to identify, create and maintain options only when needed (Kogut and Kulatilaka, 2001; Johnson *et al.*, 2003). To activate these options, the firm needs so-called “real options heuristics” (Kogut and Kulatilaka, 2001), which guide the firm towards new strategic options in case of relevant environmental volatility and/or when pre-emptive strategies are deemed necessary (Johnson *et al.*, 2003).

Building on this strategic option perspective, Evans (1991) proposes a two-dimensional typology of strategic flexibility (Figure 1). The first dimension comprises the timing of the creation of strategic options – before or after a triggering fact or episode. The second dimension points at the character of the strategic option with respect to the triggering fact and the current strategic path (i.e. the export market portfolio). The strategic option can be more offensive or more defensive. This way, four archetypal manoeuvres can be distinguished:

- (1) *Pre-emptive manoeuvres (ex ante/offensive)* are deployed to precipitate transformations. As such, strategic options are created before they are needed and pre-empt competitive initiatives or changes in the market.
- (2) *Protective manoeuvres (ex ante/defensive)* help a firm guard against potentially damaging consequences which might arise when engaging in high-risk situations such as entering a new foreign market. In this way, the company is pursuing a hedging strategy.
- (3) *Corrective manoeuvres (ex post/defensive)* refer to the regenerative capability needed to recover from dramatic events in the market.
- (4) *Exploitive manoeuvres (ex post/offensive)* allow firms to recover from and react to instant competitive moves or any other event that – unexpectedly – has substantially changed the competitive and strategic playing field (Evans, 1991).

	Before triggering episode	After triggering episode
Offensive	Pre-emptive manoeuvres	Exploitive manoeuvres
Defensive	Protective manoeuvres	Corrective manoeuvres

Source: Based on Evans (1991)

Figure 1.
A two-dimensional typology of strategic flexibility

This typology guides subsequent analysis towards the understanding of export market withdrawal as a manifestation of strategic flexibility (Q2). Parallel to this analysis, the applied methodology results in the characterisation and understanding of real option heuristics through which these manifestations of strategic flexibility emerge (Q1).

Methodology

Since we focus on *how* strategic flexibility may materialise through export market withdrawal, we adopt a qualitative strategy process methodology (Frederickson, 1983; Van de Ven, 1992). We investigate real-option heuristics and the character of manifest strategic flexibility in the context of 12 cases of export market withdrawal; four cases of export market withdrawal by four medium-sized industrial firms and eight cases of export market withdrawal within the frame of four large European multinationals (Table I).

As this is a theory-generating study, great effort was made to apply theoretical sampling (Yin, 1994). However, it turned out to be extremely difficult to screen withdrawals before in-depth analysis of their position on Evans's (1991) typology. Therefore, we used three proxy criteria to pursue polarity in the cases:

- (1) Market entry strategy (active versus reactive start).
- (2) The perceived strategic importance of the venture (low/middle/high).
- (3) The evolution of the profitability of the venture (low/middle/high).

In the selection of the MNE-cases we used our subjective evaluation of the company's position on the EPRG continuum (Perlmutter, 1969) as an additional criterion. This way, we aimed for a rich selection of internationalising companies, both small and medium-sized exporters and large multinationals.

Data were mainly collected through in-depth interviews. We personally interviewed between two and five respondents per case, once or twice each. Respondents were selected on the basis of their role as protagonist or antagonist in this particular episode.

Case	Annual turnover of firm, 2000 (€)	Business activity	Average export/sales ratio (per cent)	Exit market	Years in the exit market
1	9m	Consumer textiles	95	USA	1989-1995
2	14.3m	Fair tents	50	Poland	1992-1996
3	24m	Modular building systems	15	France	1994-1996
4	51.7m	Silos for storage of non-liquids	50-70	France	1988-1996
5	131m	Trading in trucks and buses	90	Spain	1980-1990
6				Belgium	1977-1996
7	2.4bn	Engineering and contracting	65	Brunei	1985-1995
8				UK	> 1970-1999
9	4.3bn	Chemical and electronic imaging	85	Japan	1973-1998
10				Germany	> 1978-1998
11	22.3bn	Telecommunication	83	Turkey	1983-1995
12				Russia	1983-1998

Table I.
Twelve cases of export market withdrawal

Typically, we interviewed general managers, international marketing managers and area managers. Interviews lasted between 1.5 and 2.5 hours and topic lists were used to structure the interviews. The basic aim of the interviews was to recreate the withdrawal process from the interviewee's perspective. In total, 29 interviews and 51.5 hours of interviewing were tape-recorded and transcribed. After each interview, the transcript was sent back to the interviewee for revision. The potential for additional data source triangulation was limited for two reasons. Strict confidentiality did not allow us to contact facilitating agencies such as suppliers, customers or banks. Additional secondary data were not available because no such documents existed (any more) or because the companies were not eager to release them.

While explicitly considering the relevant organisational and external contexts, we elaborated a retrospective longitudinal analysis of the identified episode in which the empirical focus was set on networks of choices (strategic decision-making) and implementation processes (strategic change) that were enacted by the respondents. Inferential pattern coding (IPC) was adopted as the main analytic tool (Miles and Huberman, 1994; Yin, 1994). Equivalent to cluster and factor analytic devices in multivariate analysis of quantitative data, IPC:

- reduces large amounts of qualitative data into smaller numbers of analytic units or incidents;
- helps to elaborate maps (charts or matrices) for understanding incidents and the (causal) interactions between abstracted events; and
- enables cross-case analysis by identifying common themes and time-ordered displays (Miles and Huberman, 1994).

For the implementation of IPC, we largely followed the analytic process as described by Miles and Huberman (1994, pp. 90-237). IPC was performed using QSR NUD*IST 4.0, a Windows-based software tool for computer-aided qualitative data analysis. This tool has been indicated to be an appropriate device for the implementation of the pattern-matching logic on which IPC is based (Richards and Richards, 1998).

The data of the 12 cases consisted of over 600 pages of interview transcripts. Analysis was performed through multiple rounds of within- and cross-case analysis. Eventually, the analysis resulted in an extensive descriptive process theory of export market withdrawal, composed of 13 sets of process propositions[1]. Within this descriptive theory, a number of theoretical spearheads emerged; strategic flexibility being one of these.

Case descriptions

This section briefly describes the withdrawal processes of the 12 cases, emphasising striking (dis)similarities among the cases. This way, it presents the empirical platform for the theoretical analysis in the subsequent sections.

Although the birth of each of these 12 export ventures is quite case-specific – from fully passive export starts to highly proactive initiatives – the strategy process thereafter seemed to evolve in quite an analogous way. In all export ventures, commitment to the particular foreign market gradually increased over the years. Various strategic and tactic measures brought the local export marketing approaches in line with the corporate (international) marketing strategy and traditional control systems were installed. Through this institutionalisation process, each company built

routine procedures and embedded the venture into its current export marketing strategy.

From a certain moment on, performance lagged behind expectations in all cases. This perceived performance gap was the prime and sometimes first indicator of an increasing misfit between the export strategy and the changing internal and/or external dynamics of the particular export venture. However, in none of the cases were the reasons for this poor performance easily identifiable. As a consequence, individuals in the organisation began to develop their own perceptions and explanations about the causes. Some individuals, typically from higher organisational levels as well as those in charge of the export venture, relied on the control systems installed to pinpoint internal inefficiencies. They argued that the organisation had failed to implement the current export strategy properly. In their perspective, resolving the problem was feasible within the scope of the current strategic approach by means of tactical corrective measures.

Others, typically middle-level managers operating at the boundaries of the firm (e.g. sales, services, outbound logistics, etc.), experienced a strong belief that unsatisfactory performance resulted from the increasing inappropriateness of the current export strategy and local market approach. In their opinion, the solution to the problems encountered lay beyond the operational scope of the troubled export venture. As a consequence, these managers (implicitly) pointed at more fundamental problems at the level of the overall export marketing strategy and the management of the entire export market portfolio. However, in this early stage of the process none of them could specify these problems. At best, there was a feeling that something was wrong with the firm's priorities in exporting.

It was striking to observe that these two conflicting perceptions emerged and developed in all cases. Nevertheless, significant differences existed with respect to their explicitness, specificity and voice. In some cases the perspectives initially seemed to be balanced. In other, one perspective soon overruled the other. When a certain perspective survived for a while, like-minded managers appeared to cluster in informal lobbies. In some cases these lobbies consisted of several managers across different organisational layers and functional domains. In other cases a lobby was built on two managers from one department. Hence, political dynamics grew in most cases.

Once ingrained, these conflicting perspectives evolved in competing directions. Those who observed internal inefficiencies were convinced about the curing effect of corrective, tactical measures within the scope of the current export marketing strategy. The other lobby gathered round the idea that more drastic measures were needed, beyond the scope of the current export marketing strategy. In most cases, the former lobby was more powerful – as it typically counted senior executive managers among its members – and managed to install its tactical measures. The challenging lobby typically lacked specific information about the situation outside the troubled venture, which mostly prevented them from developing strategic alternatives. Even in the rare cases where an alternative approach emerged, this lobby lacked the organisational power to sell the idea in the organisation.

From that point on, progression in the cases differed fundamentally, depending on whether the lobby in favour of more drastic measures beyond the scope of the troubled venture survived or died.

Towards strategic rigidity

In six of the 12 cases the challenging lobby disappeared after a while and the firm continued to reacting in an efficiency-seeking way following standard routines within the scope of the current strategy. No other export venture was troubled by the curative measures. Unfortunately, in all six cases performance slipped further, reached rock bottom and the situation got out of control. Only after all available tactical measures were applied – and failed – did executive management dramatically reduce its commitment to the venture, thereby further isolating it from the rest of the export market portfolio. Since no alternative options for the venture's resources were available, the decision to withdraw was not taken at this stage. Typically, the venture entered into an extremely unstable strategic vacuum: the firm's management had detached itself from and reduced its control over the venture while at the same time local employees did their utmost to save the sinking ship. The cases suggest that this vacuum may continue to exist for a long time. Only a dramatic event (typically induced by customers) created the ultimate trigger to consider exit as the only – but troublesome – option.

Towards strategic flexibility

In the other cases the challenging lobby managed to develop and propose alternative strategic options. They felt empowered to communicate openly about the perceived market-based problems and even succeeded in experimenting with alternatives. In two cases this resulted in a fast exit decision and a reallocation of freed resources to another export venture. No further efforts were made to redress the troubled venture. In the four remaining cases, the process took longer because the emergent strategic alternative turned out to be complex and far-reaching, affecting many if not all export ventures of the firm and implying significant changes beyond the withdrawal of this one troubled venture. Therefore, additional information and argumentation had to be generated. Eventually, a new strategic option gained acceptance, additionally helped by the continuously failing corrective measures. The firm easily withdrew from this troubled venture as it was considered as a fairly straightforward tactical measure among the more complex measures that radically changed the firm's export strategy and, as a consequence, in most cases the firm's export market portfolio.

Analysis

This section focuses on the two research questions of this study. First, the strategy process of export market withdrawal and the creation of strategic flexibility are explained (Q1). In the second part of this section, we focus on the character of strategic flexibility itself (Q2). As this is a qualitative theory-generating study, statistical analysis and empirical generalisation are not at stake. In contrast, we apply analytic generalisation and test the internal validity and parsimony of the research outcomes against the theoretical network that surrounds the phenomenon (Yin, 1994; Kvale, 1996). Eventually the outcome of this study is to create a sound and internally valid theoretical platform for future empirical research and external validation.

The materialisation of strategic flexibility

As Table II summarises, the processes labelled strategic flexibility and strategic rigidity both show initial institutionalisation, increasing stress and causal ambiguity.

The difference between the two types can be explained by political behaviour and differences in learning, stress management, and de-institutionalisation. Table II is discussed below.

The institutionalisation process observed in all cases seeks to embed the export venture in the current export policy. Although institutionalisation is necessary to strive for efficiency and efficacy in export portfolio management (Douglas and Craig, 1996), it becomes a relevant constraint to future strategic flexibility (Nelson and Winter, 1982; Boeker, 1989). Further, it was observed in all cases that the perceived discrepancy between the level of aspiration and export performance, labelled stress (Ocasio, 1995), induces agents to search for causes and solutions to reduce it (Huff and Clark, 1978). However, the causes of poor performance are not clear, and managers believe in different causes. Some managers believe in misfits between what they assume to be a proper strategy and sub-optimal tactics (endogenous stress), whereas others pinpoint external causes that make the export strategy itself sub-optimal (exogenous stress). This is in line with findings on evolutionary organisational processes leading to exit (e.g. Tushman and Romanelli, 1985; Barr *et al.*, 1992; Burgelman, 1996). What follows is a power game between emergent lobbies around these two competing perspectives, while at the same time adaptive learning[2] by the current executive management creates tactical measures to redress the venture in all cases (March, 1991).

Due to the inadequacy of curative measures, sooner or later all cases reach a point of extreme instability. In line with the extant literature on organisational change, we label this point the “stress threshold” (Barr *et al.*, 1992; Hutt *et al.*, 1988; Narayan and Fahey, 1982). From this threshold, the cases illustrate that the process can go two ways.

In the case of persisting strategic rigidity, the old export marketing strategy remains intact while at the same time the organisation dramatically reduces its commitment to the troubled venture. All tactical measures are stopped, the venture is

Strategic flexibility	Strategic rigidity	Central construct	Theoretical foundation
Increasing commitment embeds the venture in the export market strategy		Institutionalisation	Nelson and Winter, 1982; Boeker, 1989
Significant gap between actual and expected performance		Stress	Ocasio, 1995; Huff and Clark, 1978
Two opposing views: endogenous stress versus exogenous stress. In all cases, both stress types are observed		Causal ambiguity	Tushman and Romanelli, 1985; Barr <i>et al.</i> , 1992; Burgelman, 1996
Power game between dominant lobby and challengers		Political decision making	Narayan and Fahey, 1982
Generative learning	Adaptive learning	Organisational learning	Argyris and Schön, 1978; Mintzberg <i>et al.</i> , 1976
Commitment to export venture decreases fast after commitment to alternative rises	Causal ambiguity remains Strategic vacuum	Stress threshold	Barr <i>et al.</i> , 1992; Hutt <i>et al.</i> , 1988, Narayan and Fahey, 1982
Reallocation of resources; troubled export venture is exited	Strategic drift eventually leads to panic-type exit	De-institutionalisation	Drummond, 1995; Kelly and Amburgey, 1991; Ross and Staw, 1993
Exit in new strategic context	Isolated exit		

Table II.
Analytical summary of the withdrawal process

left to its fate, it enters into a strategic vacuum and causal ambiguity and stress remain very high throughout the organisation. In line with the literature, we observed that this strategic vacuum brings the venture into a state of strategic drift, and a traumatic external event has to occur in order to make the company break out of the drift and decide to withdraw (Kelly and Amburgey, 1991; Ross and Staw, 1993). Due to organisational de-commitment prior to withdrawal (Drummond, 1995), withdrawal is an isolated decision that is stigmatised as a failure, and no learning effects result. In the case of strategic rigidity, withdrawal is a reaction to strategic drift, not to the real underlying problems of the failing venture.

Strategic flexibility does materialise when ongoing curative measures are made obsolete by the acceptance of a new strategic option which redefines the firm's export marketing strategy. De-institutionalisation and de-commitment do not occur until the new strategic option is implemented. As a consequence, no strategic vacuum emerges and causal ambiguity as well as stress decrease dramatically throughout the organisation. In fact, in these cases the organisation harbours both adaptive and generative learning (Burgelman, 1996). At the stress threshold, generative learning (March, 1991) overtakes adaptive learning as the mechanism of organisational change (Hutt *et al.*, 1988; Burgelman, 1996). The withdrawal is a consequence – or even only a byproduct – of generative learning that results in a new (or at least significantly revised) strategic platform for the export activity of the firm. Indeed, the main outcome of this reframing process is not the decision to withdraw but the creation of a strategic option that replaces the old export strategy.

The question remains why in some cases generative learning does not take off or cannot overtake ongoing adaptive learning. Above all, the cases illustrate that this is due to a lack of strategic autonomy of boundary-spanning middle-level managers. Limited autonomy prevents challengers from developing alternative perspectives that eventually may be developed in new strategic options. Even if a viable strategic option is developed, organisational routines that obstruct bottom-up and/or outside-in communication prevent it from reaching higher levels in the organisation. The relevance of this managerial autonomy has been indicated in the literature as a significant prerequisite for bottom-up strategic input (e.g. Tushman *et al.*, 1986; Hutt *et al.*, 1988).

Strategic flexibility as exploitive manoeuvring

When strategic flexibility materialises, the decision to withdraw emerges from and is embedded in a new strategic course for the export activity of the firm. As such, generative learning that emerges from exogenous stress about a single troubled venture acts as a spur for an overall strategic reorientation at the level of the export market portfolio. Indeed, in all cases in which strategic flexibility materialises, withdrawal is only one of the many operational decisions, including additional withdrawals, the set-up of new ventures and the upgrading of others. In this way, the export market portfolio is rebalanced in accordance with the new export strategy and the changed business environment (Douglas and Craig, 1996).

To identify the character of strategic flexibility in the context of export market withdrawal we return to the typology of Evans (1991), as discussed earlier. Our findings clearly illustrate the absence of any *ex ante* manoeuvre. None of the cases indicate any trace of explicit or implicit contingency planning at the level of the export

venture or the overall export strategy. We found no case in which management anticipated strategic change by the installation of readily available strategic options or strategic slack. In fact, interviewees clearly indicated that these strategic contingency plans are perceived as incompatible with full organisational commitment to a strategic intention or plan. As such, *ex ante* contingency plans (i.e. ready-to-use real options) are considered to be indications of inefficiency and doubt about the chosen strategy.

While the tactical measures to redress the troubled venture can be classified as defensive, the strategic option that materialised in the case of strategic flexibility had all the characteristics of an offensive and proactive initiative. In fact, in all cases the new export strategy immediately resulted in the redefinition of the export market portfolio and the strategic priorities within this portfolio. The strategic and operational apparatus becomes more effective as the new export strategy restores the strategic fit between the firm's capabilities and its export environment. It is fair to conclude that this type of withdrawal leads to a (temporal) acceleration in the internationalisation process of the firm.

Conclusion

Exploring the impact of flexibility on the growth of the multinational enterprise, Buckley and Casson (1998) conclude that:

The most important new point to take into account is that the foreign market can decline as well as grow. Divestment or withdrawal must be considered as serious strategies (p. 39).

Therefore, this paper investigates export market withdrawal as a manifestation of strategic flexibility in the context of export expansion.

Strategy process analysis of 12 cases of export market withdrawal results in the characterisation of strategic flexibility and of its generative mechanism. While no *ex ante* strategic flexibility was observed in any of the cases, factors such as the degree of managerial autonomy, the emergence of generative learning and the possibility of local experimentation at boundary-spanning middle management levels led to the creation of – or to the failure to create – a new strategic option in reaction to a perceived misfit between the export environment and the current export strategy. In six of the cases, no strategic flexibility was created and the troubled export venture had to be withdrawn to avoid further strategic drift away from the current strategy and export ambitions. In the other six cases, the organisation succeeded in creating strategic flexibility without any available predefined contingency plan or slack resources. These firms relied on critical capabilities that allowed them to:

- sense exogenous misfit;
- develop strategic options; and
- implement these options.

This generative mechanism explicates what Kogut and Kulatilaka (2001) have called a “real options heuristic”.

While a descriptive cross-sectional study could have identified two types of export market withdrawal with conflicting characteristics, it is doubtful whether it would have revealed the two fundamentally different processes that led to these two types of withdrawal. Herein rests the explanatory power of this strategy process study. Nevertheless, we acknowledge the limitations of the design and the applied research

method. Strategy process research is aimed at exploring processes and explaining the underlying generative mechanisms. The aim of this study does not go beyond the creation of an internally valid theoretical platform for the study of strategic flexibility in the context of export expansion. As the case selection for this study was performed on theoretical grounds and not on statistical grounds, descriptive research is required to test and assure the external validity of the processes described. A prerequisite for this subsequent step is the operational definition of key constructs, not least of strategic flexibility itself.

Although we limited our empirical focus to one particular – and even extreme – example of flexibility, we believe that dynamism in the long-lasting process of internationalisation is magnified or even exclusively situated in short episodes of intense decision-making and change such as the one we focus on here. It is obvious that we do not plead for strategic flexibility or withdrawal as the single best solutions whenever an export venture falls short of performance expectations. On the contrary, ventures troubled with endogenous misfit can and should be redressed by adaptive measures within the limits of a settled export strategy. Export market withdrawal on the basis of strategic flexibility is a proactive option in the case of structural exogenous misfit between the export strategy and the changed business environment. To corroborate, refine or refute our findings, additional observations of apparent strategic flexibility in the internationalisation process of the firm have to be investigated. In general, significant conceptual as well as empirical effort still has to be made before managerially controlled flexibility is built into export theories and internationalisation process models.

Towards flexibility in export management

Some important lessons for export management can be drawn from the present study. First, the cases examined plead against the *ex ante* development of strategic contingency plans when setting up a new export venture. When external dynamics are frame-breaking, the cases illustrate that these contingency plans are obsolete. Both the literature and the respondents argue that *ex ante* contingency plans can be considered as slack resources that reduce the initial (mental) commitment to a new venture. In addition, we would argue that these contingency plans can only be built on what is known at the time of their construction about the environmental dynamics and the strategic course of the firm. As such, none of the contingency plans would hold the key to a smooth solution in the context of unprecedented exogenous misfit. Nevertheless, strategic and/or time deadlines should be set to force an organisation to evaluate its current course and to allow for alternative paths to emerge.

The key to flexible export management lies not in the all-encompassing providence of a centralised top management but in its encouragement of outward-looking managers to pick up on external dynamics, interpret them and develop strategic alternatives. We acknowledge that in this approach the export firm risks becoming an inefficient basket of brilliant yet conflicting strategic options. It is the role of top management to master the current strategic course for maximal efficiency while at the same time controlling and stimulating the internal selection process of new strategic alternatives that go through ongoing rounds of political decision and local experimentation (Burgelman, 1996). More than defending a manifest strategy through hierarchical power, top management should stimulate knowledge power that

competes for the best strategic approach. In a flexible export organisation, new strategic options for export success are created continuously. However, only a very few overtake a settled export strategy entirely. Especially in an export context, top managers should understand the potential leverage of local market sensing and entrepreneurship.

Notes

1. Limitations of space prevent us from presenting and discussing analytical steps in full detail. Outputs of within- and across-case analysis as well as a list of process propositions are available from the first author on request.
2. Adaptive learning is defined as a process of information acquisition, exchange, and utilisation of knowledge within the limits of existing organisational routines, or "theory-in-use". Generative learning, in contrast, implies that strategies, organisational routines and standard procedures are fundamentally reorganised or even redefined (Argyris and Schön, 1978; March, 1991).

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