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, SMEs[1] represented 99%

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