

# Chapter 8

## Causes of De- Internationalization: Evidence of Six Cases

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### ABSTRACT

*Until a few years ago, internationalization was seen as a self-feeding process, resulting from decisions based on accumulated knowledge. De-internationalization is not an option. However, the reality shows us that enterprises have done international divestment. To this date, the research on de-internationalization remains somehow scarce and needs additional research. The authors want to understand the causes of de-internationalization. They use the grounded theory methodology, studying six Portuguese cases that already have a process of de-internationalization. Five firms cooperate with, presenting six cases. The authors distinguish causes that occur before/after the internationalization process begin and causes related to firm or external to firm. One of the main causes of de-internationalization is the incorrect internationalization process. The Misfit Micro-Location (the wrong choice of place inside a determined country) is a very important cause, which means that, after choosing the country, it is necessary to choose the best place to be located.*

### INTRODUCTION

Existing literature recognises that internationalisation leads to more internationalisation, due to the accumulation of experience, increased connections and networks and stronger commitment to foreign firms. Therefore, the internationalisation of firms is presented as a self-feeding process, in order to begin the process, the only solution is internationalisation, as a means of growth.

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## ***Causes of De-Internationalization***

In practice, we see many cases of Portuguese firms with international divestment, for example, Sonae and Jerónimo Martins in Brazil and Parfois in Spain, amongst other cases. Portugal is not an exception, according to Padmanabhan (1993) divestiture has increased dramatically since the early eighties (Padmanabhan, 1993). This evidence questions the existing literature, as these firms leave foreign markets and do not display progressive growth as expected. However, “despite compelling empirical evidence of de-internationalisation, academic research lags behind” (Turcan, 2017, p. 1), even knowing that almost half of foreign direct investment is divested (Wan, Chen, & Yiu, 2015). Overwhelming evidence of this gap between literature and reality has led to the development of this study.

## **LITERATURE REVIEW**

Research on the internationalisation of companies intensified with the rapid growth of international trade and foreign direct investment in the 1960s. Since this time, a large number of researchers have analysed factors which have had an impact on the internationalisation process, the influence of internationalisation on the company and the home economy, threats and opportunities of internationalisation, and several other problems related to the international activities of the company. Until a few years ago, all approaches viewed internationalisation as a self-feeding process. The Stage Model was the dominating approach towards explaining internationalisation. This model is based on organising learning processes (Johanson & Vahlne, 1977). Firms tend to begin international investment in countries with a short psychic distance to the home country. This similarity with the home country reduces the risk of the internationalisation process, because the company has experience of operating in a similar reality. With the accumulation of experience in these markets, firms tend to invest in the farthest countries, making small steps for a safe internationalisation process.

The evolution of international trade brings with it other theories such as the Network Approach, the International Entrepreneurship Perspective and the Born Global Firms. The Network Approach supports the principle that business networks play a fundamental role in the internationalisation process. Business networks are defined as an interconnected set of trade relationships with other actors in business, suppliers and customers, affecting new internationalisation processes (Johanson & Mattson, 1988; Johanson & Vahlne, 2003). These business networks influence how initial market entry is selected, its mode and any development on an international level.

Firms are not faceless, and it is important to emphasise the role of the entrepreneur, since opportunities are recognised as a result of entrepreneurial alertness and ability to adapt to surprises. The International Entrepreneurship Approach places more importance on the role of entrepreneurs than on other variables such as the firm's size and age. Additionally, Schweizer, Vahlne and Johanson (2010) reinforce the role of entrepreneurs adding a more holistic view to Johanson and Vahlne's model (2009), the studies on entrepreneurship and opportunity identification and development (Ardichvili, Cardozo, & Soray, 2003), studies on effectuation by Sarasvathy (2001) and the literature on dynamic capabilities (Sapienza, Autio, George, & Zahra, 2006).

Another theory explaining the internationalisation process is the Born Global Firms, also designed as International New Ventures. This perspective was supported by Rennie (1993) and developed by Oviatt and McDougall (1994), Chetty and Campbell-Hunt (2004). The Born Global Firms are companies that internationalised within two years from inception and whose home market represents less than 25%. In this case, the growth of internationalisation is rapid, although it is gradual in the Uppsala Model.

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