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Aan Rik en Jos Pauwels – partners in crime

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Piet

PREFACE

This doctoral dissertation tells the story of a chain of choices I have made during the last four years. When I look at this thesis now, I recognize myself in it. Instead of having been forced in one or another scientific direction by current fashionable trends in the scientific community, I have felt free to follow my own feelings and critical interpretation of science and society during the study. This has provided me with a sense of satisfaction and full responsibility. For this, I am very much indebted to my promotor Prof Dr Paul Matthyssens. He balanced perfectly between his role as a challenger and as a motivator – but never acted as a director of this study.

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1:
PURPOSE AND ARGUMENT OF THE STUDY

1.1 FROM MANAGERIAL ISSUE TO RESEARCH QUESTION

While a vast theoretical and empirical literature examining the determinants of entry into foreign markets and the internationalization of the firm has emerged since the mid 1950s, considerably less attention has been given to the determinants of exit from foreign markets and to 'de-internationalization' in general. This lack of academic attention, however, stands in sharp contrast to the occurrence of business exit decisions in the global business world. Moreover, a better understanding of why and how foreign markets are exited may bring considerable knowledge about the factors that underlie the longevity and success of foreign ventures and the internationalization of the firm.

1.1.1 The International Market Portfolio as an Empirical Lens

To understand the strategic relevance of international market exit within the scope of the current globalization of markets and global strategies of multinationals, we adopt the international market portfolio as an empirical lens. The rationale of international market portfolio management is that a multinational assesses the relative performance of its ventures vis-à-vis (1) the market attractiveness and the relevant dynamics in the external economic, political, social and technological environment, and (2) the current and potential resources of the firm on a permanent basis. As a consequence, an international market portfolio can be managed and balanced pro-actively through expansion, extension and withdrawal decisions to optimize performance (Douglas and Craig 1995, 1996).

International market portfolio management has become a key strategic issue in international and global business, not in the least for small and medium sized firms that are the mainstay of many small open economies such as ours (UNCTAD 1999). Given their limited resources and their need to internationalize in an efficient and controllable way, the assessment of portfolio positions and the allocation of resources across different foreign markets on a permanent basis may be beneficial. Strategic international market portfolio management allows a firm to maximize the exploitation of market interconnectedness and synergy (e.g., Birkinshaw and Ritchie 1993). Because a fundamental theoretical logic is missing, however, this perspective does not provide us with a framework for the analysis and explanation of international market exit (e.g., Varadarajan 1999). Nevertheless, it is our belief that an international market portfolio perspective offers a valuable managerial instrument and, as such, an empirical lens for academics. More specifically, we consider it as a starting point and a strategic logic for extension, expansion and withdrawal decisions within the scope of a firm's foreign market activities.

1.1.2 Relevance of the Study

Data on foreign market exit is scarce[1]. More than 20 years ago, Boddewyn (1979b) estimated that, between 1967 and 1975, the 180 largest US based multinationals added some 4700 subsidiaries to their international portfolio and divested some 2400 affiliates. More recently, Padmanabhan (1993) identified 421 foreign divestments made by UK companies in the period 1983-1992. Barkema, Bell and Pennings (1996) found out that out of a sample of 225 foreign direct investments made by large Dutch companies between 1966 and 1988, only half of them were still in existence in 1988. Finally, from the samples of Calof and Beamish (1995), and Benito (1997a), we estimate that in the manufacturing industry, the foreign subsidiary exit/entry-ratio is between 15.7% and 59.3%[2].

[1] The utmost was done to find data on this issue. Therefore, we contacted economists and statisticians of agencies such as Flanders Foreign Investment Office (FFIO), the Flemish Export Agency (Export Vlaanderen), the Belgian Agency for Foreign Trade (BDBH), the National Bank of Belgium, Eurostat (the European Bureau for Statistics) and Dun and Bradstreet (a US based commercial consultancy firm well-known for its data on business failures). Moreover, we consulted the websites of UNCTAD and the World Bank in search of relevant data. Only the Belgian National Bank and Dun and Bradstreet replied that it would be possible to extract relevant proxies from their databases. Since this would have incurred high programming costs, we refrained from ordering these data. The other agencies replied that they could not provide relevant data. We continue searching for accessible and relevant aggregated data on this issue.

[2] Calof and Beamish (1995) describe a sample of 121 international market entry mode changes by 38 firms. In 15.7% of these mode changes, the firm divested its local manufacturing and/or marketing activities. Benito (1997a) provides data on a sample of 182 FDI's of Norwegian firms, 108 of which were divested by 1992, which results in an exit/entry-ratio of 59.3%.

Considering the withdrawal of investments abroad, UNCTAD (1998) refers to three economic motives to do so: (1) the lack of local market opportunities or increasing market opportunities elsewhere, (2) diminishing stocks (and increasing prices) of local resources and assets, and (3) diminishing economies due to dynamics in factor or end-product markets. Although international market exit is not discussed as such, the UNCTAD World Investment Reports of 1998 and 1999 explicitly refer to the increasing dynamism in product-market portfolios of multinationals. The most important reason for this evolution, UNCTAD argues, is that “The traditions determinants are becoming relatively less important in FDI [i.e., foreign direct investment] location decisions.” (1998: 34). Stand-alone strategies of international market development and FDI are replaced by integration strategies. One of the most important evolutions in this respect is the disconnection of the location of production and the location of marketing in many industries over the last decades. In this perspective, we define international market withdrawal in the next section.

1.2 INTERNATIONAL MARKET WITHDRAWAL

Welch and Luostarinen (1988) define internationalization as: "The process of increasing involvement in international operations." (p.36). As such, they adopt a broad concept of internationalization, which covers all portfolio decisions to expand and extend a firm's production and market oriented operations across borders. Moreover, these authors were the first to focus explicitly upon portfolio contraction within the framework of the internationalization process of the firm. Building upon a fundamental assumption of portfolio thinking – firms have limited resources, which force them to optimize, i.e. balance, their portfolio – portfolio contraction is not considered as a symptom of failure or retreat, but is considered to be a strategic instrument which may optimize the portfolio.

Welch and Luostarinen (1988) argue that: "[I]t should be stressed that once a company has embarked on the [internationalization] process, there is no inevitability about its continuance. In fact, the evidence indicates that […] 'de-internationalization' can occur at any stage" (p.37, underlining added). Nine years later, Benito and Welch (1997: 9) developed this concept and defined it as follows:

> **"De-internationalization refers to any voluntary or forced actions that reduce a company's engagement in or exposure to current cross-border activities."**

In their seminal paper, these authors distinguish between full and partial de-internationalization. The former points at a firm's complete withdrawal from all international operations. Considering the latter, two forms are typical: (1) a reduction of operation in or withdrawal of a particular foreign product-market, and (2) the adoption of a 'lower' market entry modes[3] in one or more markets. In addition, a

[3] In the literature, entry strategies are categorized along two dimensions: (1) the degree of involvement and resource commitment and (2) the degree of control over foreign operations. In this *(Continued on the next page)*

distinction can be made between definitive and temporal de-internationalization (Crick 1999). Whereas the former points at a firm's decision in the longer term, the latter focuses at a short term decision, which will be overruled in expectance of some internal or external conditions to be fulfilled. In line with UNCTAD (1998), we additionally distinguish between operations-related and market-related de-internationalization. In case of a market-oriented de-internationalization, the decision to withdraw has direct effects on the sales activities of a firm in that particular market.

In this study, we focus on de-internationalization, which is partial, definitive, voluntary, and market-related and call this type of de-internationalization: international market withdrawal. As a consequence, we exclude:

- Full de-internationalization. We believe that a company's full de-internationalization is only symptomatic of a radical strategic reorientation and, as such, is to be considered as an embedded managerial issue of corporate failure and organizational decline (cf. Whetten 1980; Kharbanda and Stallworthy 1989; and McKinley 1993).
- Temporal de-internationalization. We exclude de-internationalization decisions, which were not intended to be definitive. Whereas the outcome of the decision may be the same, psychological and managerial studies on decision-making clearly illustrate that a non-definitive decision-making process largely differs from its definitive counterpart (e.g., Janis and Mann 1977).
- Forced de-internationalization. We do not focus on forced withdrawal, which refers to the seizure of foreign-owned property due to nationalization, expropriation, and confiscation or to a political decision to forbid the sales of certain products. De-internationalizations of this kind have been decided by

perspective, indirect export, for instance, is considered as a strategy of low commitment and low control and foreign direct investment is considered as a strategy, which requires high resource commitments and brings a high degree of control. We refer to Root (1994) for an elaboration of foreign entry strategies. When referring to a 'lower' entry strategy, we mean that an entry strategy is replaced by one that scores less on one or both of the aforementioned dimensions.

countries belonging to the former Warsaw Pact, China, Brazil, and more recently by countries such as Iran and Iraq (see for instance Akhter and Choundry 1993). In this study, to the contrary, we focus on de-internationalization, which is the result of deliberate decision-making based on strategic considerations.

- Operations-related de-internationalization. In case of a withdrawal, which is exclusively related to operations, the decision to withdraw does not directly impact on the marketing and sales activities of the firm in that particular market[4].

Therefore, we define international market withdrawal as:

A firm's voluntary action to reduce its engagement in market-related activities in a foreign product-market.

Two additional remarks are to be made. First, a certain foreign market should not be left entirely to fit in this definition. As such, we are in line with Benito and Welch's (1997) definition of de-internationalization. Adopting a 'lower' mode of entry from, for instance, a local subsidiary to indirect export may be considered as an international market withdrawal. Secondly, the causes of withdrawal may be multiple, both situated in the perceived dynamics of the local market and changes in other parameters of the firm's international market portfolio. In this respect, the 1998 UNCTAD report on the evolution of investment in the world, as well as Douglas and Craig (1996) and Varadarajan (1999) focus upon the increasing importance of the interconnectedness of ventures in a firm's international market portfolio.

[4] Some years ago, Renault decided to close its only Belgian assembly plant. This decision did not have a direct relation with the Belgian market for cars and did not affect the sales of Renault in Belgium beyond a slight drop during the months after the closure. This temporal sales drop, however, was only due to an informal public boycott of Renault products, which is to be understood within the public sense of disappointment. Recently, Unilever announced it has plans to close down about 100 production sites worldwide. This portfolio contraction too is to be considered as purely operations-related.

1.3 RESEARCH QUESTION, ASSUMPTIONS AND AIM OF THE STUDY

The core research question of this study is: “How do business units strategically withdraw from foreign market operations ?” Therefore, the basic unit of analysis is the withdrawal process from an international product-market. To study this phenomenon, we focus at an in-company analysis of antecedents, (sub-)processes – more in particular strategic decision making and organizational behavior – and consequences, which are situated within an inner (e.g., the corporate strategy of the firm) and outer (e.g., local market dynamics) context of an international market withdrawal. Whereas the principal level of observation is the ‘venture’, i.e., the individual product-market combination that is withdrawal, we adopt multiple levels of analysis, going from the industry to the individual manager, within the epistemological and methodological framework of this study.

This research question is embedded in and contributes to a broader research issue, which is the internationalization process of the firm. More in particular, we focus on the (theoretical) position of de-internationalization within the scope of the theories of the internationalization of the firm. A core assumption in this respect, is that a strategic international withdrawal is a leverage to a higher degree of internationalization[5] of the firm (cf. Benito and Welch 1993; and Lamb and Liesch 1998).

The main empirical issues of this study are aimed at gaining insight into: (1) the internal and external drivers and moderators of international market withdrawal, (2) the organizational and behavioral processes at work in the decision-making and implementation stages, and (3) the consequences of the withdrawal to the overall

[5] We adopt a three dimensional concept of internationalization, which encloses: (1) a performance dimension (e.g., export/sales-ratio); (2) a structural dimension (e.g., number of foreign subsidiaries or mode of entry); and (3) an attitudinal dimension (e.g., top management’s commitment and economic world view). See, for instance, Welch and Luostarinen 1988; Sullivan 1994; and Ramaswamy, Kroeck and Renforth 1996.

international market portfolio management of the firm. The aim of this study, then, is to develop a middle-range explanatory strategy process theory of international market withdrawal. Starting with an exploratory study (Study I) of four cases of export withdrawal, we develop a preliminary process model. In a second study (Study II) of eight cases of international market withdrawal by four large multinational firms, we further develop the preliminary findings of Study I into a descriptive and explanatory strategy process theory of international market withdrawal.

In sum, the ultimate aim of this study is to come to a middle-range strategy process theory of international market withdrawal. On the way to this theory, two intermediate goals are set: (1) a scrutiny of three theoretical frameworks of the internationalization of the firm in search of a theoretical position of de-internationalization and (2) the development of a more explicit ontological, epistemological and methodological framework for strategy process research.

1.4 POINTS OF DEPARTURE IN THE LITERATURE

Although the number of studies is limited, de-internationalization and the divestment of foreign operations more in particular have been the focus of research since the beginning of the second half of the 1960s. Up until now, at least three points of departure have resulted in significant studies of the divestment of foreign operations[6]: the notion of industry exit barriers, the product life cycle and foreign direct divestment as the theoretical reverse of FDI. With a few exceptions, however, the extant literature on this issue focuses on why and under what circumstances foreign divestment is likely to take place. Next, we shortly present the tenets of these three streams.

Firstly, with Bain's (1956) seminal work on barriers to competition, Porter (1976) and Caves and Porter (1977) have initiated a well-developed stream of literature on industry exit barriers within the industrial organizations framework (see Siegfried and Evans 1994; and Nargundkar, Karakaya, and Stahl 1996 for recent overviews of the extant literature). With respect to our study, the contribution of Harrigan (e.g., 1981; 1982; and 1985) on the deterrents to divestment and on the firm's exit decision making process in mature industries is relevant. Moreover, the notion of exit barriers has led to an important stream of literature on barriers to export (e.g., Bauerschmidt, Sullivan and Gillespie 1985; Kedia and Chhokar 1986; Sullivan and Bauerschmidt 1989; and Leonidu 1995). In general, these streams of literature have been concerned with incentives and impediments to exit. Incentives to exit are low profits, low market growth, competitive displacement, etc. Impediments to exit can be categorized as: (1) tangible durable assets, which are industry-specific and incur high sunk costs, and (2) intangible durable assets such as managerial commitment and human capital.

[6] For a more elaborate review of the literature on the causes and motivators of de-internationalization and foreign divestment, we refer to Chow and Hamilton (1993), Benito (1997a, b), and Benito and Welch (1997).

Closely related to the first stream of literature are studies, which focus on exit strategies in declining industries. Studies such as Wallander (1973), Thiétart and Vivas (1983/1984), Schmidt (1987), and Lieberman (1990) have adopted a (product) lifecycle approach and looked at divestment as one of several strategic options for companies in mature and declining industries. The central focus of these studies is to reveal the life cycle of product-markets and to investigate the characteristics of declining industries, which lead to relatively high rates of business divestments.

Thirdly, a limited stream of literature focused upon the reverse of foreign direct investment theory. It was mainly Boddewyn (1979a and b; 1983a and b; 1985), who developed a theoretical framework for the accommodation of foreign direct divestment within the framework of the 'core' theory of the international business (see Chapter 2 for an elaboration).

More recently, papers such as Benito (1997a and b) and Benito and Welch (1997) have heralded a revival of academic interest in the causes and circumstances of the divestment of foreign operations. More than their predecessors, these authors have adopted an integrative perspective on the causes and circumstances of foreign divestment, including (1) economic and political conditions, (2) governance problems, and (3) strategic (mis)fit. Others, such as Hamilton and Chow (1993) have focused their attention on withdrawal as a firm's pro-active strategic option within the framework of international portfolio management – the empirical lens we adopt for the strategic accommodation of international market withdrawal.

None of these studies, though, goes beyond investigating the motivators and causes of divestment (Benito 1997b). As our study focuses on the withdrawal process itself – the HOW question – we consider the aforementioned streams of research as being highly complementary to our endeavor. To the best of our knowledge, however, the number of studies focusing on the divestment process is limited. Notable examples, though, are studies by Nees (1978, 1978/1979, and 1981), Duhaime and Schwenk (1985), Duhaime and Baird (1987), Ghertman (1988) and Pauwels and Matthyssens (1999) in which the authors have touched various strategy process issues, which are highly relevant to our study. Although the extant literature on the foreign divestment process is extremely limited, a broader concept of the issue in the direction of strategic and organizational reorientation brings us a plethora of valuable conceptual and empirical works, which we found in the literature on marketing, international management, strategic management and organizational behavior[7]. On regular occasions during this investigation, we even fell back on relevant work in sociology, political science, theoretical biology and cybernetics to found our ideas and observations.

From a methodological point of view, though, it would be inappropriate to give an extensive overview of the findings in these streams of literature at this point of the dissertation. As it is discussed in Chapter 3, ours is not a 'traditional' study, which aims at testing and externally validating an empirical model. The ultimate aim of our study is to create a theory. Therefore, we do not start with an elaborate review of the extant literature, the construction of an empirical model, the deduction of testable hypotheses and the description of (quantitative) empirical work. In line with Eisenhardt (1989a), Hunt (1991) and Orton (1997), we develop theory in an iterative way. In the analytic chapters of this dissertation (Chapters 5, 7 and 8), inductive data analysis is corroborated by extensive references to relevant findings in the extant literature and vice versa.

[7] An interesting approach in this respect is to draw analogies with and to borrow from adjacent research fields. In an earlier article (van Everdingen, Matthyssens and Pauwels 1999), we presented an exploratory study of international market withdrawal in which we explicitly drew analogies with the product elimination literature (e.g., Avlonitis 1983, 1984, 1985, 1990 and 1993; Vyas 1993).

1.5 A STRATEGY PROCESS FRAMEWORK

Motivated by the core research question as well as by the ultimate aim of this study, we explicitly position this investigation in a strategy process framework. In (marketing) strategy research the focus is typically on the content of strategy (Pettigrew 1992). In studies that focus on the strategy content, however, it is implicitly assumed that "the firm speaks with a unitary voice or can be composed of omnipotent, even heroic general managers or chief executives, looking at known and consistent preferences and assessing them with voluminous and presumably opposite information, which can be organized into clear input-output relationships" (Pettigrew 1985: 276). More and more marketing and strategy theorists argue that a gap continues to exist between our rational and comprehensive description of marketing strategy formulation (the WHAT question) and our empirical understanding of HOW decisions are made and marketing strategies are formed within organizations (Hutt, Reingen and Ronchetto 1988; and Rajagopalan and Spreitzer 1996).

What is strategy process research about ? Burgelman (1996) argues as follows: "Process models of substantive areas of strategic decision making […] provide windows into the 'black box' of strategy making in complex organizations. […] They help identify and explain paradoxes, vicious circles, dilemmas, and tensions in the strategy making process that derive from the activities of managers that are differentially situated in the organization and respond to different external and internal pressures" (p. 206). Moreover, Hutt, Reingen and Ronchetto (1988) argue in line with Pettigrew (1985) that: "Strategy processes are seen not as linear progression from strategy formulation to strategy implementation, but as multilevel processes where the outcomes of decisions are shaped by the interest and commitments of individuals and groups, the forces of organizational momentum, important changes in the environment, and the manipulation of the structural context surrounding decisions" (p. 7).

We limit the scope of our study to Frederickson's (1983) six dimensions of strategy process research (Table 1-1). Each of these dimensions focuses on a particular aspect of a strategy process and provides the principal analytic questions for strategy process research on whatever phenomenon.

Dimension	Analytic Questions
1. Motive for initiation	Which stimuli cause a decision process to start or not to start ? How and by whom is the decision process initiated ? Where is the decision process initiated ?
2. Concept of goals	What role do goals play in strategic decision processes ? Do some goals have priority over others and why ? Does executive decision-making attempt to achieve pre-established goals ?
3. Relationship between means and ends	Does the organization agree on ends before evaluating alternative means ? How are ends affected by changes in available means ? How are means adapted to comply with incompatible goals ?
4. Concept of choice	Which underlying mechanism(s) drive(s) choice making ?
5. Analytic comprehensiveness	How comprehensive do executives attempt to be during the decision-making process ? Which mechanisms prevent an executive from being comprehensive and which mechanisms force him to be comprehensive ?
6. Integrative comprehensiveness	Which mechanisms drive the integrative perspective on related sub-processes ? To what extend do processes converge ?

Table 1-1: Six dimensions of strategy process research (Fredrickson 1983)

If we define and limit our strategy process framework in this way, four fundamental assumptions underlie our investigation :

1. A firm's performance[8] is explained to a large extent by managerial decision-making within the frame of encountered structures,
2. Within the present globalization trend, an optimal degree of internationalization contributes to a firm's overall performance,
3. Determinants of the optimal degree of internationalization dynamics, both internal and external to the venture, are dynamic *in se*. As a consequence, the optimal degree of internationalization, as well as an optimally balanced international market portfolio are no points of static equilibrium but local optima at which a firm temporarily maximizes the fit between its internationalization strategy and the internal and external context.
4. A firm has limited resources – in terms of money, time and expertise – for the ongoing optimization of its internationalization strategy.

[8] In an earlier paper (Matthyssens and Pauwels 1996), we discussed the multidimensionality of (export) performance and the difficulty of measuring it. We concluded that both short- and long-term financial and non-financial data should be integrated in a complex measure. Ideally, performance measurement incorporates a dynamic way of measuring a firm's or a business unit's long-term financial results, industry position and customer satisfaction relative to the expectations of all stakeholders and decision-makers involved, taking into account the competitive framework the entity is engaged in.

1.6 THE STRUCTURE OF THE DISSERTATION

This dissertation consists of nine chapters. Except for the first, each of these chapters is written as a separate section and, to a certain extent, can be read independent from the other chapters. In Chapter 2, we scrutinize three theoretical frameworks for the study of the internationalization of the firm. We identify their qualities and shortcomings, in particular with respect to the accommodation of de-internationalization. One of the conclusion of this chapter is that a strategy process perspective on the internationalization of the firm is an appropriate framework for the study of de-internationalization in general and for international market withdrawal more in particular. In Chapter 3, we first develop the ontological, epistemological and methodological levels of this strategy process framework. Next, we present the research design of our comparative case study of international market withdrawal. In Chapter 4, we lay the conceptual basis for a strategy process study of international market withdrawal. The results of this study are discussed from Chapter 5 on. In Chapter 5, we present the results of Study I, an exploratory strategy process study of four export withdrawal cases in small and medium sized enterprises. In the next two chapters, we present the results of Study II. In Chapter 6, the eight cases of international market withdrawal in four large multinational corporations are described. In Chapter 7, we analyze these cases and develop a descriptive strategy process theory of international market withdrawal. In Chapter 8, we come to the ultimate explanatory theory of international market withdrawal, which is analytically compared to two well-established strategy process theories of change. Finally, in Chapter 9, we discuss the contribution of this study to the domains of marketing, organizational theory and strategy and sum up the limitations of this study. We finish with recommendations for future research on this and adjacent issues, and a discussion of the implications of this study for executive management. In Table 1-2, we summarize the structure of this thesis and present the aims and outcomes of each chapter in short.

Chapter	Title	Aim	Outcome
1	**Purpose and Argument of the Study**	Introduction to the phenomenon, the aim, the research question and the methodology of this study	- Definitions of central phenomena - Formulation of central and intermediate aims - Research question and basic assumptions
2	**The Internationalization of the Firm**	1. A scrutiny of internationalization theories 2. In search for a theoretical framework for the accommodation of de-internationalization	- Assessment of the most dominant theoretical frameworks for the study of the internationalization of the firm - Identification of two emergent frameworks for the accommodation of international market withdrawal
3	**Research Methodology and Design**	1. Development of an ontological, epistemological and methodological framework of strategy process research 2. A research design for Study I, Study II and the analytic generalization of the qualitative study	- A detailed presentation of the strategy process framework - A detailed presentation of the methods and techniques, which were applied for case selection, data collection, data analysis and theory creation
4	**Organizational Change – Generative Mechanisms and Basic Concepts**	Developing a basic conceptual framework for a strategy process study of international market withdrawal	- A typology of generative mechanisms - Four central concepts for a theoretical framework
5	**Study I – Towards a Strategy Process Perspective on Export Market Withdrawal**	An exploratory strategy process study on export market withdrawal in four SMEs	A descriptive theory of export withdrawal decision-making, including process propositions

Chapter	Title	Aim	Outcome
6	**Study II – A Strategy Process Study of International Market Withdrawal: Case Descriptions**	The description of eight cases of international market withdrawal in four large multinational firms	A systematic but condensed description of: - the internal and external environment of the cases - the international marketing strategy in which the cases are embedded - a chronological story of the decision-making process
7	**Study II – A Strategy Process Study of International Market Withdrawal: Analysis**	The analysis of the strategy process of the eight cases of international market withdrawal	A six-phased descriptive theory of international market withdrawal with general and particular process propositions for each phase.
8	**Analytic Generalization through Literal and Theoretical Replication**	1. Literal replication: identification of generative mechanisms 2. Theoretical replication with a-typical cases 3. Analytic comparison with two well-established theories of strategic and organizational change	- An explanatory 'middle-range' theory of international market withdrawal, which is built upon three generative mechanisms - Theoretical replication
9	**Synthesis and Conclusions**	A discussion of the contribution of this study	- A discussion of the contribution of this study for research in marketing, strategy and organizational behavior - A discussion of the limitations of this study, suggestions for future research and implications for management

Table 1-2: The structure of the dissertation

CHAPTER 2:
THE INTERNATIONALIZATION OF THE FIRM

2.1 INTRODUCTION

The internationalization of the firm and the existence of the multinational enterprise (MNE) have been central issues in international business research since the early 1960s (Dunning 1993). Today, however, this stream of research is characterized by considerable diversity and fragmentation. The drivers, the processes and the outcomes of internationalization have been addressed by a variety of disciplines such as international business, marketing, business strategy, organizational behavior, and so on. As a consequence, the theoretical focus has been blurred (Melin 1992). Despite some conceptual work (e.g., Melin 1992; Buckley 1993; and Andersen 1997), hardly any effort has been made to compare and synthesize alternative theories.

The aim of this chapter is twofold. On the one hand, we present a systematic scrutiny of extant theories on the internationalization of the firm in the international management, internal business and strategy literature. To our knowledge, no comparable meta-analysis has been published yet. On the other hand, we critically assess these three theoretical frameworks upon their potential to accommodate for and explain de-internationalization.

This chapter is structured as follows. From section 2.2 to 2.4 , we scrutinize three dominant theoretical frames: (1) the so-called 'stages' models of internationalization (e.g., Johanson and Vahlne 1977), (2) the 'core' theory of international business (e.g., Dunning 1981), and (3) the global strategy perspective (e.g., Bartlett and Ghoshal 1991). We present the foundation and evolution of theoretical thinking in each of the three frameworks. From this, we discuss the theoretical limitations of each frame and delineate their explanatory power. Within each frame, important specific theories are briefly presented in a chronological order to make clear how they emerged from previous conceptual work and empirical findings. While we acknowledge recent developments and refinements in each of the theories and frames, we mainly focus on the 'orthodox' versions. This way, a clear perspective on the qualities and theoretical boundaries of each theory is obtained. Great effort is made in explaining the basic assumptions and the rationale of each theory. Further, we assess the possibility of the various theories within one frame to converge to a grand theory of internationalization of the firm. Finally, we assess the theoretical feasibility for each framework to accommodate for the de-internationalization construct.

In section 2.5 , the aforementioned theoretical frameworks are compared and confronted. We begin by summarizing the frameworks and theories in the way suggested by Whetten (1989). In contrast to calls for integration by others, we do not aim at integrating the three theoretical frames or at resolving the disagreement between them. In fact, it is argued that the three theoretical frames have paradigmatic qualities and that differences between them emerge from the incompatibility of their respective theoretical roots. Although each of these frameworks focuses on different aspects of the internationalization phenomenon, they can be considered as highly complementary.

Finally, in section 2.6 , we present two emerging frameworks for the study of the internationalization of the firm: the evolutionary resource-based framework and the strategy process approach. We argue that the explicit process perspective of these frameworks holds potential for the accommodation of de-internationalization. Therefore, we adopt these frameworks for our study of international market withdrawal.

2.2 THE 'STAGES' MODELS OF INTERNATIONALIZATION

In a first theoretical frame, the internationalization of the firm is considered as a sequence of stages. Theories and models in this frame are largely influenced by Cyert and March's (1963) general theory on the behavior of the firm and Penrose's (1959) theory on the growth of the firm. Central to these models is an irreversible and deterministic process consisting of a number of disjunctive stages of incremental internationalization.

In this section, four 'stages' models of internationalization are discussed: (1) the International Product Life Cycle model; (2) the EPRG model; (3) the Uppsala model; and (4) the Innovation Adoption model. Since they are highly complementary, the Uppsala model and the Innovation model are discussed together. First, we focus on the theoretical roots, the fundamental assumptions, the basic explanatory and dependent dimensions, and the logic of each model. Secondly, each of the models is assessed. The theoretical argumentation as well as the empirical robustness and generalizability are evaluated. We conclude with an assessment of the potential integration of de-internationalization in each of the models.

2.2.1 The International Product Life Cycle (IPLC) Model

Developed in the mid 1960s, the International Product Life Cycle (IPLC) model of international trade and investment is one of the first theories to explain why firms in developed countries internationalize and which pattern they follow. The theory was first set by Vernon (1966) as a reaction to the inability of the traditional Hechscher-Ohlin (HO) theory (for a discussion see e.g., Salvatore 1995) to explain the international trade and investment of U.S. firms at that time. In empirical studies, the international PLC model was mostly used within a frame of international trade.

However, the original contribution by Vernon (1966) also provides a logic for the internationalization of firms along the stages of the trade cycle. Within the explanatory

IPLC model, the assumption of the HO theory that knowledge is a free good is abandoned. Knowledge is introduced as an independent variable in the model. Vernon's (1966) argument builds upon the fact that high labor cost and high average income, which were typical aspects of the U.S. economy in the 1960s, generate a need for specific products that are not wanted, needed or affordable by industrial and private consumers in other markets over the world. As foreign consumers become knowledgeable about these products, foreign markets will emerge resulting in export and foreign investment by the U.S. producers. In the mean time, foreign new entrants will be able to produce the now standardized product in a more cost efficient way because of lower labor costs. Eventually, the domestic market will become a net import market and all domestic production of this particular product will disappear. For a profound description of the specific stages, we refer to Albaum, Strandskov, Duerr and Dowd (1994).

Three assumptions are central to the logic of the IPLC model: (1) the acquisition of information is not without costs (i.e., there are time lags in the diffusion of information); (2) the stimulus to innovation is provided by the characteristics of the domestic market; and (3) internationalization is possible in reliance on some real or imagined monopolistic advantage (Vernon 1979). During its further internationalization, the firm will try to protect these monopolistic advantages[1], first through export activities and in a later stage by foreign direct investment. "(...) [T]he yield on the investment is seen largely as the avoidance of a loss of income to the system" (Vernon 1966: 200). Within the perspective of opportunity costs, the internationalization decision is very much a re-active strategy. The company de-localizes its domestic production to foreign countries following the lower labor cost

[1] Considering the monopolistic advantage(s) of a firm as a crucial driver of the IPLC model, Calvet (1981) classifies Vernon's work within the structural market imperfection (i.e., industrial organization) paradigm. As such, the IPLC model is more related to the theories of foreign direct investment and the multinational firm, which are discussed later in this chapter as it may seem here (See Dunning 1993 for a juxtaposition of Vernon's and Hymer's theory). However, the dominance of the stages logic over the logic of the monopolistic advantage in Vernon's description (1966, 1979) and the further development of the IPLC model towards a classificatory and managerial instrument (Wells 1968) justifies our classification (see also Melin 1992).

and the growing market potential. Moreover, the typical characteristics of demand and rivalry in local markets all over the world can be considered as the main onset of product differentiation.

2.2.1.1 Assessment of the IPLC Model

Although empirical studies support the IPLC model to a certain extent (e.g., Mullor-Sebastian 1983), many authors (e.g., Giddy 1978; Vernon 1979; and Melin 1992) criticize it for being of limited use. In 1978, Giddy stated that: "The international product life cycle notion has itself experienced maturity and decline as a central concept in international business theory" (p.90). The changing international (economic) environment with converging needs and economic power in different countries over the world and the dramatic increase of real multinational networks (that allow for a faster and less costly diffusion of information) are two critical changes that may refute the validity and the basic assumptions of the IPLC model. Multinationals may introduce products simultaneously in different countries and may deliberately choose not to introduce a product in their home market first. Vernon (1979) himself, as well as Giddy (1978) and Melin (1992) criticize the model on four main points:

1. In an attempt to bridge the country-based perspective of international trade theory with the firm's perspective on international expansion, the model has no unique level of analysis. Three levels of analysis are mixed: the country, the firm and the product.

2. The model does not properly address the issue of why multinational firms undertake foreign investment as an entry strategy instead of any other internationalization strategy (e.g., licensing, franchising, etc.)[2]. Only export and foreign direct investment are considered as alternative internationalization strategies. Emergent multinational networks using a platform of entry strategies may not fit the model (Vernon 1979).

3. The model can be criticized for its lack of explanatory power for lots of products and firms. The international marketing and manufacturing of many products do not follow the pattern described in the original model.

[2] In 1979, Vernon incorporated the theory of the multinational enterprise by Buckley and Casson (1976) in the logic of the IPLC model to argue the economic superiority of direct investment over licensing. The theory of Buckley and Casson is discussed later in section 2.3.2, below.

> Some products are launched simultaneously in different countries, other products may never be marketed abroad.

2.2.1.2 De-internationalization and the IPLC Model

The IPLC Model does not consider de-internationalization in one way or another. However, in later stages of the model, a second wave of de-localizations can be expected. As domestic production was substituted for foreign production, the growing foreign competition and – more important – the emergent more remote markets force the (U.S.) companies to de-localize their foreign investments to the new markets. This forced de-localization results in a rebalancing of the foreign investment portfolio and an international portfolio contraction decision. Full de-internationalization in an industry can be expected in the decline stage. Both Vernon (1966) and Wells (1968), however, are vague with respect to the decline stage in the IPLC. What will happen to the international activity of (U.S.) companies when their product reaches decline ? This theory assumes that new evolutions of the original product or the production process or even real new products or processes, will offer a revitalized or even new life cycle to the industry.

2.2.2 The EPRG Model

Perlmutter (1969) and Wind, Douglas and Perlmutter (1973) developed a four-stage model that is built upon the attitude of the managers towards the international activity of their firm. In this model, internationalization is considered as a process in which four specific attitudes or 'orientations' are associated with successive stages in the internationalization process. Four types of attitude can be identified: Ethnocentrism, Polycentrism, Regiocentrism and Geocentrism (EPRG). "A key assumption underlying the model is that the degree of internationalization to which management is committed (or willing to move toward) affects the specific international strategies and decision rules of the firm" (Wind, Douglas and Perlmutter 1973: 15). In the ethnocentric stage, foreign operations are considered as secondary to domestic activity. In this stage, re-active exporting and marketing of excess inventory are typical strategies. In the polycentric stage, multinational companies operate in a decentralized way. The local marketing strategies are adapted as much as possible to the characteristics of the local markets. The foreign subsidiaries operate independently from the low-profile headquarters. Initiated during the regiocentric stage, the company and the management grow towards a worldwide approach in both headquarters and subsidiaries. However, each region keeps its headquarters. In the geocentric stage, top management (now located in one HQ) has to deal with its international strategy from a worldwide perspective.

2.2.2.1 Assessment of the EPRG Model

The EPRG model influenced later theories and thinking in international and global business strategy and marketing to a great extent. However, the difficulty of testing the model at a managerial level, prevented the idea to be developed towards a theory. The EPRG model as such does not have any explanatory power since no elements are described that may explain the transition from one stage to another.

2.2.2.2 De-internationalization and the EPRG Model

Perlmutter (1969) recognizes that companies have to build their own specific process and that: "Geocentrism is not inevitable in any given firm. Some companies have experienced a 'regression' to ethnocentrism after trying a long period of polycentrism [...]. A period of home-country thinking took over" (p.17). Without refuting the geocentric goal, a temporary de-internationalization fits into the EPRG model. As it is discussed later in this chapter, this short-term orientation is a valid perspective on de-internationalization and a motivation for the investigation of this phenomenon within the frame of a company's long-term internationalization process.

2.2.3 The Uppsala and the Innovation Adoption Model

Both the (European) Uppsala Internationalization model (Johanson and Vahlne 1977, 1990) and the (American) Innovation Adoption Model of Internationalization (Bilkey and Tesar 1977; and Cavusgil 1980), which are largely built upon the behavioral theory of the firm (Cyert and March 1963; and Aharoni 1966) seek theoretical explanation for the market oriented internationalization process of firms. They are also clearly influenced by the IPLC model and the EPRG perspective. Research in export marketing and management (e.g., Aaby and Slater 1989; and Cavusgil and Zou 1994) and the study of the internationalization of the firm during the 1980s and early 1990s, rely upon the Uppsala and Innovation Adoption models. Both models present a clear view on the internationalization process by means of a number of pre-described stages.

In the Uppsala model, a distinction is made between 'state' and 'change' aspects of internationalization in a specific market (Figure 2-1: 'theoretical level'). The state aspects point at certain degrees of market commitment and market knowledge at different levels of the internationalization process of the firm. The change aspects point at an ongoing process of current business activities and commitment decisions. Together these four aspects form a causal cycle of development of knowledge and increasing commitment of resources (Johanson and Vahlne 1977). 'Market commitment' is assumed to be composed of two factors: the amount of resources committed and the degree of commitment, that is, the difficulty of finding an alternative use for the resources. The more specialized the resources are in a specific market the greater the degree of commitment is. 'Market knowledge' (both objective and experiential) is considered as a resource. The theory describes a process of causal cycles in which the 'current business activities' lead to experiential knowledge. A lack of knowledge is an important obstacle to the development of international operations. By operating in a specific country, however, the acquired experiential knowledge reduces uncertainty, which stimulates increased commitment. 'Commitment decisions' are made in response to perceived problems and/or opportunities in the market. Additional market commitment will be realized in small incremental steps[3] as firms seek long-term profit that is assumed equivalent to growth.

[3] Johanson and Vahlne (1977) mention three exceptions to this sequential process: (1) firms with slack resources can be expected to make larger internationalization steps because of the limited consequences of commitment; (2) when market conditions are stable and homogeneous, relevant market knowledge can be gained in other ways than through experience; and (3) when firms have considerable experience from markets with similar conditions, this experience may be transferred to the specific market.

In general, the intensity of current business activities in the foreign market grows, as more resources are committed to a particular market. More resources are committed when the experiential knowledge – as a prime resource – increases through the current business activities, generating more business opportunities. In this process, Johanson and Vahlne (1990) distinguish four predetermined stages (Figure 2-1: 'operational level'). They firmly state that: "The internationalization process, once it has started, will tend to proceed regardless of whether strategic decisions in that direction are made or not" (1990: 12). Other scholars of the same school, however, are less strict and argue that the process does not need to be a "[...] smooth, immutable path of development." (Welch and Luostarinen 1988: 47). Emergent opportunities and threats may affect particular steps.

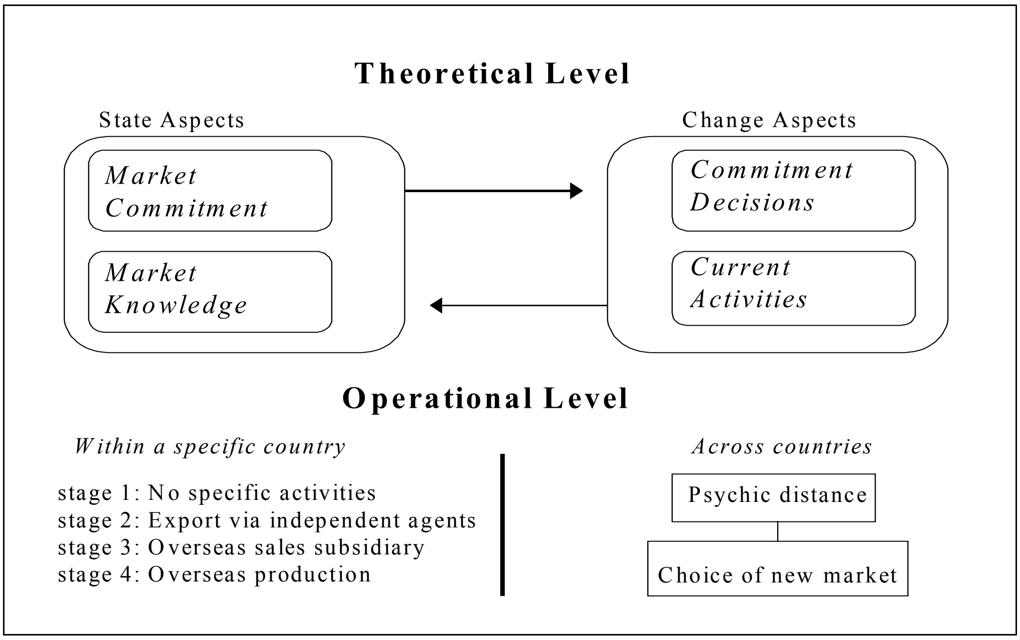

Figure 2-1: The Internationalization process of the firm (Johanson and Vahlne 1977; Andersen 1993)

On top of the explanation of the internationalization of the firm in one particular market, a second pattern of internationalization across countries can be derived (Figure 2-1). As firms in general are risk averse, they will first enter the market with the smallest psychic distance. Later, the firm enters new markets with successively greater psychic distance (for a profound discussion see, for instance, O'Grady and Lance 1996).

We endorse Andersen (1993) who states that the Uppsala model inspired the American authors in international marketing and business research who developed the Innovation Adoption models, to a large extent. In contrast to the Uppsala model, however, the logic of adoption of innovations (Rogers 1962) was explicitly integrated into the American stages models. Quoting Simmonds and Smith (1968: 21), Cavusgil (1980) argues: "Entry into an export market is just as much an innovation as the adoption of a new production process, for example, so there is every reason to suspect that many of the findings concerning other types of innovation will apply to it" (p.274).

Whereas the Scandinavian scholars concentrated mainly on describing the underlying long-term, equilibrium logic of their model, authors such as Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981) describe the short-term behavior of the model and the characteristics of different stages of the innovation models in more detail (Figure 2-2). Nevertheless, scholars did not reach consensus on the number of stages, the unique characteristics of each stage, and the origin (internal or external) of the first internationalization stimuli.

Bilkey and Tesar (1977)	Cavusgil (1980)	Reid (1981)
Stage 1 Management is not interested in exporting	**Stage 1** Domestic marketing only	**Stage 1** Export awareness: problem of opportunity recognition, arousal of need
Stage 2 Filling unsolicited orders; no effort to explore active exporting	**Stage 2** Pre-export stage: search for information and evaluation of the feasibility of export	**Stage 2** Export intention: motivation, attitude, beliefs, and expectancy about export
Stage 3 Management is actively exploring the feasibility of active exporting	**Stage 3** Experimental involvement: the firm starts exporting on a limited basis to psychologically close countries	**Stage 3** Export trial: personal experience from limited exporting
Stage 4 The firm exports on an experimental basis to countries which are psychologically close	**Stage 4** Active involvement: direct exporting to more new and remote countries	**Stage 4** Export evaluation: results from engaging in exporting
Stage 5 The firm is an experienced exporter	**Stage 5** Committed involvement: Management continues to make choices in allocating limited resources between domestic and foreign markets	**Stage 5** Export acceptance: adoption or rejection of exporting
Stage 6 Management explores the feasibility of exporting to other more psychologically distant markets		

Table 2-1: A selective overview of adoption of innovation models of internationalization (adapted from: Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981))

2.2.3.1 Assessment of the Uppsala and Innovation Adoption Model

Both the Uppsala model and the Innovation Adoption model were tested extensively during the 1980s and 1990s. Though some empirical studies conclude that the 'stages' framework is highly applicable (e.g., Cavusgil 1984a and 1984b; Denis and Depelteau 1985; Juul and Walters 1987; Lim, Sharkey and Kim 1991; and Rao and Naidu 1992), others, such as Sullivan and Bauerschmidt (1990), Millington and Bayliss (1990), Benito and Gripsrud (1992), Knight and Cavusgil (1995), and Bell (1995) come to the conclusion that the stages theories do not adequately reflect the underlying drivers of the internationalization for many companies in many industries and countries. As such, these authors doubt the external validity of the models, which were built respectively upon a limited sample of Swedish companies (e.g., Johanson and Wiedersheim-Paul 1975) or on empirical findings in Wisconsin (USA) companies (e.g., Bilkey and Tesar 1977). As an example, Hollensen (1998) claims that the Uppsala model is not valid in situations of highly internationalized industries, where international experience is extremely high and psychic distance is reduced substantially.

Apart from the lack of external validity, several authors (Reid 1984; Turnbull 1987; Welch and Luostarinen 1988; and Andersen 1993) challenged both models on other issues. Three elements are central to these criticisms:

1. The models concentrate on the early stages of the international activity of a firm. As a consequence, the 'stages' models mainly focus on export activities of internationalizing firms. Though the transition from export to foreign direct investment is implicitly discussed in the Uppsala model, no real explanation is provided for this transition (Andersen 1993). On top of that, no attention is paid to other operational forms of internationalization such as indirect export, licensing or franchising (Andersen 1997).

2. The most important criticism is directed to the irreversibility and the pre-determined character of the models. Authors such as Reid (1984), Turnbull (1987) and Melin (1992) argue that empirical studies, which reveal numerous variants on *the* internationalization process of the firm, indicate that internationalization should be studied from a market and strategic perspective. Variations of the internationalization process seem to have their genesis in the strategic decision making under the consideration of market specific factors. As such, certain stages may be leapfrogged and the cumulative reinforcement of commitments may not materialize. "The outcome tends to be derived from a mixture of deliberate

and emergent strategy" (Welch and Luostarinen 1988: 47; see also Mintzberg 1985).

3. Andersen (1993) questions the theoretical power of the models. He argues that in both models the description of the transition of a company from one stage to another is close to being trivially obvious. Despite the sound logic of the underlying theory of both models, no explanation is provided for the transition from one stage to another or for the initial stimulus of the internationalization process. The two models do not answer the question why firms start to internationalize. Moreover, Andersen (1993) argues that (mainly) the Uppsala model is tautological in its way of explaining the process of causal cycles. The 'market commitment' concept is defined as the outcome of the 'commitment decisions' concept in Figure 1.

Notwithstanding the failure of empirical studies to support the operational level of these models, we endorse Petersen and Pedersen (1997) and Hadjikhani (1997), who argue that a dynamic perspective on knowledge creation and increasing commitment – the theoretical fundaments of the Uppsala model – holds potential for the development of more powerful theories than the often criticized operational 'stages' models. Assuming (1) that knowledge creation is a dynamic process, which largely depends upon changes in the environment and the organization's potential to reduce causal ambiguity, and (2) that environmental dynamics may impact on the degree of commitment, the theoretical argument of the Uppsala model becomes a more powerful explanatory framework for the development of non-deterministic 'middle-range' theories of the internationalization process of the firm. However, to reach this goal, the Uppsala model is to be complemented by a more evolutionary and strategic perspective on the internationalization process (Strandskov 1986; and Melin 1992). We will come to this integration in section 2.6 .

2.2.3.2 De-internationalization and the Uppsala and Innovation Model

None of the original models explicitly accommodated for de-internationalization. At first sight, their (implicit) perspective on this phenomenon seems fundamentally different. At the operational level of the Uppsala model, Welch and Wiedersheim-Paul (1980) suggest that withdrawal is most likely to occur during the earliest (export) stages. Johanson and Vahlne (1990) argue that a lack of market knowledge and resources are constraining factors <u>only in the first stages</u>. When the firm is an experienced multinational with activities in several countries, these factors are no longer a problem. In clear contrast to the Uppsala model, the Innovation model considers international market withdrawal as <u>an alternative in the final adoption/rejection stage</u> (Reid 1981). When the firm does not perform well through its (extended) involvement, it may choose to return to a lower level of international activity or drop all international marketing activities (Cavusgil 1980).

However, if we assume: (1) limited resources throughout the internationalization process, (2) bounded rationality and causal ambiguity, and (3) a dynamic environment, we would argue that the theoretical level of the Uppsala model allows for the <u>accommodation of de-internationalization at any stage of the internationalization process of the firm</u>. Permanent changes in the resource base of the multinational, in the technological environment and in the international economic environment may render current international market portfolios sub-optimal. As a consequence, we argue that even an experienced multinational regularly needs to rebalance its international market portfolio by expansion and retraction decisions (Douglas and Craig 1995; 1996). Boddewyn (1983a) as well as recent empirical findings (e.g., Calof and Beamish 1995; Fletcher 1997; Benito and Welch 1997; and van Everdingen, Matthyssens and Pauwels 1999) firmly deny that de-internationalization is exclusively associated with one particular phase of a firm's internationalization process. It is expected that in some cases a temporary or permanent international market withdrawal is a necessary measure to cope with the changing internal and external environment of the firm. Lamb and Liesch (1998) even suggest that an international market withdrawal may indicate that a multinational has strategically rebalanced its international market portfolio, which may point at an increasing degree of internationalization.

2.3 THE CORE THEORY OF INTERNATIONAL BUSINESS

The core theory of international business concentrates on explaining the existence and growth of the multinational enterprise (MNE) and why foreign direct investment (FDI) occurs. It relies heavily on an industrial organization (IO) argumentation of the existence and growth of the firm. Since Stephen Hymer's (1976)[4] seminal thesis on foreign direct investment and international operations, the literature on these subjects has increased substantially in different directions.

The "core theory of international business" (Buckley 1990: 657) mainly relies upon two major streams in industrial organization economics[5]: Bain-type IO on the one hand, and transaction cost economics on the other. Structural market imperfections – the starting point of Bain-type industrial organization theory – is the basis for the logic of explanation of international operations developed by Hymer (1976). Based upon the seminal work by Coase (1937) and later by Williamson (e.g., 1975), transaction-cost market imperfections formed the basis of the internalization theory (largely independently) developed by English, Swedish and Canadian scholars. The (chronological) overview of foreign direct investment theories and theories of the multinational firm by Calvet in 1981 gives a clear insight into the conceptual foundations and historical evolution of the core theory of international business up to that time.

In this section, the discussion of the emergence of a core theory of international business follows its double origin. The discussion of Hymer's theory is followed by a discussion of the internalization theory. Next, we concentrate on Dunning's eclectic theory, a promising endeavor to integrate Hymer's thesis and the internalization theory.

[4] Although Stephen Hymer's doctoral dissertation (MIT Cambridge) was completed in 1960, it was only published in 1976 by his advisor Charles Kindleberger, two years after the author's death.
[5] We refer to Conner (1991) for a condensed presentation of five schools of thought within industrial organization economics.

The background and logic is described for each approach, as well as its theoretical strengths and limitations.

2.3.1 Structural Market Imperfections and Foreign Direct Investment

The starting point is a perfect Heckscher-Ohlin (HO)[6] model in which international trade (i.e., export) is the only possible form of international involvement. According to Rugman (1980b) there would be no need for the multinational enterprise if the world was characterized by model of free trade. In a departure from this neo-classical view, foreign investment theories built upon the relaxation of assumptions (i.e., imperfect good and factor markets) of the HO model.

At the time that Hymer wrote his thesis (i.e., the late 1950s), the dominant theoretical explanation of foreign investment was the theory of (financial) portfolio investment. In this theory, the basic explanatory variable is the interest rate. Ceteris paribus, capital will flow from countries where the interest rate is low to countries where it is high (i.e., a self-destructive process). However, introducing risk, uncertainty and barriers to movement, Hymer (1976) illustrates that: “The theory of portfolio investment with all complications introduced does not provide clear-cut answers to the question of which way capital flows” (p.9). In this respect, Hymer observes phenomena such as the existence of cross-investments[7] and the existence of directions of investments opposite to that predicted by the theory.

According to Hymer, what was missing in theories at the time was ‘control over foreign activities’ as a central explanatory variable. As control becomes a critical variable, the logic of explanation relies heavily upon structural market imperfections.

[6] The Heckscher-Ohlin theory hypothesizes that a nation exports those commodities the production of which requires intensive use of the nation’s relative abundant and cheap factor(s). Ceteris paribus, international trade will bring about equalization in relative and absolute returns to homogeneous factors across nations and international trade will fade out (see Salvatore 1995 for an elaboration).

The monopolistic/oligopolistic nature of markets is the fundament of Hymer's theory of international operations and foreign direct investment.

In general, foreign investment and international operation is not the rule but the exception due to the following three circumstances. Local firms have an advantage over foreign companies, i.e., are better informed about the local market. Secondly, governments, suppliers and customers discriminate against foreign companies and, thirdly, foreign companies have an additional exchange rate risk. Why then would a firm invest abroad instead of exporting or remaining a domestic firm ? Hymer's typology of three pure cases explains the circumstances that cause a firm to control another enterprise in a foreign country: (1) to control enterprises abroad to remove competition, (2) to exploit an advantage that a firm has over other firms (e.g., patents, tacit knowledge, exclusive resources, etc.), and (3) to diversify the international activity of the firm due to interdependence of activities between industries.

No international operations will occur when: (1) there is no interdependent competition, (2) an advantage in a particular market is diffused so that all competing firms have this 'advantage', and (3) there is no need for diversification to reduce risks. The more companies in an industry, the less integrated the worldwide industry is, and the greater the local nationalism, the less international operations will occur in an industry.

Motivated by Hymer's thesis, many general theories emerged and were developed over the years such as the market disequilibrium theory, the theory of government imposed distortions which led to a stream of research studying the political behavior of companies as summarized by Boddewyn (1992), and, most influential, the market structure imperfections theory which states that FDI is caused by the existence of monopolistic and oligopolistic market characteristics. In the latter theory, MNEs exist

[7] The example is discussed of Standard Oil Company of New Jersey (USA) investing in the Netherlands and Royal Dutch Petroleum Company (The Netherlands) investing in the USA at the same time (Hymer 1976).

because: (1) a firm has unique tangible or intangible resources over foreign firms in their own markets, and (2) interdependence between firms results in 'follow the FDI leader' reaction of other players in the same industry. The former driver heavily relies upon Hymer's theory. The latter is called oligopolistic reaction theory and was developed, among others, by Knickerbocker (1973) and Graham (1975). Knickerbocker's (1973) central thesis is that oligopolists, being risk minimizers, wish to avoid destructive competition. Therefore, they would follow each other into foreign markets to safeguard their commercial interests. Graham (1975) argues that a MNE, which finds his domestic market invaded by a foreign competitor would retaliate by penetrating the invader's home market.

2.3.1.1 Assessment of Hymer's Thesis

Hymer's approach and the subsequent 'derived' theories such as market structure imperfections theory have influenced the emerging core theory of international business to a large extent. The general proposition "that companies must possess some form of quasi-monopolistic advantage in order to compete in an overseas market against domestic firms possessing local knowledge and the advantages of local nationality" (Young, Hamill, Wheeler, and Davies 1989: 26), has inspired many authors.

Still, the theories can be criticized on some fundamental properties. Firstly, the concept of 'monopolistic advantage' can hardly be operationalized and remains a rather abstract notion. Secondly, Dunning and Rugman (1985) criticize Hymer for having overlooked the transaction cost side of the literature. Both Buckley (1990) and Horaguchi and Toyne (1990), however, state that Hymer integrated a Coasian theory of the firm in his later work. That way, he combined the proactive monopolistic advantage theory with the reactive internalization perspective. The latter will be discussed in the next section.

2.3.1.2 De-internationalization and Hymer's Thesis

Firms will not go international if: (1) there is no interdependent competition, (2) they have no exploitable advantage over local competitors, and (3) there is no need for diversification to reduce risks. This, of course, is merely the theoretical opposite of full internationalization or, what we would call now, full industry globalization. De-internationalization would require that al least one of Hymer's conditions for internationalization is released. Within the frame of the thesis, however, there is no logic for the reduction or elimination of the potential of international industry interdependency and competition. In accordance, de-internationalization can only take place – and be explained within the framework of Hymer's thesis – <u>if a firm looses its quasi-monopolistic advantage over local competitors</u>. This, however, (1) is a temporal and sub-optimal situation as the potential (negative) impact of interdependent competition is assumed to increase after de-internationalization, and (2) undermines the basic assumption of the thesis, which is the existence of structural market imperfections. Therefore, we state that Hymer's thesis <u>does not provide an adequate framework</u> for the explanation of de-internationalization.

2.3.2 Transaction Cost Market Imperfections and the Growth of the Multinational

<u>Internalization theory</u> mainly builds upon transaction-cost economics (Williamson 1998 for a detailed description). Whereas the central issue in the market structure imperfections theory is the relationship and competition between (oligopolistic) firms in and across industries, the internalization theory concentrates on the existence and the growth of the multinational enterprise (MNE) as an alternative for the market. As such, the relative efficiency of the market is weighed against the performance of the firm in organizing value-added transactions.

The theory, first fully developed by Buckley and Casson (1976)[8], builds upon the work of Coase (1937) and Williamson (e.g., 1975)[9] and develops a <u>long-term logic</u> of the

[8] Dunning (1993) also recognizes the early work by, for instance, McMannus (1972). However, it is mainly Buckley and Casson's (1976) contribution that influenced later conceptual and empirical work within the internalization theory.

multinational enterprise, which is based upon market failure imperfections due to high transaction costs and/or the non-existence of a market for particular intermediate goods (e.g., knowledge). Transaction costs are the negotiating, monitoring, and enforcement costs that have to be borne to allow an exchange between two parties to take place. They principally arise when: (1) strategic or opportunistic behavior is present among agents, (2) agents negotiate with bounded rationality, (3) the products that are traded are ambiguously defined, (4) agents invest in assets that are specific to a particular exchange, (5) information is asymmetrically distributed among parties, and (6) contractual obligations extend in time (Calvet 1981; Williamson 1975; and Jones and Hill 1988).

The basic hypothesis of the internalization theory is that multinational firms represent an alternative mechanism for arranging value-added activities across national boundaries to the market mechanisms. Firms are likely to engage in FDI whenever they perceive that the net benefits of their joint ownership of domestic and foreign activities, and the transactions arising from them, are likely to exceed those offered by arm's length trading (Dunning 1993).

Internalization theory is primarily concerned with identifying the situations in which markets are likely to be internalized. Buckley and Casson (1976) identify five types of market imperfections that generate significant benefits to internalization:

1. Interdependent activities linked by the market may involve time lags. The co-ordination of this cycle of activities requires a competitive spot market and a competitive future market. The future market, however, is missing in most cases. Bringing the interdependent activities under their control, companies create their own internal future market.

2. Efficient exploitation of market power over intermediate goods may require discriminatory pricing which is not always possible in an external market.

[9] Buckley and Casson (1976) were inspired by Coase's (1937) seminal work on the nature of the firm in which he stated that "The operation of a market costs something" (p.338). The work of Williamson (e.g., 1975), in which the market-hierarchy paradigm is set out, was developed parallel to Buckley and Casson's theory. As both have the same roots, Hennart (1986), and Anderson and Gatignon (1986), among others, succeeded in integrating the two theories.

3. Government interventions (i.e., tariffs or restrictions on capital movement) lead to imperfect markets. Transfer pricing within a (forward or backward) integrated company overcomes these interventions.

4. Buyer uncertainty may encourage internalization. The inequality of the buyer and the seller with respect to knowledge of the product may lead to sub-optimal price setting. Exemplary is the market for not patented knowledge. As it is impossible to divulge information about the product 'knowledge' without the knowledge to be used, it is impossible to organize an external market.

5. The bilateral concentration of market power for many intermediate goods leads to unstable bargaining situations. The forward (backward) internalization by the monopolist (monopsonist) brings a solution.

As an example, Anderson and Gatignon (1986) have developed a transaction cost approach to foreign market entry and development mode decisions. In their view, the entry mode which maximizes long-run efficiency will be determined by transaction specific assets (investments in proprietary knowledge, specialized customization, products in the early stages of the life cycle), external uncertainty (reinforcing the transaction specificity of assets), internal uncertainty (experience and distance), and the agents' free riding potential (linked to the value of a brand name). A higher degree of control should be aimed at by the international company when it possesses transaction specific assets, when uncertainty is high, when it is difficult to control the foreign business activities and when there is considerable opportunity for free riding.

2.3.2.1 Assessment of the Internalization Theory

According to the internalization theory, transaction, contracting and coordinating costs in using the (external market) price mechanism frequently lead to vertical forward and backward integration within the firm (Rugman 1980b). However, the presence of these costs in (international) markets is a necessary, but not a sufficient condition for the emergence of the multinational enterprise. Markets and firms may both fail. Further, it is incorrect to state that the (sub-optimal) external price mechanism is substituted for a (second best) internal price mechanism (see e.g., Rugman 1980b). The external market is not substituted for an internal market but for a hierarchy[10]. As the external market may become sub-optimal due to transaction costs, the firm may become sub-optimal due to internal organization costs. A pure transaction cost perspective seems to ignore the 'internal' transaction costs assuming zero friction over the settlement of transfer prices between headquarters and affiliates (Hollensen 1998). Though Buckley and Casson (1976) did not explicitly integrate the seminal work on hierarchies by Williamson, they list three important internal organization costs: (1) sub-optimal scale of production due to internalization, (2) increased communication costs, and (3) political and nationalistic problems.

Further criticisms to the TC approach are the following:

1. Due to the problematic operationalization and measurement of transaction costs (Buckley 1988), the theory has hardly been tested[11] and empirical support is lacking.

2. The theory does not seem to be relevant to small and medium sized enterprises, which have to rely on intermediate forms of governance and co-operative arrangements (Hollensen 1998).

3. The origin and location of marketing and R&D knowledge might have to be taken into account to fully explain the internal dimension of internalization (Buckley and Casson 1976).

4. Whereas the central premise of the internalization theory is "on the substitution of management processes for market processes" (Buckley 1996: 200), the theory is further criticized on its static nature. The theory does not provide an explanation of the pattern of internationalization as, for instance, the 'stages' models do (Calvet 1981, and Buckley 1996). As the orthodox internalization theory is one of comparative static choices,

[10] Considering the hierarchical solution, a firm is defined as: "A set of contractual relationships (employment contracts) by which a group of agents delegates to a central party the right to constrain their behavior" (Hennart 1986: 794). In a pure hierarchical system employees are not rewarded in function of their market-measured output, but according to their obedience to managerial directives. The allocation of the resources, i.e., the productivity time of employees, is done by the management. "Although firms do sometimes rely on internal prices as a method of organization, the use of prices is not the distinguishing mark. The firm does not displace the market because it is better at doing what the market does, but because it uses a completely different method of organization" (Hennart 1986: 793).

[11] A clear exception to this criticism is the celebrated article by Anderson and Gatignon (1986) presenting an empirical research of the transaction cost perspective on modes of foreign market entry.

the theory only allows for the comparison of states and not for the description of processes.

5. The fifth criticism is related to the fourth and is the most challenging one. Considering the central premise quoted above, it is surprising that hardly any attention is paid to the role of management in the internalization process. In the pure internalization theory the role of management is limited to four[12] areas (Buckley 1996): internalization decisions, identification of the most important market imperfections and, as such, the choice of the growth direction, a pro-active role in contriving market imperfections, and co-ordination[13]. Moreover, authors such as Kogut and Zander (1993), Conner (1996) and Madhok (1997) refute the basic assumption of opportunistic behavior of the agents.

In the TC perspective, a firm's management chooses the option that maximizes the economic benefit of internalization. In the long run "[f]irms, even the most powerful and dominant, are perceived as responding to changes in their environment" (Buckley 1996: 199). In the orthodox internalization theory, the only variables explaining the existence and growth of the firm are external to the firm. The role of the manager is to 'economize' (Williamson 1991). As the internalization theory is rooted into neo-classical economics, a crucial basic assumption remains: the differences between (performance outcomes of) firms are not discretionary but merely reflect the differences in the contexts in which firms operate. MNEs confronted with the same transaction cost imperfections will internalize in exactly the same way.

Still, we would argue that the above argumentation is not capable of fully explaining internalization across borders. What causes firms to internalize across borders, leading to the existence and growth of MNEs ? Buckley and Casson (1976) argue that the origin and the 'production' location of marketing and R&D knowledge within the firm

[12] Buckley (1993, 1996) describes a fifth area: the management may raise the transaction costs of competitors. However, we do not agree with this role of management in the orthodox internalization theory, in which transaction costs are dictated by the market and which is a long-run theory that does not consider competition between firms.

– as the typical intermediate products for which markets fail – add to the explanation of the existence and growth of the MNE. Given that a company is profit-seeking, Buckley and Casson (1976) set the following core hypothesis: "A relationship between multinationality and profitability exists because of the relationship between multinationality and research-intensity on the one hand and between profitability and research-intensity on the other" (p.62). This hypothesis, however, remains formally untested.

A far stronger argument for cross-border internalization, beyond the scope of the internalization theory, is provided by the same scholars. Buckley and Casson (1979/1993: 49) argue that "[c]ombining both ownership [i.e. internalization] and location effects allow us to give the reasons for the division of particular markets between domestic producers, local subsidiaries of MNEs, exports from foreign owned plants and exports from MNEs. The division between exports and local servicing [i.e. FDI] is largely the result of the economics of location". Standard location theory assumes constant return to scale, freely available and standardized technology, and that firms are price takers in all factor markets. According to the theory, firms choose their optimal location for each stage of production by evaluating regional production costs and choosing the set of locations for which the overall average cost of production is minimized (see Buckley, Pass and Prescott 1990; and Dunning 1993 for an introduction to location economics). The eclectic theory of internationalization, which is presented below, explicitly integrates internalization theory and location economics.

2.3.2.2 De-internationalization and the Internalization Theory

The classic internalization theory as it is presented by Buckley and Casson (1979) is an equilibrium model, which assumes a constant market, and does not take into account the possibility of de-internationalization. Considering the problem of modeling

[13] Though these co-ordination activities are situated within the firm (i.e., across intra-firm plants, across de-centralized functions within the firm and across different product groups), in the orthodox theory the manager does nothing more than choose the option with the lowest internal organization cost (Hennart 1986). The theory does not provide any logic for the minimization of the internal organization costs. The discretionary power of the manager is not at stake.

internationalization/internalization from a dynamic point of view, scholars are required to take into account that foreign markets may grow as well as decline. As a consequence: “Divestment or withdrawal must be considered as serious strategies. […] Such explicit recognition of adverse scenarios is a characteristic of the new research agenda” (Buckley and Casson 1998a: 39).

However, including these adverse scenarios into existing internalization models may not proceed smoothly. Within the framework of the internalization theory in a dynamic environment, an ‘economizing’ (Williamson 1991) manager permanently weighs the changing internal and external costs. In an orthodox perspective on a dynamic environment, firms may regularly switch between the market and the hierarchy solution, and will reach a stable solution only in the long run. Theoretically, an ongoing process of internalization and externalization of the different value adding activities and operations can be expected in the short run (Rugman, D’Cruz and Verbeke 1995). However, there is no evident relationship between externalization and de-internationalization. Firms may decide to externalize cross-border activities without de-internationalizing. Buckley and Davies (1980) suggest that cross-border licensing is a most typical form of externalization. There is no a priori reason to assume that the adoption of licensing agreements instead of foreign direct investment and locally owned production would reduce the degree of internationalization of the firm.

Furthermore, the classic internalization theory does not provide a sufficient logic for the explanation of this dynamic process of internalization and externalization. Many more contingent factors (such as mobility barriers) should be incorporated into the theory. Eminent writers such as Dunning (1993) and Buckley (1993, 1996) are the first to recognize that the long-term internalization theory cannot accommodate for this short-term dynamic perspective. These authors argue that an additional strategic dimension is required for the accommodation and explanation of a (short term) process of internalizations and externalizations, within the frame the long-term ‘pure’ internalization theory. Therefore, we conclude that the pure internalization theory falls short of being a promising theoretical framework for the explanation of de-internationalization.

2.3.3 The Eclectic Theory of Internationalization

Above, Hymer's structural market imperfections theory of FDI was discussed independently from the internalization theory. In the literature, however, its is agreed upon that both theories are complementary toward a more thorough explanation of MNEs and international business (e.g., Calvet 1981; Dunning 1988; Buckley 1990; Horaguchi and Toyne 1990; Dunning 1993; and Buckley and Casson 1998b). A well-known and largely influential endeavor to fully explain the existence and growth of the MNE integrating different theories is Dunning's eclectic theory (e.g., 1981, 1988, and 1993). According to the eclectic theory the decision to engage in international business and the choice of entry mode is regarded to depend on three advantages of the firm: the Ownership-specific advantages, the Location-specific advantages and the Internalization incentive advantages (also described as the OLI-scheme). A company will follow the foreign direct investment route when the following three conditions are fulfilled:

1. For a given time period, a firm possesses net ownership advantages (i.e., intangible assets specific to the firm) vis-à-vis foreign firms in serving particular markets (cf. Hymer's thesis);

2. Assuming 1., it must be more beneficial that the firm uses these advantages instead of selling them. This means that transaction cost market imperfections lead to an internalization of the use of these advantages through an extension of activities rather than the sales of the advantages to other parties through contractual arrangements (cf. internalization theory).

3. Assuming that the first two conditions are satisfied, it must be beneficial for the company to exploit these advantages through production outside its home country using local and immobile inputs, rather than through export. If the first two conditions are not satisfied, no foreign production will take place (cf. location economics).

As such, the eclectic theory offers a "holistic framework" (Dunning 1988: 1), which tries to integrate three streams of international business research: (1) the monopolistic advantage theory embedded in the structural market imperfections theory, (2) the transaction cost market imperfection theory and the market-hierarchy paradigm, and (3) location economics, which builds upon the classical notions of the comparative advantages of nations in factor markets and the immobility of factors (Dunning 1998 for a profound discussion).

2.3.3.1 Assessment of the Eclectic Theory

Undoubtedly, Dunning's eclectic theory and subsequent refinements have represented an important step forward in international business theory development. However, the eclectic theory is not yet considered as *the* integrating theory because it is criticized for having at least the following potential weaknesses:

1. Redundancy of the ownership advantage. Itaki (1991) argues that all the advantages that remain within the firm are derived from the economies of internalization. No place is left to be filled in by ownership advantages. Moreover, this concept does not allow for the cost of its acquisition. Simply stated: not the existence but the economic use of an asset makes it advantageous to the company.

2. Inseparability of the ownership advantage from the locational advantage. Because a location-specific price structure must be presumed, measuring the use of an ownership advantage is location-specific.

3. Ambiguity of the locational advantage. Measuring the locational advantage is not possible without integrating foreign exchange rates and distinguishing between nominal and real terms.

4. Lack of parsimony. Critics argue that internationalization can be explained in more satisfactory way using less determinants. Moreover, the eclectic theory could become tautological when it is too detailed (e.g., 'watch-making creativity' as an intangible ownership advantage in the watch making industry).

5. Difficulty of measurement and operationalization. The OLI advantages are problematic to measure Itaki (1991). As a consequence, the theory has hardly been tested empirically (Agarwal and Ramaswami 1992, being a rare exception).

On top op these potential weaknesses, the integration of Hymer's theory and the internalization theory remains problematic due to two pairs of competing basic assumptions. Firstly, the internalization theory describes the (international) growth of the firm relative to markets. To the contrary, the market power theory starts from the question why some firms are more successful than others: i.e., the growth of the firm relative to other firms. Secondly, monopolistic advantages are assumed to be time-bound while transaction costs may not be transitory. A firm has an advantage over another firm for a given period of time. As such, the theory based upon structural market imperfections is a short-run theory whereas the internalization theory is a long-run theory toward equilibrium between the market and the firm. It could be argued that the two theories are highly complementary in explaining the existence and growth of the MNE. It may, however, be difficult (or even undesired) to integrate the two theories because of the incompatibility between two of their basic assumptions.

2.3.3.2 De-internationalization and the Eclectic Paradigm

Along with the development of a theory of FDI, a theory of foreign direct divestment (FDD) was developed in the mid 1970s and the early 1980s. Assuming that FDD is the reverse of FDI, Boddewyn (1983b) uses Dunning's eclectic framework to build a 'reverse theory'. According to this author, FDD takes place whenever a firm:

1. ceases to possess net competitive advantages over local firms in foreign markets.
2. Even if it retains these advantages, the firm no longer finds it beneficial to use them itself (i.e., internalize them) but rather prefers to sell or rent them to other firms (externalization).
3. There is no reason (e.g., no necessary immobile local input) to use the internalized net competitive advantage outside the home country. Foreign production is no longer necessary (Boddewyn 1983b, 1985).

As we discussed the limited power and/or inadequateness of conditions 1 and 2 to accommodate for de-internationalization earlier, we remain with condition 3 to explain de-internationalization. This, however, limits the potential explanation of de-internationalization, within the framework of the eclectic theory, to a location economics argumentation.

Moreover, Boddewyn (1983b, 1985) is the first to suggest that the FDD-theory is not able to offer a full explanation of FDD as it is observed in the real world. The reverse theory does not offer an insight into the internal and external motivations or drives that initiate a FDD and shape the outcome of a FDD. From an economic perspective, Boddewyn (1983b) discusses five key characteristics of FDD that urge for a specific theory of FDD:

1. Since subsidiary-specific factors exist in the theory of FDD and not in the theory of FDI, they may cause, stimulate or hinder the FDD.
2. FDI theory assumes that monopolistic advantages are used in an active manner. However, in line with Knickerbocker's (1973) oligopolistic reaction theory, foreign investment can be merely reactive towards an equilibrium between competitors without building upon an active firm-specific advantage. When the pro-active competitor divests, the reactive one has the option to follow the 'leader' or to stay in the (less competitive) market.
3. A FDD theory should consider explicitly the possibility of the sales of assets. As such, both the role of a potential buyer as well as the (psychological) role of sunk costs merit further attention.
4. A FDD theory should take the salability, divisibility and mobility of the assets into account. The reversibility of the investment is largely affected by these factors as well as by the occurrence of a beneficial alternative for the slack resources.
5. Though a large proportion of FDD decisions may be due to unfavorable market conditions, not all FDD are situated in the decline stage of the international product life cycle (cf. Vernon 1966) but rather in the transition from one stage to another when additional resources are needed.

Moreover, exploratory studies on FDD decision making (e.g., Nees 1978/1979) and on mode of entry changes (e.g., Calof and Beamish 1995) stress that, towards a full explanation of FDD, scholars should concentrate on: (1) the FDD (or de-internationalization) decision process and (2) the role of management as impetus or restraint in this process. It is not surprising that exactly these two elements are the key challenges to the further development of the core theory of the MNE (Buckley 1996), as it was mentioned above.

2.4 A GLOBAL STRATEGY FRAMEWORK

While international business theories try to explain the ‘why’ of international operations, global strategy research tries to explain both the ‘why’ and the ‘how’ of international operations and global competition with a clear focus on management processes dealing with internal and external dynamic phenomena (Doz and Prahalad 1991). To understand the roots and the basic assumptions of an emerging global strategy perspective and the relationship with the paradigms discussed in the previous sections, at least <u>three streams of research in strategy</u> have to be identified and discussed: (1) the industrial organization-based theory of global strategy; (2) the resource-based view of global strategy, and (3) the emerging integrative global strategy framework.

The following condensed discussion of these three streams of research and their integration may give the false impression that the strategy field is transparent and well organized. Nothing is further from the truth. Foss (1996a) argues that the <u>strategy field exhibits too much pluralism</u>. Too much pluralism means too many new theoretical alternatives and too little selection among them. As such, strategy is a ‘fuzzy field’ in which scholars do not agree on the meaning of crucial concepts; even ‘strategy’ is defined differently by scholars depending on their primary focus (i.e., content, context or process) and their primary source of inspiration (i.e., economics, organizational behavior, business policy, etc.). At the risk of presenting an <u>oversimplified view</u>, we discuss the aforementioned streams of research in their most orthodox form. We refrain from presenting multi-paradigm models except for the emerging global strategy framework in section 2.4.3. As such, we try not to loose clear sight during our search for a robust theoretical framework for the accommodation of de-internationalization.

As it was the case in the previous sections, attention is mainly paid to the background and logic and to the theoretical boundaries of each of the three streams. Within each stream we do not aim at giving a complete picture of the developments in the mainstream strategy literature. Rather, we briefly describe the basic thrusts of the mainstream contributions and focus on the global strategy models.

2.4.1 The Industrial Organization-based Theory of Global Strategy

During the 1980s, global strategy research has been dominated by an industrial organization (IO) perspective, i.e., the typical structure-conduct-performance (SCP) paradigm (e.g., Bain 1956; and Porter 1981). According to this SCP paradigm, the market or industry structure determines the conduct of firms which, in turn, induces performance. The SCP paradigm spotlights the direct influence of the environment on the performance that can reasonably be expected in an industry. In the strategy literature, this paradigm led to highly influential conceptual models such as Porter's (1980, 1985) 'five forces' model, and empirical models such as Venkatraman and Prescott's (1990) model of environment-strategy coalignment[14].

In the context of global strategy, Porter's (1986) conceptual framework of industry globalization turned out to be highly influential. In this framework, Porter develops a logic to explain why industries become global in their competitive scope. Competition becomes global when firms create competitive advantages through the integration (i.e., concentration and/or coordination) of value chain activities across borders. The degree of globalization is measured at the industry level and is defined by structural national, market and industry characteristics, which impede globalization (e.g., government policies, heterogeneous local conditions, organizational complexity) or encourage it (e.g., scale economies, comparative advantages of locations). In fact, Porter's (1986) framework explains why an industry evolves from multi-domestic competition (i.e., no

[14] The unilinear conception of the SCP paradigm as well as the central underpinnings of Bain-type IO economics have regularly been refined, restated or even refuted by other IO scholars. In a seminal article, Conner and Prahalad (1996) give a detailed overview of contributions by influential IO scholars, who departed from the orthodox Bain-type SCP paradigm. Whereas the original model hypotheses external determinisms, early authors such as Mason, Chamberlain, Clark, Gale and Scherer up to the new IO economists such as Tirole have all to some degree debated the simultaneous consideration of both the internal resources of firms and their external environment. See also Grether (1970) for an early historical overview of IO economics.

competition across borders) to global competition. In this framework, the internationalization of the firm is merely an outcome of industry globalization and the phenomenon is not studied as such.

The framework starts from a structural market imperfection perspective when Porter (1986) states that: “global leaders often begin with some advantage at home, whether it be low labor cost or a product design or marketing advantage. They use this as a lever to enter foreign markets. Once there, however, the global competitor converts the initial home advantage into competitive advantages that grow out of its overall worldwide system […].” (p.37).

Building on Porter’s (1986) globalization framework at the industry level, Yip (1989) presents a globalization framework at the firm level. In this framework, the costs and benefits of a global strategy eventually result from weighing the externally determined globalization drivers, which create the potential for an industry to achieve the benefits of global strategy, and the organization’s ability to establish a strategic fit and implement the appropriate setting for global strategy levers (e.g., decisions on market participation, product offering, etc.). The ideal strategy matches the level of strategy globalization with the globalization potential of the industry.

Porter’s (1986) framework provides the conceptual basis for robust microeconomic modeling of global competition (e.g., Ghemawat and Spence 1986). However, its most important virtue was to induce a very broad and extensive stream of research on the strategic and functional implications of global competition in production and manufacturing, in finance, in marketing, and in business policy. In marketing, for instance, Porter’s (1986) framework led to the emergence of an important stream of conceptual and empirical research on the role of the firm’s marketing function as a prime internal coordinator of the value chain. It also led to research on the standardization/adaptation issue and the related centralization/decentralization dilemma (e.g., Takeuchi and Porter 1986; Quelch and Hoff 1986; Jain 1989; and Roth and Morrison 1992).

2.4.1.1 Assessment of the IO-based Theory of Global Strategy

The IO-based theories of business policy largely enriched the theoretical basis of the field of strategic management research (Collis 1991). This resulted in clearer concepts, testable hypotheses and rigorous empirical research. This progress, however, came at a price.

In contrast to Andrew's (1971) original model of corporate strategy, which involves effective matching of external environmental analysis with internal organizational capabilities, the interlinking of formulation and implementation, and the creative development of an interdependent strategy and structure, Porter's IO-perspective has a narrower and more stringent focus is its core assumption. This fundamental perspective results in a high environmental determinism. Organizational capabilities do enter Porter's models (e.g., 1980: 68), but they remain instruments to engage in tactical ploys dealing with the determinant outside forces. Furthermore, the only key capability that counts is top management's ability to analyze the environment, read its signals, establish commitment and position the firm. The underlying resources endowment that allow firms to carry out their strategic ploys are never seriously analyzed, and an analysis of why, how and when a firm should aim for which kinds of resources is never undertaken (Foss 1996a). In his later work, Porter (*Competitive Advantage,* 1985) attempts to address these internal activities of the firm. However, there is still no elaborate discussion of how resources and capabilities underpin activities. Competitive advantage remains very much a matter of outside influences (Foss 1996a). In more recent work, Porter (e.g., 1991) became largely eclectic in his endeavors to explain dynamics in a firm's strategic position.

In conclusion, the IO-based theory of global strategy has provided a robust theoretical framework and a rich agenda for research on global competition in many functional domains. Nevertheless, Porter and his followers only captured the external blade of the scissors, which had originally been designed by Andrews (1971).

2.4.1.2 De-internationalization and the IO-based Theory of Global Strategy

Being a theory of industry-level comparative statics, Porter's (1986) framework of global competition does not focus upon the internationalization process of the firm as such. Only the optimal degree of globalization of the firm vis-à-vis the industry optimum is at stake. This, however, is merely an equilibrium position, which is defined by the industry globalization drivers and the firm's ability to match this optimal point strategically (Yip 1989). In a dynamic perspective, globalization drivers may change and impact upon the optimal degree of globalization. As a consequence, firms may have to change the cross-border configuration of and coordination between its value chain activities, leading to changes in the firm's global market oriented strategy.

This, however, may not have implications on the degree of internationalization of a firm. As Porter (1986) recurs to a structural market imperfections theory in the sense of Hymer (1976) to explain the mere existence of internationally operating firms, it is the actual oligopolistic advantage a firm can exploit, which directly defines the degree of internationalization of the firm. Still, in terms of Porter's (1986) framework, a decrease in the degree of globalization of a firm is either a result of the firm's inability to reach the optimal equilibrium position, or a result of changes in the structural parameter scores of the industry. Whereas the former is sub-optimal, the latter points at a decrease of industry globalization, not at a strategic decision of one particular firm to cope with industry dynamics by reducing its degree of globalization.

2.4.2 The Resource-based Theory of Global Strategy

Dissatisfied with the static and external oriented framework of IO-economics, a resource-based view of strategic management emerged, which is rooted in the classical theory of the firm (e.g., Penrose 1959). Resource-oriented strategists state that the IO-based theory of strategic management is challenged by the (changing) reality in the market. When today's external environment is in a constant state of flux, the firm's own resources and competencies may be a more stable basis on which to define its identity and profit potential (Grant 1991). The essence of strategy formulation, then, is to develop and make the most effective use of the core resources and competencies of the firm.

The basic assumptions of the resource-based view are (Reed and DeFilippi 1990; Grant 1991; Barney 1991; and Conner 1991):

1. Firms within an industry are heterogeneous with respect to the strategic resources they control.
2. Resources are broadly defined and can be classified into three categories: physical capital, human capital and organizational capital.
3. Since resources are not perfectly mobile across firms, heterogeneity can be long lasting.
4. Capabilities involve complex patterns of co-ordination, learning and upgrading.
5. Internal resources and competencies provide the basic direction for a firm's strategy.
6. A critical task is to assess capabilities relative to competitors.
7. Resources and competencies are the primary source of competitive advantage and profit.

A central concept in the resource-based perspective is the creation of causal ambiguity between resources, competencies and competitive advantage (Reed and DeFilippi 1990). If competitors cannot understand the relationship between resources, action and the profitable outcome in another firm, the barriers to imitation are high enough to have a competitive advantage, which is sustainable for a period of time. The origin of sustainability lies within the firm and can be based on tacitness, complexity, and specificity.

In the context of global strategy, the resource-based view provided a framework for a limited number of studies focusing on how global competition develops (e.g., Collis 1991; and Tallman 1991) and less than a handful of studies investigating the international growth of the firm (e.g., Andersen and Kheam 1998).

Analyzing the global competition in the bearings industry, Collis (1991) built his analysis on a resource-based framework of three concepts: administrative heritage, core competence, and organizational capability. He clearly illustrated the importance of history and complex social phenomena to be affecting global strategy choice and outcome. As the resource-based view mainly focuses on heterogeneity in factor markets, Collis (1991) concludes as follows: "[B]ecause domestic factor markets are the easiest and cheapest to access, firms primarily accumulate resources from those factor markets […]. The nature of those markets will therefore profoundly affect the development of core competences." (p.65). As such, Collis (1991) adopts a resource-based perspective to explain how – not why – firms compete in a global context. As an illustration, he points at Japanese global players, whose competitive strategies are based upon low-cost thrusts, historically inherited from the Japanese strategic focus on manufacturing expertise. The Japanese competitive thrust can be compared to the differentiation strategies pursued by their German competitors, which are based upon high-quality engineering skills, historically abound in the local factor market.

Andersen and Kheam (1998) assess the power of the resource-based view to explain the international growth strategies of a firm. Within the framework of Ansoff's (1965) product-market expansion matrix, Andersen and Kheam (1998) assess whether particular capabilities in production, marketing and management result in the adoption of one of the four growth paths defined in Ansoff's (1965) matrix. Their exploratory study moderately supports that the thesis that the firm's resource profile influences the intended international growth strategy.

2.4.2.1 Assessment of the Resource-based View of Global Strategy

As it was stressed by Porter (1991), Bartlett and Ghoshal (1991), and Zou and Cavusgil (1996), the resource-based view is likely to become a very significant fundament in (global) strategy research in the future. Foss (1998) argues that the resource-based perspective appeals to academics because it combines relative analytic rigor with apparent managerial relevance. Still, this approach is an emerging one (Conner 1991 and Conner and Prahalad 1996). Terminological ambiguity, for instance between 'resources', 'competencies' and 'capabilities', the lack of a shared set of heuristics to build resource-based models, and a lack of converging empirical support indicate that the field has not yet reached maturity.

At first sight, this perspective presents itself as the perfect antagonist of Porter's IO-perspective. In contrast to the environmental determinism of Porter's perspective on strategy, Porter (1991) argues that the resource-based view is highly introspective and centered around the firm. However, arguing that this perspective neglects the environment, passes over the real tenets of the resource-based view (Conner 1991; and Foss 1998). Although resource-based theories do not include the environment explicitly, they focus upon (bundles) of resources, which "are not valuable in and of themselves, but because they allow firms to perform advantages in particular markets." (Porter 1991: 108). Resources are only meaningful in the context of the competitive, technological, political and market environment in which they are employed. Moreover, the uniqueness and value of a resource is defined both by its relationship to other resources within a firm as well as by its fit with key success factors, which are industry-specific (Grunert and Ellegaard 1993).

More important, is Porter's (1991) critique, who argues that: "the resource-based view is circular. Successful firms are successful because they have unique resources. They should nurture these resources to be successful. But what is a unique resource ? What precisely makes it valuable ? Why was a particular firm able to create or acquire it ? Why does the original owner or current holder of the resource sell it ? What allows a resource to retain its value in the future ? There is once again a chain of causality, that this literature is just beginning to unravel." (p.108). Although Foss (1998) endorses Porter's (1991) charge of tautological reasoning, he is confident that the field will find a way out via the operationalization of key criteria, which resources have to meet in order to yield long-term rents.

Really critical is the perspective's present inability to treat internal and external dynamics coherently (Porter 1991; and Foss 1998). The resource-based view on competitive advantage predominantly remains a strategy content perspective of economic equilibrium: "It is statics that comes first in the traditional resource-based approach" (Foss 1998: 138). A dynamic resource-based view would, at least, better fit with Penrose's (1959) theory of the firm as an 'unfolding' process – a process that is based on the endogenous change of the firm's resources. Current resource-based theories are abundant and strong in describing (1) the characteristics of resources, and (2) how resources are applied in value adding activities, which give rise to competitive advantages. However, these theories fail to explain the endogenous creation of resources throughout the evolution of the firm within a dynamic environment. Foss (1998) argues that this shortcoming is temporal and should be to overcome through an integration with more dynamic Schumpetrian economics.

What the resource-based view needs, is a more dynamic and evolutionary perspective in its modeling. Foss (1998) argues that there is a need for bringing process issues more directly into the focus of the resource-based perspective. We return to this issue later in this chapter.

2.4.2.2 De-internationalization and the Resource-based View

The resource-based view of global strategy is still in its infancy. Considering this perspective's potential to explain the internationalization of the firm, we found only one study – Andersen and Keam (1998) – which explicitly adopted a resource-based perspective for the explanation of the international growth of the firm. Moreover, this study is highly exploratory and does not even apply the full apparatus of the emerging resource-based perspective. Others, however, have studied international diversification from a resource-based perspective (e.g., Grant, Jammine and Thomas 1988; Kim, Hwang and Burgers 1989; and Robins and Wiersema 1995). These studies points at the potential of studies on the diversification of the firm to be developed towards an explanatory framework of a dynamic internationalization process.

Foss (1998) argues that the commonly accepted theory of diversification is a resource-based approach (e.g., Montgomery and Wernerfeld 1988, Montgomery 1994; Markides and Williamson 1994; and Tallman and Li 1996). Basically, diversification theory goes as follows. Firms gradually accumulate excess resources as a consequence of their normal operations. Tasks become routinized and firms become more efficient in exploiting these resources. In principle, these resources could be traded; however, in most cases transaction costs hinder the trading of excess resources (Foss 1998). As a consequence, firms reemploy these excess resources in the ventures they assess as most promising, given the stock of excess resources.

Assuming a non-equilibrium (competitive) environment, limited resources and bounded rationality, the optimization of a firm's diversification policy is subject to the current stock of excess resources and to the requirements for additional resources in the current ventures (for instance, foreign product/market-combinations). On the one hand, it may be expected that current activities produce excess resources as well as require new resources in order to hold or develop a sustainable competitive advantage in a particular venture. On the other, new business opportunities may emerge. If management claims that these new ventures would fit better into the portfolio of the diversified firm than some other venture because (1) the current excess resources can be employed in a better way in this new venture than in any other venture and (2) the employment of all resources over the new portfolio is Pareto optimal over the old portfolio, a venture may be left in favor of this new one. Although this reasoning highly simplifies the dynamic diversification process – for instance, we did not include mobility barriers – it is a promising path for the explanation of a dynamic internationalization process of the firm, including expansions and retractions to optimize a firm's global market portfolio.

2.4.3 Towards an Integrated Global Strategy Framework

In an interesting empirical study, Hansen and Wernerfelt (1989) decompose the inter-firm variance in profit rates into economic (i.e., external) and organizational (i.e., internal) components. Building and testing a model from each perspective on the same data, they conclude: "The results confirm the importance and independence of both sets of factors in explaining performance. However, the results also indicate that organizational factors explain about twice as much variance in firm profit rates as economic factors" (p.406). For future research, Hansen and Wernerfelt (1989) argue that, since both perspectives are supplementary rather than complementary, more attention should be paid to the interaction between internal and external variables. It is surprising that, to date, hardly any effort has been done to integrate the two aforementioned perspectives on global strategy. The global strategy framework with its focus on both external and internal factors seems promising but the potential is not yet realized (Bartlett and Ghoshal 1991).

A scarce endeavor, is Zou and Cavusgil's (1996) tentative global strategy framework (see Figure 2-2), which inherits both from Porter's IO perspective of global strategy, and from a resource-based view of global strategy. This integrated conceptual frame is founded upon two key propositions:

1. "Global strategy is an organization's response to external industry globalization.
2. Internal organizational factors constrain an organization's ability to conceive global strategy and its ability to implement the chosen strategy". (Zou and Cavusgil 1996: 61).

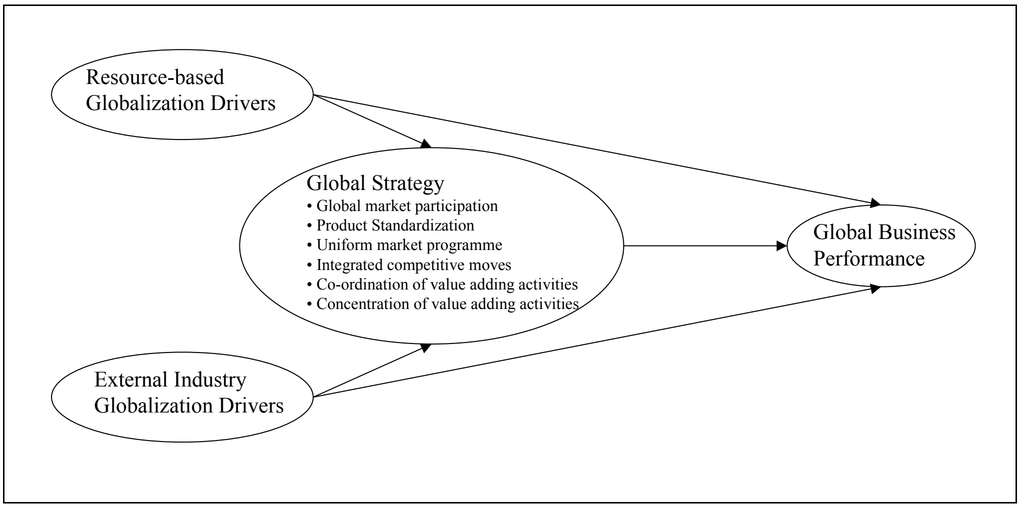

Figure 2-2: An integrated global strategy framework (Zou and Cavusgil 1996)

Keeping the core assumptions of the IO- and resource based perspective in mind, we would argue that Zou and Cavusgil's (1996) integrated framework is still very much inspired by Porter's work. Internal resources are only considered as the constraints to an optimization between external industry drivers and the firm's global business performance which results from an adequate global strategy. The origin of sustained competitive advantage remains external to the firm. The external environment, in turn, can also be considered as a constraint to an optimization between internal globalization drivers and the firm's global business. Nevertheless, Zou and Cavusgil's (1996) integrative framework is exemplary to the fact that the integration of the IO-based perspective and the resource-based perspective is less evident than it may seem at first sight.

2.4.3.1 Assessment of the Integrated Framework of Global Strategy

Using Foss' (1996a) metaphor: with the integration of both perspectives, the scissors of competitive advantage would be complete. Although Conner (1991) points at the congruity between IO-economics and the resource-based perspective, both she and Foss (1996a) point at some fundamental inconsistencies between the underpinnings of both perspectives.

Foss (1996a) goes even further when he states that the two perspectives are almost antagonistic because IO-theory places exclusive emphasis on (structural) product market imperfections whereas the resource-based theory places exclusive emphasis on factor market imperfections. Furthermore, Porterian IO-theory aims at market-power and entry-deterrence while the resource-based theory aims at the firm's efficiency. We would argue, though, that these emphases are not contradictory but rather complementary. In fact, combining product market imperfection with factor market imperfection and the firm's drive for market power with the firm's drive for efficiency approaches economic reality better than each of the perspectives individually.

More problematic is the tension that exists between neo-classical economics (i.e., the roots of the IO-perspective) and organizational behavior theory (i.e., one of the roots of the resource-based theory). Neo-classical economists strive for robust formal theory, firmly constraining on potential behavioral issues of the firm at the expense of attention to empirical reality. Organizational behavior theorists, on the other hand, try to incorporate variety and change through managerial discretion in the firm's behavior.

To conclude, Foss (1996a: 19) states that "There are clearly thematic complementarities between the industry analysis framework of Porter and the resource-based approach". The resource-based approach is more oriented towards the long run and, building a more profound understanding of the conditions for sustained competitive advantage, it addresses corporate strategy issues more explicitly. The IO-perspective, on the other hand, adds an understanding of the external environment in the shorter run.

2.4.3.2 De-internationalization and the Integrated Global Strategy Framework

An integrated global strategy framework presents itself as an elegant holistic global strategy framework. However, in our search for a receptive framework for the accommodation of de-internationalization, we remain with the poor explanatory power of the IO-part of the model (cf. section 2.4.1.2 above) and with the lack of a dynamic perspective of the entire framework. Therefore, the resource-based explanation of a firm's international diversification strategy and international market portfolio management (cf. section 2.4.2.2 above) are considered as a most promising path towards an equilibrium explanation of de-internationalization.

2.5 COMPARATIVE ANALYSIS OF THE THEORETICAL FRAMES

In this section, we first summarize the elaborated discussion of the three frameworks in Table 2-2. The structure of Table 2-2 is inspired by Whetten (1989). According to this author, theory development should be based on including the 'right' factors, relating them in a proper way, providing rationale (the 'theoretical glue'), and delineating the temporal and contextual boundaries of the contribution. In line with Whetten (1989), we summarize each framework (and its dominant theories) by: (1) its foundations, (2) the dependent and the independent variables, (3) the prime driver in the theory, (4) the basic assumptions and rationale, (5) the level of analysis and the time frame, and (6) the main criticisms and weaknesses. Eventually, the theoretical boundaries of each frame are highlighted.

Next, we confront the three theoretical frameworks with each other. Therefore, we assess some valuable endeavors, in which scholars tried to integrate and/or confronted two or more theoretical frameworks. The aim of this section is not to give an extended overview of all integrative attempts – in fact, hardly any of the aforementioned contributions rests upon a single, orthodox theoretical framework – but to illustrate current trends of theoretical confrontation and/or convergence between the three frameworks and to assess the possible boundaries of integration.

While some try to refine existing theories 'from within', others attempted to enrich a theory by integrating it with other theories ('from without'), which promise to be highly complementary in explaining the internationalization of the firm. As will be illustrated, this integrating endeavor is not without problems. We agree with Foss (1996a) who argues that new phenomena can only be integrated within an existing framework if the paradigm's organizing core assumptions are kept intact. New adjustments may not threaten the longer-term viability of the framework. Extensions that are inconsistent with the paradigm's core assumption do not add anything new or rely on fundamentally different principles.

This confrontation indicates that each approach has its idiosyncratic properties and contributes, in a complementary way, to the development of a general theory of the internationalization of the firm. Each framework and each theory has its weaknesses and its theoretical boundaries.

	The 'Stages' Models of Internationalization		
	IPLC	**EPRG**	**Uppsala/Innovation**
Foundation	Life cycle process Structural market imperfections	Life cycle process Risk aversion of the manager	Life cycle process Behavioral theory of the firm Diffusion of innovation
Dependent Construct	Stepwise de-localization of production activity	The degree of internationalization of the firm	The internationalization process of the firm
Explanatory Variables	Opportunity costs Monopolistic advantages Diffusion of information	Not provided in the model	Market commitment Market knowledge Psychic distance
Prime Driver	Difference in factor costs and net income between nations	The world perspective of the manager	Experience Momentum
Basic Assumptions and Rationale	Monopolistic advantages Time lags in diffusion of information Stimulus to innovate comes from domestic market Cost efficiency in production Opportunity cost reasoning along the trade cycle	The manager's world perspective (ethnocentrism, polycentrism, regiocentrism, geocentrism) affects the specific international strategies and decision rules for the internationalization of the firm	A process of causal cycles (Uppsala) of market commitment, market knowledge, and market involvement Diffusion of innovation (Innovation adoption model)
Level of Analysis and Time Frame	Firm level Short-run/equilibrium	Firm level Short-run/process	Firm level Long-run/process
Main Criticisms	Limited validity in the present global context FDI as the only entry strategy Lack of explanatory power	No formal theory No explanation of the transition of one stage to another	No explanation of the initial export decision Empirical support is limited Concentration on the early stages of internationalization
Theoretical Boundaries	Unilinear life cycle processes describing the stages of early internationalization and explaining the dynamics of this process. No real explanation of the prime drivers of internationalization. Deterministic framework ignoring the crucial role of market characteristics, firm resources, and strategic management Market orientation		

	The Core Theory of International Business		
	Hymer	**Internalization**	**Eclectic Theory**
Foundation	IO theory: Structural market imperfections	TC theory: Market failure imperfections	Structural market imperfections Market failure imperfections Location theory
Dependent Construct	The existence of foreign direct investment	The existence of the multinational enterprise through the internalization of intermediate markets	The existence of the multinational enterprise
Explanatory Variables	Control over foreign activities Monopolistic advantages	Bounded rationality, Opportunistic behavior, ambiguous product definition, Asset specificity, Asymmetric information, and Time-bound contractual obligations lead to TCs	Ownership advantage Locational advantage Internalization advantage
Prime Driver	Structural market imperfections	Market failure: transaction costs > internal organization costs for intermediate goods	Net ownership advantages
Basic Assumptions and Rationale	Interdependent competition, Monopolistic advantages, and/or Risk reduction cause foreign direct investment	Internalization whenever a net benefit of a joint ownership of domestic and foreign activities is likely to exceed the net benefits of arm's length trading. Profitability is related to multinationality via research intensity	The MNE exists when it has: Net ownership advantage over foreign firm, TCs lead to the internal use of these advantages, Immobile inputs outside the home market
Level of Analysis and Time Frame	Firm level Short-run/equilibrium	Firm level Long-run/equilibrium	Firm level Long-run/equilibrium
Main Criticisms	Difficulty in operationalization of monopolistic advantages Fails to explain the existence of monopolistic advantages	Problematic measurement of transaction costs Lack of focus on the organization Lack of explanatory power over cross border internalization	Lack of empirical support due to the problematic measurement of OLI advantages Incompatibility in the basic assumptions
Theoretical Boundaries	Long-run theory of comparative statics explaining the existence of FDI and the MNE No explanation of the internationalization process Explanation exclusively by factors external to the firm and by re-active economizing management Production orientation		

	The Global Strategy Framework		
	IO-based	**Resource-based**	**Integrative Framework**
Foundation	Bain/Mason IO paradigm	Classical theory of the firm Organization theory	IO-perspective Resource-based view
Dependent Construct	Degree of industry globalization	Comparative advantage and diversification	Global business performance
Explanatory Variables	External globalization drivers	Company resources and capabilities Sustainability and ambiguity	The interplay between external and internal globalization drivers
Prime Driver	Relative difference of industry structure in different countries	Heterogeneity of companies is the primary source of competitive advantage and diversification	Heterogeneity in industry structures and in the resource endowment of firms
Basic Assumptions and Rationale	Environmental factors dominate Quasi-monopolistic advantages Firms react identical to particular environmental circumstances.	Global competitive advantage created and sustained by relative resource advantages and firm efficiency/effective-ness	Global business performance depends upon the optimal deployment of resources in the context of encountered external industry structures
Level of Analysis and Time Frame	Industry/Firm level Short-run/equilibrium	Resource level Long-run/equilibrium	Business level Long-run/equilibrium
Main Criticisms	Feedback effect to be taken into account Exclusive external perspective Identical resource endowment	tautological reasoning and conceptual ambiguity Failure to explain the endogenous creation of resources	Fundamental inconsistency between two founding perspectives.
Theoretical Boundaries	Static, holistic theory of the globalization of firms and global business performance. Limited explanation of pro-active strategizing management Rich description of internal and external globalization drivers Business orientation		

Table 2-2: The internationalization of the firm: three theoretical frameworks

2.5.1 The 'stages' models versus international business theory

In the literature, we hardly found any contribution which explicitly focused on the theoretical convergence between the 'stages' models of internationalization and the core theory of international business. Apart from Rugman's (1980a) conceptual paper and three exploratory studies in which these two framework are played off against each other (Benito and Gripsrud 1992; Lau 1992; and Fina and Rugman 1996), no study was found which went beyond juxtaposing the two frameworks. Nevertheless, these authors concur in arguing that the two frameworks are highly complementary as they explain different aspects of the internationalization of the firm[15].

While authors in both camps recognize the contribution and validity of the other framework, Table 2-2 illustrates that there is hardly any overlap between the two frameworks with respect to what they tend to explain and their respective theoretical scopes and apparatus. On the one hand, the 'stages' models tend to explain the internationalization process of the firm from an organizational behavior point of view. On the other hand, international business theory is concerned with the explanation of the existence of the multinational firm from an industrial organization and economic point of view. In fact, the former focuses upon the 'how' of internationalization, whereas the latter focuses upon the 'why'.

In general, these two frameworks focus on different aspects of the internationalization of the firm. While models in the 'stages' framework do not aim at explaining why firms cross borders to produce or market their products, international business scholars do not intend to study and explain how a firm evolves from a passive exporter to a committed multinational with many subsidiaries in many countries around the world.

[15] Benito and Gripsrud (1992) conclude that the international business theory outperforms the 'stages' theories of internationalization in explaining location choices of FDI – "location choices are discrete rational choices, and not a cultural learning process" (p.474). However, they recognize that the internationalization process models deal with different research questions than international business theory.

As a consequence, these two framework are highly complementary. Playing them off against each other or trying to integrate them right away both seem to be senseless endeavors. Therefore, this lack of convergence seems evident.

2.5.2 The 'stages' models versus the global strategy framework

At the operational level, the 'stages' models of internationalization show a typical predetermined, irreversible and cumulative progression of events. The trajectory to the final stage occurs in a prescribed order and each stage of development is seen as a necessary precursor of succeeding stages. No condition internal or external to the firm can influence or stop this process. Hence, at this operational level, there is no room for strategizing or for a contingency perspective on the internationalization process. For these reasons, both Reid (1984) and Andersen (1993) are pessimistic about the possibility of a further extension of the 'stages' models towards a general theory of internationalization. Trying to build a deterministic model that incorporates all kinds of contingencies seems doomed to failure.

Earlier in this chapter (see section 2.2.3), however, we argued that, at the theoretical level, the Uppsala model of internationalization seems to be a powerful framework that builds upon the development of experiential knowledge as the prime explanatory construct. Together with Andersen (1997), Madhok (1997) and Andersen and Kheam (1998), we would argue that the underlying argumentation of the Uppsala model rests upon a dynamic perspective of organizational capabilities. For this reason, Andersen and Kheam (1998) succeeded in setting up a resource-based study of international growth, which they built upon Johanson and Vahlne's (1977, 1990) model of internationalization. Moreover, Madhok (1997) and Andersen (1997) have easily integrated the logic of the Uppsala model into a resource-based theory of international operation. Recently, Liesch and Knight (1999) concluded that: "A common thread in each of theories [of internationalization] is the importance of acquiring beneficial information and knowledge to support foreign expansion." (p.385). In this perspective, the issue of knowledge internalization – instead of the internalization of external markets – becomes the pivotal focus for future theory building on the internationalization of the firm. In this respect, we develop the issue of knowledge internalization in section 2.6 below.

As a consequence, the tenets of the Scandinavian evolutionary theories on the internationalization of the firm are a promising point of departure for the development of a capabilities based theory of internationalization, which is rooted into a modern dynamic theory of the firm (e.g., Foss 1996b, c; and Madhok 1997).

2.5.3 International business theory versus the global strategy framework

Some scholars confirm the explanatory power of the transaction cost based internalization theory as a general theory of foreign direct investment within the present globalization context (e.g., Rugman 1986; and Rugman and Verbeke 1992). Others, however, point at the limitations of the core theory of international business and its problems for future development. Buckley (1988, 1990), for instance, identifies three major problems of international business theory: (1) the integration of dynamic factors, (2) the relationship between a transaction cost perspective and the internalization logic, and (3) the relationship between internationalization and competitive advantage. Dunning (1993) argues that "[t]he widening strategic options open to firms require a reappraisal of the received theory of MNE activity in a number of ways. […] Any future modeling of MNE activity must also pay more attention to strategic-related variables" (p.93-94).

In the recent strategy literature, two directions are apparent: (1) attempts to integrate managerial discretion into the 'core' theory of international business, and (2) endeavors in which the resource-based view is set against the transaction cost perspective. Next, we discuss these two paths in short.

Firstly, Buckley (1993, 1996) assesses the potential of integrating the international business theory with the global strategy framework. More in particular, he assesses the possibility of integrating 'strategizing' management into the international business theory. In the author's perspective, an integration of a theory of management in the international business framework would yield important synergies, since the robustness of the international business theory would strengthen the flexibility of the international strategic management theory and vice versa. However, "To incorporate a theory of management, it is essential to move away from a comparison of states to a comparison of processes" (Buckley 1996: 21). We would argue, however, that exactly these key dichotomies – i.e., state versus process and 'economizing' versus 'strategizing' (Williamson 1991) – affect the core propositions of both frameworks and erect (insurmountable ?) barriers to integration. Whereas the purpose of the core theory of international business is to set the long-term boundaries of the MNE against other forms of international activity, the purpose of a strategic management theory on internationalization is to analyze how agents decide on particular issues with respect to the international operations and market servicing activities of the multinational in the short run. (Calof and Beamish 1995).

As it is illustrated in Table 2-2, the orthodox international business theory is a long run equilibrium theory of comparative states. Studying strategizing management requires a change in the fundamental time perspective of the theory. Doz and Prahalad (1991) state that: "Transaction cost analysis, by its very assumptions [...], prohibits itself from addressing managerial issues" (p.148). Mainly because of the fundamental difference in time perspective, both paradigms are, however, highly complementary.

Secondly, the conflict between the global strategy framework and the 'core' theory of international business is an ongoing debate in the management literature. More in particular, the conflict between a transaction cost perspective and a resource-based view for the explanation of the (international) growth of the firm is at stake (Kogut 1989; Kogut and Zander 1993, 1995; Conner and Prahalad 1996; and Madhok 1997). Notwithstanding some endeavors, which confirmed the power of a (refined) transaction cost perspective to explain strategic decision within the context of the internationalization process of the firm (e.g., Jones and Hill 1988; Rugman and

Verbeke 1992), most recent studies concur in their conclusion that “[transaction cost] logic, with its narrow focus on (transaction) cost minimization under the assumption of opportunism, is inadequate in and of itself in explaining multinational firm behavior and offers at best a partial lens on the foreign market entry decisions of firms.” (Madhok 1997: 54).

Kogut and Zander (1993) argue that the assumption of opportunistic behavior of agents – which is a central assumption in the internalization theory – is not needed to explain the international growth of the multinational. To the contrary, they conclude that: “The emphasis on the internalization of failed markets has curiously obscured the fact that the primary explanation for direct investment is the possession of an ownership advantage […] responsible for the growth of the firm across international borders” (p.637, underlying added). It is not the failure of the market, as a transaction cost theorist would assume, but the firm’s efficiency in transforming knowledge into valuable assets and capabilities relative to other firms, which determines why a firm grows across borders (Kogut and Zander 1993).

Madhok (1997) builds upon Kogut and Zander (1993, 1995) to develop a broader organizational capability (OC) perspective of the (international) growth of the firm. In the OC perspective, international growth is driven by the management and creation of value through the balancing of development and deployment of a firm’s capabilities instead of through cost minimization of (transaction) costs. Madhok (1997) comments: “Critical in the OC perspective is that the knowledge market does not fail due to opportunism but, rather, due to superior capabilities of the multinational in deploying its know how and limitations to the capabilities of the other firm in efficiently and effectively acquiring and integrating the particular knowledge into functioning.” (p.46). The existing stock of a firm’s resources and capabilities and the requirements of the operational context both direct and limit its strategic evaluation of a particular market entry. Madhok’s (1997) framework explains why firms cross borders in search of product-markets as well as how they do this, i.e., which entry strategy they will adopt to enter a foreign market. Both decisions result from the interplay between the 'ownership effect' – the relative embeddedness of knowledge into the organization – and the 'locational effect' – the relative difficulty of exploiting the firm's existing know how due to differences between home and host contexts. While a high 'ownership effect' leads a firm to internalize, a high 'locational effect' forces firms to choose collaborative strategies. When the potential for erosion in the future value of a firm's know how due to the 'ownership effect' is greater than that due to the 'locational effect', i.e., when know how looses its value more through its embeddedness than through the relative difference between contexts, then a firm will prefer to internalize a market. In the opposite case, a firm will prefer collaboration with other firms.

2.5.4 Towards a new 'core' theory of international business ?

Theories on the internationalization of the firm tend to be rooted into the theory of the firm, which predominates the literature in a certain period. This is hardly a surprise. While Penrose's (1959) 'Theory of the Firm' highly influenced the logic of the 'stages' models of internalization, The 'core' theory of international business was permeated by Williamson's (e.g., 1975) seminal work on hierarchies and markets. Recently, a 'new' theory of the firm has been developed, which builds upon an evolutionary knowledge-based logic (Montgomery 1995; Conner and Prahalad 1996; and Foss 1996b, c). In turn, this 'new' theory of the firm seems to encourage the development of a knowledge-based theory of the internationalization of the firm. As far as we can evaluate its tenets now, this emerging theory seems promising.

Since robust theories of the internationalization of the firm are all rooted in a specific general theory of the firm[16] – and hence, in different fundamental assumptions on the existence and the growth of the firm – we agree with Buckley (1996) that "[c]ross-fertilization rather than merger seems the most fruitful way to proceed" (p.47, underlying added). As we have discussed throughout this chapter and summarized in

[16] According to Holmstrom and Tirole (1989) a theory of the firm must address two central questions: (a) why firms exist, and (b) what determines their scale and scope. "One needs to explain both why firms exist as well as why all transactions are not organized within a single firm." (p.65).

Table 2-2, we firmly believe that every framework has its (limited) explanatory power over some distinct and well-defined dependent constructs, within its epistemological and theoretical boundaries.

While the progress in theorizing on the internationalization of the firm since the mid 1950s can only be applauded, one major shortcoming remains throughout all major theories in the three framework: the static nature and powerlessness of managerial discretion. None of the theories, which are summarized in Table 2-2, are praised for their power to accommodate managerial discretion. To the contrary, all framework, which were presented to a certain extent result in equilibrium models of comparative statics or in deterministic process theories.

Nevertheless, in the recent literature two frameworks seem to have emerged, which present themselves as theoretical platforms for (more) dynamic and non-deterministic models on the internationalization process of the firm: the evolutionary resource-based theories and strategy process theories. In the final section of this chapter, we shortly present these two emerging frameworks and assess their capability to accommodate de-internationalization.

2.6 TOWARDS A THEORY OF THE INTERNATIONALIZATION PROCESS OF THE FIRM

Since the beginning of the 1990s, the call for more dynamic (i.e., non-equilibrium or process) theories of the (internationalizing) firm has only increased in volume. From many different theoretical perspectives, eminent scholars such as Porter (1991), Bartlett and Ghoshal (1991), and recently Buckley and Casson (1998b), have explicitly called for more theoretical work on the growth process of the multinational firm. Thereby, they confess that the extant equilibrium frameworks, as summarized in Table 2-2, are not capable of lifting the veil of the process, which underlies internationalization (see for instance: Strandskov 1986; and Melin 1992). To do so, a real process framework is required.

In this final section, we introduce two emerging process-oriented theoretical platforms, which hold great potential for the development of dynamic models of the internationalization process of the firm. The first platform builds upon the symbiosis between the resource-based view and evolutionary theory. The second platform builds upon strategic management, organization theory and behavioral sciences to analyze strategic decision-making and organizational behavior of the multinational firm. As we, ultimately, adopt these frameworks for the study of international market withdrawal, they will be profoundly developed in the following chapters.

2.6.1 Resources and the Evolutionary Theory of the Multinational Firm

A new theory of the (international) firm is emerging. This emergent theory stands in sharp contrast to the transaction cost based ‘core’ theory of international business in which the firm is "a collection of businesses held together by a thin glue of transaction cost minimization" (Foss, Knudsen and Montgomery 1995: 13-14). In the emergent framework, the firm is considered as a dynamic but coherent bundle of capabilities and routines (Langlois 1995; and Winter 1995). This coherent structure possesses path-dependent knowledge bases, which allow the firm to diversify itself in the market[17]. This emergent theory of the firm is rooted into the resource-based perspective of strategy (see section 2.4.2 for an introduction) and the evolutionary theory in economics (see Nelson and Winter 1982).

Foss, Knudsen and Montgomery (1995) point at the main commonalities and differences between the resource-based view and the evolutionary approach. The resource-based view focuses upon the rent-creating difference between firms with respect to their deployment and development of resources into distinctive competencies and, ultimately, in a sustainable competitive advantage. The evolutionary approach precisely concentrates on the origin of the differences, placing the analysis of organizational capabilities center-stage in understanding firm behavior. The evolutionary perspective incorporates processes of selection, variation, and retention at different levels of analysis: the industry, the firm, the product and the capability (Schumpeter 1950; Hannan and Freeman 1977; Nelson and Winter 1982; and Barnett and Burgelman 1996). As variation, retention and selection underlie an evolutionary process at the firm level, we expect searching, learning and choosing to be the managerial actions which drive this process (see, for instance, Levinthal 1995). As a consequence, we expect this framework to be built upon behavioral assumptions and managerial decision-making.

Scholars such as Kogut and Zander (1993, 1995), Montgomery (1995), Barnett and Burgelman (1996), Spender (1996), and Madhok (1997) have recently contributed to this emerging framework, of which the impact in the management literature is exponentially growing. Although convergence into a well-defined and parsimonious theoretical logic is still to be expected, the high degree of epistemological coherence

[17] A definition of the firm in two phrases falls short of capturing the rich conceptual work, which already has been performed on this issue. Elaborate discussions of this new theory of the firm are provided in Langlois (1995), Knudsen (1995), Spender (1996) and Foss (1996b, c).

between the two roots of this framework is promising for the development of a robust integrated framework in the near future (Foss 1996 b, c).

Although they point at some remaining points of potential friction between the two roots, Foss, Knudsen and Montgomery (1995) conclude that an integration of the two founding perspectives seems evident as "[B]oth the resource-based and evolutionary approaches share a common doctrinal antecedent in Edith Penrose's work of the 1950s, […]. [O]ne may see the evolutionary approach as having developed the dynamic aspects of Penrose's theory (her view of the process of firm growth as a continuous and cumulative "unfolding" process), while the resource-based approach has been more pertinent to the analysis of the resources themselves." (p.9). For the time being, though, the pioneers of this framework are still busy developing its tenets.

2.6.1.1 De-internationalization within the 'New' Theory of the Firm

We firmly believe that this framework has potential as an explanatory platform for the internationalization process of the firm. More specifically, we would suggest to revalue Johanson and Vahlne's (1977, 1990) theoretical model of the internationalization process of the firm (see section 2.2.3) and develop its explanatory constructs – market commitment and market knowledge – within this new framework. In their exploratory study, Lamb and Liesch (1998) conclude that the evolutionary model of internationalization encapsulates the full extent of the internationalization process. The changing nature of the constructs of the Uppsala model and their interaction can be conceptualized in the evolutionary model by reorganizing and reformulating the relationships between market commitment, market knowledge and market involvement.

Only recently, scholars, such as Benito and Welch (1993), Welch and Welch (1996) and Lamb and Liesch (1998) have illustrated how non-linearity in the internationalization process of the firm, such as market portfolio rebalancing and de-internationalization can (easily) be understood within a strategic evolutionary framework. For instance, the evolutionary notion of inter-firm selection of strategic development paths (see, for instance, Levinthal 1995; and Burgelman 1996) holds great potential as an explanatory dimension for international market exit. Furthermore, Benito and Welch (1993) suggest that "although greater international experience and knowledge normally empower a company to expand its international activities, it may also act in seemingly perverse ways to constrain forward steps at some stages of the overall process." (p.12). In other words, it is proposed that de-internationalization can be understood as a decision, which results from and in increased experiential knowledge and, as a consequence, may result in a higher degree of internationalization of the firm. As was discussed in Chapter 1, we endorse this proposition and adopt it as the underlying hypotheses of this strategy process study of international market withdrawal.

In sum, this framework holds great potential as a platform for the explanation of the emergence of different stages, of a dynamic portfolio of product-market entry modes and of the temporal boundaries of the multinational enterprise throughout its internationalization process.

2.6.2 A Strategy Process Perspective on Internationalization

Complementary to the first platform, the strategy process perspective focuses on organizational behavior and strategic decision-making during the internationalization process. In this perspective, the following interrelated questions are central research issues: "What internal forces impel change in multinationals, regarding strategies, organizational forms, and coordination mechanisms ? And how do internal and external forces interplay in the strategic processes of multinationals ?" (Melin 1992: 113). This perspective implies a need for research on strategic and structural changes in multinationals based on a more reciprocal, dynamic and complex view than the (implicit) environment-stategy-structure foundation of earlier theories (Doz and Prahalad 1991). Scholars who adopt a strategy process framework consider the decision-making behavior of the individual manager as a point of departure for the analysis and explanation of the internationalization process, which itself is characterized by a high degree of complexity, variability and heterogeneity (Melin 1992).

Scholars such as Prahalad, Doz, Bartlett, Ghoshal and Hedlund have been the founders of what has been called the 'Process School of the Diversified Multinational Corporation (DMNC)' (Melin 1992). Starting with their doctoral dissertations, these scholars have provided the literature with numerous conceptual and empirical studies on organizational behavior in diversified multinational corporation. For its theoretical foundation, this school's emerging paradigm relies heavily upon the resource-based view in business strategy and upon an amalgam of theories of organizational behavior such as organizational learning, the 'politics and power' framework and contingency theory (see Doz and Prahalad 1991 for an introduction to the roots of this school). The basic unit of analysis is the individual manager. The core of the underlying theoretical logic, however, is hard to grasp (Melin 1992).

Indeed, in sharp contrast to its promising characteristics (rich, holistic view incorporating external and internal perspectives and the evolution over time), the emerging paradigm has been heavily criticized from different perspectives, not in the least for its lack of a robust and parsimonious theoretical logic. In fact, Doz and Prahalad (1991), themselves, discuss some of the criticisms that are illustrative of the actual position of the so-called DMNC paradigm of the 'process school'. Firstly, scholars belonging to the 'process school' are fascinated by the complexity of what they study while they fail to develop, or borrow, a powerful conceptual framework to give structure to these observed complexities. Secondly, this school has put managerial relevance before theoretical elegance. And thirdly, to date, hardly any endeavor has been made to test the emerging theories, propositions and hypotheses. We would argue that the DMNC paradigm of the process school still is an emerging platform, which, to date, very much lacks the core ingredients of a theoretical framework – not to mention the required qualities for being considered a "New Paradigm" (Doz and Prahalad 1991: 145). We would argue the process school needs more rigorous embedding into well-developed strategy and organizational behavior models.

In disregard of its present premature state, we are convinced that a strategy process perspective holds great potential for robust theorizing on the internationalization process of the firm. Though scarce, longitudinal process studies on the internationalization process have been applauded for bringing an above-average insight into how and why strategic decision-making led to particular steps in the internationalization process of firms. One of the first to do so was Yair Aharoni (1966) who analyzed the foreign investment decision process by Israeli firms. Although later studies are scarce, exceptions such as Doz and Prahalad (1987) illustrate the potential of this approach, even in a more complex theoretical framework.

2.6.2.1 A Strategy Process Perspective on De-internationalization

We would claim, however, that the most important added value of this strategy process framework lies in the development of an epistemological and methodological framework for the study of the internationalization process of the firm. Scholars, such as Pettigrew (e.g. 1992), Van de Ven (e.g.,1992) and many others have developed the strategy process approach as a successful framework for theory development on the basis of ideographic analysis. As the title of this thesis announces, we adopt this strategy process approach for the study of international market withdrawal. Furthermore, it is our firm belief that this strategy process approach is highly complementary to the theoretical basis which is being developed in the resource-based, evolutionary framework as it was presented in the previous section.

Therefore, we are convinced that, as a concept, de-internationalization fits best in this evolutionary strategic framework and that, at this preliminary stage of literature, international market withdrawal is best studied from a strategy process perspective. The remaining of this thesis is devoted to the development of this strategy process approach and to a strategy process study of international market withdrawal within a strategic, evolutionary framework.

2.7 CONCLUSION

In this chapter, we set out to systematically scrutinize three theoretical frameworks for the study of the internationalization of the firm: (1) the 'stages' models of internationalization, (2) the 'core' business of international business, and (3) the global strategy framework. In each framework, we identified some valuable theories, which bring a rich understanding of the existence of the multinational enterprise. Nevertheless, we assessed that each of these frameworks hold paradigmatic qualities, which prevent the full integration of internationalization theories. As they are rooted in different – or sometimes even in the same – theoretical frameworks.

For each internationalization theory, we assessed its potential for the accommodation of de-internationalization. Since hardly any published study was found, in which de-internationalization was integrated in a particular framework or theory, we adopted the logic of each theory in trying to do so. However, for most of the theories, their potential for accommodating de-internationalization was partial, at best. In some theories, de-internationalization even touched the basic assumptions, and the very existence, of the theory.

While comparing the frameworks, we indicated the lack of process-orientation of most of the extant theories as the most important weakness of the extant theories. Finally, a strategy process perspective within the framework of an evolutionary, strategic logic was presented as a promising path towards future theorizing on internationalization and de-internationalization within the scope of the 'new' theory of the firm.

CHAPTER 3:

RESEARCH METHODOLOGY AND DESIGN

3.1 INTRODUCTION

In chapter 1, we argued that a strategy process perspective suits the central aim and the research questions of our study in the best possible way. In this chapter, we develop this perspective towards a framework of strategy process research and present the design of this study.

This explanatory study leads to a middle range theory of international withdrawal. Merton (1968: 39) positions middle range theories "between the minor but necessary working hypotheses that evolve in abundance during day-by-day research and the all-inclusive systematic efforts to develop a unified theory that will explain all the observed uniformities of social behavior, social organization and social change". Adopting a middle range stance, scholars develop theories that are applicable to (1) delineated or even isolated phenomena, and limited conceptual ranges – theories of, for example, deviant behavior, the unanticipated consequences of purposive action, etc. – and/or to (2) a limited number of context classes (Merton 1968; and Peterson 1998). Typically, in middle range theory building, the researcher disaggregates complex contexts and situations into more discrete, carefully defined chunks, and then reintegrates these bits with an explicit analysis of their context (Peterson 1998).

The qualification 'middle range', however, does not refer to the limited explanatory power of the research outcome. Glaser and Strauss (1967: 79) point out that: "Since substantive [or middle range] theory is grounded in research on one particular substantive [context or conceptual] area […] it might be taken to apply only to that specific area. A theory at such a conceptual level, however, may have important general implications and relevance, and become almost automatically a springboard or stepping stone to the development of a grounded formal theory." Bourgeois (1979) argues that until it matures a discipline should concentrate on middle range theorizing. It is our belief that a rich collection of middle range theories on complementary phenomena of the internationalization of the firm leads to a rich understanding of the dynamic multinational organization.

This chapter is structured as follows. In section 3.2 , we set an ontological, epistemological and methodological framework for our strategy process study. In section 3.3 , the concrete research design of the field study is presented. The case selection, the data collection and the data analysis procedures are discussed. In section 3.4 , we focus on the validation and the assessment of the study and its results.

3.2 STRATEGY PROCESS RESEARCH : A FRAMEWORK

Ferlie and McNulty (1997: 368) define strategy process research as: “The dynamic study of behavior in organizations, focusing on organizational context, sequences of incidents, activities and actions that unfold over time”. Strategy process research aims at a range of analytical purposes: (1) a search for patterns, (2) a quest to find underlying mechanisms which shape the patterning, and (3) inductive pattern recognition that goes hand in hand with deduction (Pettigrew 1997). As such, strategy process research involves a longitudinal investigation of a network of choice (strategic decision-making) and implementation processes (strategic change) that are enacted by managers (Pettigrew 1992).

3.2.1 Strategy Process Defined

In the management literature, at least three meanings of process are used (Van de Ven 1992). To a certain extent, these meanings reflect the character of the fundamental paradigms underlying process research in different disciplines of sociology and management.

First, a process is a logic that captures causal relationships between independent and dependent variables. Investigating processes from this perspective results in variance theory (Mohr 1982; and Langley 1999). Typically, the logic is highly deductive, with many restrictive and unrealistic (implicit) assumptions about the unfolding events. Process is not directly observed and theory presents relationships between variables, not events. Typical studies, for instance, in international marketing standardization/adaptation literature are Ozsomer, Bodur and Cavusgil (1991), Szymanski, Bharadwaj and Varadarjan (1993) and a vast majority of empirical research in the marketing and management. In its second and most frequently used meaning, process refers to a category of concepts that accommodates a sequence of actions such as ‘strategy-making’ or ‘decision making’. However, these embedded actions are not directly observed through events. As in its first meaning, processes are operationalized as constructs and measured as unidimensional variables (e.g., 'strategy making' goes 'fast' or 'slow'). As a consequence, research at this level results in variance theory too (Mohr 1982). Typical studies, for instance, in the export performance literature are Madsen (1989), Koh (1991), and Cavusgil and Zou (1994). In its third meaning, a process refers to a sequence of events or a pattern that describes how systems change over time. More formally: a process comprises causally related changes of or in systems (Sztompka 1994). Four characteristics are inherent to this definition of process: "(1) the plurality of changes, (2) referring to the same system, (3) causally related to each other, and (4) the changes follow each other in a temporal sequence" (Sztompka 1994: 7). Only this process perspective focuses on the embedded events, and, accordingly results in process theory (Langley 1999).

In accordance with this third meaning of a process, a strategy process can be defined as a longitudinal network of choice processes (strategic decision-making) and implementation processes (strategic change), which are enacted by members of a particular system in reaction to environmental dynamics and/or as pro-active initiatives to exploit internal resources (Pettigrew 1992). Three concepts are central to this definition: choice, change, and context.

> Choice: Strategic choice has an endogenous behavioral component and partly reflects the idiosyncrasies of decision-makers (Child 1972; and Papadakis, Lioukas and Chambers 1998). The concept of strategic choice is fundamental to a strategic perspective of organizational processes (Child 1972; and Fredrickson 1983). However, its conceptualization largely differs among (extreme) positions in the literature. Whereas, for instance, in an industrial organization perspective choice is intrinsically re-active and limited by the freedom of maneuver with respect to determinant contextual factors, in the resource based view 'choice' is about pro-active resource deployment. In line with Peterson (1998), we argue that 'choice' results from culminating interpretation of events and results in a commitment of resources, provides a potential context for subsequent decision-making, and drives a future program of action.
>
> Change: "The basic concept of social change involves three ideas: (1) difference, (2) at different temporal moments, (3) between states, forms or qualities of the same system" (Sztompka 1994: 4).

> Context: “Context is not just a stimulus environment but a nested arrangement of structures and processes where the subjective interpretations of actors perceiving, learning, and remembering help shape process.” (Pettigrew 1997: 341). Action occurs in the context of encountered structures, which it shapes on its turn (Sztompka 1994).

This way, we do not see strategy processes as linear progressions from strategy formulation to strategy implementation, but as multilevel processes in which the outcomes of decisions are shaped by the interests and commitments of individuals and groups, the forces of organizational momentum, important changes in the environment and the manipulation of the structural context surrounding decisions (Pettigrew 1985; and Hutt, Reingen and Ronchetto 1988).

3.2.2 The Unit of Analysis: the Embedded Event

The event is a central building brick in the definition of a strategy process. It is the basic unit of analysis and theorizing in strategy process research (Langley 1999). For the purpose of our study, we define an event (or an incident) as a discrete unit of information or meaning that can be rationally linked to an interpretation process. An event results from and/or induces decision-making. As such, events are given meaning through interpretation.

Every event has some particular characteristics. It is: (1) unique, (2) time bound, (3) experienced by agents, and (4) context-bound (Clark 1985; Stompka 1994; and Peterson 1998). The notion of ‘experience’ allows for both a pro-active and re-active/passive position of the agent in the event. In accordance with the definition of both concepts, a strategy process is an event that, on its turn, is made out of events.

A strategy process is an event situated in the context of a business unit, a firm, an industry, an economy, etc. and it is experienced by different internal and external participants. Moreover, a process consists of sub-processes and goes along parallel processes. These intertwined processes often have their own momentum, pace and trajectory (Pettigrew 1997). Therefore, embeddedness – what Fredrickson (1983) labels 'integrative comprehensiveness' – is a prime guiding assumption for strategy process research (Langley 1999). Explanations of strategy processes should be linked to higher level changes (e.g., in the industry) and to lower levels of analysis (e.g., organizational subprocesses). Four types of embeddedness can be distinguished (Peterson 1998):

1. Temporal embeddedness. Each event occurs in relationship to others that precede and follow. When we analyze an event, we are placing brackets around a process in motion. These brackets separate what we whish to focus on from its context. However, preceding and following events are only relatively distinguishable from the focal event.

2. Local embeddedness. Whereas we identify the event as the basic *unit* of analysis, multiple *levels* of analysis may be relevant. For instance, the explanation of a strategy process at a business unit level is contingent upon corporate strategic plans and strategy making as well as upon the industry recipe.

3. Perceptual embeddedness. An event can receive different interpretations on the basis of accurate information about its different parts from different vantage points. There is not one objective interpretation of an event. From multiple perceptual stances, every event induces multiple interpretations, multiple decisions and multiple new events.

4. Potential embeddedness. Social actors can also give events meanings by linking them to potential futures. A person can give an event new meanings by recognizing new potential implications. Future decision-making is dependent upon this recognition.

3.2.3 The Ontological Frame: a Subjectivist Approach

Whether reality is of an objective nature and external to the individual or the product of individual cognition and the product of one's mind is the fundamental ontological question. (Burrel and Morgan 1979).

The basic ontological approach of this study departs from a time- and human-free objective reality towards a more subjective, i.e., relativistic approach (Burrell and Morgan 1979; and Morgan and Smircich 1980). In contrast to extreme positivism, we take a relativistic stance in which the social world is to be understood from the point of view of the individuals who are directly involved in the events that are investigated.

Although the analysis of the progression of cognition-free facts (e.g., the evolution of the profitability of a business unit) brings information, it is the perception and interpretation by agents of these facts (e.g., how does the CEO use these factual data in his actual decision making on that business unit) that provides us with the fundamental data for strategy process analysis.

In accordance with the key characteristics of a strategy process we adopt six basic ontological postulates (Pettigrew 1992; and Peterson 1998) for strategy process research:

1. Social reality is a dynamic process: it occurs rather than exists.
2. Agents interpret social structures and events. However, meaning does not emerge from isolated agents.
3. Based upon interpretation and meaning, agents – through their decisions and actions – create a social process.
4. The tension between actions and social structures is the ultimate moving force of the process.
5. Action occurs in the context of encountered structures, which it shapes in turn, resulting in structures that are shaping and shaped.
6. The interchange of action and structure is time-bound and cumulative.

These six ontological postulates suggest that it is crucial to understand the dynamic relationship of agents and systems within a holistic and dynamic context. Causes of change can be traced to agents, temporary social structures, and the context, as well as to the cumulative interaction between these building bricks. Next, we elaborate the role of the agent and time in this framework.

3.2.3.1 Subjectivism and the Agential Coefficient

In modern sociology, it is presumed that a social process has an agential coefficient (Sztompka 1994). The ultimate driver of change is the agential power of individuals and social collectivities, while at the same time the direction, goals and speed of change become the areas of conflict between agents. However, the height, the quality and the scope of the agential coefficient may differ between perspectives and models. Next, four aspects of our perspective on the role of the social actor are discussed: the voluntarist perspective, the interpretive power of agents, the rationality of agents, and the complexity of decision-making.

Burrell and Morgan (1979) present the 'human nature' debate: "At the one extreme we can identify a determinist view which regards man and his activities as being completely determined by the situation or 'environment' in which he is located. At the other extreme we can identify the voluntarist view that man is completely autonomous and free-willed" (p.6). For this study, we adopt a more or less voluntarist perspective. Agents perceive, interpret, decide and act in context. The manager is a pro- and re-active agent in a strategy process. Although action is induced by agents, not every 'fact' is 'caused' by agents (e.g., an earthquake). However, a fact becomes an event when it is interpreted by agents. The learning potential of the agent is critical in a dynamic voluntarist perspective. Agents not only learn from their own behavior, they also learn from events in the context that they witness but do not directly act in.

Events are given meaning through interpretation in context (Langley 1999). Isabella (1990) defines interpretation "not as imposing structure but as translating events and developing frameworks for understanding" (p. 9). Consequently, "Social actors can be treated as subjects that interpret events treated as objects. Unlike events, social actors are focal points around which the processes of taking action and giving meanings occur" (Peterson 1998: 17). However, individuals interpret within frames of references that exist within collectivities. As such, a dominant logic or a cognitive consensuality that exists among members of a collectivity impinges upon the individual interpretive power.

Eminent writers in organizational behavior and managerial cognition literature such as Simon (1957), Cyert and March (1963) and March (1978) have long refuted the notion of 'managerial rationalism' which early orthodox functionalists adhered to. Agents have limited information processing capacity and act under uncertainty. Table 3-1 presents a limited set of possible simplification processes along the strategy-making process. It is crucial for strategy process researchers to be aware of possible simplification processes that play in the mind of strategizing managers. At best, managers interpret, decide and act with bounded rationality. Moreover, Brunsson (1982) reports ample evidence of decision-making processes that appear irrational (e.g., Lindblom 1959; Allison 1971; and Nisbett and Ross 1980).

Decision-making Stage	Simplification Process	Effect
Goal formulation and problem identification	**Prior hypothesis bias**	Evidence ignored and unperceived gaps
	Escalating commitment	Significance of gap minimized
	Reasoning by analogy	Ill-defined problem
Generation of strategic alternatives	**Single outcome calculation**	Restricting alternatives to one
	Inferences of impossibilities	Premature rejection of alternatives
	Problem sets	Restricting number of alternatives
Evaluation and selection	**Illusion of control**	Inaccurate risk assessment
	Devaluation of alternatives	Rejection of poorly presented alternatives
	Illusion of validity	Inaccurate prediction of consequences

Table 3-1: Simplification processes in different stages of strategic decision-making (summarized from Schwenck 1984)

Indeed, some actions are not preceded by weighing objectives, evaluating of alternatives, or choosing. Decision processes do not always influence action, particularly not when actions precede decisions (Brunsson 1982). As such, we do not adhere to the basic functionalist assumption that strategic-decision making is a piece of purposeful, rational, utility maximizing behavior that is based on an actor's consciousness and that is consequently purely intentional (Stubbart 1989; and Gabrielsson and Paulsson 1996).

Closely related to the notions of bounded rationality and irrational behavior is the complexity of organizations and interaction. Organizations are complex systems in which the behaviors of individual managers interact in complex ways with each other and with the environment. Typically, complex organizations exhibit adaptive, non-linear behavior (Bettis and Prahalad 1995). Therefore, we depart a priori from a linear phased strategy process that typically goes from 'formulation of objectives' over 'strategy formulation' and 'strategy implementation' to 'strategic control' which results from the basic functionalist perspective on managerial behavior. Unraveling of the strategy process is a central research objective in our study. Consequently, cognitive strategizing behavior may not be limited to a single 'strategy formulation' stage. Moreover, 'strategy implementation' may coincide with or even precede a 'strategy formulation' phase.

3.2.3.2 Subjectivism and the Dimension of Time

A strategy process theory comprehends an explicit time dimension (Monge 1990; and Zaheer, Albert and Zaheer 1999). No events that make up change are timeless, either in the sense of location in time (a focus on causality), in the sense of extension through time (a focus on progression), or in the sense of driven by time (a focus on explanation). Depending on when (in a historical sense), where (in a cultural sense), and how (in a scientific sense), 'the' definition of time can be and has been dramatically different[1].

We look at time as a social construction that varies between and within social groups and societies (Bluedorn and Denhardt 1988). Consequently, the way we experience time fundamentally affects the way in which we view choice making and change, and the way we enact strategic processes. Our perspective of time is culture-bound and it determines our implicit or explicit epistemological assumptions of empirical research

[1] In contrast to a long philosophical and scientific concern for time stands a lack of attention for conceptual and methodological issues of time in the management literature. Valuable exception are Clark (1985), Bluedorn and Denhardt (1988), Das (1991), Bergh (1993), Whipp (1994), Kimberly and Bouchikhi (1995), Tuttle (1997) and Zaheer, Albert and Zaheer (1999). We refer to these for an elaboration of the 'time' dimension in relationship to organizational theorizing.

(Sorokin and Merton 1937; and Hall 1983). Next, two important issues are discussed: the multidimensionality of time and the role of timeless categories.

In our perspective, 'time' itself is multidimensional (Das 1991). We follow Tuttle (1997) who distinguishes among four dimensions of time: physiological time, objective time, psychological relative time, and socially constructed relative time. In strategy process research, all four dimensions of time merit close consideration. Table 3-2 describes each of these dimensions.

Dimension of time	Description
Physiological time	A focus on natural cycles and corresponding cyclical views of time in many aspects of biological and behavioral science ranging from short cycles associated with metabolic rates to species life cycles. An important concept is 'entrainment', the adjustment of the pace of one activity to match or synchronize that of another one (Ancona and Chong 1996).
Objective time	Time is unitary (subject to only one interpretation), linear (progression steadily forward from past to present to future), and mechanical (containing discrete moments subject to precise measurement) (Bluedorn and Denhardt 1988) – clock time or 'chronos'.
Psychological relative time	A focus on the experience of time that is influenced by the characteristics of the individual and the situation – subjective time or 'kiros'
Socially-constructed relative time	The shared temporal orientation among a group of individuals embedded within an organization and culture.

Table 3-2: Four dimensions of time (summarized from Tuttle 1997)

From the outset of a strategy process study, researchers have to think about the dynamic nature of each key concept independently as well as of the dynamics of the interrelationships between key concepts, which emerge during the study. Aspects of time and the dynamics of concepts and relationships may be hypothesized or pre-assumed and may be different on different levels of analysis. For instance, on the industry level the physiological and socially-constructed dimension of time may be most relevant. On the (inter)personal level the psychological relative dimension of time may prevail. A more valid process theory describes, at least in broad outline, plausible time parameters associated with change within and between the phenomena of interest (Monge 1990).

Although events are temporally embedded, social actors abstract their experiences and place events into timeless categories when they recognize repetition in sequences of events. This abstraction is a prime opportunity for learning (Bandura 1971; and Ginter and White 1982). “While no two situations are identical, social actors seek to learn from rough similarities. Learning requires that events be somehow grouped into types so that implications of how a particular event unfolds can be anticipated for other similar events” (Peterson 1998: 23). While learning, agents construct complex, timeless patterns of events and associative networks. As such, agents use knowledge gained in one setting to perceive, interpret and understand other situations. Accordingly, these timeless patterns of events largely impinge upon future decision-making and action.

3.2.4 The Epistemological Frame: Explanation, Causality and Generalization

What forms of knowledge can be obtained and how can one sort out what is to be regarded as ‘true’ from what is to be regarded as ‘false’ are the fundamental epistemological questions (Burrell and Morgan 1979). In this section, three central epistemological issues are discussed: the explanatory power of strategy process research, causality in a subjectivist approach, and the external validity of qualitative studies.

3.2.4.1 The Explanatory Power of Strategy Process Research

The ultimate aim of strategy process research is the construction of explanatory middle range pattern models. Kaplan (1964) identifies the pattern model as a basic type of explanation in science. In a pattern model, events are explained when they are related to a set of other elements – i.e., events and (sub)systems – in such as way that together they constitute a unified system. This contrasts with the typical characteristic of a quantitative variance model, which (causally) relates constructs instead of events. The relationships between events in context may be of different sorts: causal, purposive, mathematical and perhaps other basic types as well as various combinations and derivatives of these. An event is explained by its relationships to other events, i.e., by being shown to occupy the place that it does occupy in the pattern. Accordingly, rival explanations of the same events or phenomena require different relationships in different patterns.

Kaplan (1964) argues that the explanation of a pattern model is sound when everything falls into place. "The perception that everything is just where it should be to complete the pattern is what gives us the intellectual satisfaction" (Kaplan 1964: 335). Hunt (1991), however, argues that Kaplan's notion of 'intellection satisfaction' is an irretrievable individual phenomenon. Therefore, he criticizes the pattern model on this issue: "The pattern model fails the criterion of intersubjective confirmability[2] and cannot be considered as having explanatory power" (Hunt 1991: 68, footnote added).

We would argue that Hunt's critique is valid from a realist perspective in which the social world is external to individual cognition (Burrell and Morgan 1979). However, from a subjectivist perspective, pattern models are composed of events and relationships between events, which are inherently subjective (cf. section 3.2.2). In this relativist stance, the <u>external validity of a pattern model</u> consists essentially in this: "that the pattern can be indefinitely filled in and extended: as we obtain more and more knowledge it continues to fall into place in this pattern, and the pattern itself has a place in the larger whole" Kaplan (1964: 335).

[2] Hunt (1991: 51) defines intersubjective confirmability as: "[A]ll scientific knowledge must be objective […]. That is, different investigators […] must be able to check the logic and make observations or conduct experiments to determine the truth content of purported explanation."

3.2.4.2 Causality in a Subjectivist Perspective

Whereas different kinds of relationships may exist, causality is the basic scientific relationship. Relationships between events hold the explanatory power of a pattern model. This stands in contrast to causal relationships between constructs in a typical variance model (Hunt 1991). Miles and Huberman (1994) discuss five critical features of causality in a subjectivist perspective: local emphasis, causal complexity, temporality, retrospection and contextualization (Table 3-3).

Feature	Argument
Local emphasis	Causality is linked with nearby events in time and space.
Causal complexity	The causes of an event are not only multiple but also conjunctural. Cause-effect networks emerge. Events may result from different causes (equifinality).
Temporality	Every event has antecedents and consequences.
Retrospection	Assessing causality is essentially a retrospective matter.
Contextualization	Causality can only be understood by creating and parsing stories along abstracting the interaction between concepts.

Table 3-3: Critical features of causality (summarized from Miles and Huberman 1994)

Local emphasis points at the fact that events hold a position, both in time and in space and that causal factors can be arranged with respect to a certain focal point. Causal complexity implies that cause/effect relationships are arranged in networks. In these networks events can act as cause, effect or context in multiple relationships. Typically, effects may not result from unique causal paths (equifinality). Due to a strict (i.e., unidirectional) temporality of events, looping back relationships between causes and effects require additional plots[3]. Assessing causality is essentially a retrospective

[3] More formally : when the causal relationship A -> B (A and B are concepts) has a back loop A <- B, a plot of a least three events is required: a -> b -> a', with a ≠ a'. However, a and a' may be different states of the same system.

matter. As such, explanation is retrodictive. Finally, contextualization is a key characteristic of causal assessment. Causality can only be understood when abstracted causal relationships between concepts are logically linked to patterns of events in context.

Adopting this perspective on causality, we endorse Miles and Huberman (1994) who argue that: "[Qualitative] studies are especially well suited to finding causal relationships; they can look directly and longitudinally at the local processes underlying a temporal series of events and states, showing how these led to specific outcomes, and ruling out rival hypotheses. In effect, we get inside the black box." (p.191). In fact, through creation of timeless categories (cf. section 3.2.3.2), agents construct scenarios that make sense of events and patterns. Imposing a causal structure on events is making them meaningful (Miles and Huberman 1994).

3.2.4.3 Generalization and the External Validity of Qualitative Research

When a researcher comes to a pattern model that consists of events and (causal) relationships between these events, then the legitimate question is whether these relationships hold outside the investigated sample[4]. Two kinds of scientific generalization predominate: statistical generalization and analytic generalization (Yin 1994; and Kvale 1996).

Statistical generalization relies on random sampling and on statistical inference about the population. By definition, qualitative research is not suitable for statistical generalization, since it does not rely on random sampling. Moreover, without an estimate of population variability in qualitative research, no basis for statistical inference exists (Kennedy 1979). Nevertheless, statistical generalization is a formal, explicit and powerful way of external validation. Therefore, qualitative researchers sometimes increase the number of cases in their study to allow for statistical

[4] In this section, we discuss the generalizability of strategy process research in general. In section 3.4.2, we focus on the external and internal validity and the reliability criterion in detail.

generalization. However, it is not the limited number of cases that refrains the qualitative researcher from statistical generalization, but the theoretical, i.e., non-random sampling of the cases (cf. section 3.2.5.2 below). Increasing the number of cases does not increase the basis for statistical generalization. "The number of cases does not make a difference: we are generalizing from one case to the next on the basis of a match to the underlying [pattern model], not to a larger universe" (Miles and Huberman 1994: 29). This is in fact what is called analytic generalization.

With analytic generalization, the qualitative researcher does not aim at generalizing results from a sample to a population but to an (emergent) theory (Yin 1994). Instead of random sampling of respondents, cases are deliberately selected to allow for replication logic (cf. section 3.2.5.2). Investigators try to replicate findings through the comparative analysis of deliberately selected cases. As such, the analytic generalizability of a study is not equivalent to its external validity, as is the case with statistical generalization in nomothetic research.

External validity has been a major barrier in doing qualitative research (Yin 1994). Not in the least this is due to the plethora of perspectives on what 'good' qualitative research is (Denzin and Lincoln 1998). We discuss this issue in section 3.4 below. In this study, we follow Kennedy (1979) and Kvale (1996) who argue that when generalization beyond the empirical scope of a study – what qualitative researchers prefer to call 'transferability' (Lincoln and Guba 1985; and Tashakkori and Teddlie 1998) – is at stake, it is the reader/user who is responsible for the external validation[5]. In nomothetic research, external statistical validation is made by the researcher. When statistical generalization is at stake, the research generalizes context-free sample findings to a well-defined population, through statistical procedures and within confidence intervals. When the transferability of qualitative research is at stake, "It is the receiver of the information who determines the applicability of a finding to a new

[5] Kennedy (1979) refers to legal precedents and clinical treatments. In both cases it is the user/reader (i.e., the judge or surgeon) who has to decide on the appropriateness of the analysis of prior cases to a present case.

situation […]. [G]eneralizations are the responsibility of the receiver of information, rather than the original generator of information, and the evaluator must be careful to provide sufficient information to make such generalizations possible" (Kennedy 1979: 672). Indeed, Lincoln and Guba (1985), argue that transferability of qualitative research depends "on the degree of similarity between the sending and receiving contexts. [Therefore,] one will need to know about both sending and receiving contexts. [As a consequence,] inferences cannot be made by an investigator who knows only the sending context." (p.297).

To allow for external validation, it is the researcher's task to provide sufficient information on the rules of sampling and the rules of inference that s/he has applied. Therefore, <u>methodological rigor</u> is required.

3.2.5 Methodological Anchors

In this section, we discuss the five methodological anchors of our strategy process research in a hierarchical order: iterative grounded theory methodology, the comparative case study, retrospective interviewing, triangulation, and pattern matching logic. A later anchor is compatible with and fits within an earlier anchor. This section offers a by no means complete research manual. It does not go beyond (a) helping to design strategy process studies that have a high potential for generating 'valuable' and valid results, and (b) avoiding and reducing complexity. Indeed, the central problem of strategy process research (and of qualitative research in general) is dealing with complexity. Pettigrew (1990) argues that the greatest risk an qualitative researcher runs is "data asphyxiation" (p.111) as the study proceeds.

3.2.5.1 <u>Iterative Grounded Theory Methodology</u>

Informally, most researchers admit that research is both a function of inductive and deductive analysis, although they are supposed to formally present their studies as either inductive or deductive (Orton 1997). qualitative researchers have created a viable methodological position – which they call (iterative) grounded theory methodology – between inductive research and deductive research (cf. Glaser and Strauss 1967; and Strauss and Corbin 1994). In comparison with alternative research strategies, Morse (1998 – see Table 3-4) and others argue that grounded theory is especially applicable in case of process questions.

Strategy	Type of Research Questions	Method	Other Data Sources
Phenomenology	Meaning questions – eliciting the essence of experience	Audiotaped conversations, written anecdotes of personal experience	Poetry, art, philosophical reflections.
Ethnography	Descriptive questions – of values, beliefs, practices of cultural group	Unstructured interviews, participant observation, field notes	Documents, records, photography, maps, social network diagrams
Ethnomethodology	Questions regarding verbal interaction and dialogue	Dialogue	Observation, field notes
Grounded Theory	"process" questions – experience over time or change, may have stages or phases	Interviews	Participant observation, memoing diary

Table 3-4: Comparison of major types of qualitative strategies (summarized from Table 3.1 in Morse 1998)[6]

Central to grounded theory methodology is the convergence to a (strategy process) model through (1) the interplay between data collection and data analysis, and (2) the regular iteration between data and theory (presented graphically in Figure 3-1).

In line with grounded theory methodology[7] (Glaser and Strauss 1967), strategy process researchers advocate overlapping data collection with data analysis. Starting data

[6] We refrain from discussing in detail the alternative research strategies, which are mentioned in this Table. Therefore, we refer to Denzin and Lincoln (1998).

[7] Many scholars argue that grounded theory methodology is principally an inductive methodology (e.g., Orton 1997). This, however, is incorrect. Strauss and Corbin (1994) argue that "Researchers are still claiming to use 'grounded theory methods' because their studies are 'inductive'. Certainly, thoughtful reaction against restrictive prior theories and theoretical models can be salutary, but too *(Continued on the next page)*

analysis from the first interview in the first case brings considerable flexibility in the study. This interplay allows for making adjustments to data collection instruments (e.g., addition of questions to a protocol) and to the sample (e.g., adding cases) during the study. This flexibility is not an indication of unsystematic research but of controlled opportunism in which researchers take advantage of the uniqueness of specific cases and the emergence of new ideas during the fieldwork to improve the emergent propositions and theory (Eisenhardt 1989a).

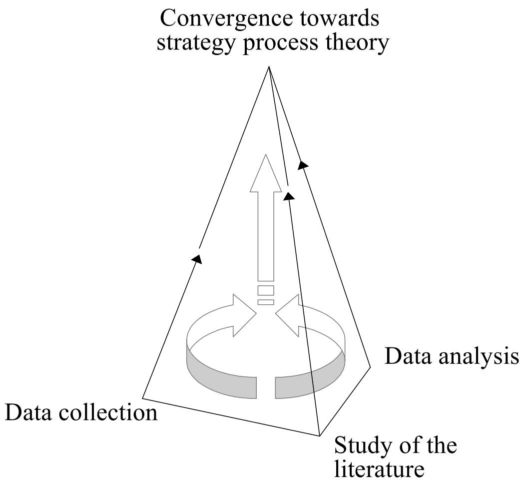

Figure 3-1: Iterative grounded theory

At the same time, the researcher adopts iteration, which can be defined as "experimentation with various theoretical approaches to the data" (Orton 1997: 427). To allow for regular iteration between data and theory, at least a limited set of basic constructs should be identified from the outset of the study (Blumer 1931; and Langley 1999). This set of constructs is a researcher's principle instrument, which provides a

rigid a conception of induction can lead to sterile or boring studies" (p.277). Moreover, "If existing (grounded) theories seem appropriate to the area of investigation, then these may be elaborated and modified as in coming data are meticulously played against them." (p. 273). Nevertheless, we add the adjective 'iterative' to explicitly indicate that our study is a balanced inductive/deductive one.

focus and prevents the investigators from looking into black wholes, not knowing what to look for and, as a result, selecting everything for the reason of 'being of interest'. However, no construct is guaranteed a place in the final version of the theory (Eisenhardt 1989a). Since the main objective of strategy process research is to build new middle range theories, the researchers should not stick to these constructs when the study proceeds and the theories are developed. "Assumptions and definitions of these concepts change substantially and become progressively clearer with field observations over time." (Van de Ven and Poole 1990: 161). Some constructs may be removed; others may be introduced during the study. In all, these constructs remain means towards event-based theorizing.

In grounded theory methodology, research ideally begins as close as possible to no specific theory under consideration[8] (Eisenhardt 1989a). This means that a researcher should start without any hypothesis on possible relationships between the adopted constructs or abstracted events. Relationships will emerge during the study. During regular iterations various theoretical approaches are to be 'confronted' with the data and the emergent patterns. Each theoretical approach provides a specific perspective on the cases, which can be further developed to models. Soon, however, it will become evident that none of the analytic models is able to explain the data optimally and that none of the models is to be refuted entirely. The analysts should allow different emerging theories to compete for the most valid explanation until the last moment. At the same time, however, the researcher should restrain from simply integrating existing theories that seem to explain different parts of what has been observed into eclectic models (Eisenhardt 1989a).

[8] The adopted constructs are, however, not theory-free. We endorse Hunt's (1991) assessment that no study can be purely theory-free from the outset.

3.2.5.2 The Comparative Case Study

The (multiple) comparative case study is the primary approach of strategy process scholars (Pettigrew 1992)[9]. It suits the research topics, the contextualist mode and the broad research objectives of strategy process research in the best possible way (Pettigrew 1990). The unit of analysis of a study defines the boundaries of a case (cf. section 3.3.1). In contrast to non-exploratory nomothetic research, random selection of cases is neither necessary, nor preferable in qualitative research (Eisenhardt 1989a). It is not the quantity of cases but the quality of cases which is an evaluation criterion. From a practical point of view, though, Pettigrew (1992) and Yin (1994) argue that a selection of four to ten cases studied longitudinally over a three-year period is reasonable.

In comparative case studies, the investigator adopts theoretical sampling. Instead of convenience or random sampling, s/he deliberately selects both typical and a-typical cases that allow him/her to theorize on phenomena in a valid way. Ideal-typical cases[10] represent the empirical core of an emergent model. Cross-analyzing them results in the literal replication of findings. The analysis of each additional ideal-typical case confirms the outcome of previous ones. Investigators should also select a-typical cases. The analysis of a-typical cases produces contrasting results, however, for predictable reasons. This is what is called theoretical replication. Both literal and theoretical replication increase the internal validity of a study and of its resulting middle range theory (Yin 1994).

[9] Since case study research is relatively well documented from a methodological point of view, we do not repeat its tenets here. We refer to Bonoma (1985), Eisenhardt (1989a), Platt (1992), Miles and Huberman (1994), and especially to Yin (1994) for extensive and valuable discussions.

[10] When two or more cases are typical, this does not mean that they are to be identical. When a model is emerging, the investigator should look for so-called 'polar' cases. Polar cases confirm the propositions in the emergent model although they take an extreme position on one or more of the core dimensions of the model. Polar cases are important since they set the boundaries of the analytic generalizability of a study.

3.2.5.3 Retrospective Interviewing

In general, real-time longitudinal fieldwork is preferred over retrospective interviewing (Pettigrew 1973, 1997). A first problem with retrospective interviewing is that informants may not be able to recall the past accurately. This inaccuracy results from their level of involvement in the issue, inappropriate rationalizations, oversimplifications, faulty post hoc attributions, and simple lapses of memory. A second, but highly related problem is that time has sifted many data and the respondents will not report data, which they find irrelevant. Unfortunately, data deemed irrelevant by the respondent may not be so irrelevant for the study. A third problem is that respondents may try to present a socially desirable image of themselves or of their organization. These disadvantages lead to significant limitation of retrospective reports to allow for a reliable and valid identification of causes and effects during the reconstruction of a complex strategy process[11].

Although preferred, real-time longitudinal studies are not always feasible. For reasons of timing and funding, real-time studies rarely run for more than three years. Many strategy processes, however, span periods of more than three years. Moreover, in most cases at least part of the strategy process has to be past before some particular phenomena can be identified. The central phenomenon of our study – international market withdrawal – provides a clear illustration of this issue. Before a withdrawal can be identified and labeled as such, parts of the preliminary strategy processes that may be (causally) related to this withdrawal have to be past: the preparation for the internationalization, the commitment to a venture, the management and operation of the investment over a certain period of time, certain internal and external events, etc. As such, studying international withdrawal is retrospective per se.

[11] Although these limitations refer to the retrospective character of a study, many real-time studies too have to rely on interviewing instead of on participant-observation for primary data collection. However, in case of real-time interviewing at least the problems of selective recall and socially desirable answering remain intact. We refer to Dearborn and Simon (1958), Cannell and Henson (1974), Huber and Power (1985), Glick et al. (1990), Leonard-Barton (1990), Golden (1992), and Miller, Cardinal and Glick (1997) for an extensive discussion of the problems with retrospective reports and response bias.

Some (positivist) scholars may argue that "research using interviews involves a deceptive simplicity" (Kvale 1996: 12). However, we consider the semi-structured research interview[12] as the most important data collection technique for strategy process research in our ontological and epistemological perspective. Semi-structured research interviews aim at story telling. During the interview, the focus is on the past and the present relationship of the interviewee to (parts of) the phenomenon under investigation. Three data levels may emerge from semi-structured research interviews (Kvale 1996):

Data level I:	Factual, cognition-free information – e.g., "In 1989, we employed 15 Spanish workers",
Data level II:	Objective reproduction of past interpretations – e.g., "At that moment, I thought everything was lost",
Data level III:	Present interpretation of past events – e.g., "When I think about it now, leaving the market immediately would have been better".

It is important to distinguish between these three data levels because each data level requires a different analytic approach (cf. section 3.2.5.4).

Practically, an ideal semi-structured research interview takes between 1.5 hours and 3 hours, with an average of 5 to 8 statements or questions raised by the interviewer and with the interviewee taking about 90% of the interview time. In preparation of an interview a topic list may be designed. However, this topic list merely serves as a checklist and reminder for the interviewer, not as a questionnaire. While the interviewer should tease out the particular story of the interviewee, s/he should abstract and analyze on the spot. During the interview case-specific propositions should come up regularly. In these propositions, the interviewer may (1) confront earlier and later statements of the interviewee, (2) confront the interviewee's statements with findings from other cases or from the literature, and (3) experiment with if-then statements. As

[12] Kvale (1996: 6) defines the semi-structured research interview as: "an interview whose purpose is to obtain descriptions of the life world of the interviewee with respect to interpreting the meaning of the described phenomena". We refer to Kvale (1996) for a valuable introduction to effective and efficient research interviewing.

such, the internal validity of the study is increased. To allow for this active interview style, the interviewer should be in the midst of the study and s/he should have analyzed all previous interviews of this study as well as the literature that was deemed relevant. It seems evident, in this case, that there is no better interviewer than the researcher her/himself.

Scholars seem to agree that, though retrospective interviewing has significant disadvantages, it is an acceptable way of collecting data when triangulation is adopted as a central mode of inquiry (Eisenhardt 1989a; and Huberman and Miles 1998).

3.2.5.4 Triangulation

Since the risk of empirically faulty interview statements is high, triangulation is proposed as "a near-talismanic method of confirming findings" (Miles and Huberman 1994: 266). Indeed, the basic assumption of triangulation is that the weaknesses in each single data collection method are compensated by the counter-balancing strengths of another method (Jick 1979). Huberman and Miles (1998) broaden this perspective to: "Triangulation is less a tactic than a mode of inquiry. By self-consciously setting out to collect and double-check findings, using multiple sources and modes of evidence, the researcher will build the triangulation process into ongoing data collection" (p.199).

When informants are chosen not on a random basis, but because they have knowledge about and/or they were involved in an event, measurement error[13] tends to be relatively high and very difficult to assess (Phillips 1981). Huber and Power (1985) state that systematic error is an issue when the respondent is highly involved with the issue and random error is at stake when there is a relatively low level of involvement with the issue. Golden (1992) argues that in the case of key informant studies systematic error outweighs random error. While simple data-source triangulation mainly reduces random measurement error in the case of key respondent interviewing (Kumar, Stern and Anderson 1993), double data-source triangulation both reduces random and systematic error. On top of the characteristics of regular data-source triangulation, the 'double' variant requires two additional steps (Phillips 1981; and Huber and Power 1985):

1. Identify different issues of the study, for instance: the market environment, the informal decision-making processes, the corporate culture, etc.

2. Identify a set of respondents per issue in a way that the informants' unique perspectives are likely to be offset by those of other informants. For instance: on the issue 'corporate culture' do not install a set of three members of the Board of Directors but select, for instance, a member of the Board, a marketing manager and an external consultant.

On top of these general solutions to measurement error, we would argue that, the way the researcher should deal with apparently faulty statements, depends on the data level (cf. section 3.2.5.3). When objective, value- and interpretation-free information (data level I) is reported, the investigator can easily check the information via alternative (preferably secondary) data sources.

[13] Measurement error consists of systematic and random error. Considering key informants, random error may result from inappropriate rationalizations, oversimplifications, faulty post hoc attributions, etc. It increases when respondents are asked to make judgments about complex organizational issues instead of providing factual, value-free information. Systematic error results from the same cognitive processes if they are related to a non-random contextual factor (Phillips 1981).

However, dealing with level II information – objective reproduction[14] of past interpretations – is more problematic. Apparently faulty level II information on actual facts may be relevant for the analysis since these facts were perceived and interpreted as such by the respondent during the strategy process. In that case, the Thomas Theorem – if people believe ideas are real, they are real in their consequences – complicates the triangulation of findings (Kvale 1996). Primary data source triangulation can not validate level II information. Indeed, we are interested in the individual subjectivity of the different respondents (Strauss and Corbin 1994). Therefore, method and diachronic triangulation are valuable alternatives. For instance, method triangulation can be operationalized via a closed survey in which the respondent has to agree/disagree on statements that were drawn from one or more semi-structured interviews with this particular person. When diachronic triangulation is applied, the respondent is interviewed (at least) twice on the same subjects. However, a reasonable time interval should exist between the two interviews. Doing so prevents the respondent to remember the exact content of the first interview.

Level III information is the most complex to validate. When a respondent is interpreting past events during the interview – i.e., re-creating past events – s/he may have a good reason for doing so. A first reason may be the interviewer him/herself or the present interview context. Although interviewer interference is undeniably present in every interview, we try to avoid it[15]. The interviewer should guarantee the confidentiality of both the study as well as the interview. S/he should convince the interviewee that the study is not an investigation of what went right and what went wrong. Furthermore, leading questions should be balanced by other leading questions in a different direction. A second reason for interpretations during the interview may be situated in the strategy process itself.

[14] Within the subjectivist approach of this study, one might even question the existence of level II data. In an orthodox subjectivist perspective, all information is at level III.
[15] Although ours is a subjectivist/relativist study, it is a fundamental standpoint that subjectivity remains with the investigated subject and not with the investigator (cf. section 3.4.2.1 on objectivity in a subjectivist perspective).

Both laddering[16] and primary data source triangulation may be required to understand (1) why the respondent 're-created' past events, and (2) why the respondent did it in that particular way. Table 3-5 summarizes the specific perspective on triangulation that is required for each of the three data levels that emerge from an interview.

Data level	Typical errors	Triangulation
I: Objective data	Random and systematic error	Secondary data source triangulation
II: Objective reproduction of past interpretations	Random and systematic error	Method triangulation, diachronic triangulation
III: Present interpretation of past event	Interviewer interference Random and systematic error	Primary data source triangulation Laddering

Table 3-5: Triangulation on three data levels

3.2.5.5 Pattern Matching Logic

In general, few standard analytic rules or conventions exist in qualitative research communities (Kvale 1996). This is due to the relative novelty and the small extent of cross-disciplinary communication about qualitative analysis as well as due to the richness and the complexity of the subject matter. Pattern matching logic is proposed as a general analytic strategy for this study (Yin 1994). Considering our epistemological standpoint, this choice seems evident.

In section 3.2.4.2, it was discussed that when people learn, they put related events into timeless categories. As such, individuals compose timeless patterns of abstracted events. The comparison of presently perceived events and relationships between these events to timeless patterns allows the agent to act, to react or to refrain from action. In

[16] Laddering is an interview technique that allows an interviewer to uncover an interviewee's means-ends chains. The basic approach assumes that attributes relate to consequences, which in turn relate to basic values. In practice, the interviewer regularly probes with "Why ?" questions. We refer to Reynolds and Gutman (1988) for a valuable fist insight.

fact, pattern matching logic is nothing else than a scientific version of this learning process. In section 3.2.4.1, middle range pattern models were identified as a basic type of explanation and the ultimate aim of strategy process research. In pattern models, an event is explained by its relationships to other events.

Basically, with pattern-matching logic the analyst "compares an empirical based pattern [of events] with a predicted one (or with several alternative predictions)" (Yin 1994: 106). Typically, pattern models are described as chains of process propositions. These process propositions consist of hypothesized relationships between abstracted events. Pattern models that emerge from single cases are compared to each other (literal and theoretical replication) and to pattern models described in the extant literature (analytic generalization). In section 3.3.4, Inferential Pattern Coding and Degrees of Freedom Analysis are discussed as techniques to implement pattern matching logic.

3.3 RESEARCH DESIGN

In this part, the research design of the empirical study is presented. The structure of this chapter may allude to a strictly linear non-recursive progression of the research process through four delineated stages of case selection, data collection, data analysis and theory elaboration. However, this strategy process research itself is 'processual' (Pettigrew 1973). The actual research process deliberately departed from a static and pre-programmed structure for two reasons.

Firstly, grounded theory methodology was adopted as a general methodology (cf. section 3.2.5.1 above). As the iteration between data collection, data analysis and theory elaboration is an essential characteristic of grounded theory methodology, all stages of the research process consisted of these three elementary research actions to some extent. Moreover, case selection, respondent selection, and even validating efforts were performed throughout the study without having a pre-assigned and unique place in the research process. For instance, implementing the logic of theoretical replication (Yin 1994) urged us to select cases that did not fit into the emergent theory. As such, case selection had to follow data analysis of a previous case.

Secondly, the empirical work was divided into two separate field studies. The first is a comparative study of four export withdrawal cases in four SMEs. The second is a comparative study of eight cases of international withdrawal in four major multinationals. We refer to these as Study I and Study II respectively in the remainder of this chapter[17]. The fieldwork of Study I was performed between September 1997 and January 1998, including the preliminary literature review and the intermediate stage of theory elaboration. Study II was performed from January 1999 to December 1999. There were three main reasons for dividing the empirical work into two separate field studies:

[17] References to 'the study' in the remainder of the text allude to the entire empirical work (i.e., Study I *and* II).

1. We decided to limit the scope of Study I to export withdrawals within the frame of internationalizing small or medium sized enterprises (SMEs)[18]. As such, we intended to reduce the complexity of Study I without missing the core of the withdrawal process. Building upon the findings of Study I, we broadened the scope of Study II to non-export withdrawals in multinationals and global firms[19].

2. As we expected the fieldwork of Study II to be more complex, we hoped to gain fieldwork experience from Study I and to learn a lot on how to identify cases, select *and* motivate individual respondents, interview, process data, etc.

3. For reasons of manageability, we were not eager to set up a comparative study of 10 or more cases at the same time. With the aim of setting up a strategy process study, Pettigrew (1992) suggests that a selection of four to ten cases is a reasonable number to study from a practical point of view.

During the study, we forced ourselves to extensive theory elaboration and we wanted to take enough time for abstraction, presentation and discussion with peers. For instance, the conceptual framework and (parts of) the emergent strategy process theory that resulted from Study I were presented at two international conferences (the American Marketing Association (AMA) Summer Conference and the European Marketing Academy (EMAC) Conference), at an international research forum (the Consortium for International Marketing Research - CIMaR), is published in the Journal of International Marketing and accepted for publication in Psychology and Marketing[20]. The remarks and the suggestions of the reviewers turned out to be very helpful in critically assessing both the research methodology and the emergent middle range theory.

[18] Export is considered as a low-risk/low-commitment entry mode and both entry and exit barriers are relatively low (Porter 1976; Root 1994). Therefore, it is expected that: (a) *export* withdrawals occur more often than exits in the case of 'higher order' entry modes, and (b) the decision making process of an export withdrawal is more straightforward. Furthermore, we exclusively focused on SMEs. We expected that in SMEs less people are involved in the withdrawal decision making process.
[19] In the introduction to Chapter 6, we assess whether Study I in fact serves a empirical point of departure for setting up Study II.
[20] Pauwels and Matthyssens (1998a) and (1998b), Matthyssens and Pauwels (1998), van Everdingen, Matthyssens and Pauwels (1999), Pauwels (1999), Pauwels and Matthyssens (1999), and Matthyssens and Pauwels (forthcoming august 2000).

At the risk of oversimplifying the actual process, Figure 3-2 presents the research process of this study in a comprehensible input/analysis/output perspective. This process is presented in more detail in the remainder of this chapter.

STUDY I **A comparative study of four export withdrawal cases by four SMEs in a business-to-business context**	**Input:**	A conceptual frame, case data
	Analysis:	Inferential pattern coding via sequential incidents networks and a causal network across cases
	Output:	A preliminary strategy process framework, including a preliminary chain of process propositions
STUDY II **A comparative study of eight international withdrawal cases by four multinationals in a business-to-business context**	**Input:**	Output Study I, case data
	Analysis:	Inferential pattern coding using NUD*IST
	Output:	A descriptive strategy process theory of international market withdrawal, including a chain of process propositions
ANALYTIC GENERALIZATION	**Input:**	Causal networks of Study I & II, competing theories
	Analysis:	Degrees of freedom analysis
	Output:	A 'middle-range' explanatory strategy process theory of international market withdrawal

Figure 3-2: The research process

3.3.1 Levels and Unit of Analysis

The basic unit of analysis of this study is the withdrawal process from an international product/market combination (PMC). The study is limited to an in-company analysis of the antecedents, the (sub-)processes – both decision making and implementation – and the consequences situated within an inner (e.g., the corporate strategy of the firm) and outer (e.g., local market dynamics) context of this event. Throughout the analysis of the cases embedded units of analysis, which merited closer attention, did emerge (Yin

1994). For instance, it seemed very relevant to take a closer look at the bargaining process between middle managers who were assigned to a PMC, and the top-management, who wanted to withdraw from that particular PMC. It was, however, impossible to identify these embedded units ex ante. As a chain of process propositions emerged from Study I, we probed for the existence of the proposed sub-processes in Study II. Nevertheless, others could and did emerge in cases of Study II.

Four levels of analysis were identified: the corporate level, the product/market level, the functional level and the (inter)personal level. The analysis had to be performed on each of these four levels for us to be able to understand the withdrawal processes in the twelve cases. Some stages of the withdrawal process were best understood when adopting a corporate level, while others definitely required an interpersonal point of view. Still others required a multi-level perspective. Typically, changes on a higher level of analysis could be (partly) explained by events that had occurred on lower levels of analysis and vice versa.

3.3.2 Case Selection

In qualitative research, random sampling is neither necessary, nor preferable. Not the statistical but the analytical generalizability is a quality criterion in this type of study (Eisenhardt 1989a, Miles and Huberman 1994). Therefore, we carried out theoretical sampling in which we selected cases with particular characteristics that could confirm, strengthen or refute the emergent theory. Theoretical sampling promises to generate a wide range of propositions and it provides a solid foundation for the emerging middle range theory through literal (i.e., the prediction of similar results) and theoretical (i.e., the production of contrasting results for predicted reasons) replication (Yin 1994). Both ideal-typical cases as well as polar cases were selected.

During the sampling, we were confronted with four major challenges: (1) identifying cases, (2) controlling for context variables, (3) finding the appropriate cases, and (4) convincing respondents to cooperate. In the following section, these challenges will be briefly discussed.

Although we were convinced of the fact that many international withdrawals were ‘out there’ as a result of decisions made by multinationals, other scholars had already pointed out the negative connotation of exit decisions and the consequences for academics who wanted to study them (Fletcher 1997; and Benito and Welch 1997). Therefore, we were afraid of not finding (enough) companies willing to cooperate. Typically, these decisions are kept secret from the outside world[21]. None of the international withdrawals that we studied, had been covered in the business press or even in non-confidential corporate publications. We checked with the Belgian Foreign Trade Office (BDBH), the Flemish Foreign Trade Office (Export Vlaanderen), the Flemish Foreign Investment Office (FFIO), Dun and Bradstreet and with the Belgian National Bank (NBB) for the availability of databases that could provide a list of recent international withdrawals in certain industries. Only the NBB was technically able to provide data on, for instance, dramatic sales drops by Belgian companies in certain countries. As such, proxies such as these could have revealed (some) international withdrawals. However, this database is strictly confidential and no data at the level of the individual firm could be used. As such, it was of no use for this study. As a consequence, we did not find any secondary database, which could serve as a (neutral) point of departure for case selection.

Therefore, we started by contacting acquaintances of whom we thought they were knowledgeable about the internationalization behavior of certain firms (e.g., consultants, employees of industry federations, foreign trade agents, top managers, etc.). As such, we relied upon a convenience sample.

[21] Even within companies, both small and large, past international withdrawal are taboo subjects and become non-events soon after they have been implemented. For instance, we came across companies in which even top-managers were not aware of major international withdrawals that were decided upon in neighboring divisions.

A second challenge was to control for context variables. In a first trial, we searched for a number of withdrawal cases in one particular industry. As such, we could have controlled for macro-economic, technological, competitive and other context variables during the analysis. Although we screened several industries, we did not succeed in finding enough relevant cases within one particular industry. Many companies refused to cooperate just because of this narrow focus[22]. Therefore, we released this objective for Study I and changed it for Study II. While sampling for Study II, we only selected a case, if another case was available in the same company. The longitudinal analysis of the two cases within one company turned out to be very interesting from an organizational learning perspective, for instance. Although the impact remains limited, we additionally controlled for context variables by only selecting companies that were operating in a business-to-business environment and by focusing on SMEs in Study I and on major international companies in Study II. Nevertheless, we firmly acknowledge that a single industry sample would have increased the internal validity of our emergent middle range theory.

A third challenge was to find appropriate cases. As it was discussed earlier, theoretical sampling requires selecting ideal-typical cases – i.e., cases that are illustrative for the core of the theory – as well as polar cases – i.e., cases that indicate the theoretical limits of the theory on one or more dimensions. However, it was impossible to distinguish between ideal-typical and polar cases before the tenets of the emergent middle range theory became clear. Therefore, in Study I we selected polar cases on three dimensions (cf. section 3.3.2.1 below). In respect to the preliminary process model, which emerged from Study I, we were able to distinguish between ideal-typical and polar cases in Study II. Nevertheless, it remained very hard to distinguish among them a priori.

[22] To the contrary, interest in the study grew when we informed potential respondents that we would replicate this study in a number of other well-known companies outside their business. We revealed the names of the companies that were involved in this study to all respondents. Definitely, most respondents saw a benchmarking potential in this study.

The fourth challenge was to persuade the management to cooperate in this in-depth study, as this study required access to the core of the decision centers of the companies. We did not contact companies for budget and time limitations if headquarters were not situated in the Benelux. Furthermore, getting access up to the CEO level in both small and large companies would have been impossible, if we had not relied upon direct and indirect personal contacts. Although these contacts opened the door to a first personal meeting with the CEO, we do not belief they influenced the further research process as none of the other respondents were informed on how we had selected and contacted their firm. Next, we elaborate on the specific sampling procedures of both studies.

3.3.2.1 Sampling Procedure of Study I

Based on informal contacts a limited list of thirty SMEs, which were alleged to have taken an export withdrawal decision in the recent past, was drawn up. Next, the secretary of the CEO of each of these firms was contacted and s/he was asked to give the names of 'the best informed man or woman' on this subject. When these persons were contacted, some replied that their company had never taken an export withdrawal decision. Secondary information revealed that this was probably incorrect. However, a negative reply gave the respondents the opportunity to refuse further cooperation. Two respondents confirmed that an export withdrawal had taken place but they preferred not to cooperate because of the confidential nature of the decision. For each case we performed a quick scan. Cases in which exports to a particular market had been abandoned in favor of entry modes that provide greater control over foreign activities (e.g., a joint venture or foreign direct investment) were not retained because their commitment to the particular venture had increased, not decreased.

Eventually, we selected four polar type cases from a general marketing strategy point of view. To our knowledge, a specific theory or typology regarding the export withdrawal process, which could indicate the relevant dimensions for the required polarity, does not exist. For this reason, three dimensions have been selected from a broader international marketing perspective (Table 3-6): (1) market entry strategy: active versus reactive export start (see e.g., Piercy 1981 for the relevance of this dimension), (2) the perceived strategic importance of this venture to the company, and (3) the evolution of the profitability of the venture. No indication was found in the literature that these observable dimensions would correlate per se. Table 3-6 summarizes the four selected cases.

Company	Alpha	Beta	Gamma	Delta
Business Activity	Production and sales of fashionable consumer textiles	Production, sales and rental of tents for professional use	Production, sales and rental of modular building systems	Production and sales of silos for non-liquid raw material storage
Annual Turnover of the Firm (1999)	$ 9 million	$ 14.3 million	$ 24 million (Belgian subsidiary)	$ 51.7 million
Average Export/Sales Ratio	95 %	50 %	15 %	Fluctuating between 50% and 70%
Case	USA	Poland	France	France
Type of Withdrawal	Full exit	Full exit	Full exit	Full exit
Strategic Importance of this Market	High	High -> Low	Low	Medium
Active vs. Passive Market Entry in this Country	Passive: unsolicited order after international trade fair	Active: personal initiative by company owner	Active: extensive market research and low-profile entry	Passive: major unsolicited order
Initial Positioning in this Export Market	Niche player	Market creation - pioneer	Market leader in top segment	Market leader in top segment
Profitability of this Export Market	From acceptable profits to marg. cost > marg. revenue	Never made a profit	Never made a profit	Initially very profitable
Number Years in this Export Market	1989 – 1995 : 7 years	1992 – 1996 : 5 years	1994 – 1996 : 3 years	1988 – 1996 : 9 years

Table 3-6: Overview of the cases of Study I

3.3.2.2 Sampling Procedure of Study II

For study II, we selected eight cases of international – not necessarily export – withdrawal within the frame of larger multinationals. Although the difference between the lowest and highest turnover of the four selected companies is very large ($ 131 million versus $ 22.3 billion), all four companies are among the biggest enterprises in their industry worldwide and all four behave as market leaders. However, not all four companies are 'geocentristic' players in the sense of the EPRG model (Perlmutter 1969) or 'global' competitors in the sense of Bartlett and Ghoshal (1991). We deliberately selected companies that held a different position on the EPRG continuum as it had been described by Perlmutter (1969) and by Wind, Douglas and Perlmutter (1973) (cf. Table 3-7). Although we could not differentiate between the cases of Study I on this dimension, we expected that a different position on the EPRG continuum would largely influence the strategy process of an international withdrawal. The four companies in Study II have been selected with this criterion in mind. We aimed at selecting both polar cases and ideal-typical cases within the frame of the results of Study I. However, it turned out that a quick scan was not enough to screen cases for this purpose. More than once this quick scan had misled us. Sometimes, what had been considered as an ideal-typical case, turned out to be a polar case and vice versa. Furthermore, we withheld three cases from this study, after they had partly been analyzed. In one case, the decision to withdraw was taken more than 10 years ago and not enough data could be collected to analyze the case fully. The other two cases turned out not to match our definition of an international withdrawal. Table 3-7 gives an overview of the cases of Study II.

Company	Kappa		Eta		Lambda		Sigma	
Business Activity	Trading of second hand trucks and parts		Photographic and imaging		Telecommunication systems and equipment		Industrial engineering, processing and contracting	
Stage in the EPRG-Model	ETHNO -> Regio		Global ↔ Ethno -> Regio		Global		Ethno -> REGIO	
Annual Group Turnover (1999)	\$ 131 million (1997)		\$ 4.3 billion		\$ 22.3 billion		\$ 2.4 billion	
International/ Total Sales Ratio	90%		85%		83%		65%	
Case	**Spain**	**Belgium**	**Japan**	**Germany**	**Turkey**	**Russia**	**Brunei**	**UK**
Type of withdrawal	Reduction of commitment	Full exit	Full exit	Full exit	Reduction of commitment	Reduction of commitment	Full exit	Full exit
Strategic Importance of this Market	Medium -> High	High -> Low	High -> moderate	High	Medium	High	Low	High -> Low
Initial Positioning in this Market	Full market coverage	Full market coverage	Strategic penetration in niches	Full market coverage	Full market coverage	Market creation - pioneer	Project based	Full market coverage
Profitability of this Venture	High -> losses	Medium -> losses	Losses	High	Medium -> Low	High -> Losses	High -> Medium	High -> Losses
Number of Years in the Market	1980 – 1990 10 years	1977 – 1996 19 years	1973 – 1998 25 years	? – 1998 > 20 years	1983 – 1995 12 years	1983 – 1998 15 years	1985 – 1995 10 years	>1970 – 1999? > 30 years

Table 3-7: Overview of the cases of Study II

3.3.3 Data Collection and Data Source Triangulation

Data collection did not follow a prescribed procedure. Although we decided that interviewing would be the prime data collection method, we did not know in advance who we would interview, how many times we would interview them, and how many interviews we would hold per case. As the data collection strategy of Study I is comparable to the one of Study II, we do not discuss these separately. Three data collection methods have been applied: interviews, collection of secondary material, and a survey.

3.3.3.1 Interviews

Table 3-8 and Table 3-9 give an overview of the interviews that have been held in Study I and II. The first interview was held with the ‘best informed man or woman in the company’ (Study I) or with a member of general management (Study II). New respondents were contacted as the data collection proceeded and as new elements of the withdrawal process were revealed. After every interview, we asked the respondent to inform us about the importance and role that the persons mentioned during the interview had had within the decision-making process. These persons were contacted, as we tried to interview everybody who had been involved in the withdrawal process. However, in some scarce instances we were not allowed to interview a particular person because in the mean time s/he had left the company in the mean time and had been labeled ‘untrustworthy’ by some other respondents. In two other cases, a person refused cooperation.

A topic list was used to structure the interviews (see Appendix A). This basic topic list had been used earlier and had been optimized after an exploratory study of ten international withdrawal cases by Dutch medium-sized and large companies (van Everdingen, Matthyssens and Pauwels 1999). The topics followed the logic of the research questions and had been drawn from an extended literature review on the internationalization of the firm, on foreign direct divestment and on corporate strategies in declining markets (cf. Chapters 2 and 4, 6 and 7). The aim of this topic list was not to provide specific questions but to serve as a checklist for the interviewer. In practice, the interviewee was asked to tell his or her story of the case. If the respondent did not discuss one of the reference topics spontaneously, the interviewer raised it.

Cases	Interviewee	Number of Interviews	Hours of Interviewing
Alpha	General Manager	2	2.5
Beta	Marketing & Sales Manager	2	3.5
	Export Manager Eastern Europe	2	3.5
Gamma	General manager Belgian plant	2	2.5
	CEO Holding company	1	1.5
Delta	Marketing & Sales Manager	2	2
All	General Director of the Belgian Foreign Trade Office	1	1.5
	Provincial Advisor of the Flemish Foreign Trade Office	1	1.5
	Juridical Advisor of the Belgian Foreign Trade Office	1	1.5
TOTAL		14	20

Table 3-8: Overview of the interviews of Study I

All interviews were tape-recorded and transcribed in interim reports. These individual reports were returned to the respective respondents together with the descriptive case summaries[23] for two reasons. First, we wanted to be sure that all information was 'correct' in the eyes of the respondent and that no factual errors remained in the reports or in the summaries. Secondly, we had made an agreement with all interviewees that they would get a written copy of their interview to allow them to indicate extracts that had to remain strictly confidential.

[23] Each interview was transcribed verbatim in a 8 to 15 paged single-spaced interim report. All interim reports of one particular case resulted in a 3 to 6 paged descriptive case summary. The summaries of the cases of Study I and Study II are presented in Chapters 5 and 6 respectively. All confidential information has been disguised.

Companies	Interviewee	Number of Interviews	Hours of Interviewing
Kappa	General Manager	1	3.5
	Marketing & Sales Manager	1	2.5
	Sales Executive Belgium	1	2.5
Eta	Member of the Board of Directors	1	1.5
	General Manager Business Group X	1	2
	International Marketing Manager Div. X_1	1	2.5
	Marketing and Sales Director Division X_2	1	1.5
	Regional Export Manager Division X_2	1	2
Lambda	Area Vice President	1	1
	Area Director Management Support and Organization Development	1	2
	Area Manager Marketing & Business Development	1	2
Sigma	Former Group President Division A	1	2.5
	Project Engineer Manager Division A	1	2
	Commercial Director Division B	1	3.5
	Manager Division A – UK[24]	1	0.5
TOTAL		15	31.5

Table 3-9: Overview of the interviews of Study II

3.3.3.2 Secondary Data

The availability of relevant secondary data was limited. In every interview we asked for meeting notes, market research reports, memos, etc. that could be of any relevance for the analysis of the case and against which we could triangulate the interview data. Except for the annual company report, some confidential market reports and a handful of internal presentations, not many documents (still) existed or were revealed. If we were allowed to consult this material, in most cases, the provider asked us not to mention the existence of the documents as such. We then searched for relevant

[24] Recently a new manager for division A was appointed in the UK. As this man came over from another company, he was hardly aware of the situation yet. He could only provide us with some factual data.

published material about the enterprises and the cases via the Internet and the search engines of the university library. Apart from a single scientific journal article of the internationalization process in case Lambda's industry, and some general articles in the international business press, the result of this search operation was poor too.

3.3.3.3 A Survey

In Study I, a survey (see Appendix B) was built into an interview follow-up, which was sent out at the end the cross-case analysis. The aim of this interview follow-up and survey was mainly to increase the internal validity of the analysis and to reveal remaining incompatibilities between the data and the outcome of the analysis. The questionnaire consisted of conditional statements on the international withdrawal processes and sub-processes as we had interpreted them during the within- and cross-analysis. The respondents were asked to rate these statements on a bipolar scale ranging from "totally disagree with this statement" to "totally agree with this statement". A questionnaire was sent to all interviewees except to the external experts. Although, all respondents replied in due time the added value of this survey was limited. Respondents commented that the statements were to abstract and they had to be considered in a particular context[25]. In Study II, the interview follow-up consisted only of section 1 (case description) and 2 (summary of the interview) (see Appendix B).

3.3.3.4 Additional Data Source Triangulation

As it was discussed in section 3.2.5.4, data source triangulation goes along data analysis. When the initial interviews were analyzed, we attempted to triangulate the findings. First, in Study I we were able to interview most respondents a second time (diachronic triangulation) a couple of weeks after the first interview. Some important

[25] An attentive reader of this chapter suggested that this validating effort could have been more successful if respondents had been confronted with scenarios (instead of statements) within the frame of a conjoint analysis. As such, respondents could have evaluated less abstract and more rich presentations of decision-making (sub-)processes. Although it holds great potential, building scenarios of longitudinal processes is a complex effort. In fact, these scenarios run the risk of being less internally valid than the original data of which they were derived.

or unclear subjects were raised again in the second interview. In Study II, an important overlap with respect to the content was created between the interviews of a particular case (synchronic triangulation). Particular subjects were discussed in every interview and interviewees were confronted with opposing opinions of other respondents, however, without revealing that these were opinions of some of their colleagues. After the analysis, it can be argued that synchronic triangulation proved more effective given the relevance of political decision-making and the formation of coalitions in the withdrawal decision-making process.

In addition, we tried to contact external experts (i.e., knowledgeable but neutral) to the case and/or to the company. In Study I, we identified three experts from the regional and federal foreign trade offices. All three experts were familiar with at least two of the cases and all four cases were covered (cf. Table 3-8). In Study II, interviewing outside the 'company walls' was not allowed for reasons of strict confidentiality. Nevertheless, we were able to interview people who were knowledgeable about the case but who were affiliated to another division. When the two cases of a company were situated in different divisions, we asked respondents of division A about the case in division B and vice versa (cf. Table 3-9).

Additional data source triangulation was not possible due to budget and time restrictions. Moreover, strict confidentiality did not allow us to contact facilitating agencies such as suppliers, customers or banks.

3.3.4 Data Analysis

Within the frame of grounded theory as a general methodology of qualitative study, we adopt pattern-matching logic as the prime mode of analysis (cf. section 3.2.5.5). In this section, we discuss Inferential Pattern Coding (IPC) and Degrees of Freedom Analysis (DFA) as the prime analytical techniques that we use in Study I and II. Figure 3-3 graphically presents this analytical embeddedness.

The ultimate outcome of this study is an explanatory middle range strategy process theory of international market withdrawal. This emergent theory is presented as a textual (i.e., chains of propositions) and as a graphical model in the final chapters of this dissertation. However, this explanatory result rests largely incomprehensible for the reader if we do not present case summaries (Chapters 5 and 6) of each case and descriptive theories which result from the analysis of the cases (Chapters 5 and 7). The principal aim of these descriptive theories is to "make complicated things understandable by reducing them to their particular component parts" (Huberman and Miles 1998: 188), or what Kvale (1996: 193) calls "meaning condensation".

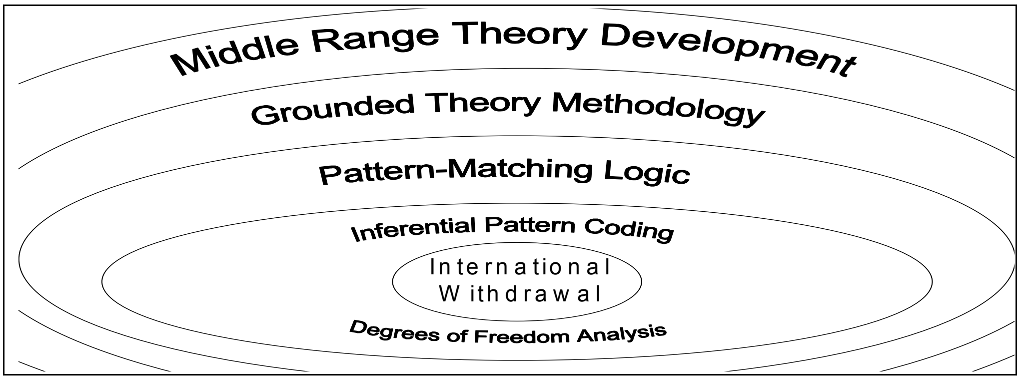

Figure 3-3: The embeddedness of the analytical approach

Inferential pattern coding, degrees of freedom analysis, etc. are merely techniques to facilitate the interpretation of the data. In themselves, these techniques do not provide or guarantee a valid analysis. Therefore, reading[26] the interviews remains the prime way to a valid interpretation of qualitative data. Four reading styles were explicitly adopted (Kvale 1996):

- Veridical reading — Considering the respondent as a neutral informant, we read factual data.

[26] We returned to the tapes to listen to the extracts regularly. Not only the content of the message, but also the context of the message helped us to explain the meaning of what was said. Intonation, pausing, laughing, speed of talking, etc. allowed us to refine our interpretation.

- Experiential reading	Considering the respondent someone who experienced the phenomenon, we read his or her experience.
- Symptomatic reading	Considering the respondent as a subjective person who makes sense of an experience, we read his reasoning.
- Consequential reading	Considering the respondent as a pro-active agent in the phenomenon, we read the consequences of what the respondents believe.

Next, we elaborate how data in Study I and II was technically analyzed.

3.3.4.1 Inferential Pattern Coding

From an analytical point of view, the aim of both Study I and II is to come to chains of process propositions that comprise the patterns of events, which are derived from the data. These chains are meta-patterns themselves and serve as the basis for an emergent middle range theory. The prime analytical technique is inferential pattern coding (IPC) that follows a process of literal and theoretical replication. Equivalent to cluster and factor analytic devices in multivariate analysis of quantitative data, IPC (1) reduces large amounts of data into smaller numbers of analytic units or incidents, (2) helps elaborating maps (charts or matrices) for understanding incidents and the (causal) interactions between abstracted events, and (3) 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 analytical process as it is described by Miles and Huberman (1994: 90-237). Next, we discuss the three analytical steps of IPC in Study I: (1) pattern coding, (2) drawing of within-case sequential incident networks, and (3) drawing of a causal network across the cases. In section 3.3.4.2 we discuss how we performed IPC with data analysis software in Study II.

Pattern coding. On the basis of the research questions and the initial conceptual framework a start list of codes (Table 3-10) was drawn up before analyzing the interview transcripts. Coding aims at abstracting the role of an event into its context.

Through several iterations of transcript coding, the code list was further detailed and codes became less descriptive and more interpretative (Table 3-11 for examples).

Start List of Codes	**Market Commitment**	**Stress**	**Strategic Flexibility**
Drivers	D/COMM	D/STRESS	D/FLEX
Organizational Process	P/COMM	P/STRESS	P/FLEX
Outcome	O/COMM	O/STRESS	O/FLEX

Table 3-10: Start list of descriptive codes

Ultimately, the coding process evolved towards the identification of patterns. Pattern codes are explanatory codes that identify emergent themes, scenarios, configurations, etc.. Isolated interpretive codes are integrated into a limited number of pattern codes. These pattern codes remain abstracted representations of chains of events. Typically four types of pattern codes emerged:

- Themes (e.g., "top management does not like to be troubled with problems in poorly performing subsidiaries")
- Causes/explanations (e.g., "a quick withdrawal is a successful withdrawal")
- Relationships among people (e.g., "you know, manager X acts like the CEO thinks")
- Emergent constructs (e.g., "implicit bargaining among agents")

Interpretive Codes	Critical Incident
D/COMM/internal	Case Beta: "Not the problems in the market but the internal pressure made us decide to quit."
D/STRESS	Case Alpha: "In our industry, a market exit can be planned far ahead. We know the recurring market evolutions and we know our strengths and weaknesses in each phase."
P/COMM/context	Case Gamma: "At the time additional investments were needed in this particular market, the company evolved from a growth strategy to a survival strategy."
P/COMM/escalation and P/STRESS	Case Delta: "In fact, this withdrawal came too late. But, you know, we kept on trying because top management insisted."
O/COMM and O/STRESS	Case Beta: "With this exit we created a tabula rasa; all activities in that market were reduced to zero. From a different starting point we can now build it up again."
P/FLEX/opportunities	Case Beta: "All important arguments came from the lost opportunities, which were perceived at different levels in the organization."

Table 3-11: Examples of interpretive data coding for Study I

Within-case sequential incident networks. A network between events started to emerge when all relevant patterns were integrated sequentially. As such, a sequential incident[27] network was drawn for each case (see Appendix C for an example).

Cross-case causal networking. Through cross-case comparison, a causal network emerges which displays abstracted events and the longitudinal relationships between them. The plot of these relationships is directional, rather than solely correlational. The basic input for the causal network are the pattern codes that were integrated into the sequential incident networks.

By means of comparison and step-by-step integration across cases, the pattern codes got qualified, i.e., the conditions under which patterns hold, were further specified and

[27] In our perspective, the notion of 'incident' is equal to the notion of 'event' (cf. section 3.2.2). Although we use the term 'event' throughout this chapter, we deliberately apply the term 'incident' here in reference to the Sequential/Critical Incident Technique that has proven its efficacy in, for instance, the service quality literature (e.g., Bitner, Booms and Tetreault 1990; Stauss and Hentschel 1992; and Stauss and Weinlich 1996).

their explanatory power was evaluated. Due to the literal and theoretical replication logic, not every pattern was identified in all cases. However, unless they contradicted, all patterns were potential inputs for the cross-case causal model. When patterns seemed to contradict, we adopted three selection rules in the following order:

- further limit conditionality through intermediate events that emerge from the cases and include both patterns,
- iterate with the extant theory and include the pattern that is most supported in the literature,
- exclude both.

When building a causal network, the problem of causal complexity may come up. Typically, this endeavor becomes chaotic and it soon results in an extremely overspecified and trashy network. Parsimony of the causal network is striven for by means of permanent questioning of the relevance of each node and relationship in the network. One tactic to control this complexity is the identification of types of progression in the network. When building the network, we regularly isolated chains of patterns that resembled 'pure' progression types as they are defined in Van den Daele (1969) (see Appendix D). As such, we could, for instance, delete meaningless loops or identical trajectories.

Strategy process propositions. When a causal network emerged, logical chains of patterns (what Miles and Huberman 1994 call 'streams of relationship') could be identified in the network. These chains represent underlying processes. In our study these are the drivers of the strategy process. Process propositions could be derived from these logic chains fairly easily.

3.3.4.2 Inferential Pattern Coding with NUD*IST

The procedure that was followed for the within- and cross-case analysis in Study II is methodologically identical to the procedure that was followed for Study I. The main technical difference between Study I and Study II was the use of QSR NUD*IST 4 in the latter. NUD*IST[28] is a widely used and regularly updated Windows-based software tool for computer aided qualitative data analysis. In analogy with the general procedure for inferential pattern coding, the analytical process that was followed with NUD*IST can be summarized in four stages:

Stage 1: Setting a basic framework. An initial analytical framework was created on a double basis: (1) the descriptive model of Study I (cf. Chapter 4), and (2) additional reading of a limited number of conceptual and empirical works that were considered as fundamental to this study: Aharoni (1966), Allison (1971) and Burgelman (1994). This framework consisted of the basic nodes and their interrelationship that were to be used in the following stage.

Stage 2: Inferential pattern coding. Firstly, all interview transcripts were coded using the nodes that were defined in the initial framework. Secondly, case-specific working propositions were formulated. These working propositions were linked to coded interview parts.

Stage 3: Iteration with the extant literature. The working propositions that emerged from Stage 2 steered extensive additional reading in an effort to find studies that supported or refuted the inductive propositions. As a consequence, the analytic framework was refined. The output of this stage was a refined analytical framework in which nodes were linked to coded data, as well as to node-specific working propositions with extensive references to supporting and/or refuting literature.

Stage 4: Causal networking. In the final stage, (1) we recoded the data using the list of propositions that emerged from Stage 3, (2) we rearranged the node-specific propositions as a result of this recoding, and (3) we refined and reorganized the

[28] We did not find a neutral evaluation report in which this particular version of NUD*IST was evaluated against alternative software tools. Nevertheless, we are confident that the positive evaluations of earlier versions of NUD*IST such as in Richards and Richards (1998) and the fact that other qualitative researchers regularly report adopting NUD*IST as a device for the implementation of a pattern matching logic, gives an indication about its appropriateness.

analytical framework to represent the logic of withdrawal process as it had been captured in the underlying propositions. Appendix E provides an elaborate discussion and illustration of each stage of the analysis of Study II using NUD*IST.

3.3.4.3 Analytic Generalization: Degrees of Freedom Analysis

At this point in the analytic process, we have evolved towards an explanatory theory of international market withdrawal through literal and theoretical replication. Next, the aim is to generalize these findings within the scope of the extant theory.

Degrees of freedom analysis (DFA) is a final analytical stage in the pattern matching logic. Traditionally adopted by quantitative researchers, Campbell (1975) developed DFA in the framework of qualitative theory creation. The heart of DFA is the development and testing of a prediction matrix. The statements in the prediction matrix are equivalent to hypotheses in the sense of traditional statistical hypotheses testing. In fact, DFA validates the emergent strategy process theory against established theories. In this way, we assess the analytical generalizability of the chains of process propositions. A priori, we expect that the emergent theory agrees with the extant theories on the majority of characteristics. However, to be unique, the emergent theory differs from the extant theories in some issues. Assuming non-inconsistency between the fundamental assumptions of the theories, the ultimate aim is that, overall, the emergent theory does a better job in explaining the particularities of the cases than competing theories do.

Applying DFA, we largely follow the procedure described by Campbell (1975), Wilson and Wilson (1988), Fontenot and Wilson (1997), Wilson and Vlosky (1997), and Wilson and Woodside (1999). In DFA, each theory is represented by a bundle of 'scores' on a number of parameters. Together these parameters are able to grasp the full specificity of the theories. The parameters we apply are the six dimensions of strategy process research (Frederickson 1983): (1) motive for initiation, (2) concept of goals, (3) relationships between means and ends, (4) concept of choice, (5) analytical comprehensiveness, and (6) integrative comprehensiveness (cf. Chapter 1 for a discussion). Next, we set the chains of strategy process propositions that resulted from Study I and II against theories that compete with these chains for a better explanation. The chain of strategy process propositions is not retained unless a lot of aspects of its pattern (cf. the 'parameter scores' in quantitative research) match with the researcher's observation in a better way than the 'parameter scores' of the competing established theories. The more of the pattern that can be matched, the more confident one is that the diagnosis is accurate and not subject to systematic bias.

3.4 ASSESSMENT AND VALIDATION OF THE STUDY

Assessing research means evaluating rigorously (1) the quality of its outcomes and (2) the quality of the research process itself. For this particular study, dealing with the first issue means setting static criteria for a 'valuable' strategy process theory. Dealing with the second issue means discussing the dynamic validation process throughout the study.

3.4.1 Assessment of the Strategy Process Theory

A lot of philosophers of science have discussed what <u>theory</u> is, and what theory is not. Whetten (1989) set four building blocks of a theory. In his perspective, a complete theory must contain four essential elements:

1. <u>What ?</u> – comprehensiveness and parsimony – Are all relevant factors included without having included factors that do not add to the understanding ?
2. <u>How ?</u> – causality – Have (potential) causal relationships been identified and patterns explicitly been delineated ?
3. <u>Why ?</u> – rationale and logic – Have the underlying assumptions been identified and are all relationships between factors logically justified ?
4. <u>Who ?, Where ?, When ?</u> – range of the theory – Have the boundaries of generalizability been identified ?

A theorizing endeavor typically starts with the descriptive categorization of data, i.e., building taxonomies and/or metaphors. While descriptions may be the source material of theories, they are, however, not theories themselves (Bacharan 1989). Whetten (1989) and Bacharan (1989) argue that a good theory includes a plausible, cogent explanation for why certain relationships should be expected. These relationships are laid down in propositions (logical relationships between constructs) and are operationalized for empirical testing in hypotheses (measurable relationships between variables). The What and the How describe, only the Why explains[29].

[29] We refer to Sutton and Staw (1995) and the comments on the former by DiMaggio (1995) as they discuss what theory is *not*.

Hernes (1976), Pettigrew (1987), Van de Ven (1987, 1989) are among the few who have discussed particular characteristics for strategy process theories. In addition to the general requirements for a strong theory, a robust strategy process theory should have the following characteristics:

1. it should explain stability and change simultaneously,
2. it should include exogenous and endogenous sources of change,
3. it should link phenomena at micro- and macro-levels of analysis, and
4. it should deal with issues about pace, rate, and direction of change.

These characteristics merely summarize the framework for strategy process research, which has been that was discussed in section 3.2 .

3.4.2 Validation of the Strategy Process Research

The aim for objectivity is the fundamental methodological criterion for the scientific quality of research. Though, in the next paragraph we depart from the traditional positivist perspective and the operationalization of its prime indicators – validity and reliability. First, we reconceptualize these criteria in forms relevant to strategy process research within our epistemological and methodological framework. Doing so, however, we come across some major and unresolved fundamental problems of objectivity in qualitative studies. Next, we discuss how we have dealt with these criteria in practice.

3.4.2.1 A Reconceptualization of Objectivity, Validity and Reliability

Objectivity. At first sight, the subjectivist foundation of this strategy process research seems to be incompatible with the ultimate scientific aim of objectivity. This dichotomy is, however, false (Nievaard 1990, Smaling 1990). A commitment to objectivity does not imply a desire to 'objectify' the subject matter of the study by treating human beings as though they were the features they may happen to have (Kirk and Miller 1985). To understand why subjectivist researchers too aim at objectivity, the positive and the negative moment of objectivity are to be defined (Smaling 1992, Kvale 1996):

- The negative moment: objectivity means free of bias and error, undistorted by subjective influence of the researcher or of any irrelevant contextual factor.
- The positive moment: objectivity means reflecting the nature of and being adequate to the object of the study.

Within the frame of 'pure' nomothetic research, validation is reduced to the aim for the negative moment of objectivity – what Smaling (1990: 31) calls "objectivity without an object". The 'pure' nomothetic researcher aims at reducing bias and error through the design of a perfect pre-programmed research process that leaves no room for subjectivity in the object of study. The elimination of any possible subjectivity is achieved through the disconnection of the analysis from the data via a quantitative representation. In its most extreme form, many quantitative analytical techniques may be performed on the basis of an *(m x m)* covariance matrix with *m* unidentified variables and without knowing anything about the objects that are being studied. As such, however, the researcher himself remains as the only subjective entity that may influence the research process and outcome. This may lead to what Denzin (1979: 10) calls "the fallacy of objectivism".

Qualitative researchers, to the contrary, aim at closing the gap between the study and the object of the study. They aim at the positive moment of objectivity. Many times, however, the object of the study accommodates a large degree of subjectivity. For instance, in this particular study the strategic behavior of managers is subjective per se. As such, the fundamental subjectivist approach of this study, as it is discussed in section 3.2.3, refers to the positive moment of objectivity. Nevertheless, the negative moment of objectivity is not to be refuted. To the contrary, aiming at a bias- and error-free representation and analysis of the data as well as removing irrelevant subjectivity remains an extreme and unresolved challenge to the qualitative researcher.

Reliability. The core meaning of reliability is the absence of random error (cf. footnote 13 on page 84). A distinction can be made between internal and external reliability. Internal reliability aims at the accuracy of measurement and the stability of the results in the past (Smaling 1992). Evidently, when one adopts internal reliability as a criterion of objectivity, one assumes that the object of study itself is stable over time. However, this assumption conflicts with the fundamental postulates of strategy process research (cf. section 3.2.3).

External (or intersubjective) reliability aims at the reproducibility of the study by others in the future. Smaling (1992), however, argues that, although it is an important issue, external reliability does not point at the absence of random error or at the positive or negative moment of objectivity. A study that is reproducible does not hold any guarantee for its (present) objectivity. According to Smaling (1992) external reliability is a criterion of the intersubjective controllability of a study. Others (e.g., Swanborn 1990) go even further and state that external reliability, per definition, is not an issue for qualitative research.

Miles and Huberman (1994), however, argue that, more than it is the case for objectivist approaches, awareness of the external reliability is crucial in subjectivist studies. They point at the danger of the investigator influencing the study and at the issue of role-taking. Smaling (1990) defines role-taking as a mental activity by which a researcher takes an actor's point of view in order to be able to understand that actor's actions and thinking. The more adequate a role the researcher/analyst takes during data collection and interpretation, the better s/he succeeds in avoiding the "fallacy of objectivism" (Denzin 1979: 10). In the end, external reliability becomes an ethical issue[30].

In all, the issue of reliability remains problematic for qualitative studies in general and for strategy process research more in particular.

Validity. When validity is operationalized as the absence of systematic error (cf. footnote 13 on page 84), it represents the negative moment of objectivity. When it is

[30] For a more profound discussion of the importance of role-taking from a symbolic interactionist perspective, we refer to Blumer (1969), and Maso and Smaling (1990).

operationalized as the legitimacy of the research results for the object of study, it represents the positive moment of objectivity. Both are aspects of the overall validity of the methods and results (Smaling 1990). As with reliability, a distinction can be made between internal and external validity.

The internal validity of a study is composed of the content validity, the construct validity and the logical validity – or the internal validity in a narrow sense. While no reconceptualization seems required for the criteria of content and construct validity, the criterion of logical validity is more problematic. Indeed, various kinds of classical logical validity tests (such as the well-known quantitative tests for convergent, discriminant, and predictive validity) seem to fail or remain impossible to test in non-quantitative research. Indeed, as qualitative studies aim for analyzing interrelationship between events in context, reports of these studies will typically not mention causal relationships between variables that can be tested in isolation. In fact, constructs or ready-to-use variables are merely means towards the abstract analysis of chains of events. The primary building blocks of a qualitative study are events, not variables (cf. 3.2.4 above). Furthermore, Ferlie and McNulty (1997) argue that the concept of internal (i.e., logical) validity in strategy process research is not defined in relation to the study's ability to isolate cause- and effect-variables but in relation to the rigor of the theoretical, methodological and empirical bases and logic that underlie the research project.

The external validity of a study refers to the transferability of its results to a population (population validity) and/or to other units of analysis (ecological validity). As it is a fundamental issue to the scientific significance of qualitative research, the relationship between external validity and analytic generalizability was discussed in detail earlier in this chapter (cf. section 3.2.4.3). As it is the case with external reliability, external validity is not a prerequisite for the objectivity of a study. It should be seen more as a goal the researcher preferably strives for.

3.4.2.2 Validation in Practice

In Table 3-12, specific criteria of reliability and validity are proposed and defined through a key query. For each criterion, the actions that were taken in this study are summarized.

Validation is not a separate stage of a strategy process study. After reading this chapter and interpreting Table 3-12, it should be clear that validation is a dynamic effort, which is performed throughout the entire research process.

Criterion	Key Query	Some Actions for Enhancement
Internal reliability	Is the study accurate, consistent, and reasonably stable over time (diachronic reliability) and across researchers and methods (synchronic reliability)?	Repeated interviewing of the same respondents Detailed documentation of research protocol Data collection method triangulation
External (or intersubjective) reliability	Is the study reproducible in the future and to what degree do the conclusions depend on the subjects rather than on the inquirer?	Interview report feedback from respondents Detailed documentation of research protocol Intermediate research output per stage of analysis Primary and secondary data source triangulation Retrospective interviewing
Internal validity	Do the findings of the study make sense in explaining phenomena?	Rich chain of evidence and explanation Advanced/proofed modes of analysis Emergent propositions rated by respondents Within-methods triangulation
External validity	Can the results be transferability to a population or to other units of analysis?	Thick description of the case contexts Theoretical and literal replication sampling Iteration between study and relevant literature Between-methods and theory triangulation
Content and Construct validity	Do the results cover the actual objects of the study ? Does every abstracted event cover that aspect of the actual event which it aims to cover ?	Multidisciplinary development of the key constructs Interviews with neutral experts Multiple respondents per case Repeated interviewing of the same respondent Interview reports reviewed by each respondent
Convergent validity	Do the findings converge across multiple methods?	Convergence of multiple case study Multiple respondents per unit of analysis
Pragmatic validity	What value does the study bring for its audience?	Data collection performed by data-analysts Make the study report practically and intellectually accessible to potential users Identify concrete topics for further research

Table 3-12: Validation of the strategy process research

3.5 FINAL REMARK

In this chapter, the ontological, epistemological and methodological tenets of strategy process research have been developed. Based on this framework, the research design of our study has been presented in detail. We argue that strategy process research is a promising path towards richer theorizing on dynamic phenomena with a high degree of internal and external complexity. Although a methodological section is a *sine qua non* for a (doctoral) dissertation, writing this chapter was a challenge on its own in a reaction to the rampant idea that qualitative research is no scientific endeavor. I can think of three related reasons why scholars may argue so. Firstly, qualitative writers rarely give their audience insight in the particular methodology and research techniques that were followed. Secondly, qualitative research is criticized for being subjective, invalid and, especially, unreliable. Finally, qualitative research degrades to purely descriptive or irrelevant activity within a conservative positivist paradigm. We are confident that this chapter gives a reply to all three arguments.

CHAPTER 4:

ORGANIZATIONAL CHANGE – GENERATIVE MECHANISMS AND BASIC CONCEPTS

4.1 INTRODUCTION

The aim of this study is to build a middle-range strategy process theory of international market withdrawal. Therefore, we start without a fully specified empirical model including hypotheses on relationships between well-defined variables (Eisenhardt 1989a). However, strategy process research cannot be described as being purely inductive (Van de Ven 1992). In Chapter 3, we presented iterative grounded theory – a balanced approach of inductive and deductive investigation – as a principal methodological anchor of out strategy process study. In this Chapter, we present a typology of generative mechanisms and a basic conceptual framework which, together, underpin and lead the empirical study.

In section 4.2 , we present a typology of four ideal-typical generative mechanisms of organizational change: lifecycle change, teleology, evolutionary change and dialectics. Although many well-known theories of organizational change represent a single generative mechanism, we postulate that our strategy process of international market withdrawal can be explained by a logical combination of two or more generative mechanisms. In section 4.3 , we present a basic conceptual framework of four interrelated constructs: market commitment, organizational inertia, strategic fit and strategic flexibility. The aim of this framework is not to limit the scope of the study to the identification of interrelationships between these concepts throughout the process. To the contrary, these concepts are instruments towards abstract theorizing about events in context.

The aim of this chapter is not to give a profound review of strategic and organizational change literature, but to present a dynamic and loose framework, which we adopted as a hold and guide during the analysis of the case, and as a dynamic instrument for the formulation of the ultimate explanatory theory.

4.2 A TYPOLOGY OF GENERATIVE MECHANISMS

We adopt Van de Ven and Poole's (1995) typology of generative mechanisms of organizational change as a fundament for our empirical of international market withdrawal. These authors identify four basic types of generative mechanisms, which serve as building blocks for explaining organizational change processes: a lifecycle, a teleological, a dialectical, and an evolutionary mechanism. Each of these four ideal-types represent a fundamentally different event sequence and underlying logic to explain why and how changes unfold. These four generative mechanisms are summarized in and briefly discussed hereafter.

Generative mechanism	Fundamental logic	Event progression[1]	Agential coefficient
Lifecycle	Change is imminent and predetermined	Unitary sequence of stages moving to a progressive differentiation	The agent undergoes the phased process
Teleological	Progression towards an envisioned end state with social constructed equifinality	Multiple cumulative sequences of planning, implementation and adaptation	Purposive agents who interact and learn. Collective action and interactive choice making through learning towards the end state
Dialectical	Progression through thesis, antithesis and synthesis	Recurrent convergence of multiple divergent progression	Agents interact through conflicts. Interactive choice making through confrontation
Evolutionary	Cumulative changes in structural forms of populations of organizational entities	Recurrent, cumulative and conjunctive sequence of variation, selection and retention	By means of routines agents learn, adapt and compete for scarce resources

Table 4-1: A typology of generative mechanisms of organizational change (Van de Ven 1992; Van de Ven and Poole 1995)

[1] For a schematic representation and explanation of event progression types, we refer to Van den Daele (1969). See Appendix D.

According to a pure lifecycle theory, change is imminent. The way a process develops is predetermined within the process itself. Both the trajectory and the end state are prefigured. The agential coefficient (i.e., the decisive influence on the course of action exercised by the manager) is close to zero. Agents and the external environment cannot change the course, and can only influence how the evolving system expresses itself during the process. Each stage is a necessary precursor of succeeding stages and the characteristics acquired in earlier stages are retained in later ones. A narrow conception of organizational lifecycles in strict analogy to biological developments has been refuted for being overly deterministic, simplistic and for lacking predictive value (e.g., Penrose 1952). However, if the 'stages' of a lifecycle process are defined as: "clusters of subsystem problems or issues that are linked sequentially and embedded within the natural evolutionary process of organization" (Whetten 1987: 338), then the lifecycle analogy has served as a successful analytic and normative tool. For a more profound insight and analytic application of the lifecycle analogy in organizational research, we refer to Maier (1964), Kimberly and Miles (1980), Cameron and Whetten (1981), and Quinn and Cameron (1983).

Unlike lifecycle theory, teleology does not prescribe a necessary sequence of events. In this second perspective, systems evolve toward a socially constructed end-state. Fundamental to a teleological perspective is the purposive agent, who pro-actively aims at certain socially constructed goals. The agential coefficient is relatively high, as agents, within the environmental constraints, construct their own path towards this end-state. Teleology is a highly influential foundation in management science. Many models of strategic planning (e.g., Chakravarthy and Lorange 1991), of adaptive organizational learning (e.g., Levitt and March 1988) up to fundamental structural contingency theories (e.g., Lawrence and Lorsch 1967) and corporate strategy theory (e.g., Andrews 1971; and Hofer and Schendel 1978) are all theories with an important teleological underpinning.

In a dialectical perspective, organizations evolve through conflict on resource application, the formation of coalitions and bargaining. More formally, the current status quo of a particular system (thesis) is counterbalanced and challenged by a conflicting antithesis of another system. Dependent on the relative balance of power in the organization, the antithesis takes over as the dominant logic of the first system or a synthesis emerges for both systems. A key assumption in this perspective is that organizations are coalitions of people with competing interest (Pfeffer 1981). In general, most scholars seem to accept the following central ideas of a dialectical perspective on strategic decision-making: "(1) organizations are comprised of people with partially conflicting preferences, (2) strategic decision making is ultimately political in the sense that powerful people get what they want, and (3) people engage in political tactics such as cooptation, coalition formation, and use of information to enhance their power." (Eisenhardt and Zbaracki 1992: 27). We refer to March (1962), Allison (1971), Benson (1977), Pfeffer (1981), Eisenhardt and Bourgeois (1988), and Eisenhardt and Zbaracki (1992) for an elaboration of the 'power and politics' perspective and of dialectical theory in organizational science.

Finally, the evolutionary perspective accommodates for a plethora of theories of economic, industry, organizational and strategic change. The core concern of all evolutionary theories of organizational behavior is with the dynamic processes by which firm behavior patterns and market outcomes are jointly determined over time (Nelson and Winter 1982). In a restrictive sense we adopt here, evolutionary – or incremental – models build upon routine decision-making. Routines are persistent features of systems and determine their possible behavior (Nelson and Winter 1982). This behavior typically consists of repetitive sequences of adaptation, variation, selection, and retention among entities. The main driver of this process is competition between entities for scarce environmental resources. Hannan and Freeman's (1977) influential theory on the population ecology is an evolutionary theory at the level of populations of organizations. Scholars such as Burgelman (1991), and Barnett and Burgelman (1996) have developed evolutionary models to explain strategy making within organization. Whatever the level of analysis, evolutionary models focus on processes of adaptation, variation, selection and retention within a framework of inherited routines.

We adopt these four basic perspectives as theoretical primitives for an explanatory strategy process theory. Whereas some of the aforementioned studies have been predominantly influenced by only one of these primitives, most strategy process theories, however, are composites of two or more generative mechanisms (see Van de Ven and Poole 1995 for an overview of hybrid theories on organizational change). Attempts to explain strategy processes with a single generative mechanism runs the risk of oversimplification and selective attention to certain aspects of change at the expense of others (Allison 1971).

There is a risk, though, in logically combining these generative mechanisms into one theory. Since they are grounded in fundamentally different assumptions on the agent and on progression, these ideal-type theories hold paradigmatic qualities (Gioia and Pitre 1990; and Lewis and Grimes 1999). As a result, alternative generative mechanisms may provide explanations of a process which are incompatible. Although scholars adopting different ideal-type theories may study the same phenomenon, they may have different research objectives and specific methodological approaches. Therefore, a simple integration of these theoretical primitives may be inappropriate due to incompatibilities in their basic assumptions, epistemological and methodological approaches, and goals. However, the orthodox perspective of single-mechanism explanations may be somewhat old-fashioned as Gioia and Pitre (1990: 584) state that: "By now […] the field recognizes that the use of any single research paradigm produces too narrow a view to reflect the multifaceted nature of organizational reality". Without refuting that paradigmatic barriers do exist, at least three alternatives that allow building multi-mechanism explanations are to be considered: the juxtaposition, alternation, and nesting of generative mechanisms (Van de Ven and Poole 1995).

(1) Juxtaposition of generative mechanisms – In this alternative, generative mechanisms are considered separately, without any attempt to integrate them. Exemplary to this first alternative of multi-mechanism models is Allison's (1971) seminal study of the Cuban missiles crisis. Allison develops three alternative conceptual models to explain one phenomenon. In model I, governmental decision-

making remains a black box in which choices represent the optimization of a substitution process among options with respect to means, goals and consequences. Governmental action is a result of static choice with regard to objectives. Model I is an orthodox theory of economic maximization[2]. In Allison's model II – an evolutionary model –, governmental decision-making is explained through a process of parochial priority setting and perception, incremental change and learning. In this model, governmental action is a result of organizational routines and programs. Finally, in model III – a dialectical model – governmental decision-making is driven by power and politics. Governmental action is a result of bargaining between coalitions.

On the one hand, Allison (1971) concludes that each of the three models provides a different explanation of the same crisis. Moreover, each model consists of clusters of assumptions which result in clear conflicts between these explanations. On the other hand, he concludes that the models produce explanations for quite different occurrences. The fundamental assumptions of the three models provide the researcher with three different conceptual lenses through which the analyst judges what is relevant and what not. The three models explain different aspects of the same phenomenon. Nevertheless, none of the three models provides the 'best' explanation of the phenomenon, nor does Allison attempt to integrate the three models. He concludes:

> "[T]he models can be seen to complement each other. Model I fixes the broader context, […]. Within this context, Model II illuminates the organizational routines that produce the information, alternatives and action. Within the Model II context, Model III focuses in greater detail on [the politics among individual leaders]. The best analysts […] manage to weave strands of each of the three conceptual models into their explanations. […] By drawing complementary pieces from each of these [models], explanations can be significantly strengthened. But we must pay more carefully attention to the points at which the explanations are complementary and the junctures at which implications may be incompatible." (Allison 1971: 258-259)

[2] Since this orthodox maximization theory does not hold dynamic qualities, it is not presented as an ideal-typical generative mechanism for organizational change and decision-making. We refer to Nelson and Winter (1982) for a critical evaluation of this orthodox perspective with respect to change.

Although Allison's explanation of the Cuban missile definitely is a multi-mechanism explanation of a decision-making process, he does not go beyond juxtaposing the three generative mechanisms, which underlie each of the emergent explanatory models.

(2) Alternating generative mechanisms – Exemplary to a multi-mechanism theory in which the generative mechanisms alternate is the Punctuated Equilibrium Model (see Gould and Eldredge 1977; Tushman and Romanelli 1985; Gersick 1991; and Romanelli and Tushman 1994 for an in-depth insight). This theory depicts organizations as evolving through relative long periods of stability in their basic patterns of activity that are punctuated by relatively short bursts of fundamental change. Revolutionary periods substantively disrupt established activity patterns and install the basis for new equilibrium periods.

This influential model can be viewed as a product of alternating cycles in the operation of an evolutionary mechanism of change for relatively long convergent periods, punctuated by relatively short and infrequent operations of a teleological mechanism[3]. During the convergence period, an evolutionary process of competitive selection works to elaborate the structures, systems, routines and programs of organizations towards increased environmental coalignment. Reorientations represent periods of discontinuous change, in which an organization's strategies, structure, power and systems are fundamentally transformed by and realigned toward the logic and actions of (new) organizational leaders (Romanelli and Tushman 1994).

In this model, time is used as the avenue for integrating both an evolutionary and a teleological generative mechanism (Van de Ven and Poole 1995). In no instance should one expect to find both generative mechanisms operating at the same time in a given organization. Both mechanisms remain mutually exclusive. As a consequence, a

[3] As such, the punctuated equilibrium model is a double generative mechanism theory of the form 'X->Y->X->Y->X', with X being an evolutionary mechanism and Y being a teleological mechanism.

challenge remains in these models to explain the transition of one generative mechanism to the other.

(3) Nested mechanisms – Although predominantly an evolutionary model, Burgelman's (1994) seminal process theory of strategic business exit is a multi-mechanism theory of organizational change. The process theory is based upon a case study about how Intel went through a decision-making process which led to Intel's exit from dynamic random access memory (DRAM) business. In summary, this theory explains how inertial forces caused Intel's distinctive competence to diverge from the evolving basis of competitive advantage in the memory business. Inertial forces also caused Intel's corporate strategy to diverge from strategic actions taken by middle-level managers. Intel's internal selection environment played a key role in the strategic business exit process by causing it to shift the allocation of scarce resources from the memory business to the emerging microprocessor business.

This strategy process theory builds upon a teleological and a dialectical generative mechanism, which are both nested in an evolutionary mechanism. The evolutionary perspective on organizational change accommodates for process propositions on organizational inertia and the eminent role of the internal selection mechanism in the explanation of the process. However, while the inertial process evolved at the corporate level, "some middle-level managers made decisions that capitalized on the rapid growth of the microprocessor business and further dissolved the strategic context of DRAMs" (Burgelman 1994: 44). A teleological mechanism seems to generate the initiatives, decisions and actions of these middle-managers, which oppose to the routine-based evolution of the firm. As such, Burgelman (1994) describes an emergent nested process of bottom-up pioneering behavior, which induces the business exit. Furthermore, the author implicitly explains the way in which this teleological mechanism is nested in the evolutionary process: "An important element of Intel's structural context was the tradition of encouraging open debate about the business merit of different strategic initiatives, constructive confrontation, and the rule that knowledge power should not be overwhelmed by hierarchical position power." (Burgelman 1994: 44)[4].

In general, it can be concluded from Burgelman's study that different generative mechanisms may explain nested processes or events, or the way nested processes are related to each other. While the main process under consideration may be described and explained under, for instance, teleology, sub-processes or even single events may be described and explained by means of, for instance, a dialectic perspective. Allowing for embedded units of analysis allows for nested generative mechanisms (Peterson 1998). Nevertheless, the generative mechanisms are not mixed up. A single mechanism explains a well-delineated (sub)process or event. However, as nested processes may coexist in time, this perspective on multi-mechanism theories differs from the previous one in which generative mechanisms are separated in time.

This typology of generative mechanisms defines four ideal-typical fundamental explananda (Hunt 1991) or 'motors' (Van de Ven and Poole 1995) of organizational change and strategic progression. We postulate that a logical combination of some of these generative mechanism explains the strategy process of international market withdrawal.

[4] Although the author did not explicitly build this dialectical mechanism into his ultimate process propositions, we argue that this generative mechanism is required to explain the emergence and impact of the teleological nested process.

4.3 A BASIC CONCEPTUAL FRAMEWORK

In addition to a typology of generative mechanisms, at least a limited set of basic concepts should be identified, which allows for regular iteration between data and theory, from the outset of the study (Eisenhardt 1989a; and Langley 1999). Whereas the generative mechanisms allow us to grasp progression, the conceptual framework allows us to abstract and relate concrete event in context. Indeed, in the epistemological framework we have adopted, concepts are merely instruments, which allow for abstract theorizing upon complex relationships among events in context. This stands in contrast to the central role of concepts in positivistic research: they are the aim of it. As we made clear in the previous chapter, the goal of this study is not to construct a model of operationalized constructs (variables), which are causally related in a network (hypotheses), but to construct a process model, which consists of a longitudinal and complex network of abstracted events (propositions).

A (scientific) concept refers to something "whose existence we presume, but whose character we do not fully understand" (Blumer 1931: 518-519). Further, Blumer argues that "scientific concepts have a career, changing their meaning from time to time in accordance with the introduction of new experiences and replacing one content with another" (p.524). Concepts are non-static, even during the course of the investigation. Nevertheless, concepts provide a focus and prevent the investigators from looking into black wholes, not knowing what to look for and, as a result, selecting everything for the reason of 'being of interest'. Moreover, "the abstractions within scientific concepts are always related to one another. They hang together in a system." (Blumer 1931: 524). As concepts are the non-static building blocks of scientific systems, conceptual frameworks are non-static too.

Van de Ven and Poole (1990) argue that "assumptions and definitions of these concepts change substantially and become progressively clearer with field observations over time." (p.161). The abstraction of a concept as well as the direction and content of its relationship with other concepts may change during the course of a study.

Moreover, a concept is not even guaranteed a place in the final version of the theory (Eisenhardt 1989a). Since the main objective of strategy process research is to build middle-range theories, the researchers should not stick to these concepts when the study proceeds and the theories are developed. Some constructs may be removed; others may be introduced during the study.

Extensive reading in the domains of (export) marketing, international business, organization evolution, and strategic change provided us with four basic concepts, which may lie at the heart of a middle-range strategy process theory of international market withdrawal: market commitment, organizational inertia, strategic fit and strategic flexibility. More in particular, we are motivated to adopt these concepts by Benito and Welch (1997), who have adopted all four – some explicitly, some more implicitly – as the drivers of their conceptual framework of de-internationalization. Below, these concepts are defined as we have conceived them at the outset of our investigation. During the course of Studies I and II, a more complex abstraction of all four constructs and their interrelationships with respect to international market withdrawal was developed.

4.3.1 The Paradox of Increasing Market Commitment

When Aharoni (1966: 141) concludes that "Commitments constitute an evolving set of constraints", he touches the core of the paradox of increasing market commitment. In general, accumulation of commitment results in higher performance. However, as the strategic context of a venture changes, organizational inertia may result in escalating commitment and decreasing performance.

4.3.1.1 Market Commitment

Ghemawat (1991) defines commitment as: "The tendency of organizations to persist with their broad courses of action or strategies." (p.14). Market commitment is a tendency of organizations to persist with strategies in particular markets. It is one of the most important variables in the explanation of export performance (see Aaby and

Slater 1989; Gemünden 1991; and Fraering 1996 for meta-analyses of over 50 studies). Cavusgil and Zou (1994) in a US context, and Louter, Ouwerkerk and Bakker (1991) in a European context, convincingly illustrate the statistically significant positive interrelationship between market commitment and export performance.

The literature appears to evolve toward a two-dimensional conceptualization of (market) commitment (Meyer and Allen 1991; and Gundlach, Achrol and Mentzer 1995). The first is an <u>economic dimension</u>, which can be further operationalized in two complementary ways (Andersen 1993): (1) the amount of economic resources allocated to a certain export market, and (2) the specificity of these resources, i.e., the difficulty of finding alternative uses for these allocated resources (cf. mobility barriers in Caves and Porter 1977). The second dimension is an <u>attitudinal</u> one. Gundlach, Achrol and Mentzer (1995) argue that the conceptualization of this dimension remains problematic because it shares common domains of meaning with constructs such as motivation, identification, loyalty, involvement, and behavioral intention. In most export performance studies this dimension is operationalized as the top managers' self-evaluation of their (material and/or immaterial) support for a particular export market. While temporal dynamics are at the very heart of market commitment, hardly any export study recognizes the <u>dynamic character</u> of market commitment. In Ghemawat's (1991) definition, however, persistence is explicitly mentioned, which implies that commitment has an explicit time dimension. Gundlach, Achrol and Mentzer (1995) even conclude that: "commitment is expected to involve a snowballing process, so that credible commitments and intentions in period t are expected to be reinforced in period t+1" (p.89). As such, market commitment seems to be self-reinforcing. It might have an increasingly constraining impact on strategic decision making in the future (Aharoni 1966).

4.3.1.2 <u>Organizational Inertia</u>

Empirical research, mainly case-based, in psychology and organizational behavior clearly illustrates that the more commitment accumulates, the more the organization refrains from adjusting the course of a chosen strategy, in spite of a possible growing misfit between the organization's strategy, its goals and the dynamic environment (e.g., Staw 1976, 1981; and Whyte 1986). This increasing commitment may become a 'self-justifying' process (Ross and Staw 1993) without any objective link to the internal and external environment of the venture. Myopia, a lack of responsiveness to the changing environment, and eventually, poor performance may result from this. While the extant literature clearly illustrates that the accumulation of market commitment leads to increasing performance, the escalation of commitment may result in failure due to project, psychological, social, organizational, and contextual determinants (Ross and Staw 1993; and Drummond 1994)[5].

4.3.2 The Paradox of Strategic Flexibility

Closely related to the first paradox, is the paradox of strategic flexibility. In general, all organizations face a permanent paradox between change and stability (e.g., Tushman and Romanelli 1985). However, the pressure for stability is not just organizational inertia. There are also forces that require organizations to maximize their existing capabilities. The pressure to change does not just come from the threats to survive but also from the desire to grow and to become more successful (Baden-Fuller and Volberda 1997). These paradoxical forces require a firm to balance its efforts for strategic fit against the required efforts for redirection, away from the current status quo (Volberda 1996).

4.3.2.1 Strategic Fit

Strategy can be defined as "[...] the match an organization makes between its internal resources and skills […] and the opportunities and risks created by its external environment." (Hofer and Schendel 1978: 12). When a firm formulates an entry and marketing strategy for a particular market, it optimizes the fit between its resources and

[5] Project determinants concern the perceived costs and benefits of retaining/withdrawing a particular venture. Psychological determinants mainly concern self-justification. Sociological factors include face saving and personal identification with the project. Organizational factors concern the institutionalization of the project in the organization. Finally, contextual factors concern external political pressure (Ross and Staw 1993; and Drummond 1994).

capabilities on the one hand (e.g., Wernerfeld 1984; and Barney 1996) and the exogenous key success factors of the target market on the other (e.g., Venkatraman and Prescott 1990).

A dynamic perspective on strategic fit is required because a firm permanently enlarges and upgrades its resource-base and capabilities through innovation and learning (Dierickx and Cool 1989; and Markides 1997). At the same time, permanent market dynamics create a change in the key success factors (Tidd, Bessant and Pavitt 1997). Therefore, strategies should permanently be challenged and regularly adjusted or even adapted to retain an optimal fit. However, accumulating commitment of companies to particular strategies or ventures often prevents companies from reacting in an appropriate way to new requirements and opportunities (Ross and Staw 1993; and Bettis and Prahalad 1995). In that case a strategic misfit may arise and increase over time.

Managers will evaluate the current strategies based on the perceived misfit or stress[6] (Johnson 1992). Since the perceived and the actual misfit may not be identical, reactions to optimize the current strategy may not be optimal and the misfit may continue to increase. In certain circumstances, strategic misfit may increase unperceivably up to a certain stress threshold. Beyond this threshold, a strategy not only is sub-optimal, given the inner and outer context, but the company even comes into a state of strategic drift in which every connection between its resources and the key success factors is lost. In fact, in a state of strategic drift, strategic decision-making

[6] In cybernetics, stress is conceived as follows: “A stress on the system refers to a change in the system's environmental conditions. If the stress is sufficient to change the optimum operating point of the system then the system's response will be to re-organize itself to reach this new optimum operating point. Regardless of the effect of the stress on the optimum operating point, the system will have to respond by organizing itself so as to continue maintaining itself at the optimum operating point. Once the system has completed the re-organization process, the response to the stress is complete. However for some stresses, the system will never be able to adequately re-organize itself and so the system response continues indefinitely. […] Some stresses the system has learned to insulate itself from, others cause the system to change states. Still other stresses will kill the system. This ability of living systems to survive such perturbations in the environment is usually referred to as adaptability.” (Kay 1984, s.p.)

is solely based upon current organizational routines in disconnection from environmental dynamics. The organization becomes fully controlled by its own established routines (Volberda 1996).

4.3.2.2 Strategic Flexibility

Traditionally, flexibility is measured as the number of strategic options (e.g., a business plan including three contingency plans) or as a percentage of organizational slack (e.g., 15% idle production capacity) at a certain time (McKee, Varadarajan and Pride 1989; Evans 1991; and Sanchez 1993). As such, however, the notion of flexibility is reduced to a static and tactic measure of the dormant response capacity of an organization at a certain moment. In contrast to this more operational notion, we consider strategic flexibility as a pro-active part of a firm's competitive advantage (Sanchez 1993; Day 1994; and Volberda 1996). In this perspective, strategic flexibility is a firm's capability that allows to (1) enhance the firm's receptiveness to complex, fast and unexpected environmental dynamics and (2) to avoid the firm being caught in a self-reinforcing cycle of escalating commitment and strategic drift. In this perspective, Aaker and Mascarenhas (1984) define strategic flexibility as: "The ability of the organization to adapt to substantial, uncertain, and fast-occurring […] environmental changes that have a meaningful impact on the organization's performance." (p.74).

Hence, a dynamic perspective on strategic flexibility is required. Rangan (1998) ascertains that "[t]o be flexible in the current period, MNEs need to have planned and invested accordingly in previous periods. Investments in flexibility are seen best not in term of investment in excess capacity, but rather in term of opportunity costs." (p.220). In building strategic flexibility, the objective of a firm's strategy then becomes the acquisition and coordination of complex bundles of skills and collective learning, exercised through organizational processes that allow for fast and accurate perception and interpretation of environment dynamics and for fast development of alternative strategies (Eisenhardt 1989b; Sanchez 1993; and Day 1994).

As the opposite of strategic drift, strategic neglect may result from an overly extensive strategic flexibility with respect to the (limited) speed and/or variety of environmental dynamics. In a state of strategic neglect, extreme flexibility results in unlimited possibilities for variation and strategic decision-making looses its anchorage within the organizational conditions (Volberda 1996). Whereas the organization looses every relationship with the environment in a state of strategic drift, it is fully controlled by the environment in a state of strategic neglect.

In sum, the paradox of increasing market commitment is highly related to the paradox of strategic flexibility. It is our opinion that these two paradoxes point at the very core of strategy process and change. Therefore, we adopt the central concepts of these paradoxes as pivotal points for the development of a strategy process theory of international market withdrawal.

CHAPTER 5:

STUDY I – TOWARDS A STRATEGY PROCESS PERSPECTIVE ON EXPORT MARKET WITHDRAWAL

5.1 INTRODUCTION

The aim of Study I is to gain exploratory insight into: (1) the internal and external drivers and moderators of export withdrawal, (2) the organizational and behavioral processes at work in the decision-making and implementation stages, and (3) the consequences of the withdrawal for the overall international portfolio management of the firm. This study is limited to export withdrawal decisions by small and medium sized enterprises[1] that operate in a business-to-business environment. The reasons why we limited the scope of this study are discussed in detail in Chapter 3.

The structure of this chapter is as follows. In section 5.2 , the four cases of Study I are briefly described. These short case histories are not intended to give a complete and fully detailed description of the strategy process. They merely provide the reader with a sense of what is analyzed in the next section. In section 5.3 , we present the analysis of the comparative case study and provides concrete process propositions. In section 5.4 , we present a preliminary discussion of the generative mechanisms which may underpin the export withdrawal process. This chapter ends with a discussion of its immanent limitations and some detailed research questions that emerge from Study I.

[1] The question whether studying international market withdrawal in the context of small and medium-sized companies can be used as a point of departure for studying this phenomenon in the context of large multinationals, is discussed in the introductory section of Chapter 6.

5.2 DESCRIPTION OF THE CASES

Table 5-1 summarizes some key characteristics of each case[2]. Next, we briefly present the four cases.

Company	Alpha	Beta	Gamma	Delta
Business Activity	Production and sales of fashionable consumer textiles	Production, sales and rental of tents for professional use	Production, sales and rental of modular building systems	Production and sales of silos for non-liquid raw material storage
Annual Turnover of the Firm (1999)	$ 9 million	$ 14.3 million	$ 24 million (Belgian subsidiary)	$ 51.7 million
Average Export/Sales Ratio	95 %	50 %	15 %	Fluctuating between 50% and 70%
Case	USA	Poland	France	France
Type of Withdrawal	Full exit	Full exit	Full exit	Full exit
Strategic Importance of this Market	High	High -> Low	Low	Medium
Active vs. Passive Market Entry in this Country	Passive: unsolicited order after trade fair	Active: personal initiative by company owner	Active: extensive market research and low-profile entry	Passive: major unsolicited order
Initial Positioning in this Export Market	Niche player	Market creation - pioneer	Market leader in top segment	Market leader in top segment
Profitability of this Export Market	From acceptable profits to MC > MR	Never made a profit	Never made a profit	Initially very profitable
Number Years in this Export Market	1989 – 1995 : 7 years	1992 – 1996 : 5 years	1994 – 1996 : 3 years	1988 – 1996 : 9 years

Table 5-1: Overview of the cases of Study I

[2] As was discussed in Chapter 3, all names of the participating companies as well as some financial data had to be disguised. Under this condition, we were allowed to use and present all non-financial strategic and tactic information that has been provided by the respondents.

5.2.1 Case Alpha: "A short window of opportunity"[3]

Alpha is a small, highly specialized producer of fashionable consumer textiles. Although, in general, this industry is very labor intensive, the company has been able to survive in the global market due to its high production flexibility and product specialization. As a niche player, this company has been doing business in more than five neighboring (e.g., Germany) and more remote (e.g., USA) countries, yielding an annual turnover of $9 million in 1998 with a stable export/sales-ratio of 95 per cent. Typically, the most important customers are wholesalers who sell directly to customers on a price sensitive market.

At the end of the 1980s, the company was one of the first foreign suppliers of this particular consumer textile in the United States. The first contract was an unsolicited order by one of the major US wholesalers of consumer textiles who learned about the company at an annual international trade fair in Europe. At that time, the US market was still in its introductory stage. Entry barriers were low, margins were high and competition was limited. Only a handful of (mostly small) local and international producers was able to supply products of high and stable quality. After a very short period, the business in the United States grew to 40 percent of the total company sales. Within a couple of years, the US market became the company's most important market. Because the company could hardly cope with the demand, no marketing activities or local representation were organized.

However, all markets of this fashionable product are characterized by a typical cyclical evolution of about ten years of limited competition and high margins for a handful of (small) players in the introductory stage. When the market volume grows, more and larger companies enter the market and margins fall. Economies of scale become increasingly important, competition becomes fierce and big manufacturers producing

[3] The fieldwork for these four cases was done between September 1997 and January 1998. We refer to Chapter 3 for a discussion of the data collection methods and an overview of the interviewees.

in countries with low labor costs drive all small and specialized producers out of the market. When the market reaches maturity, only a couple of big global producers are able to meet the requirements of the very powerful national wholesalers.

As experienced marketers, the CEO and sales director of company A could foresee this transparent market evolution. However, during the first half of the 1990s, management could not do anything except produce as efficiently as possible and screen new emergent markets. They knew that in some years quality standardization and low prices would drive the company out of the US market. In 1995, the CEO decided to leave the US market after six years of intense export activity. Since the beginning of 1994, top management evaluated a possible exit on a monthly basis. The CEO comments: “Eventually, we had to quit the market because marginal revenue became systematically lower than marginal costs. However, we postponed the exit as long as possible to raise our production efficiency. As such we learn from every exit”.

This exit was not considered as a failure but as the end of an opportunity. Given the typical evolution of the market, an exit could be expected from the beginning. Because the company smoothly switched the activity from the US market to the emergent market in Eastern Germany, the company did not suffer a lot from this exit. The CEO concludes: “Each exit is evaluated in terms of new opportunities. We do not consider an exit to be a failure. If no new opportunities would have emerged, we failed.”

5.2.2 Case Beta: “An entry too early to be true”

Company Beta is a small family-owned industrial company with a growing turnover of about \$14.3 million in 1998. The company produces, sells and hires high-tech tents for different project-oriented applications such as trade fairs, temporary sheltering of investment goods, etc. Because of the limited market potential, this niche player is a main contender in the global market. Although transportation costs are high, the company does business in more than 20 countries all over the world with export sales amounting to 50 per cent of annual revenues. The main reason for the present success of the company is its R&D capability, its production and hiring flexibility and its after-sales and leasing service system.

In 1992, the owner and CEO of the company took the initiative to invest in the Polish market. He signed an agreement for a joint venture with a local agent active in trade show promotion. Although no market for industrial high-tech tents existed in Poland at that time, the expected economic boom of the Polish economy was supposed to stimulate demand for temporary covered space to be installed at trade fairs and exhibitions. The exclusive agent would screen the market of trade fairs in all major Polish cities. Beta invested more than $700,000 in new material for the Polish market. At the time of the entry, Beta was the only player in the market. Because this product was new to the market, intensive marketing activities by the agent to develop initial demand were necessary and were strongly supported by company Beta. Because of its potential and the personal interest of the CEO, the Polish market soon became a top priority for the company.

In 1994, Beta's top management decided to set up a subsidiary in Poland. There were two main reasons for this decision. Firstly, the local agent could no longer fulfill his terms of payment. In an effort to build market share, he set penetration prices too low. Moreover, he did not have a clear idea of the evolution of the local market. But foremost, he could not meet the standards expected from a professional installation as well as after sales service requirements. This resulted in an increasing lack of trust in the local agent. Management argued that – in case of a collapse – a local subsidiary could rapidly recuperate the stock. Secondly, top management of Beta decided that in the near future the local subsidiary would become the hub for Eastern Europe and in the long run it would take over all the activities of the local agent. In the meantime, however, management kept believing in the Polish market. New efforts were made to get the business off the ground (e.g., transfer prices for the agent were lowered) and to get more control over local operations (all stock was transferred to the subsidiary which hired tents to the agent). In spite of these additional efforts, the confidence in the local agent eroded further.

Meanwhile, top management worked out a first strategic plan for the growing company. This exercise led to the insight that the company was neglecting its core markets (the domestic and neighboring markets and major international events) in favor of new, uncertain small-order markets (such as Poland). Very soon, middle management (mainly the marketing and finance managers) felt that Poland could no longer be considered as a top priority. Although the CEO accepted this new strategic growth plan, the Polish situation led to serious tensions between the CEO, who had taken the personal initiative and financial risk for the investment, and the other managers who grew more and more convinced of the fact that the investment in Poland was a waste of money. This situation even led to the dismissal of the commercial director.

The collapse of two tents due to mismanagement by the local agent was the last straw. All these incidents had led to an image problem and to certification difficulties with the local government. On top of that, some German competitors had entered the market with low quality/low priced tents. Finally, in 1996, six months after the aforementioned incidents had taken place and more than a year after the subsidiary was set up, the new commercial director was able to convince the CEO to exit the Polish market.

After a difficult decision-making process and due to the growing strategic awareness, the lack of trust in the agent and the final incidents, the company left the Polish market. Both the joint venture and the subsidiary were dissolved in a very short time span. In the end, the CEO considered this exit as a failure. The new commercial director, however, considered the exit as a relief, although he still believed in a future market potential in Poland. In his opinion the Polish market was not ready yet for this high tech product. Furthermore, middle management firmly believed that the company had to back up its corporate strategic priorities.

More than six months were needed to convince the CEO. The first vague suggestions to quit had already been launched more than one year before the final decision. Middle management felt that the decision to exit had come far too late. A quote from the new commercial director illustrates this process: “This exit cannot be considered an organizational crisis. However, it was the most visible part of the entire strategic (r)evolution in the company”.

5.2.3 Case Gamma: “An over-optimistic entry in a saturated market”

Company Gamma is an independent subsidiary of a foreign owned multinational. The company develops, produces, sells and rents a range of standard or custom made modular building systems. Typical customers for this product are organizations (companies, schools, hospitals, etc.) with a temporary lack of accommodation. Because of the very high transportation costs, export is limited to 15 per cent of overall sales. The main distinctive capabilities of company Gamma are the development of top-class products, its flexible renting system and its ability to manage technically complex orders. At the time of the case, in a growing domestic market, the Gamma’s annual revenue was rapidly rising to $24 million in 1998 with annual growth figures of about 20 to 30 per cent a year.

In 1994, the Belgian managing director of Gamma took the initiative and responsibility within the young multinational to enter the French market. Extensive market research had revealed that the French market was highly competitive but that there was still room for a player in the upper segment. It was decided to enter the market in two stages. The first stage consisted of a low-profile penetration strategy in order to buy market share. The initial results and the experiential knowledge gained during this first stage would justify a full-scale entry in a second stage. A target sales revenue of about $5 million was set to justify such an investment.

Very soon, a French sales representative and a secretary were recruited. The first experience taught that most interesting orders were placed by (local) governments by way of bids. Although experience on bidding had already been gained in Belgium, the French bid system seemed to be a typical entry barrier for the company. In general, foreign companies that could not prove a ‘French image’ (i.e., production in France, a

French company name) were not selected. As a result, the company decided to position itself in France under a new and French company name. Furthermore, it became clear that a contact address in Paris was a minimal requirement in order to be considered as a company with a French image.

Although the company decided to sell at a lower price to penetrate the market in the first stage, it soon became clear that the average price level was at least 30 per cent lower than the company's key market price level. Moreover, it was believed that the price level would not rise unless some competitors would leave the market. This way, excess supply would be eliminated. As soon as the company offered its products with a more acceptable profit margin, it became impossible to sell anything. Finally, the company found that many customers could not meet their terms of payments. "We don't know the reason, but paying late or not at all was more typical than exceptional", the Belgian managing director commented.

At that time, the holding company suddenly evolved from a two-digit grower to a stagnating company. In an effort to save money, the CEO wanted to redirect energy and resources to the home market (The Netherlands and Germany) and to markets of high affinity (for instance, Belgium). In his view, the Belgian management had already spent too much time and energy trying to reverse the situation in France, thereby even neglecting the Belgian market. Moreover, putting additional resources in such a high-risk venture would be hard to sell to the personnel in a period of tight budgets. "We had to focus again on our strengths", the CEO said.

In 1996, the Belgian managing director had to report on the results of stage one and the plans for stage two to headquarters. He advised, however, to exit the French market. No indication could be found that the prices on the market would rise in the near future and that the terms of payment would be respected. The CEO immediately accepted. In fact, he had been entertaining the idea of a divestment for about six months.

The first experiences in France showed that a gradual entry could not be successful and that the market was not ready for a major high-profile entry. Belgian management and their French staff, however, tried to reverse the situation through a concentrated effort until the very end. Because of the full disclosure to the local representative of the company's intentions and problems during this first stage and the minimal level of investments made in the French market, the exit could be executed quickly and smoothly. One month after the Belgian managing director's report, all stocks were sold and all staff was laid off. Eventually, everybody was eventually relieved. According to the CEO, the company learned a lot from this experience: the importance of culture, the importance of a strong and pro-active entry, and the company benefited from this experience in the other export markets.

5.2.4 Case Delta: "A vicious circle due to cyclicality"

Delta is a medium-sized company with an annual turnover of $51.7 million in 1998. The company is highly specialized in the development and production of custom-made silos for the storage of non-liquid raw materials. The main key success factors in this business are product development capabilities and a large production capacity. This industry is very sensitive to the cyclical evolution of the economy. If the economy is rising, the demand largely surpasses the local production capacity of the suppliers. If the economy falls, no investments in storage facility are made. Although transportation costs are very high, Delta exports between 50 and 75 per cent of its production.

In 1988, the company was pulled into the French market by a major unsolicited order. Though no subsequent marketing effort was made, more major orders followed. The company became interested in the French market, not in the least because the demand in the domestic market had reached rock bottom. A French representative was attracted to go after the few, but major projects in the northeastern part of France.

As could be expected, the French silo market too seemed to be characterized by a cyclical evolution. After some time, the market for complex projects dried up and the projects became smaller and less complex. This evolution also attracted non-specialized competitors who undermined the price level in the market. Intensive market screening had to result in smaller, but more contracts. Although the local sales representative was very good in selling major complex projects, he nor the top-management of the company were interested in “running after the small scrap”. Very soon the sales director recognized that the company could only survive in the French market, if major investments were made in the local marketing activity (i.e. employing more sales representatives) and in the home-based export support system (i.e. setting up an export department).

In 1996, due to the bad (domestic and foreign) market conditions that had led to financial problems and lay-offs, the company was required to set financial priorities. Top-management decided that the domestic market would get top priority and that no additional investments in foreign markets could be made at this moment. Soon, the sales director and the financial manager concluded that the company had to leave the French market. Although they tried to convince the CEO by means of objective financial arguments, he asked them to try harder to penetrate the market (however, without additional investments). More than three months were needed to convince the CEO of a necessary exit. Eventually, the French market was left. The marketing and sales manager concludes: “Because of the cyclical evolution of the entire European market, we reached a paradoxical situation: when the market is up we cannot even cope with the domestic demand and top management is not eager to invest in foreign markets. When the market is down, we do not have the resources to invest in a foreign market. This way we will never have a chance of access in foreign markets”. “In fact, we have to diversify in a way that is independent of the cyclical evolution of the market. This requires a new strategic perspective, which top-management is not willing or able to accept”.

5.3 ANALYSIS AND STRATEGY PROCESS PROPOSITIONS

As a result of the analysis[4], six phases in the export withdrawal decision-making process emerged: (1) initial and accumulating market commitment, (2) increasing stress, (3) two opposite reactions, (4) toward a stress threshold, (5) confrontation at the threshold, and (6) learning beyond the withdrawal. We identified and delineated these phases in reference to the outcome of the cross-case analysis. The starting point was a longitudinal list of interrelated sub-patterns which dominated the international market exit process. After some iterations, we remained with six, more or less delineated, phases. Nevertheless, we acknowledge that this division to some degree remains arbitrary. However, this phasing is not an analytic aim in itself. The linear phasing as well as its graphical presentation are merely instruments towards a more comprehensible presentation of the complex (non-linear) analytic results.

For each phase, we first describe the critical incidents that occurred in the cases. Next, we derive phase-specific propositions, which are related to findings in the extant literature. From the cross-case analysis, we learned that cases Alpha and Delta behave differently in some of the phases. In separate paragraphs, these contrasting findings are described and, if possible, explained on the basis of the internal logic of their respective withdrawal processes.

5.3.1 Phase 1: Initial and accumulating market commitment

In the four cases, commitment to the particular export market has increased for several years. In cases Beta and Gamma, the companies have invested heavily in the pro-active expansion of their businesses. They performed local market research, screened and contracted local agents and hired new sales and service staff. In cases Alpha and Delta,

[4] We refer to Chapter 3 for an elaborate discussion of the methodology and the analytic process of Study I.

a successful passive export market entry was followed by investments in this market: both set up a local sales network and sales administration.

After some time, though, in all cases performance did not continue to materialize as expected. As a first reaction, the companies increased their market commitment in an effort to eliminate this performance gap. Efforts ranged from minor additional financial incentives for the local sales staff in case Delta to the extension of the terms of payment in case Beta. Gamma even adopted a new (French) subsidiary name in an effort to be considered more as a local company.

Despite these additional efforts, the performance gap increased further in all cases and the companies came to new insights into the reasons that caused this gap to widen. In case Alpha, management became fully aware of the fact that this product/market combination had reached the decline stage of its life cycle. The general manager was convinced that, from a certain moment onwards, any additional money invested in the further development of the U.S. market would be lost. In case Beta, the marketing and sales manager commented that the internal pressure on the Polish venture was increasing, not so much because of the typical market problems, but because the additional resources needed for the Polish market prevented the company from tackling opportunities in the domestic and in the very profitable global project market. Gamma was still starting up its business in France. Further growth required additional and heavy investments. In the meantime, however, the situation in the European market had changed dramatically and the corporate growth strategy had to be replaced by a survival strategy. As such, the need for additional investment in the French market did not fit into this new strategic plan. Finally, Delta's strategy of targeting particular projects had shown profit opportunities in France and other countries up to that time. In a reaction to the expected sales decline in the Western European market, top-management insisted on the adoption of a specific country strategy in France through targeting non-typical project segments too. Unfortunately, returns decreased further.

In all four cases, market commitment had first increased in a reaction to declining performance. However, this further accumulation of commitment did not result in a revival of the venture. Hence, we come to the following propositions:

P_{1a}: When expected performance in an export venture does not materialize companies react by increasing their commitment to this particular venture.

P_{1b}: External and/or internal dynamics may challenge the dominant logic of increasing commitment to a particular market.

Studies on key success factors in export marketing clearly illustrate that a positive relationship exists between accumulating commitment to particular markets and export performance in these markets (e.g., Madsen 1989; and Cavusgil and Zou 1994). Moreover, when a relative fit between the environment and the firm's strategy exists, a homeostatic process of logical incrementalism may be effective to restore performance (Quinn 1980; and Johnson 1988). Tactical responses, which use traditional recipes and build upon the current resources may prove superior to more innovative but untested forms of drastic organizational change, which aim at redirecting commitment and build upon new competencies. Indeed, these tactical responses embody the cumulative learning and experience which an organization has built up in a particular business. In contrast to a dramatic strategic reorientation, minor tactical adaptations save on information processing and transaction costs. Moreover, managers can continue to concentrate upon the long-term goals and exploit the competencies on which the strategy is based (Staw, Sandelands and Dutton 1981; Hamel and Prahalad 1989; and Ocasio 1995). Nevertheless, environmental dynamics may be dramatic to such an extent that they undermine the relevance of the present resources and competencies in the new situation. In that case, the accumulated commitment and the dominant logic become irrelevant and a new strategic path is to be constructed (Tushman and Romanelli 1985; and Romanelli and Tushman 1994).

5.3.2 Phase 2: Increasing stress

Stress or perceived strategic misfit seems to increase dramatically as an immediate consequence of the perceived ineffectiveness of the tactical responses. Table 5-2, however, illustrates that not all individuals in the organization experienced this increasing misfit in the same way. Some members of the organization perceived a growing endogenous misfit (Drivers a. in Table 5-2).

Stage 2	Case Alpha	Case Beta	Case Gamma	Case Delta
Drivers	Perceived evolution of the product life cycle: prices fall and power shifts to distributors	a. Perceived misfit between market commitment and performance b. Perception of missed domestic and international projects	a. Perceived misfit between market commitment and performance b. Perceived misfit between increasing market commitment and the changed corporate strategy	a. Perceived misfit between limited market commitment and performance b. Perceived misfit between the international growth strategy and the competitive advantages of the firm
Process	a. Close monitoring of financial results and pulling costs down b. Continuously exploring new markets	a. Increasing control over foreign operations and additional investments b. Creating a new strategic basis for growth	a. Spending more managerial effort and time, holding prices low b. New priority setting for corporate survival	a. Pressure on the local subsidiary to target more and different segments b. Development of a international growth strategy in a particular niche
Outcome	a. Optimization of the present strategy through cost cutting b. Preparation of new growth path	a. Optimization of the present strategy through increased control b. Convincing the organization about the new corporate strategy	a. Trying harder within the same strategic frame b. Implementation of a new corporate strategy	a. Trying harder within the same strategic frame b. Personal disagreement with the growth priorities in this venture

Table 5-2: The accumulation of stress: drivers, process and outcome

In their perspective, the increasing performance gap continued to result from the poor implementation of the current market strategy and the company's low commitment to the current market approach, given the environmental dynamics. Others, however, saw a growing exogenous misfit (b. in Table 5-2) between the environmental dynamics and the adopted market approach. In their opinion, the current market approach and the traditional recipes are refuted by dramatic changes in the environment.

Furthermore, the cases illustrate that managers whose prime focus was on this particular venture – the CEO in Beta and Delta, and the Belgian management in Gamma – perceived a rather growing endogenous misfit. Managers whose prime focus was on the overall international portfolio of the firm – the sales and marketing management in Beta and Delta and the CEO in Gamma – predominantly perceived a growing exogenous misfit. From these observations we derive the following two propositions:

P_{2a}: Managers whose prime focus is on the export venture predominantly perceive an increasing endogenous misfit, which they pinpoint as the main challenger of the current market approach.

P_{2b}: Managers whose prime focus is on the international portfolio of the firm predominantly perceive an increasing exogenous stress, which they pinpoint as the main challenger of the current market approach.

These propositions are in line with findings in the literature. Johnson (1992) argues that: "Changes going on within or outside the organization will affect organizational performance; however even if managers perceive such changes they may not necessarily acknowledge them as impinging on the strategy or performance of their organization." (p.29). He states that managers may look at reality through a filter. This filter is a set of beliefs and assumptions which is taken for granted. It plays a central role in the interpretation of environmental stimuli (March and Olson 1975; and Johnson 1988). Filters are constructed at the individual level. Moreover, Ocasio (1995) states that: “Diverse organizational subunits develop a differentiated set of information filters […] to deal with their respective subenvironments.”

In sum, we found that two filters predominate. One focuses on the apparently increasing endogenous misfit, the other focuses on the apparently increasing exogenous misfit. This duality stems from the fact that individuals and sub-units in the organization have their own relationship to a particular venture that may increase their involvement towards it. For instance, the Polish venture was the brainchild of Beta’s CEO. Furthermore, the dominant working environment of managers seems to influence their perception and may steer their assimilation of data towards particular threats and opportunities that are deemed relevant in their personal situation (Ocasio 1995).

5.3.3 Phase 3: Two opposing reactions

In an effort to reduce stress, Beta’s CEO further increased the current commitment to the Polish venture. Transfer prices were reduced and more marketing support was provided. Moreover, a local subsidiary was set up to increase control over the Polish partner. The sales and marketing management, on the contrary, started preparing a new corporate plan for international growth. In case Gamma, general management defended and started to implement the corporate survival strategy that had recently been adopted. At the same time, the Belgian and French management continued to invest increasingly more time and energy in the French venture. Finally, the sales and marketing manager of Delta developed his own perspective of a revised international growth strategy that is based on his different view of the firm’s competitive advantages. Delta’s CEO urged the sales and marketing departments to continue their efforts in the French market.

Since the two parties react to their own perceived misfit, different reactions were observed (see Table 5-2: Process a. versus b.). On the one hand, those perceiving an endogenous misfit continued to increase their commitment to the current market by means of spending more time and money and by means of increasing their own control over the export operation. All these remedies are typically situated within the current strategic frame of the venture. On the other hand, those managers who perceived an exogenous misfit increasingly detached themselves from this particular venture and started working out reorientation scenarios and new courses of action which went beyond the scope of this particular export venture. From these observations, we derive the following propositions:

P_{3a}: Managers who perceive an endogenous misfit will increasingly rely upon the current market approach. They will react through increasing their commitment to this particular venture.

P_{3b}: Managers who perceive an exogenous misfit will increasingly detach themselves from the current market approach. They will react through searching strategic alternatives.

In the case of P_{3a}, managers seem to get involved in 'problemistic search' (Cyert and March 1963) or 'single-loop learning' (Argyris and Schön 1978). Typically, alternative options for revival are looked for within the frame of the current market approach (Argyris and Schön 1978; Johnson 1988; and Huff, Huff and Thomas 1992). Problemistic search seems to be incremental and adaptive as the different options to react embody the cumulative learning and experience in this venture (Ocasio 1995). This evolutionary process of successive incremental adaptations confirms and reinforces the current market approach. However, when expected performance continuously fails to materialize the number of available tactical options gets smaller. Consequently, the organization may be caught in a vicious circle of escalating commitment (e.g., Staw 1976; Whyte 1986; and Ross and Staw 1993).

In the case of P_{3b}, managers increasingly detach themselves from this particular export venture and from the commitment that was accumulated. Instead, they become involved in the search for reorientation scenarios outside the current market. They search for a fundamental solution that spans all international activities of the firm. As such, they increase their involvement to the overall internationalization activity of the firm. This process is quite similar to 'double-loop learning' or the preparation of a strategic reorientation (Argyris and Schön 1978; and Tushman and Romanelli 1985). The ultimate aim of this learning process is not risk reduction but opportunity seeking. From the perspective of these managers more risk is inherent in the current market approach than in seeking new paths for international growth.

5.3.4 Phase 4: Toward the stress threshold

For a while, poor performance seemed to push the organization onto <u>two divergent paths.</u> Problemistic search and incremental adaptations strictly remained within the scope of the venture whereas the preparation for a strategic reorientation go beyond that scope. The cases suggest that both processes may develop separately for several months without any confrontation or consultation between the two courses. However, in cases Beta and Gamma these processes eventually converged.

<u>Three drivers</u> seemed to push the cases towards export withdrawal (Table 5-3). Firstly, despite increasing market commitment and tactical remedies, performance continued to decrease in Beta, Gamma and Delta (Table 5-3: drivers a.). One after the other the tactical remedies proved ineffective and made <u>exogenous stress to increase</u>. Indeed, more and more people, in particular from departments, which were only indirectly involved in the venture (e.g., accounting, and logistics) lost their faith in the eventual success of the current market approach. Secondly, preparations for a strategic orientation took shape in Beta and Gamma (Table 5-3: driver b.) and at least one <u>new alternative</u> received increasing acceptance throughout the organization. On top of the poor performance of the current approach, this strategic alternative opened the eyes of many. Thirdly, the interviewees clearly indicated that at least one particular 'incident' (Table 5-3: driver c.) acted as a <u>catalyst</u> in the process of stress accumulation in Beta and Gamma. Typically, these incidents did not (directly) result from the ineffective problemistic search or from the growing support for a strategic reorientation. Nevertheless, they were perceived, at least by those supporting a strategic reorientation, as a clear indication of the failing tactical adjustments. In cases Beta and

Gamma, the interviewees saw these incidents as the final straw after which a confrontation between the two incompatible strategic paths became unavoidable.

From these observations, we derive three propositions:

P_{4a}: **Ineffective single-loop learning contributes to the increase of exogenous stress.**

P_{4b}: **Exogenous stress increases and endogenous stress decreases when double-loop learning results in the development of an increasingly accepted strategic alternative.**

P_{4c}: **A catalytic incident acts as a final straw to the export withdrawal.**

Since cases Alpha and Delta clearly differ from Beta and Gamma, with respect to these drivers, they are discussed in separate paragraphs.

Stage 4	Case Alpha	Case Beta	Case Gamma	Case Delta
Drivers	a. The market cycle develops as expected b. The alternative P/M combination is further explored c. MR < MC	a. Increased control does not bring additional performance b. The growth strategy is supported by the organization c. Acute quality and safety problems through bad installation	a. Additional efforts do not bring additional performance b. The new corporate strategy sets new priorities c. Customers do not pay and many lawsuits follow	a. Additional efforts do not bring additional performance b. All export markets decline and the domestic market recovers c. The French manager retires
Process	a. Close monitoring of financial results b. Preparation of the new strategic path	Confrontation between the unsuccessful increasing commitment in the export market and the new growth strategy	Confrontation between requirements for additional investment and the priorities of the survival strategy	Search for an alternative solution within the same marketing and export strategy
Outcome	a. The old market is left when MR = MC b. The new market is entered	The export market is left because of a misfit between the new strategy and earlier commitments	The export market is left because of a misfit between the new corporate strategy and the requited investments in the venture	The firm remains in a new niche of the same export market, however, in a non-committed way

Table 5-3: Toward the export withdrawal: drivers, process and outcome

In cases Beta and Gamma more and more people began to perceive an increasing exogenous misfit. This resulted from successive incremental adaptations which confirmed and reinforced the current market approach over and over again while, at the same time, expected performance continuously failed to materialize. P_{4a} ascribes to the notion that stress may increase, not only as a result of a changing environment (P_{1b}) but also through an inappropriate reaction to this changing environment (Huff et al. 1992).

Moreover, P_{4a} also feeds $P_{4b.}$ In line with P_{3b}, increasing exogenous stress results in the further detachment from the current market approach and the increasing commitment to a strategic reorientation. When a strategic alternative is available, it first acts as an 'eye-opener' since it exposes the impact of the environmental dynamics on the organization and the current market approach. As a consequence, endogenous stress decreases and exogenous stress increases.

P_{4b} points to the <u>development</u> of strategic alternatives. Indeed, none of the firms had ready-to-use contingency plans built into their original market approach. While these plans might have speeded up the withdrawal process, they could also have been symptoms of a reduced commitment to the export venture from the outset. Typically, ready-to-use contingency plans require slack resources and capacity. As was discussed earlier in this chapter, we do not consider the availability of alternatives and escape routes a proxy for a firm's degree of strategic flexibility. Referring to Daft and Weick (1984), Huff, Huff and Thomas (1992) state that: "The key idea behind this […] strategic [reorientation] is that the process of <u>selecting</u> a direction for renewal is better described as <u>developing</u> a direction for renewal." (p. 63, underlying added). Strategic flexibility, then, is more than having alternative routes when a strategic option is taken and commitment to it accumulates and, possibly, escalates. It is the <u>capability of developing</u> these routes and of getting them accepted throughout the organization when needed.

Clear evidence was found for the role of a <u>catalytic incident</u> (P_{4c}). Quinn (1980) refers to these critical incidents as random events since they do not emerge from one of the two remedying processes. Despite the fact that their real impact on the activity and the performance in this export venture is slight, they may have far reaching consequences for the export withdrawal process. Due to the symbolic value attached to them by the proponents of a strategic restructuring decision, and building upon the increasing exogenous stress created through P_{4a} and P_{4b}, these incidents brought about the withdrawal.

5.3.5 Theoretical replication: case Alpha

In case Alpha, no endogenous misfit was perceived by any of the managers. Accordingly, no problemistic search was started. Although the company decided upon cutting costs, they did not want to redress the business or reconfirm the current market approach. These efficiency measures were judged highly compatible to the change to a new product market combination and both initiatives were taken by the same managers. It was already decided earlier that the eastern part of Germany would be the next strategic target. Moreover, the management was aware of the fact that new products and production processes had to be developed for this market. For this reason, we argue not to consider Alpha as a typical export venture withdrawal. It seems that other processes dominated the firm's withdrawal. The main cause of stress accumulation in this case seems to be the synchronization problem between the product/market withdrawal and the new launch. Therefore, we consider case Alpha more as an example of a product replacement decision-making process in the sense of studies by Avlonitis (1983, 1984) and Saunders and Jobber (1994).

5.3.6 Phase 5: Confrontation at the threshold

Soon after this catalytic incident had occurred, a frank discussion took place in cases Beta and Gamma, and the ventures were withdrawn instantly. In case Beta, support for the new growth strategy gained momentum throughout the organization and it was formally accepted by the CEO with the resignation of the sales and marketing manager. As soon as the new manager – a proponent of the strategic reorientation – was appointed, he was able to convince the CEO – the proponent of incremental strategic adaptations – to leave the Polish market. In case Gamma, the general manager and the Belgian manager had a telephone call, that lasted no more than an hour. The general manager comments:

> "For the first time, we spoke to each other – in all openness – about the future of the French venture. Within an hour, we agreed on an immediate withdrawal […]. Although the French venture was the brainchild of the Belgian management and they did their utmost to save it, I am quite convinced that they were aware of the growing misfit between the changing strategic context of the firm and the growing needs of this particular venture. They had already made up their minds about it." (General Manager Gamma – translated)

In both cases, this open deliberation was initiated by the proponents of the strategic reorientation.

The following proposition summarizes these findings:

P_{5a}: When P_{4a}, P_{4b} and P_{4c} are fulfilled the accumulation of exogenous stress reaches a threshold at which the two remedying processes are confronted and the export withdrawal is decided.

Instantly, and without much formal evaluation, the single-loop learning path was left in favor of the strategic reorientation. This seems to have happened not so much because of the 'proven' superiority of the strategic reorientation but because of a convergence toward a new dominant perceptual filter and to an overall perception of increasing exogenous stress beyond a threshold. Throughout the organization, a common perceptual frame seemed to have been developed, which has created reduced complexity enabling managers to 'get the picture' (March and Olson 1975; and Johnson 1992). Earlier studies illustrate that rational justification, emotional attachment, and bounded rationality play an important role in decision-making at this threshold (March 1978; Duhaime and Schwenck 1985; and Burgelman 1994).

Through propositions P_{3b}, P_{4b}, and P_5 we have developed the notion of a 'strategic withdrawal' which builds upon second-order learning that, in its turn, is rooted in the firm's capability of strategic flexibility.

5.3.7 Theoretical replication: Case Delta

Although in case Delta the French venture was withdrawn, this decision cannot be considered as a strategic withdrawal. While both P_{1a} and P_{1b} are valid, no coalition was formed around the need for a strategic reorientation. Indeed, others did not back the sales and marketing manager's initiatives for a strategic reorientation. It seems reasonable to accept that a recovery in the domestic market prevented the second-loop learning process to get rooted in the organization. The French venture was considered and remained an isolated problem within the growing potential of the domestic market. As such, no real preparation for a strategic reorientation took place. Since the double-loop learning process did not get entrenched in Delta's organization, the retirement of the French manager was perceived as an isolated problem which was to be solved within the scope of the ongoing incremental adaptation efforts in this particular venture. Exogenous stress, however, remains high and still continues to feed a polemic on this issue.

5.3.8 Phase 6: Learning beyond the withdrawal

In cases Alpha and Delta, the export withdrawals were executed in isolation from the other ventures of the firms' international portfolio. Beta and Gamma, however, completely rebalanced their international portfolio soon after this particular withdrawal process (Table 5-4). Beta's export manager for Eastern Europe comments:

> "This withdrawal was the first visible result of the newly adopted international growth strategy. This strategy is about priorities and how we would like to reach them. The immediate result was that some ventures lost their priority status. Others became a top-priority. Moreover, we totally changed the policy of entering new markets. Whatever the entry strategy, risk had to be minimized at all cost. We learned a lot from the Polish adventure. It was the lab and the driver of our new global strategy." (Export Manager Eastern Europe Beta – translated)

When Gamma's CEO and the Belgian management decided to withdraw from the French market, the firm closed two other European ventures as well. The CEO comments:

> "We had reached the point where our international activities had to be evaluated against the recently adopted corporate survival strategy. Our withdrawal from the French market was just one of the three we decided upon in one day. There was no argument for further investing in different export markets while cutting costs on domestic activities." (CEO Gamma – translated)

From the observations in Beta and Gamma we propose:

P_6: A strategic export withdrawal impacts upon the entire international market portfolio and increases a firm's degree of internationalization.

Although the export venture was withdrawn in all four cases, only in Beta and Gamma did this withdrawal have major implications on the entire international portfolio. After these strategic withdrawals, Beta and Gamma seemed to have engaged in so-called 'deutero-learning' (Argyris and Schön 1978): learning that goes beyond the solution of the original problem. During a short period, the organization reflected on the learning context of the recently decided withdrawal. They evaluated what they had learned from this withdrawal and applied it to the entire international market portfolio (Argyris and Schön 1978). This is in line with Welch and Welch (1996) who state that "[Experiential knowledge] can only be effective if the company is able to capitalize on this resource in further international operations, thereby closing the learning loop." (p.15). Closing their learning loop, Beta and Gamma enlarged their experiential learning base in the international environment and, in accordance with the Scandinavian internationalization process theory (Johanson and Vahlne 1977), increased their degree of internationalization (Lamb and Liesch 1998).

Stage 6	Case Alpha	Case Beta	Case Gamma	Case Delta
Drivers	The development of the new P/M-combination	The redefined growth strategy	The corporate survival strategy	As soon as possible back to 'business as usual'
Process	Implementation of the new P/M-strategy	Resetting market priorities for growth and redefining entry strategies in all European markets	Back to the core business = domestic business	No change in the international marketing strategy
Outcome	Adaptation of production process, end product and marketing strategy for this particular market.	Rebalancing the international portfolio and entry-strategies of an international venture.	Withdrawal from 3 European countries and reentering Germany. Further international growth on a country by country basis	'Business as usual'
	"Preparing for a new adventure"	"A great relief"	"We created a tabula rasa […] we can now build it up again"	"To grow, we need a totally different international strategy."

Table 5-4: After the export withdrawal: drivers, process and outcome

5.4 THE GENERATIVE MECHANISMS

At this point in the analysis, a preliminary perspective on the generative mechanisms of this strategy process can be put forward. Three generative mechanisms appear to underlie this six-phased process: (1) an inhibition mechanism of escalating market commitment, (2) an acceleration mechanism of increasing strategic flexibility, and (3) an arbitration mechanism that leads to convergence of (1) and (2). Next, we discuss how these generative mechanisms seem to underpin the process.

5.4.1 An inhibitor

A first mechanism seems drive endogenous stress and leads to limitations in information processing, increased rigidity and escalating commitment to the export venture. From phase 1 up to phase 5, some managers seem to stick to current strategic routines for reacting to the perceived misfit and the declining performance. Only at phase 5, this process of escalating commitment seems to be stopped by a competing process. This force very much inhibits the withdrawal decision-making.

This mechanism seems highly related to threat-rigidity theory (Staw, Sandelands and Dutton 1981) and to the notions of intrinsic structural inertia (Hannan and Freeman 1984) and momentum (Kelly and Amburgey 1991). In search of a theoretical framework for the further investigation of this inhibitor, an evolutionary perspective seems promising (Barnett and Burgelman 1996). As it was discussed in the previous chapter, central to this theoretical frame is change that proceeds through a continuous cycle of variation, selection and retention. Retention involves forces – such as escalating commitment – that continue to exist.

5.4.2 An accelerator

Parallel to the first mechanism, a second one seems to be driven by exogenous stress. It can be characterized by widening cognitive processes and increasing strategic flexibility. From phase 2 on, some managers seem to refute the current routine-based approach and start by constructing an alternative strategic approach. Typically, these managers seem to analyze the situation at a higher level. Instead of focusing on the problematic venture itself, they reassess the entire international market portfolio of the company and try to build a new strategic logic around it. This force seems to accelerate the export withdrawal process.

This mechanism seems related to theories of failure-induced organizational change (Cyert and March 1963). Central to this accelerating process is generative or second-order learning (Argyris and Schön 1978) that occurs when the organization is willing to question the traditional routines and the dominant logic that appear to narrow cognitive processes in the inhibiting sub-process of escalating commitment (Bettis and Prahalad 1995). Teleology seems to offer a theoretical framework for the further investigation of this mechanism since generative learning is the main driver of a teleological process (Van de Ven and Poole 1995). In a teleological perspective, an organization socially constructs and shares a common major objective or end state – in our case the withdrawal of a venture and the reorientation of the international market portfolio. This accelerator holds potential for the explanation of deutero-learning and the positive impact of a strategic withdrawal on a firm's degree of internationalization.

5.4.3 An arbitrator

Inhibiting and accelerating forces seem to co-exist and develop separately in the organization until one starts to outweigh the other. Only in phase 5 (see Figure 5-1), an open confrontation seems to occur between the two intrinsically conflicting mechanisms. At this point of the analysis, though, it is not clear when and why one of the two alternative mechanisms overtakes the other. At phase 5 the process, the process seems to have reached a stage of high strategic flexibility.

The confrontation between these two generative mechanisms seems to fit the 'politics and power'-type (Eisenhardt and Zbaracki 1992) of strategic decision-making in organizations. In this type, the view is held that decisions are the result of a process that encompasses multiple paths with non-complementary goals. These paths come together through arbitration and the preferences of the most ‘powerful’ – i.e., widely accepted – path triumph. People seem to engage in politics while preparing this arbitration and the entire process is triggered by power imbalances. For the further study of this driver, a dialectical perspective seems valuable (Benson 1977). In this fundamental perspective, opposing entities with contradictory values and objectives compete with each other for domination and control. Due to a relative power imbalance, opposite views clash with each other at a certain moment

We do not pretend to have arrived at a explanatory theory of international market withdrawal yet. Nevertheless, these three generative mechanisms seem to provide a solid foundation toward further theorizing in Study II.

5.5 CONCLUSION, LIMITATIONS AND SUGGESTIONS

In Study I, we set out to explore international withdrawal by an in-depth strategy process study of export withdrawal by four SMEs. The cross-case analysis led to a complex process which encloses six phases (see Figure 5-1). To focus and structure this study, we used a multidisciplinary approach and relied upon a dynamic perspective of four basic constructs: market commitment, organizational inertia, strategic (mis)fit and strategic flexibility. Performance decreases when significant changes in the internal and/or external environment lead to a structural misfit between the environment and the strategy in that particular market performance decreases. As a consequence, perceived misfit increases. This study suggests that members of the organization tend to react in two opposite ways. Some seem to perceive an endogenous misfit – what we do is right, we only have to try harder – and react by increasing market commitment to the current market approach. Typically, tactical measures are takes to make the venture more efficient. Others in the organization, however, perceive an exogenous misfit – what we do is wrong, we have to change our strategy – and react by detaching themselves from the present market strategy. They engage in building strategic alternatives. At first, only tactical measures are taken. However, when the expected recovery of performance does not materialize, stress increases further. In addition, stress increases due to the development of strategic alternatives, which result in a momentum of change for the organization. Ultimately, this second order learning path overturns the tactical measures and the withdrawal is decided. In case of a strategic withdrawal, this momentum of change seems to implicate higher order learning at the level of the company's entire international market portfolio.

Ultimately, we identified three generative mechanisms which seem to underlie this international market withdrawal process: an inhibitor, an accelerator and an arbitrator. We do not pretend to have arrived at a explanatory theory of international market withdrawal yet. Nevertheless, these three generative mechanisms seem to provide a solid foundation toward further theorizing in Study II.

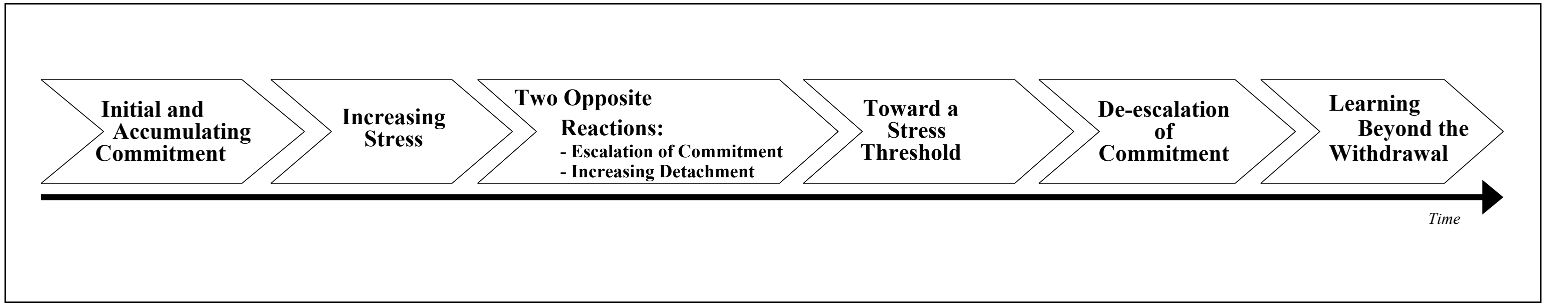

Figure 5-1: A preliminary framework of the export withdrawal process

The scope of this study was limited to export withdrawal in small and medium sized companies. However, we do not expect that a withdrawal from a market in which any other entry strategy (e.g., joint ventures or FDI) was adopted, would develop in a fundamentally different way. During the analysis, the entry strategy per se did not enter the withdrawal process as a particular moderating factor. Analyzing withdrawal processes in the context of other entry strategies remains important, though, to increase the external validity of our process perspective and to identify additional moderating variables. Secondly, we limited our study to SMEs. An in-depth study of decision-making of international withdrawal within large multinational companies will definitely enhance the proposed dynamic relationship between the four basic constructs and challenge the proposed strategy process model. For instance, a large multinational may be involved in different ventures in one country and may withdraw from one venture while investing in others in the same country. Moreover, this decision may involve several affiliates within the multinational, which will complicate decision-making.

Various aspects of the withdrawal process remain unexplored in Study I. At least the following are more explicitly dealt with in Study II:

- More insight is required in how organizations and business units behave during the culmination point (phase 5) when stress reaches its threshold and strategic flexibility seems to have reached its top.
- More insight is needed in how organizations create strategic flexibility as a higher order learning process which has to compete against the ongoing dominant logic.
- From the interviews we learned that a limited number of managers seem to play a disproportionate role in the withdrawal decision-making process. May we consider them as ‘champions of change’ ? If yes, how is their behavior characterized and how do they operate during the withdrawal process ? What if a withdrawal seems required but no champion ‘emerges’?

- How does a company cope with international withdrawal if they are experienced due to an earlier withdrawal decision ? Does the organization build routines that make the process more efficient and effective ?
- More data is required to study the effect of a strategic withdrawal on the firm’s international marketing strategy and its international market portfolio management. For instance, what are possible measures to control the pacing of portfolio decisions ?
- To what extent are managers aware, and taking account of, exit costs ?

CHAPTER 6:
STUDY II – A STRATEGY PROCESS STUDY OF INTERNATIONAL MARKET WITHDRAWAL : CASE DESCRIPTIONS

6.1 INTRODUCTION

Study II consists of eight cases of international market withdrawal. Whereas Study I was limited to export market withdrawal decisions made by small and medium sized enterprises that operate in a business-to-business environment, Study II focuses on international market withdrawal decisions in the frame of large multinational business-to-business firms.

As we build Study II upon the preliminary findings of Study I[1], we postulate that fundamentally the same generative mechanisms drive strategy process decision-making on international market withdrawal in SMEs and in large multinational organization. However, this assumption should be nuanced at the outset of Study II. In our perspective[2], at least three dimensions may complicate or change the withdrawal process of international product-markets by large companies in comparison to withdrawals by smaller companies: organizational structure, market knowledge and planning behavior.

Firstly, we expect that the structure of large organizations is more formal, rigid and complex (Rajagopalan and Spreitzer 1996). Typically, large multinationals have adopted a well-defined matrix structure, which inherently builds upon a conflict model between product- and technology-oriented substructures on the one hand, and market-oriented substructures on the other (Hedlund 1986). As a consequence, we expect more

[1] In section 3.3, we discuss why we split this study in an exploratory Study I and an explanatory Study II and why we focus on SMEs in Study I and on large multinationals in Study II.
[2] The extant literature, though, remains equivocal on the fundamental difference between organizational change in large and small firms. Haveman (1993) illustrates this equivocation in an extensive review of the extant literature on this issue. On the one hand, she finds that large companies are more bureaucratic, showing greater structural complexity, greater formalization of behavior, more decentralized decision-making, and greater task specialization. As bureaucratic organizations are more rigid, it could be postulated that, in general, large organizations will change more slowly than small organizations. On the other hand, this author finds evidence about the fact that large companies are more instable too, showing more structural complexity, differentiation, specialization of personnel, decentralization, and slack resources. From these arguments, it can be postulated that large organizations change faster than small organizations (Haveman 1993).

individuals with diverging expectations at more levels of the organization to be involved in the withdrawal process. This may complicate and slow down decision-making. On top of that, the relationship between headquarters and local subsidiaries gives an additional dimension to withdrawal decision-making (Hedlund 1980; Ghertman 1988; and Birkinshaw, Hood and Jonsson 1998). The more or less independent position of the local subsidiary may result in local (counteracting) initiatives which speed up or slow down the process.

Secondly, it can be expected that large multinationals have more and more accurate market information (Day 1994). Typically, marketing and sales departments of large firms are better equipped, have more financial resources and engage staff who is exclusively involved in gaining and disseminating market related information. Within the framework of our preliminary model of international market withdrawal, this may result in a more valid perception of increasing stress throughout the organization. As a consequence, larger firms may react in a more accurate way to particular stress-creating incidents. Thirdly, we expect larger organizations to adopt more formal planning systems and to be more inclined towards designing formal plans in advance of non-routine strategic decisions (Mintzberg 1985). Increased formal planning behavior is a consequence of more routine-based organizational behavior, which is more typical the more layers in the decision-making process and the larger the organization is (Mintzberg, Raisinghani and Théorêt 1976).

As a consequence, we assume that studying international market withdrawal in the context of large multinational or global companies may reveal additional aspects or even new dimensions of the decision-making process, the implementation process, as well as of the consequences for the international market portfolio management of the firm.

In this chapter, we set out to describe eight cases of international market withdrawal in four multinationals in a systematic way. For each case, we first describe the strategic context in the 'international marketing strategy' subsection. Next, we describe and graphically present the decision making process of each case in a chronological and neutral way. The aim of this chapter is not to analyze the process but to give the reader a clear insight in what happened during the process and in what respondents have experienced at different critical incidents.

6.2 DESCRIPTION OF THE CASES

In this section, the eight cases of Study II are described in a systematic way. For each case, the key financial and strategic characteristics of the four companies/business units are presented. Next, the tenets of the companies' international marketing strategies are discussed. Finally, the eight international withdrawals are presented in short. For each case a graphical presentation of the withdrawal process is provided. In this section, it is not our aim to provide all details of the eight withdrawal processes or of their respective contexts. The purpose is that the reader is able to develop a general idea about the withdrawals. Therefore, we describe the 'story' and the background of the withdrawal in general. This way, the reader should be able to understand the particular references to cases in the next chapter. In the later parts of this chapter, we regularly refer to specific aspects of the cases, which we isolate and/or blow up to illustrate particular events or make certain inferences. Table 6-1[3] summarizes the eight cases.

As was the case in Study I, a high degree of confidentiality was agreed upon with the interviewees. Whereas all information provided in this or later sections is approved, some information could not be provided in its greatest detail or could not be given at all. As far as possible, however, this confidential information was integrated into the analysis.

[3] The position on the Perlmutter's (1969) EPRG-continuum is based upon my subjective evaluation of the attitude of top management and the interviewees about the international activity and the degree of internationalization of their firm.

Company	Kappa		Eta		Lambda		Sigma	
Business Activity	Trading of second hand trucks and parts		Photographic and imaging		Telecommunication systems and equipment		Industrial engineering, processing and contracting	
Stage in the EPRG-Model	ETHNO -> Regio		Global ↔ Ethno -> Regio		Global		Ethno -> REGIO	
Annual Group Turnover (1999)	$ 131 million (1997)		$ 4.3 billion		$ 22.3 billion		$ 2.4 billion	
International/ Total Sales Ratio	90%		85%		83%		65%	
Case	**Spain**	**Belgium**	**Japan**	**Germany**	**Turkey**	**Russia**	**Brunei**	**UK**
Type of withdrawal	Reduction of commitment	Full exit	Full exit	Full exit	Reduction of commitment	Reduction of commitment	Full exit	Full exit
Strategic Importance of this Market	Medium -> High	High -> Low	High -> moderate	High	Medium	High	Low	High -> Low
Initial Positioning in this Market	Full market coverage	Full market coverage	Strategic penetration in niches	Full market coverage	Full market coverage	Market creation - pioneer	Project based	Full market coverage
Profitability of this Venture	High -> losses	Medium -> losses	Losses	High	Medium -> Low	High -> Losses	High -> Medium	High -> Losses
Number of Years in the Market	1980 – 1990 10 years	1977 – 1996 19 years	1973 – 1998 25 years	? – 1998 > 20 years	1983 – 1995 12 years	1983 – 1998 15 years	1985 – 1995 10 years	>1970 – 1999? > 30 years

Table 6-1: Overview of the cases of Study II

6.2.1 Kappa: Withdrawal from Spain and Belgium[4]

Kappa is a Dutch value adding reseller of used vehicles. Kappa is the biggest player worldwide in its business with an annual group revenue of $131 million (1997) and about 145 employees. Although Kappa sells over 9,500 vehicles (mainly trucks) per year – 90% of which are sold abroad – the company has a worldwide market share of only 3%.

The rationale for Kappa's worldwide business is the life cycle of vehicles in general and of trucks more in particular. Generally, a truck has specific economic value in each stage of its life cycle. In developed countries such as Germany or The Netherlands, newly bought trucks have lost their economic value and are depreciated after 4 to 5 years. At that moment, Kappa buys these trucks and resells them on the domestic market or, more evidently, on a foreign market that typically cannot afford to buy new trucks. Typically, in these developing countries money is relatively expensive and labor is relatively cheap (e.g., Eastern Europe). Some years and many hundreds of thousands of kilometers later, these trucks will have lost their economic value in these countries too. Kappa then buys them again and sells the trucks (or the refurbished parts of it) to countries with very low labor cost in Africa and South America. On average, a truck is resold 2 to 3 times over a period of 10 to 15 years.

In this business, Kappa has two groups of competitors. 90% of the worldwide second hand market is served by small (i.e., less than 500 trucks a year) and unprofessional local merchants who buy and sell on a local scale. In many markets, these local merchants are both competitors and sometimes clients of Kappa. A second and increasingly important group of competitors are the truck producers (e.g., Mercedes, MAN, Scania, etc.) who have been integrating forward into the second hand market.

[4] The fieldwork for these eight cases was done between January 1999 and December 1999. We refer to Chapter 3 for a discussion of the data collection methods which were applied and for an overview of the interviewees per case.

However, for most of them this second hand business is merely a side effect and, up to now, it does not belong to their core business.

In the near future, the top manager of Kappa expects more Kappa-alike companies may emerge as the supply of second hand trucks will boom due to the continuously growing leasing market in most developed European countries. The key success factor for these traders is to be able to manage a worldwide information and distribution network that is capable of gearing supply to demand on a day to day basis. Moreover, minimal throughput capacity should be over 50.000 vehicles a year. In this business, the importance of economies of scale and scope is increasing dramatically.

6.2.1.1 International Marketing Strategy

In the mid 1970s, Kappa started to sell across borders, first in Belgium but very soon more remote markets such as Sudan were targeted on a hit and go basis. On the one hand, Kappa was pushed abroad by an obsolete inventory, i.e., trucks in their stock that were too old for or did not fit anymore the requirements of the Dutch customer. Typically, this stock was partly depreciated and sold abroad. On the other hand, Kappa was pulled into an international buyers market as many foreign buyers came over to visit Kappa. Some of these early buyers later became agents for Kappa in their own country.

Over the years, Kappa’s international activity grew and now Kappa is doing business in 82 countries, has exclusive agents in 32 countries and runs 4 distribution centers abroad: Germany, Hungary, Bulgaria, and Chili. Until now, the Dutch headquarters was the logistic hub for all international activity. Furthermore, sales were dictated by purchases and the available stock. Typically, a truck that was bought in Finland was transported to and refurbished in Holland. The sales department had a day-by-day insight in the stock and, eventually, this Finnish truck was sold and transported to Paraguay.

In 1997, Kappa started implementing a new system called ‘cross-trading’. The core of cross-trading is that the importance and cost of the physical distribution and the stocking of trucks is reduced thanks to real-time information links via the Internet between Kappa’s agents in buyers and sellers markets. The ultimate aim of cross-trading is to better match purchases, stocks and sales. An example illustrates the tenets of cross-trading: A major customer of Kappa’s Chilean agent is a Bolivian meat transport company. One day, Kappa’s agent in Moscow informs headquarters that a major meat transport company in Moscow has gone bankrupt. As a consequence, a temporary buyers market exists for cooler semi-trailers in and around Moscow. From the Internet, the Chilean agent picks up this information and informs both headquarters and his Russian colleague that he might have a customer for some of these semi-trailers. The Russian agent immediately checks for the quality of all available semi-trailers and promptly puts an objective report, including pictures, on Kappa’s Internet system. The Russian agent may or may not buy some of the semi-trailers on the spot. At the same time, the Chilean agent pro-actively works on his customer. If, eventually, he manages to sell some of these semi-trailers, they will be bought and transported directly from Moscow to Bolivia or to Kappa’s distribution center in Chile if additional reparation or refurbishment is required.

The interactive Internet system has become the hub of Kappa’s value adding system. It is no longer the logistics system but the interactive information system that is of critical importance. Therefore, the Internet system is closely managed by the Dutch headquarters and Kappa heavily invests in it – in 1998 more than $1.2 million and over 7,000 hours were invested in soft- and hardware development. Although headquarters has lost its role as a logistic hub, they remain in control over purchase and sales priorities as well as pricing. If, for instance, the Hungarian agents want to sell the same cooler semi-trailers, tactic and strategic reasons may influence headquarters to decide to sell them in Hungary and not in Chile. For strategic control, the centralization of stock and the distribution activity are no longer crucial.

At this moment, Kappa's biggest challenge is to build an international network of agents and distributors who are willing to fit into this cross-trading system. In the past, Kappa's portfolio of international market ventures had shifted regularly. In this study, we focus on the withdrawal from Spain in 1990 and the withdrawal from Belgium in 1996.

6.2.1.2 Withdrawal from Spain

When Spain entered the European Economic Community in 1982, Kappa's sales dramatically increased in that country due to the elimination of entry barriers. In 1987, Kappa decided to set up a subsidiary near Barcelona together with a local partner who held 30% of the shares. This was an overnight decision that seemed evident as this booming market and the distance to stocks in Holland – "a buyer wants to see what he is buying" – more than justified a local subsidiary. However, after two years sales and profits started dropping as less Spanish merchants and end customers bought from Kappa.

On the first of November 1990, a new CEO replaced the retiring CEO/owner. One day after he was appointed the newly appointed CEO decided to close down the Spanish subsidiary. Hardly any discussion with other managers had preceded this decision. Not knowing anything about the history of the Spanish subsidiary the new CEO only saw a $700,000 loss in 1990 and an impressive legal file that illustrated the troubled relationship between Kappa and its local partner. Without any investigation of the reasons for these losses, closing down this subsidiary was his first act as a CEO.

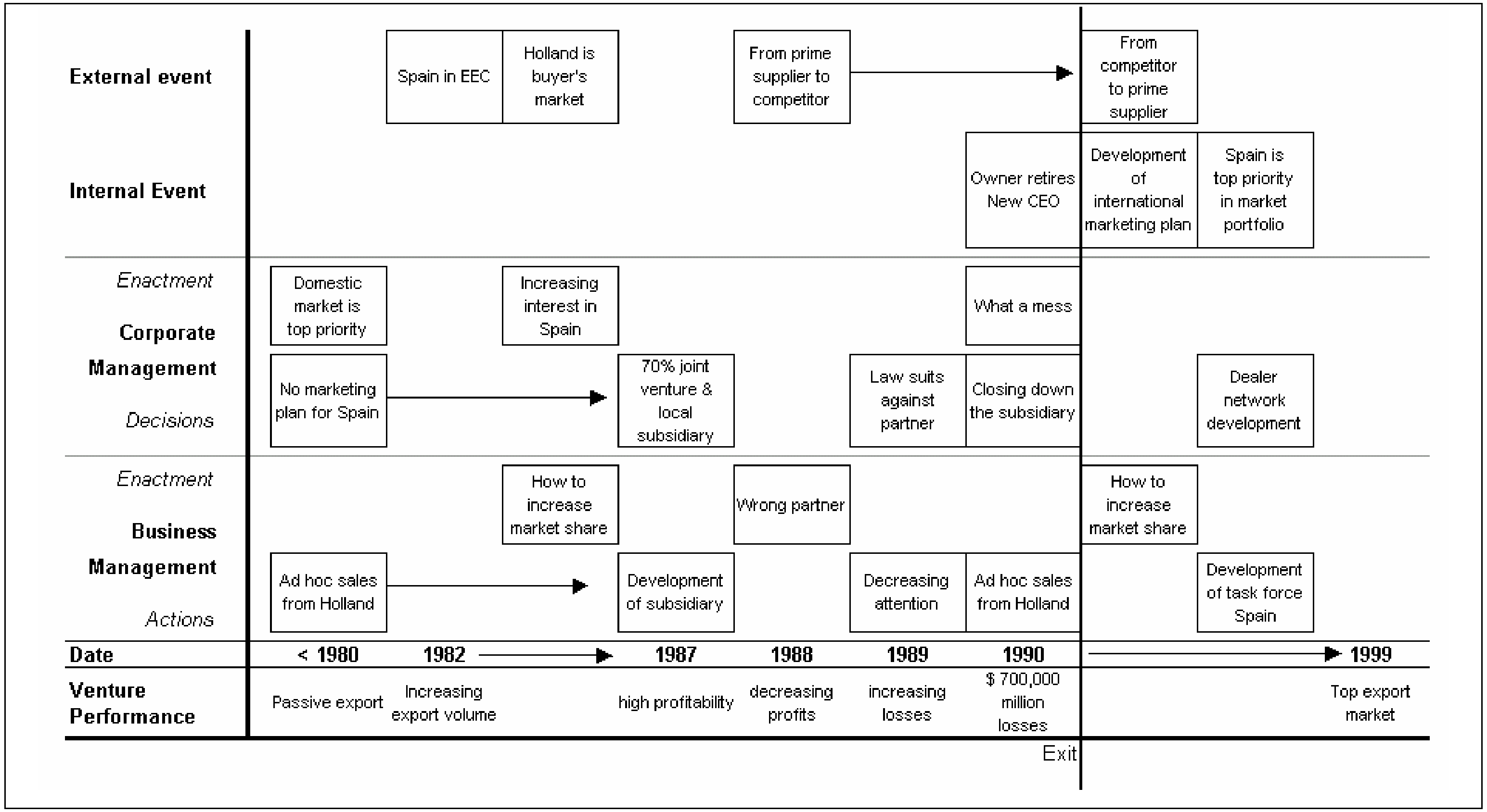

Figure 6-1: Kappa Spain: withdrawal process

Only some years later, Kappa began to understand that the reason for their sales drop was not the market but their own entry strategy. By setting up a subsidiary, local merchants saw Kappa integrating forward into the channel and in their eyes Kappa had changed from prime supplier to major competitor. Since Spaniards typically are relationship buyers and not price buyers, Kappa (as a foreign company) was and is not able to reach the final customer except via the local merchants. Since the closing of the subsidiary, sales have been rising again in Spain and until today, Spain is Kappa's largest and most profitable foreign market. The withdrawal process is graphically presented in Figure 6-1.

6.2.1.3 Withdrawal from Belgium

In the mid 1970s sales in Belgium increased smoothly. At that time, the Belgian price level was 10% higher compared to the Dutch price level and due to the Belgian fiscal regime and the underdeveloped leasing market, trucks ran for more years in Belgium than in Holland. In 1978, a subsidiary was set up along the highway between Brussels and Antwerp. Typically, the obsolete Dutch inventory was transported and sold in Belgium. For some years, this operation seemed very profitable. However, competition increased, the price level dropped and the Belgian truck market became more and more comparable to the Dutch market. Soon, the obsolete Dutch inventory no longer fitted the Belgian customer's requirements and the Belgian management started the purchase locally. Dutch headquarters did not intervene in this situation. Although the Belgian subsidiary was the brainchild of Kappa's CEO/owner, he rarely visited the plant. As such, the subsidiary's autonomy gradually increased.

In 1990, the newly appointment CEO introduced more advanced techniques for strategic and financial control. Soon, the results of the strategic analyses revealed the low profitability of the Belgian subsidiary as well as the poor management capacities of the local (Dutch) manager. However, the new CEO did not want to close down the Belgian subsidiary as he saw potential both in the local Belgian market and in the export to Africa via the Belgian subsidiary. Kappa's top management decided to invest a lot of time and effort for the next couple of months to redress the situation. Months, however, became years and over these years the market hardly revived. Small profits in one year were balanced by small losses in other years. Ultimately, in 1993, the local (Dutch) manager was relieved and a team of two Belgians was appointed as subsidiary management – “let a market be run by locals”. However, again without a lot of success. In 1994, only one of the two Belgians was appointed subsidiary manager – “two men at the top does not work”.

Some months later, headquarters decided to close the subsidiary down. However, the Belgian manager succeeded in convincing the CEO to give him a fair chance and to let him try to run the subsidiary, at least for a year or two. Eventually, the subsidiary was closed down in 1996. Kappa now believed that there was no room for a professional player in a market that was dominated by very small, unprofessional and flexible (from a fiscal point of view) merchants. Furthermore, although small successes had been booked in Africa, the expected booming of the African market was still to come. Kappa’s management decided to continue probing the African market from the Dutch headquarters. In the end, no value adding role was found for a Belgian subsidiary in Kappa’s emergent worldwide network of distribution centers and agents, which was based upon the cross-trading principle. Kappa’s first and largest subsidiary was closed after 19 years and no marketing and sales efforts whatsoever have been directed to Belgium since that moment. The withdrawal process is graphically presented in Figure 6-2.

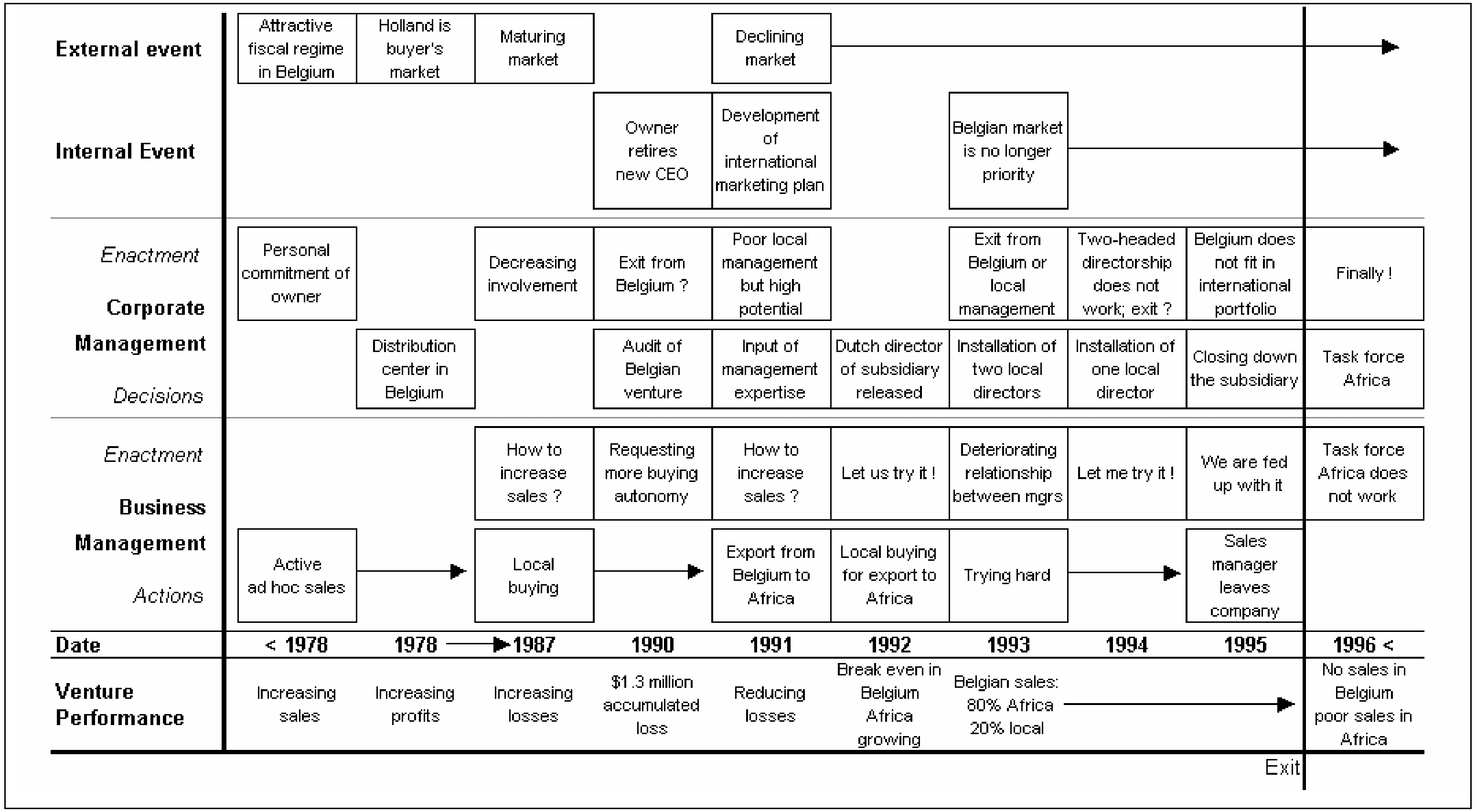

Figure 6-2: Kappa Belgium: withdrawal process

6.2.2 Eta: Withdrawal from Japan and Germany

With sales amounting to $4.3 billion in 1999, Eta ranks among the worlds leading companies in its industry. Eta markets over 20,000 products and employs about 22,000 people, 50% of whom are engaged in one of Eta's 35 fully owned affiliates all over the world. The company is divided in five autonomous business groups. Each of these business groups focuses on particular technologies and develops specific product portfolios for particular business-to-business and consumer applications. More than 50% of Eta's sales comes from businesses in which the company occupies the number one position worldwide.

In our study, we focus on Eta's largest business group (call it: GS). This business group offers a full range of products and systems in a particular business of applied chemicals. In 1998, GS accounted for about $2.2 billion worldwide, a 13.4% increase compared to 1997. This increase was mainly due to the acquisition of a division of a major competitor. Worldwide, GS competes in a very concentrated business area. Although GS is the biggest player in the world, its market share is only slightly higher than the shares of its two main competitors. Together, these three companies account for about 75% of global sales in this business area.

6.2.2.1 International Marketing Strategy

Over 85% of Eta's sales are generated outside its home market. Europe accounts for 55% of these sales and the United States account for 22%. Sales increased all over the world except for a slight drop in their home market sales and a more dramatic decrease of over 20% in Japan and Korea.

In its matrix organization, Eta crosses its five business groups with four regional market organizations – Europe, NAFTA, Latin America and the Far East – all of which are managed from the central headquarters. Downstream the value chain, this matrix structure is more or less balanced. In the field, account managers are assisted by product managers. Upstream, however, the business groups have more responsibilities and power. Eta very much remains a product- and technology-driven company in which centralized fundamental and applied R&D departments decide which product portfolios the regional organizations have to sell. Business groups have full responsibility over their product portfolios and over each product's sales, profitability and market share. The responsibility of the regional organizations does not go beyond the positioning of these portfolios in selected segments. Product development processes, for instance, are not their authority. Moreover, corporate (international) growth is mainly due to technology-driven acquisitions that are initiated and managed by the business groups.

From a headquarters perspective, Eta can be considered as a 'global' player in the sense of Bartlett and Ghoshal (1991). Due to the centralized business group management, product portfolios are standardized for all markets. In the past, only a very limited set of well-defined product portfolios had been technically adapted to strategically important markets such as Japan and the USA. Today, these particular portfolios have been globally standardized again. From a local market perspective, however, local sales and marketing managers behave in a more ethnocentristic way (Perlmutter 1969). Out of the very broadly defined product portfolios, countries select the products they think their market needs. Typically, 60% or more of a mature product portfolio is marketed in three countries or less, whereas, less than 20% of a portfolio is marketed in more than 80% of Eta's local markets. As a consequence, the product portfolio that is actually marketed substantially differ between countries.

Nevertheless, Eta is doing its utmost in trying to balance this situation. Until recently, there was no specific regional responsibility at the level of the Board of Directors. Too often, marketing and sales opportunities remained national and tactical issues, which had to be dealt with at a lower level in the organization. Presently, however, each member of the Board has become responsible for one particular region. As a consequence, strategic marketing and sales opportunities and problems can be identified and dealt with faster at the highest level.

6.2.2.2 Withdrawal from Japan

In 1998, Eta decided to withdraw one well-developed product range (PR1) from the Japanese market. PR1 is a broad range of chemical products and systems that was launched some 30 years ago. At present, Eta is the world market leader for PR1. Although it can be expected that PR1 will be replaced by an entirely new product range PR2 due to technological breakthroughs, the market for PR is expected to continue to grow by 3.5% per year for the next couple of years.

Eta entered the Japanese market about 25 years ago. At that time, the local market was very small but Eta held a monopoly position in it and prices were high. Soon, a joint venture was set up with a local dealer. However, no large investments were made in the market and PR1 was not adapted to the particularities of the Japanese market. Eta waited for the market to develop. Unfortunately, the joint venture soon ended. Over the next decade, Eta approached a lot of local dealers, however, without success. In 1988, the business group GS saw that the worldwide market for PR1 had increased dramatically and that Eta was the market leader, except in Japan.

In Japan, the market had boomed too. However, an American and, more in particular, a Japanese competitor had been developing and dominating the market since the beginning of the 1980s. Eta had the ambition of winning back its position in Japan. A local subsidiary was set up and expatriates were sent over. Soon, Eta discovered that PR1 was not compatible with the Japanese technical and operational environment, which was introduced by Eta’s main competitors, whose systems created unique process conditions in the customer’s plants. It was decided to reengineer PR1 and to develop a product range that was exclusively designed for the Japanese market. However, after 3 years and a lot of product revisions, the Japanese PR1 management concluded that Eta seemed not to be able to develop anything better than a ‘me too’ product. It seemed that Eta was not able to outperform its competitors on a technical level.

Precious time had been lost. In the first half of the 1990s, it became more and more difficult to convince potential customers to give (the Japanese version of) PR1 a new chance. Moreover, all distribution channels had been locked and – due to overcapacity – a price war had started off. Fortunately, a major national distributor approached Eta as it was not happy with their present supplier, Eta's main Japanese competitor. However, after 3 years this partnership was cancelled too. Eta had not been able to offer a product up to the standards of this distributor.

In 1997, Eta's Japanese management designed a new business plan for PR1. Four options were studied: (1) invest in PR1 and enter PR2, (2) hold PR1 and invest in PR2, (3) withdraw PR1, and (4) withdraw PR1 and enter PR2. Ultimately, in January 1998, the general management of the business group GS decided on the implementation of the fourth option: the immediate withdrawal of PR1 and the investigation of the market and channel opportunities for PR2. From the perspective of the customer, however, withdrawing PR1 and entering PR2 may not be considered as a product replacement decision. Although PR1 and PP2 serve the main purpose in the operational environment of the customer, the customer's switching costs are extremely high. In accordance, it is expected that it will take many years before PR2 will have taken over PR1's position and market volume. Therefore, we consider it as a separate withdrawal and entry decision. This withdrawal process is presented in Figure 6-3.

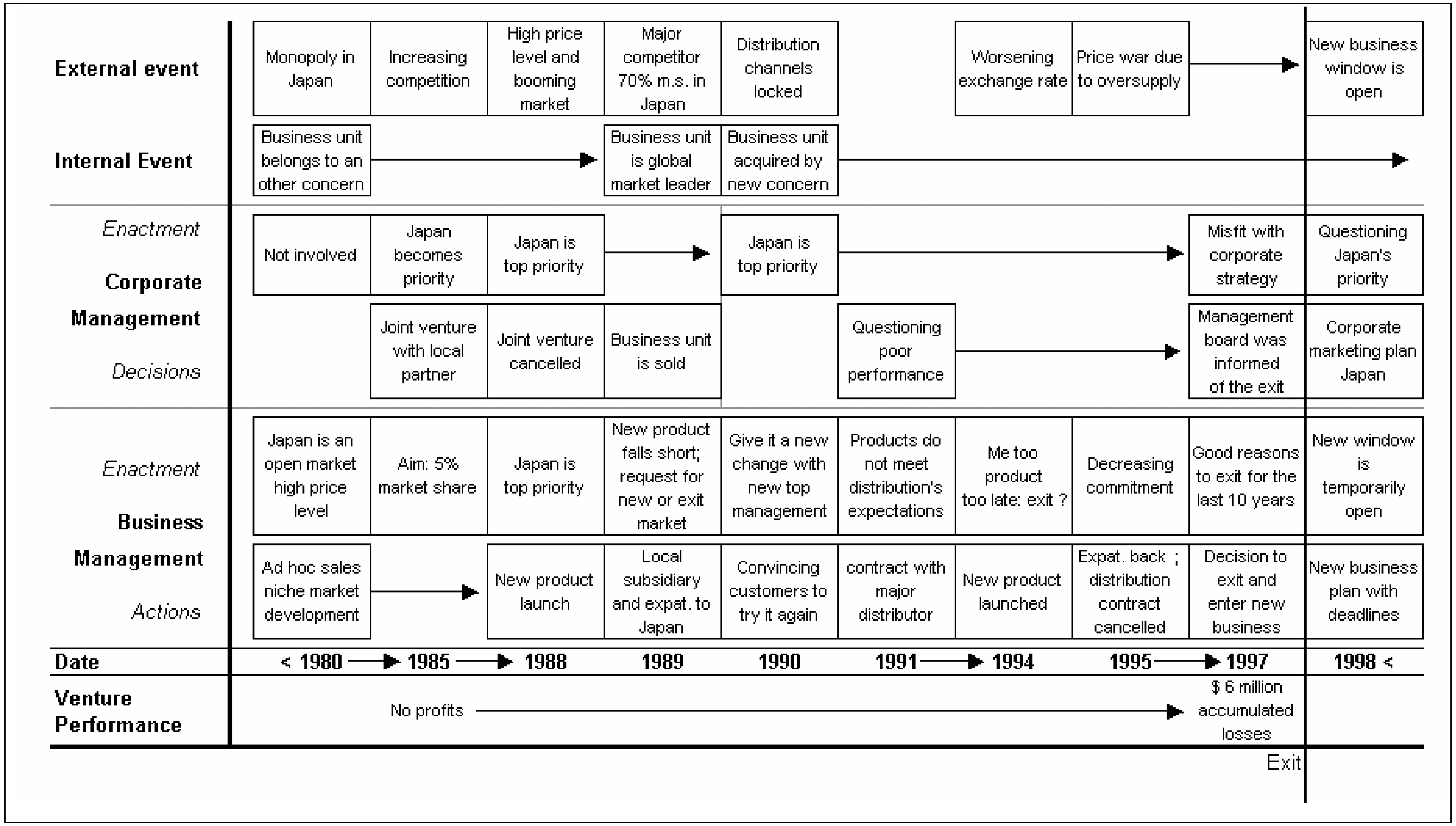

Figure 6-3: Eta Japan: withdrawal process

6.2.2.3 Withdrawal from Germany[5]

The business group GS manages several product groups for specific applications. By 1996, some of these product groups had reached maturity and the products had become commodities in the customers' perspective. For these particular product groups cost leadership had overtaken a technology-driven differentiation competitive strategy. No more technological breakthroughs were to be expected in these businesses and all competitors had reached the same technological level. As the product ranges in these product groups had been expanded over the years in order to serve all customers' preferences, complexity costs had exponentially increased as well. Complexity costs are incurred mainly at the level of production (e.g., small batches and high fixed start up costs), inventory (increasing stocks), and logistics. They can be attributed to the large number of unique product numbers (PNs) in relation to the limited number of orders for more than 80% of these PNs.

In 1996, the product ranges that were focused upon in the product groups covered over 10,000 PNs. The complexity costs – which manifest themselves, for instance, in intermediate stocks – were estimated over $55 million for GS alone. At the same time, the life cycle of these product groups was beginning to level off and market prices started to decrease. Although management had long insisted on limiting the depth of the product ranges, an external consulting agency was hired to measure the complexity costs in 1996. They proposed and led a global product range contraction program. On top of reducing complexity costs, management also aimed at standardizing the actual local product ranges on a worldwide basis. Earlier in this section, we discussed the difference between various operational local product ranges in different countries.

This situation is presented graphically in Figure 6-4. The global product range had to be reduced from over 10,000 PNs to about 6,000 PNs. Moreover, while the operational product range in country A was, lets say, 450 PNs before the contraction, it increased

[5] When reading this particular case, one may come to the conclusion that Eta Germany largely differs from the other cases. To a certain extent this is correct. However, as we discussed in Chapter 3, we adopt this case for the sake of theoretical replication (Yin 1994) along the analysis in Chapter 7.

to 6,000 PNs after the corporate contraction was finalized. In fact, the corporate product ranges were reduced by 40% and they entirely replaced the local product ranges. Indeed, in most countries over 90% of the products were deleted from their operational ranges and replaced by a larger product range of replacement products. On top of that, a limited range of about 400 PNs was designated as ‘core PNs’ for which, priority production and handling was possible.

The implementation of a ‘pure’ product range contraction is normally an issue of internal centralized measurement of performance per PN. In this case, however, only the financial evaluation of the range could be performed centrally, whereas the strategic and marketing evaluation of the product range had to be performed country by country. Country managers and/or local product managers therefore perceived this product range contraction as a withdrawal/replacement decision.

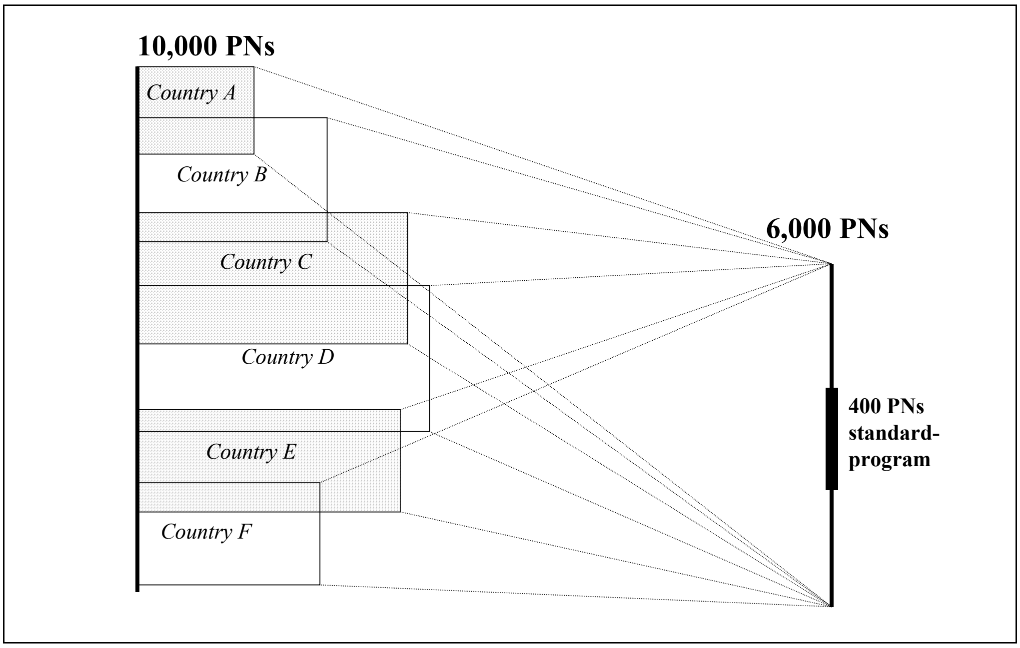

Figure 6-4: portfolio reduction in business group GS

This process was formally implemented in three phases over a period of one year (see

Figure 6-5). In Phase 1, corporate product management exclusively focused on the internal logistic and technical specifications of the PNs. This way, they developed a filter model for product and PN selection. Very soon, the departments for applied R&D were involved in searching for the operational overlaps in the ranges. Whereas some key products could not be deleted form a particular range since they held critical technological characteristics, other products could easily be withdrawn and replaced by key products with a minimum of product adaptation. This way, the degree of substitutability of every PN was available. Finally, a three-step filter model was created with 2 to 5 parameters per filter and specific cut off points per product range. A first contraction simulation was performed. In Phase 2, this contraction was simulated from a market perspective in Germany and France, two countries that held a relatively wide local product range. In Phase 3, the feedback from the local managers was discussed with the production and the R&D department in order to fine-tune the filter model. Finally, in Phase 4, the new corporate product range was presented at a meeting with all country managers.

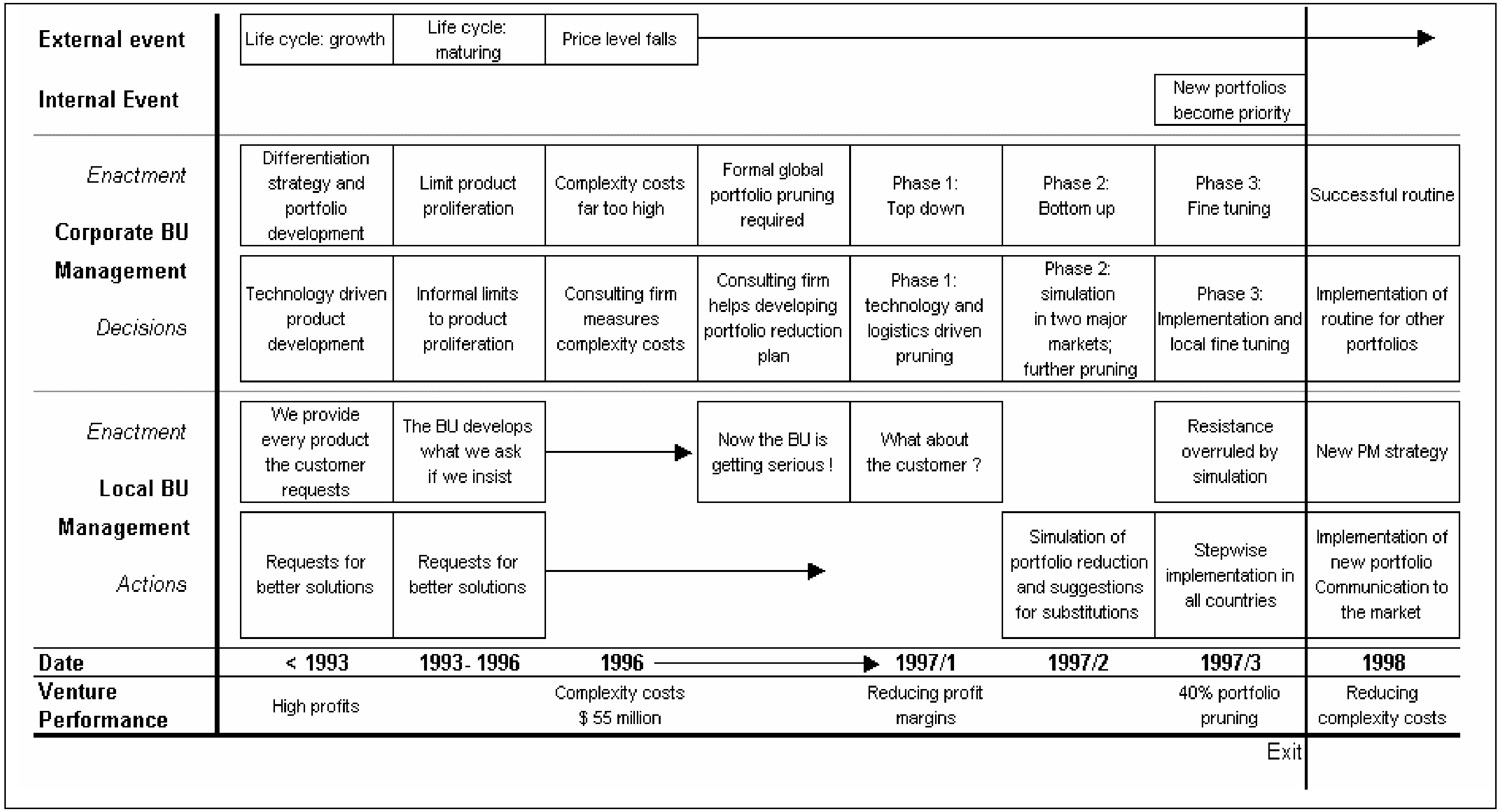

Figure 6-5: Eta Germany: withdrawal process

6.2.3 Lambda: Withdrawal from Turkey and Russia

Lambda is a $22.3 billion global communication products and services company. Lambda's product portfolio covers all the main building blocks for communication networks, it meets market needs for transmission and access solutions, networking, and also contains products for public telephone operators, companies, professional and private consumers. Since many years, Lambda is the worldwide market leader in many of its business activities and employs over 118,000 people in more than 120 countries.

In general, the communications industry used to be dominated by national governments. (Tele)communications was considered as a military, economic and political issue of national interest. Therefore, in many countries the communication business used to be controlled by national governments through the state monopolies of the national public telephone operator (PTO). As a consequence, the PTO's main suppliers – such as Lambda – used to be oligopolists that were operating on a national basis: market activity was linked to integrated production in that particular country.

When this state control began to shrink through the recent privatization of PTOs and the international standardization of communication regulations, the communication industry itself could finally mature to a global industry. Since economies of scale are critical in this industry, the 1980s and early the 1990s were dominated by many mergers and acquisitions that resulted in the divestment of many small production plants. Over the last 15 years, there has been a shift from a fragmented series of national oligopolies to a smaller number of global companies.

The traditional communication markets are currently growing at nearly 10% per year. At present, the most important strategic issue in this market is the evolution towards communication system integration. This way, Lambda and its competitors are evolving from product suppliers towards integrating service companies. Far more important, though, are two technological breakthroughs that challenge the position and the survival of the traditional global market leaders: the mobile phenomenon and the

Internet. The economic potential of each of these two breakthroughs is expected to outperform the economic position of the traditional communication business within a couple of years. All major communication companies are reorienting strategically and reorganizing globally to be able to cope with these challenges.

6.2.3.1 International Marketing Strategy

Until the early 1980s, Lambda was one of the many national oligopolies. However, Lambda is one of the most dramatic examples of international growth, mainly through a process of mergers and acquisitions of smaller oligopolists in other countries and of local production entities of competitors. Through these acquisitions, Lambda strengthened its product portfolio and acquired local market presence in many countries overnight. Over a short period of 10 years, Lambda grew from a top-10 position to one of the two biggest players in the global communication business. At the moment, about 83% of Lambda's sales are generated outside its home market.

However, this growth-through-acquisitions resulted in an inherited organizational structure of national subsidiaries, each offering a range of product lines in parallel and, in some cases, in competition with each other. To cope with this situation, the company gradually adopted a matrix structure in which geographical responsibility remained at the level of the national units but with a more centralized product management organized in Business Groups (BGs). Over the years, the power of these BGs increased rapidly. It is only recently that lambda has started streamlining the geographical responsibility of the national units into Area Management Teams (AMTs).

Due to the recent dramatic evolutions in the market, Lambda is refocusing its organization. In order to cope with the increasing demand for integrated services that typically crosses the capabilities of many BGs, Lambda has increased the responsibility of the AMTs through the development of key account management. More than before, AMTs coordinate strategic projects, integrate BG operations in their areas and are the face to the customer. The BGs too have been (re)grouped towards three basic market segments: (1) the greenfield operators, (2) the traditional PTOs, and (3) the subscriber market (i.e., professional and private customers).

Most recent international entries (e.g., USSR, China, Brazil, etc.) were initiated by one or more BGs independent of the area management or even of the corporate management. As local activity grew, national legislation often forced these BGs to set up joint ventures with local partners. It is only when a critical sales mass was reached or when corporate management considered this entry a strategic issue that an AMT came in to structure the activity of the (sometimes many) BGs that operated independently in these markets. Presently, the world is divided in seven areas: (1) Latin America and the Iberian Peninsula, (2) Eastern Europe and some states of the former USSR, (3) France, Africa and the former Indochina, (4) Italy and Greece, (5) Russia, the Nordic countries, the UK, Turkey and some countries in the Middle East, (6) China and the Australian continent, and (7) the USA, Canada and Japan.

On the product level, international flexibility is increasing. First of all, fewer production facilities than before are related to local market activity and can be reoriented fairly easily. Whereas Lambda used to be a conglomerate of many copies of fully integrated but small plants, most of these have now been closed down and production is concentrated along Lambda's value chain. Secondly, products and parts of product portfolios are relatively easily launched in and withdrawn from national markets.

On the corporate level, however, international flexibility is decreasing. Firstly, although national PTOs no longer dictate Lambda's production planning, their mutual dependency has increased over the last couple of years. More than ever, PTOs depend on their integrated communication systems suppliers for their daily operations. Most PTOs have contracted out many of their most critical operations. Secondly, many new projects that involve the latest technologies (e.g., new mobile networks, Internet) cross many national markets. Therefore, market interrelatedness is very high. As a consequence, Lambda cannot afford to exit from most of the countries they are operating in now, even when they are losing enormous amounts of money. The cost of a full market exit is extremely high: when Lambda would leave a major market, customers in other countries would be informed very soon and the trust in Lambda – a key success factor in this business – would decrease dramatically. Although switching costs are extremely high in this market, it is quite possible that many PTOs would prefer working with a trustworthy partner and change to another telecommunication system integrator.

6.2.3.2 Withdrawal from Turkey

Lambda has been operating in Turkey since 1983. At that time, it was argued that Turkey would be a relatively stable springboard to markets in the Middle East. Soon, a joint venture was set up with a local partner who held the majority of the shares. Due to overcapacity in Lambda's European production plants, priority was given to direct export and no plans were made for local production. Nor did Lambda expect the local JV to make any profits. For the short term, no plans were made to build out a regional headquarters for the Middle East. However, after ten years of business, in August 1993, headquarters decided to take the majority of the shares in the local JV and a senior business development director (SBDM) was sent over. This decision was in line with Lambda's renewed corporate strategy of global standardization and its aim for global supremacy.

The task of the SBDM was to redress and streamline the Turkish organization up to Lambda's management and communication standards. However, he found out that the Turkish subsidiary had been managed very badly: the organization was largely overstaffed and the entire top management seemed to be incompetent. More than three months would be necessary to rebuild the organization. On top of this, in March 1994 the Turkish Lira collapsed. This led to an immediate standstill of the business. Moreover, the national treasury forbade all public enterprises, including the Turkish PTT, to pay their suppliers for a certain period of time. In fact, at that time the Lambda's Turkish subsidiary had gone bankrupt and no market activity was to be expected in the near future.

Although many people in headquarters argued that there was no other option than to leave the market, the SBDM who had stayed in Turkey during the crisis, had developed a business plan to redesign the Turkish organization to 1/3 of its size before the crisis. Immediately, and without any backup from central headquarters, he started to generate cash by selling assets and by dismissing over 1,000 local employees. Furthermore, he was able to convince Lambda's Director of International Operations to arrange a bank loan that was backed up by Lambda to the account of the Turkish PTT. This way, a large part of Lambda's deficit in Turkey could be resolved. For the next 12 months, the SBDM played it solo and redesigned the Turkish organization. During that period, he and the Director of International Operations gradually succeeded in convincing the Board of Directors to accept the way they had been tackling various problems until that moment. They also succeeded in getting approval of the renewed strategic plan for Turkey. Finally, headquarters accepted the 'no-cash-burden' strategy, however, not without installing intensified financial control mechanisms and setting the 'no-cash-burden' limit as an explicit deadline.

As the Turkish market resumed its normal course, Lambda's market activity began to boom. In less than 1.5 years, the Turkish subsidiary got rid of its debt. In contrast to its major competitors Lambda had understood the consequences of the crisis and had reacted quickly. Moreover, by staying in the market they had prevented a major global competitor from entering Turkey. Finally, although the public opinion and the press had reacted heavily to the dismissal of personnel, Lambda's customers appreciated that the company had not left the market. Presently, Lambda is the number one in Turkey and has just recruited over 150 people. This withdrawal process is presented in Figure 6-6.

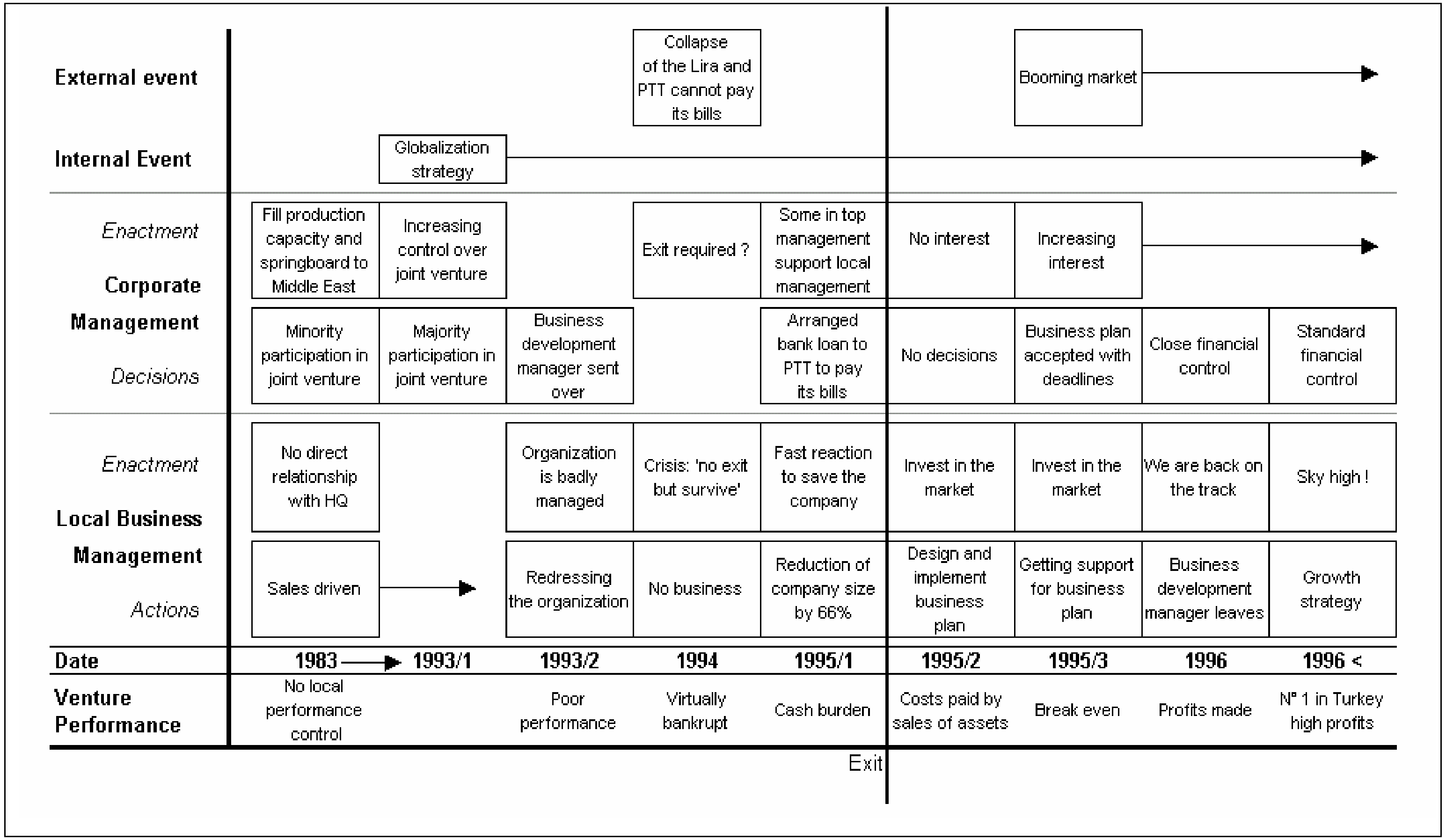

Figure 6-6: Lambda Turkey: withdrawal process

6.2.3.3 Withdrawal from Russia

Lambda's presence in the USSR (and mainly in Russia) became a fact through the acquisition of the telecommunication activities of a major US competitors in the mid 1980s. Some of the acquired business units in Europe had (independently) set up subsidiaries in Moscow and in St.Petersburg. Up to 1995, at least seven business units were doing – more or less good – business in Russia. While Lambda was an active player in the Russian market, these legal entities operated autonomously, without a single face to the customer or any internal coordination.

As Lambda's strategy of global product portfolio standardization and its aim for global market dominance began to prevail at the beginning of the 1990s, headquarters argued the time was ripe for a single regional headquarters in Moscow that would cover all business activities in Russia. As a consequence, all business units had to give up their sales and marketing autonomy, streamline their product portfolio and even had to withdraw from some (minor) businesses. A business development team (BDT) was installed to reorganize Lambda's activity in Russia and to install a regional headquarters in Moscow.

However, the BDT had two major problems: (1) to convince the business units to align their activities, and (2) to bring headquarters' expectations on the potential of the Russian market down to a more realistic level. First of all, it was hard to convince the large and flourishing business units to give up their autonomy. Doing it 'their way', one major business unit, for instance, succeed in getting about 35% of the Russian market. Moreover and in line with its emerging globalization strategy, Lambda's headquarters grouped the many acquired business units in five well-defined Business Groups (BGs). This process led to a larger concentration of power at the level of the BGs. At first sight, this strategy process seemed to be in contrast with the aims of the BDT.

Secondly, the BDT had even more problems with matching headquarters' optimistic expectations on the sales potential in Russia to a more pessimistic perspective. The

BDT had developed this perspective after having been confronted with the extremely complex local economic and legal environment. They advised headquarters to implement a conservative and strict short-term cash flow policy, while the business groups *and* most members of the Board of Directors wanted to invest heavily, expecting that revenues would come later.

In August 1998, the entire Russian economy collapsed due to the collapse of the ruble. The BDT immediately understood the gravity of the situation and recalculated its sales forecasts to an even more pessimistic level. The BDT warned that any further cash drain had to be stopped. These forecasts and the advice that followed led to fierce reactions from the BGs. However, the collapsing ruble made some members of the Board of Directors head for the more strict course and soon they overruled all business directors.

Up until now (May 1999) the BDT has reduced the scale of Lambda's presence in Russia by 30%. Moreover, the sales of many BGs have dropped under the level necessary to cover the fixed costs. The old corporate dictum of building a Russian subsidiary that could fill a booming market has changed to the aim for a "simplified, small but healthy local company". In fact, the BDT believes the collapsing ruble has offered them the basis and leverage for the reconstruction of a market driven local subsidiary with a high latent growth potential. This process is summarized in Figure 6-7.

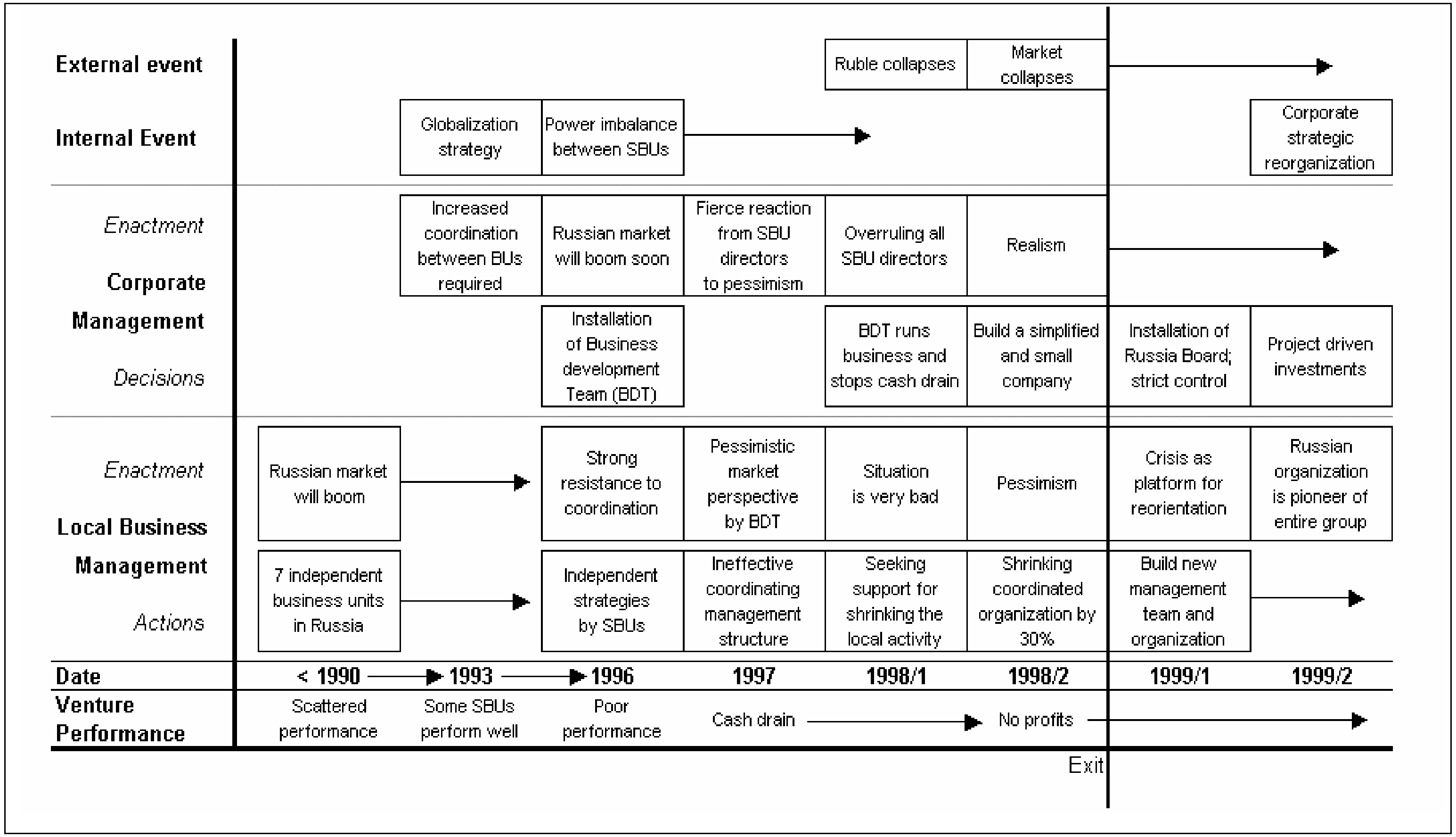

Figure 6-7: Lambda Russia: withdrawal process

6.2.4 Sigma: Withdrawal from Brunei and the United Kingdom

Sigma is a $2.4 billion diversified Dutch technology concern. The concern is divided in five strategic business units, comprising more than 80 firms with a staff of about 20,000 employees. In its many businesses, Sigma may be considered as the global market leader or as market leader in particular regional or professional segments.

This study is situated in the SBU Engineering (called Sigma E here). With a staff of over 3,000, Sigma E focuses on small and medium-sized projects. It designs, engineers and builds industrial installations mainly for the oil, gas, chemical and pharmaceutical industry. Sigma E's sales for 1998 amounted to $370 million, a 30% decrease compared to 1997. Profits decreased from $8 million in 1997 to a loss of $16 million in 1998. This decrease was mainly due to the concentration and lower investments in the worldwide oil and gas industry. Whereas the results in Belgium, Germany and South-East Asia have improved, idle capacity and project losses in The Netherlands and in the UK resulted in an overall dramatic decrease in sales and profits.

6.2.4.1 International Marketing Strategy

Although 65% of its sales are generated abroad, Sigma cannot not be considered as a 'global' player in the sense of Bartlett and Ghoshal (1991). From an organizational and a strategic control point of view as well as from a production perspective, Sigma is to be considered as an ethnocentric multinational that is evolving towards a regiocentric stance (Perlmutter 1969). Until recently, markets and projects were run from the Dutch headquarters and most of its production facilities were situated in The Netherlands. Exporting was the main international entry strategy.

As is typical for technical consultancy firms (Sharma and Johanson 1987), Sigma's SBU Engineering has been pulled into the international market as it followed its major customers all over the world. Moreover, most international activities and investments are set up on a short-term project basis. As the market specificity of resources (i.e., industry specific engineering knowledge) is low, international flexibility is high. Local subsidiaries can be set up and engineers can be flown in overnight. As soon as the project is done, the local subsidiary is closed without much strategic consideration or major costs. This way, global operations seem to be hit and go operations that are manageable from central headquarters.

However, more than ever long-term relationships with and pro-active networking between complementary consultants, suppliers and customers is a key success factor in this business. As Sigma E's major market segments are concentrating increasingly over the last couple of years (for instance, the mega-mergers in the oil industry), these concerns decentralize decision-making on engineering and contracting needs to the local plant level. As a consequence, Sigma E is obliged to follow this decentralization process and it has to build a web of strategic and long-term subsidiaries that work themselves into these local networks and pro-actively work on these regional markets. Worldwide, Sigma E has to balance between operational flexibility – hit and go operations – that is steered from central headquarters and local long-term commitment via permanent regional subsidiaries.

At present, Sigma E has permanent subsidiaries in The Netherlands, Belgium, Germany, the UK, the Middle East and South-East Asia. Some of these subsidiaries are being upgraded to regional centers to steer local, non-permanent satellites. For instance, the subsidiary in Kuala Lumpur (Malaysia) has been upgraded and now has over 800 employees. Kuala Lumpur has taken over the role of the Singapore subsidiary and is now the regional headquarters for the Far East. All subsidiaries, agents and projects in Indonesia, Singapore, Thailand, etc. are managed from and report to Kuala Lumpur.

Although several withdrawal cases were available in the SBU Sigma E, two polar cases were selected: the withdrawal from Brunei – a typical project-based temporary investment – and the withdrawal of the strategically important subsidiary in the UK.

6.2.4.2 Withdrawal from Brunei

Since many years, Sigma E has been operating in the Far East and until 1985 relatively small projects in Brunei were serviced from the subsidiary in Singapore. In that year, Sigma E's only customer in Brunei – a production plant of a major global oil company – planned to increase its refurbishment and maintenance budget on a temporary basis and asked Sigma E to set up a local subsidiary in Brunei. Sigma E's customer wanted a local subsidiary because national government encouraged firms to buy locally. However, no local engineering company could meet this customer's engineering demands and quality levels. Soon, Sigma E set up and participated in (33%) a Brunei engineering company. A partnership was set up with a local firm that offered complementary services (33%), and that already participated in Sigma's Malaysian subsidiary, and with a Dutch partner (33%). For several years, Sigma E did good business as it tendered for and won several multiple-year engineering contracts. However, after 10 years, Sigma E decided to discontinue its participation in the Brunei subsidiary for two main reasons.

First of all, a sense of discomfort had arisen with the increasingly nationalistic government due to Sigma E's virtual monopoly in the market. Since its relationship with the local government is critical, Sigma's customer deliberately broke the virtual monopoly of Sigma E by stimulating other engineering firms to set up a subsidiary in Brunei and by ordering from local engineering companies that offered a lower quality. Accordingly, sales and prices dropped. Moreover, Sigma E was put under great pressure to decrease its participation in the subsidiary that had now risen to 66% since Sigma had taken over the Dutch partner.

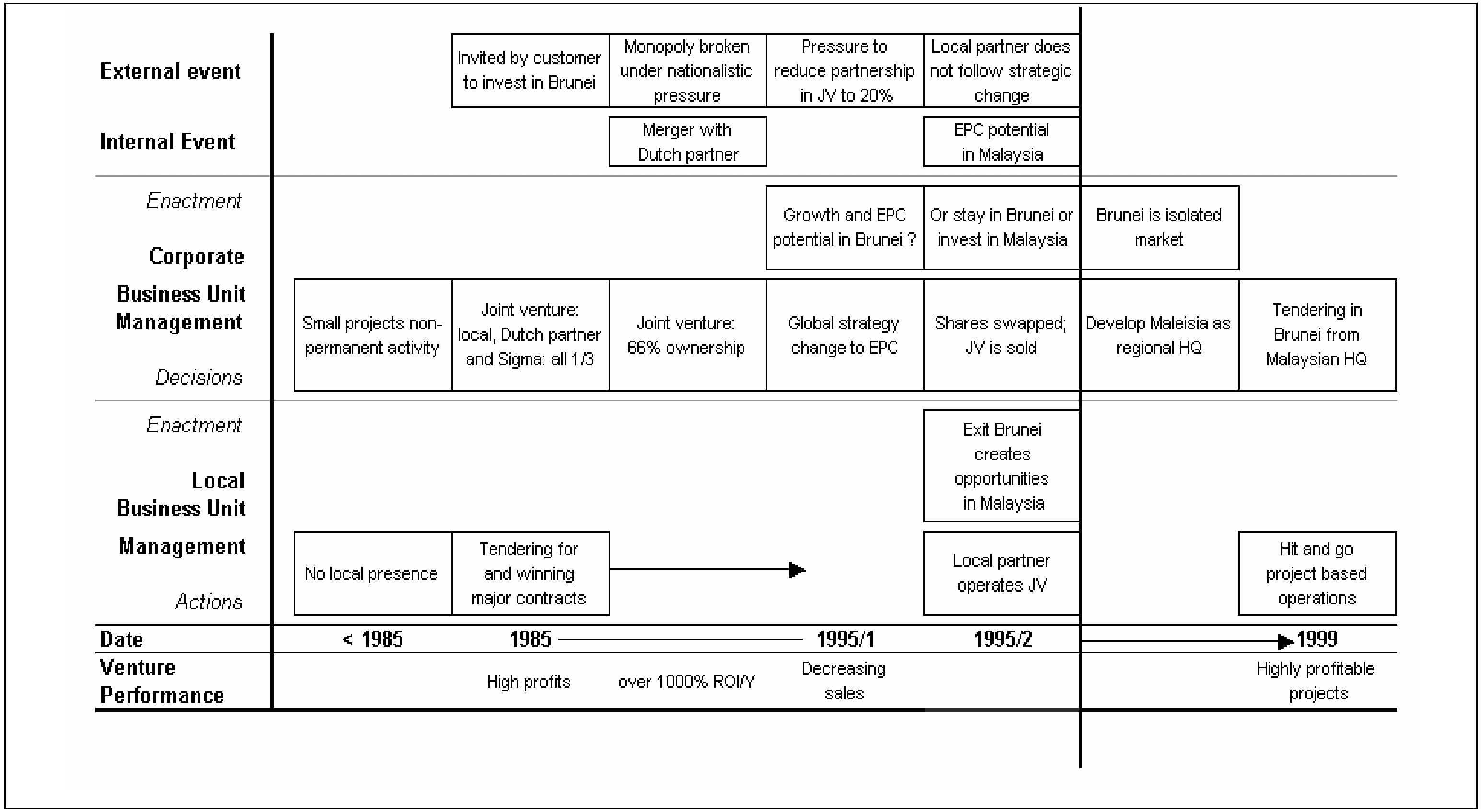

Figure 6-8: Sigma Brunei: withdrawal process

Secondly and due to the merger with this Dutch partner, Sigma E wanted to integrate forward into processing and contracting (EPC) activities. However, the local partner did not want to follow this strategic path. Ultimately, a solution was found in swapping the shares the local partner held in the Malaysian subsidiary with the shares it held in Brunei. Doing so, Sigma E chose to leave the Brunei market in favor of freely developing its Malaysian subsidiary by forward integrating into processing and contracting. This withdrawal process is presented in Figure 6-8.

6.2.4.3 Withdrawal from the United Kingdom

For many years, Sigma E's subsidiary in the UK was the largest, performing even better than Sigma E did in The Netherlands. However, business in the UK could not be run from the Dutch headquarters. Setting up a permanent subsidiary in the UK was a sine qua non for obtaining any business at all – "The UK is not Europe". Being as British as possible, the subsidiary prospered for many years and obtained a strategic role in Sigma E's worldwide organization. The UK subsidiary acted as a regional headquarters, and initiated and managed operations in the Far East.

In the early 1980s, the British market for pure engineering work broke down. Due to large investments in software, hardware and staff, financial flexibility was, however, low and results went down. For many years the UK subsidiary could not meet expectations on ROI, without losing money though. The market definitely evolved towards more integrated and turnkey contracts. This means that one supplier manages all the engineering, processing and contracting. To keep pace with this evolution and to buy market share, Sigma E had the opportunity to integrate forward into processing and contracting through a major merger with a UK contracting company in 1985. However, top management rejected this take over for many reasons. First, it was unacceptable – especially for an ethnocentric company such as Sigma – to invest in a foreign subsidiary and increase capacity abroad while, at the same time, idle capacity existed in The Netherlands. Secondly, this investment was considered as an investment beyond the core activity of Sigma, i.e., engineering. Finally, the financial independence of the UK subsidiary was at stake due to less engineering work. For all these reasons, top management assumed this investment was too risky. Moreover, top management priorities for international growth at that time were situated in the South East Asian markets that promised a higher potential.

After this opportunity had been refused, the strategic role of the UK subsidiary diminished and top management's commitment to the UK operations was reduced. From the beginning of the 1990s, operations in the Far and Middle East were no longer managed from the UK basis but directly from The Netherlands. As the results did not improve, the organization was slimmed down considerably. Local management felt that something had to be done. During the next years, they did their utmost to increase Sigma E's market share in the UK. However, this was done, as is typical, at the expenses of increasing risks. High risk projects and projects beyond the own engineering capacity were accepted and delivered. Over the years, business went up slightly and fell down again. However, the Dutch headquarters were alienated from the UK subsidiary more than ever. In 1998, a large project was delivered. However, during this project many major technical problems had come up and the financial results were so bad that this particular project brought the UK subsidiary into financial problems. At this time, Dutch headquarters saw the financial collapse of the UK subsidiary and soon decided to close it down. However, warranties and ongoing technical problems with their latest project prevented Sigma from implementing the withdrawal up until now. This process is summarized in Figure 6-9.

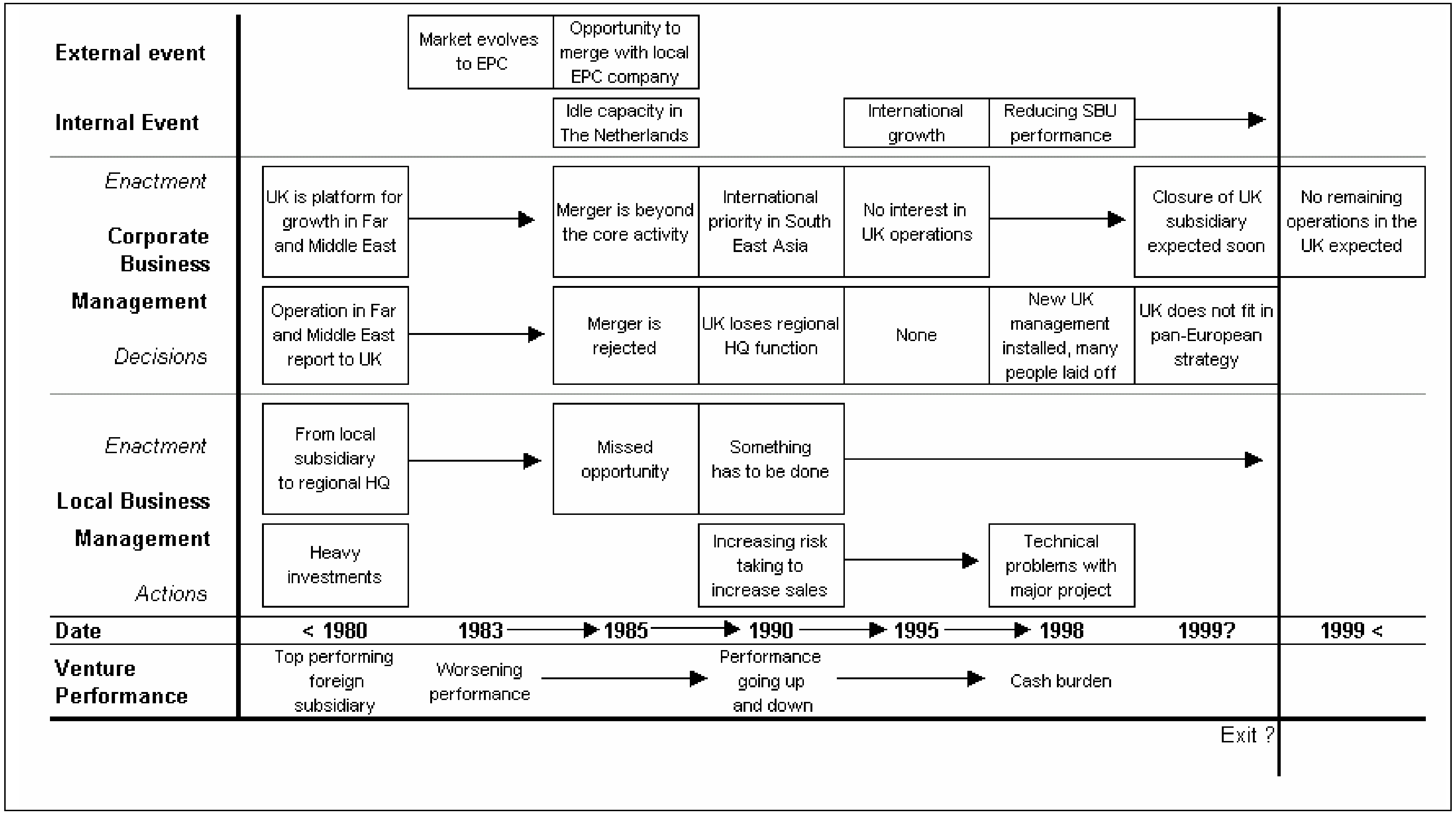

Figure 6-9: Sigma United Kingdom: withdrawal process

CHAPTER 7:
STUDY II – A STRATEGY PROCESS STUDY OF INTERNATIONAL MARKET WITHDRAWAL : ANALYSIS

7.1 INTRODUCTION

In this section, we discuss the output of the inferential pattern coding (cf. Chapter 3 and Appendix E). The result of this analysis is a descriptive process theory of international market withdrawal, which builds upon the structure of the preliminary descriptive framework developed in Chapter 5. In general, this preliminary framework, which resulted from Study I, turns out to be very valuable. Next, the six phases of this preliminary framework are refined or, for some of the phases, even redefined in accordance with the data and the analytic output. As shown in Figure 7-1, the emergent strategy process model consists of three layers: (1) an empirical layer, which presents the critical incidents as they can be summarized from the cases, (2) a descriptive model, which generalizes from these findings in a more abstract perspective, and (3) an explanatory model, which presents the generative mechanisms that seem to drive this strategy process. In this chapter, we present the empirical layer and develop the descriptive model. In turn, the descriptive model is the basis for the development of the explanatory model in Chapter 8.

Considering the empirical layer in Figure 7-1, we only include the critical incidents of cases that seem to fit the emergent model of international market withdrawal. During the analysis, two cases emerged as a-typical: Eta-Germany and Sigma-Brunei (Yin 1994). For explainable reasons, these two cases behave differently in some or many of the phases withdrawal process. Although Eta-Germany fits our definition of international market withdrawal, it soon became clear that this case was just part of a major product range contraction. Nevertheless, the case offers interesting reference points for comparing two fundamentally different strategy change processes. Case Sigma-Brunei shares many characteristics of the other cases, except for one. This venture was set up as a project venture. From the start, management knew that sooner or later it had to be broken up. This built-in deadline – and the lack of deadlines in the other cases – provides us with significant findings for comparison and discussion.

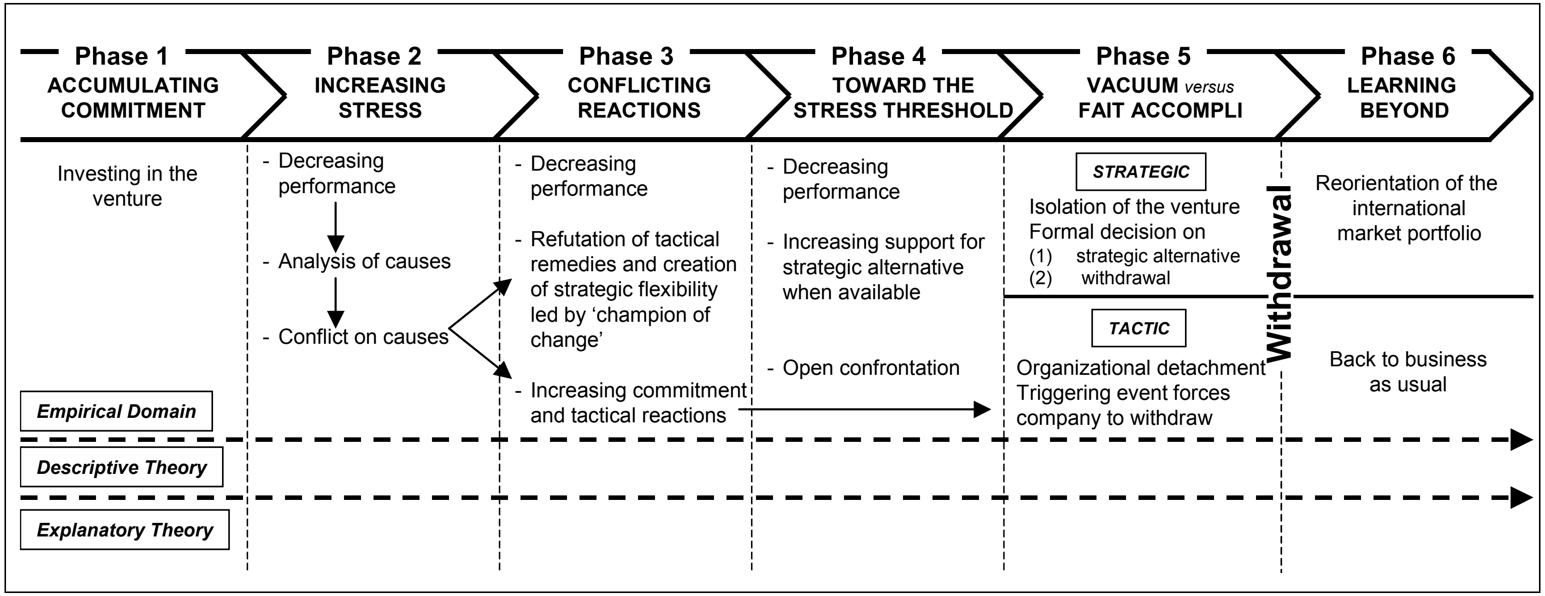

Figure 7-1: A process model of international market withdrawal: empirical domain

Two types of international withdrawal emerged from the analysis: a strategic withdrawal and a tactic withdrawal[1]. Although none of the cases perfectly fits in one of either types, Lambda-Russia and Lambda-Turkey more resemble the emergent strategic type, whereas Kappa-Belgium and Sigma-UK more resemble the emergent tactic type. Eta-Japan has elements of both. Finally, Kappa-Spain is a special case due to the particular role and behavior of the CEO during the withdrawal process. Throughout this chapter, the clear difference between a strategic and a tactic withdrawal will be developed.

This section is organized as follows. For each phase, we describe the critical incidents as they were found in the cases. These summarized descriptions are illustrated with quotes from the interviews. From these findings, we derive phase-specific propositions. In a effort to find corroborating evidence, both the findings and the propositions are critically assessed and related to the results of Study I as well as to findings and theories in the extant literature.

[1] At this point, we label an international market withdrawal 'strategic' if it is implemented in a way which allows the decision-maker to attain a later – and higher-order – goal. A 'strategic' withdrawal is a mean and not an end in itself. As such, we define a 'strategic' withdrawal in analogy with its meaning in military strategy and history. For instance, military strategists consider the withdrawal of the German forces, which preceded the counteract in the Ardennes in September 1944, as strategic. Indeed, historians have illustrated that this withdrawal was organized in such a way that it allowed the German forces to reorganize for the counterattack in December. Far to often, though, (military) withdrawals are labeled 'strategic' post factum. Historical analysis is required to directly link a withdrawal with a later (higher-order) goal. If no such direct relationship between the decision to withdraw and a later goal can be revealed ex ante, a withdrawal is labeled 'tactic' (personal communication with Professor L. De Vos of the Belgian Military Academy).

7.2 PHASE 1: ACCUMULATING COMMITMENT

In some of the cases, commitment to the particular foreign market increased gradually over the years: additional personnel was hired, more financial resources were invested, the venture obtained a higher priority position for future investments, etc. In other cases, commitment increased more dramatically due to one or more external or internal event. Quoting some respondents illustrates this increasing commitment:

> "A joint venture was established in 1983 and we held a minority participation in it. This joint venture was no more than a platform for export. In fact, we were hardly interested in the company itself. Whether the company was run professionally or not, did not interest us much. We were only interested in direct shipment. In August 1993 – 10 years after the coup – we decided to take a majority participation." (Lambda-Turkey – Area Director Management Support and Organizational Development)

> "In 1988, we saw that we covered the entire world with a few white spots left: one of these was Japan. At that time, it was decided to develop a portfolio exclusively for the Japanese markets. This time, we wanted to do it right and they sent someone over – that was me – and I went over in July 1989." (Eta-Japan – Regional Export Manager Division X_2)

> "Over the years, our engineering activity in the UK grew steadily and large investments were made in design software." (Sigma-UK – Former Group President)

Throughout the years, some ventures became the company's most important foreign outlet. This was the case for Kappa-Belgium and Sigma-UK. For instance, in Sigma-UK, the subsidiary was one of the first foreign outlets of the strategic business unit. As sales in the UK grew and the subsidiary even began to outperform the Dutch headquarters, the UK subsidiary became the platform for new international growth in Asia. Other ventures were smaller (e.g., Sigma-Brunei, Lambda-Turkey and Eta-Japan). However, at a certain moment in their history and before the withdrawal was decided upon, all ventures were of <u>strategic importance</u> to the company and held an important place in their respective international market portfolios.

In all cases, the increasing commitment resulted in an increased institutionalization of the venture (see Table 7-1). Local marketing and/or organizational strategies were brought in line with the corporate international marketing strategy and control was increased.

Case	**Increasing commitment resulting in increasing institutionalization** *(illustrative quotes)*
Kappa-Spain	"In 1978, we opened a subsidiary near Barcelona. One of our best Dutch salesmen, who spoke Spanish was sent over. We had a 70% majority participation in the venture. We only needed the local partner for administrative formalities and for his introduction to the local business." (Marketing and Sales Manager)
Kappa-Belgium	"We opened a distribution center in 1977 […] and appointed a Dutch manager […]. You know, setting up a subsidiary is to be done by someone whom you can trust a 100%." (Marketing and Sales Manager)
Eta-Japan	"In 1988, we saw that we covered the entire world with a few white spots left: one of these was Japan. At that time, it had been decided to develop a portfolio exclusively for the Japanese markets. This time, we wanted to do it right […]." (Regional Export Manager)
Eta-Germany	"For most of our business units, Germany is considered a second home market since a long time." (International Marketing Manager GS)
Lambda-Turkey	"The appropriateness of this decision [to acquire a majority of the shares] aside, it was the result of the corporate policy to take only majority participations." (Area Director Management Support and Organizational Development[2])
Lambda-Russia	"A that time, Lambda was well represented in Russia. […] However, given the fact that it was diffused in 6 or 7 legal shells, its readiness for battle was low. I was ordered to give it one face and one management." (Area Director MSOD)
Sigma-Brunei	"We bought 50% of the shares […] at a very low price. In return, we brought in the general manager and some key engineers." (Former Group President)
Sigma-UK	"We opened an office in London and invested heavily in it.[…] From London we jumped to Singapore. […] As a consequence, London became a regional headquarters for the Far East." (Former Group President)

Table 7-1: Increasing commitment leading to increasing institutionalization

[2] In the remainder of this chapter we refer to this interviewee as the Area Director MSOD. In the same way, we abbreviate Marketing and Business Development to MBD.

One respondent summarizes:

> "First, the cowboys have to come out and screen the market and its opportunities in a very flexible and fast way. When additional investments are required to grab the market, it becomes important to get [the venture] under control." (Area Manager MBD-Lambda)

In accordance, we come to the following proposition:

P_1: Increasing commitment to a venture results in increased institutionalization of that venture in the international marketing strategy and organization of the company.

Increasing commitment results in regular incremental changes through 'patching'[3] (Eisenhardt and Brown 1999) within the framework of the current marketing strategy and business portfolio. Through the subsequent institutionalization process, a company builds routine procedures and policies (Haveman 1993) to embed the venture into the current marketing strategy. This form of ongoing organizational renewal through increasing commitment and institutionalization can be labeled homeostasis: the tendency of a system to maintain internal stability owing to the coordinated response of its parts to any situation tending to disturb its normal condition or function. Homeostasis increases reliability of decision making and confirms the present strategic status quo (Selznick 1957; Huff, Huff and Thomas 1992; Barr, Stimert and Huff 1992; and Rajagopalan and Spreitzer 1996). It also strengthens the present core competencies of the organization (Leonard-Barton 1992; and Sanchez and Heene 1997). Although this homeostatic process is not a causal factor itself in the international market withdrawal process, we argue that it is a relevant constraint to the withdrawal decision-making in the following phases (Nelson and Winter 1982; and Boeker 1989).

[3] Eisenhardt and Brown (1999) launch the notion of 'patching' in the framework of business portfolio management. According to these authors, patching is the strategic process by which executives routinely remap businesses to changing market opportunities. Patching is considered as a pro-active but routine-based weapon, which results in frequent but small changes in the composition of a business portfolio.

The difference between the phenomenon we study and the exit process Welch and Wiedersheim-Paul (1980) labeled ‘export failure’ or ‘missed export start’ is located in this constraining institutionalization. These authors suggested that (export) market withdrawal is most likely to occur only during the earliest (export) stages of internationalization. They argued that a lack of market knowledge and resources are constraining factors only in the first stages (Johanson and Vahlne 1990). In contrast to a ‘missed export start’, all eight cases in this study got embedded into the current international marketing strategy. As a consequence, it can be expected that internal intangible exit barriers are much lower in the case of a ‘missed export start’ compared to the withdrawal processes of the eight cases we study here (Porter 1976; and Caves and Porter 1977)[4].

[4] Although the process of accumulating commitment (phase 1) was captured in Study I, the subsequent institutionalization process was not. We see two possible explanations. Firstly, in cases Beta and Gamma the ventures were not yet embedded in the international marketing strategy. Secondly and more important, the international marketing strategy itself was not yet institutionalized in the corporate growth strategy. They were all ethnocentric firms (Perlmutter 1969). However, given the relevance of organizational inertia during the withdrawal decision-making, we would argue that in all cases of Study I, internal exit barriers were relatively high.

7.3 PHASE 2: INCREASING STRESS

When a relative fit between the environment and the firm's strategy exists, a homeostatic process of logical incrementalism – the gradual accumulation of commitment and institutionalization producing a stock of well-developed routines and competences – may be a most efficient guarantee of success (Quinn 1980; Nelson and Winter 1982; and Amburgey, Kelly and Barnett 1993). In the eight cases, though, performance did not increase as expected. Table 7-2 illustrates that the gap between current performance and expected performance was the prime, and sometimes first, indicator of an increasing misfit between the strategic orientation of the firm and internal and external dynamics. These findings are in line with the findings and proposition P_{1b} of Study I.

As it was defined in Chapter 4 and described in Study I, this discrepancy between the level of aspiration and the perceived level of achievement is labeled stress (Ocasio 1995). Stress is a summarizing concept expressing ways in which current strategy is not satisfactory. It reflects dissatisfaction of individuals and imperfections in the fit between the organization and its environment (Huff, Huff and Thomas 1992).

Case	Perceived performance as an indicator of strategic misfit *(Illustrative quotes)*
Kappa-Spain	"When I started in this firm November 1, 1990 – and I did not know anything about selling trucks – I asked myself what we were doing in Spain. The only thing I could see was a 1.5 meters high legal file and Fl. 1.5 million of losses in 1990." (General Manager)
Kappa-Belgium	"After the buy-out in 1990, we started to map the strategic and financial situation of our activities. And then we got a completely different perspective on the Belgian venture. On paper we had earned money. But in practice, including all costs, we had merely shifted some profits abroad." (General Manager)
Eta-Japan	"On top of this, we had increasing economic problems because of the worsening exchange rate between the Yen and the DM. This was the second approach in this market and all in all this again was not a profitable one. With the first approach, we were losing money. With the second, we could barely run break-even. Over a period of 7 to 8 years we had a loss of about 8 to 10 million DM." (Marketing and Sales GS)
Eta-Germany	"We regularly received complaints about the large number of small production orders. However, our high margins did not push us toward rationalization. But when market growth began to slow down, margins went down fast due to the complexity of the portfolio." (General Manager GS)
Lambda-Turkey	"The organization was a mess: largely overstaffed and an incapable management team. The situation was even worse than we had thought. On top of that, the Lira collapsed in 1994 and the business came into a complete stand still." (Area Director MSOD)
Lambda-Russia	"There were some very good reasons to believe that the market would collapse and that all stories about a booming market could be forgotten. We would never reach our sales forecasts." (Area Director MSOD)
Sigma-Brunei	"[…] From that moment on, everybody could start in the engineering business and the business became more and more competitive. On top of that, the market of our main client collapsed. All these factors were combined: pressure on our client and on the market meant extreme pressure on us. At that time, we ran the risk of losing money." (Former Group President)
Sigma-UK	"In the beginning of the 1980s, the pure engineering market collapsed. However, our flexibility was limited due to long term leasing contracts of buildings and computer systems. This incurred high costs." (Former Group President)

Table 7-2: Performance as an indicator of strategic misfit

Stress induces agents to search for causes and solutions to reduce the stress level (Huff and Clark 1978). However, the events that caused performance to decrease, were not easily identified in most of the cases, i.e., causal ambiguity was high (Reed and DeFilippi 1990). Due to this ambiguity, individuals in the organization began to develop their own explanations about the causes of this poor performance. Initially, many different interpretations of the situation emerged. However, in line with Study I, we argue that these interpretations can be captured in two fundamental perspectives: endogenous and exogenous stress (see Table 7-3).

Some managers experienced endogenous stress. In their opinion, the unsatisfactory performance resulted from the inefficient and/or ineffective implementation of the current venture strategy. They argued that the organization had failed to implement the current strategy properly given the challenging environmental dynamics. In their perspective, resolving this problem was feasible within the scope of the current strategic approach. Others, however, experienced exogenous stress. In their perspective, the unsatisfactory performance resulted from the increasing inappropriateness of the current strategic status quo. In their opinion, the solution to the incurred problems lay outside the operational scope of the venture strategy. They did not perceive enough maneuverability within the present strategic approach to resolve the incurred problems. To reduce the stress, the strategic status quo had to be altered. Hence, we set the following proposition:

P_{2a}: When performance is unsatisfactory, managers predominantly experience either endogenous stress or exogenous stress.

Case	Endogenous stress	Exogenous stress *(Illustrative quotes)*
Kappa-Spain	"The only thing our local reps. were doing, was preparing legal files against our partner." (General Manager)	"We had gone too far. The market was there but we had approached it in the wrong way." (Marketing and Sales Manager)
Kappa-Belgium	"Management capacity was low and on top of that the manager was Dutch. A Dutchman in Belgium does not work." (Marketing and Sales Manager)	"[…] but I could not figure out what the Belgian outlet contributed to our idea of a global distribution network." (General Manager)
Eta-Japan	"The best R&D could develop was a me too product." (Regional Export Manager) "As I see it, in the beginning there really was a problem of communication. We did not know what the Japanese market really wanted." (Marketing and Sales Director)	"We were just too late. That meant that all good and large dealers were already fully in the hands of and controlled by the Japanese suppliers." (Regional Export Manager)
Eta-Germany	"When the market shrinks, overcapacity and the complexity of the portfolio put pressure on the margins." (General Manager GS)	"We were advised to reduce the portfolio complexity. That idea had lived for many years but … what could we do ? A portfolio reduction would run counter to Eta's corporate marketing dictum." (General Manager GS)
Lambda-Turkey	"The organization was a mess: largely overstaffed with an incapable management team. The situation was even worse than we had thought." (Area Director MSOD)	"The Turkish system is a strange system. We had many discussions about what we were doing here." (Area Director MSOD)
Lambda-Russia	"We had many dispersed outlets and many local managers did not even know each other. Even the name 'Lambda' was not used." (Area Manager MBD)	"We instantly sent out a signal : 'We are losing our shirts'. There were some very good reasons to believe that the market would collapse and that all stories about a booming market could be forgotten." (Area Director MSOD)

Case	Endogenous stress	Exogenous stress ***(Illustrative quotes)***
Sigma-Brunei	N/A	"When a new strategy had been developed by the top, we could see the consequences and problems in the market." (Project Engineer Manager)
Sigma-UK	"The British are completely different. At the beginning of the crisis, we had the opportunity to acquire a local competitor. At that time, however, an acquisition in the UK did not fit into the corporate strategy of reducing production capacity." (Former Group Manager)	"The British market evolved from a pure engineering market to an EPC market, at least 10 years before other European markets did. To capture the British market is to enlarge our business scope." (Former Group Manager)

Table 7-3: Endogenous versus exogenous stress

In the literature, ample support is found for these observations and proposition. Johnson (1988) argues that causal ambiguity with respect to a certain perceived misfit represents the cognitive limits of managers to understand data on strategic misfit and what can be done to reduce these gaps. As ambiguity increases, the risk of erroneous reactions to reduce the gap increases, and so does the need for valid information and knowledgeable judgment about viable actions (Argyris 1976). However, the more causal ambiguity, the more ill-structured a problem, and the more bureaucratic and political factors begin to influence the decision-making process (Allison 1971).

Whereas most managers experience a mix of both endogenous and exogenous stress, the cases clearly illustrate that agents predominantly experience one of either types. Johnson (1988) supports this finding, arguing that these scattered visions tend to converge to a limited set of conflicting perspectives. Dutton and Duncan (1987), Barr, Stimpert and Huff (1992), Burgelman (1994), and Tushman and Romanelli (1985) describe the emergence of two conflicting perceptions: endogenous and exogenous stress. If people's frame of reference fits with the dominant logic of the organization, stress is expected to be endogenous. As such, environmental signals are interpreted as consonant with the individual mental models as well as with the dominant logic. When an agent predominantly experiences exogenous stress, the individual mental models on this issue are dissonant with, and overruling the dominant logic of the organization (Johnson 1988).

We made this observation in Study I as well. Moreover, in Study I we proposed that: "Managers whose prime focus is on the export venture predominantly perceive an increasing endogenous misfit, [whereas] managers whose prime focus is on the international portfolio of the firm predominantly perceive an increasing exogenous stress" (Study I, propositions 2a and 2b). However, from the cases of this study, we cannot support these propositions. Contrary to the findings of Study I, we would argue that someone who experiences endogenous stress evidently focuses his or her attention to resolving the problems within the operational scope of the venture. Someone who predominantly perceives exogenous stress, evidently refocuses his or her attention to a strategic level beyond the operational scope of the venture. Accordingly, we argue that the direction of causality in propositions 2a and 2b of Study I is false. Therefore, we redefine these propositions in accordance with the findings of this study:

P_{2b}: If people's frame of reference fits with the dominant logic of the organization, stress is expected to be endogenous. As a consequence, they will focus their attention on resolving problems within the scope of the institutionalized venture.

P_{2c}: If people's frame of reference does not fit with the dominant logic of the organization, stress is expected to be exogenous. As a consequence, they will focus their attention on resolving problems beyond the scope of the institutionalized venture.

In this study, no straightforward relationship could be found between the manager's locus in the organization and a stress type. Indeed, attention is likely to be allocated to information that is easily interpreted within and that supports the current frame of reference of the individual (Kuwada 1998). This frame of reference is shaped by the individual schemata and mental models[5] (Schwenk 1989; and Ocasio 1995), the person's locus of control (Rotter 1975; Boone and De Brabander 1993)[6], the dominant logic in the organization (Bettis and Prahalad 1995; and Sanchez and Heene 1997), the organizational culture (Johnson 1988), and the industry recipe (Spender 1989; and Vandenbempt 1999). The individual frame of reference focuses attention on data which

[5] "Schemata are a form of generic knowledge used to represent knowledge at all levels of abstraction. Mental models are cognitive representations of specific situations and events, used to draw inferences and make decisions." (Ocasio 1995: 326)

[6] The construct 'locus of control' refers to a person's general belief in internal versus external control of reinforcement. Individuals with an external locus of control believe that events in their lives are due to uncontrollable forces. Individuals who believe in internal control trust in their capacity to influence environment. The relationship between locus of control and locus of stress (endogenous versus exogenous) seems to be indirect. It is postulated that locus of control is a moderating variable in our framework. In case of internal locus of control, one could hypothesize that a manager's frame of reference is influenced more by his/her own schemata and mental models. In case of external locus of control, one could hypothesize that a manager's frame of reference is influenced more by the dominant logic, the organizational culture and the industry recipe, three external sources. As such, locus of control – a context-free construct – moderates the impact of internal versus external context-bound constructs that nourish an individual's context-bound frame of reference. We refer to Rotter (1975), Hodgkinson (1992), Boone and de Brabander (1993), and Boone, de Brabander and van Witteloostuijn (1996) for a detailed discussion of the locus of control construct.

is compatible with the framework, and restricts attention to all others (Ocasio 1995). As a consequence, a problem may be defined differently by different individuals, dependent upon their respective frames of reference (Mintzberg, Raisinghani and Théorêt 1976). Environmental signals may be <u>consonant</u> or <u>dissonant</u> with the agent's current frame of reference (Johnson 1988). Events that refute the present frame of reference may be disregarded or interpreted within the scope of that frame.

7.4 PHASE 3: CONFLICTING REACTIONS TO ACCUMULATING STRESS

Stress induces reaction to reduce stress. The type of reaction, however, depends on the cumulative degree of stress (Huff and Clark 1978), the perceived origin of stress (exogenous vs. endogenous), the perceived time pressure and the feasibility of the change pattern that is assumed necessary (Dutton and Duncan 1987). At the firm level, however, Table 7-4 illustrates that the business units initially reacted in a more or less tactical way, thereby trying to improve the implementation of the current strategic approach.

Case[7]	Initial actions to improve performance *(Illustrative quotes)*
Kappa-Spain	Hardly any
Kappa-Belgium	"So we tried to reverse the situation. Both the marketing manager and myself have spent many hours trying to increase the management capacity of the Belgian team." (General Manager)
Eta-Japan	"We had to decide whether to modify this product or to step out. However, at that time we were enthusiastic because we had some successes and some new customers. We started, so we continued trying harder." (Regional Export Manager)
Lambda-Turkey	"We have sold everything what we could to improve our cash flow: buildings, cars, etc. We also started going after our money." (Area Director MSOD)
Lambda-Russia	"They perceived the fundamental instability of the market as a temporally higher degree of difficulty and not as critical. […] At that time, the business divisions' dictum was to try harder and certainly not to give up their autonomy." (Area Director MSOD)
Sigma-UK	"The newly installed management in London felt that something had to be done. Instantly, they went after all projects, even if the projects were not within their specialization." (Former Group President)

Table 7-4: Initial actions to improve performance

[7] Some cases are not mentioned in this table. This is due to their particular behavior with respect to the withdrawal process. These cases are discussed as theoretical replications (Eta-Germany and Sigma-Brunei) or as a special case (Kappa-Spain) in the remainder of this Chapter.

These observations are in line with Study I (proposition 1a) and can be summarized in the following proposition:

P_{3a}: When expected performance of a venture does not materialize, organizations react with tactical measures, thereby increasing their commitment to the current strategic logic.

Organizational studies on failure and change seem to support this proposition (e.g., Hambrick and D'Aveni 1988; D'Aveni 1989; Huff, Huff and Thomas 1992; and Barker and Duhaime 1997). These authors have all reported on failing firms that initially responded to decline with increased tactical efforts to implement their existing strategies[8].

Moreover, within the organization increasing political dynamics were observed. In all cases except Eta-Germany and Sigma-Brunei, we observed that managers tended to cluster in coalitions or lobbies around the experience of endogenous or exogenous stress. Some interview quotes may illustrate this evolution:

> "This […] brought about strong reactions, especially from the business directors. They accused me of being a defeatist. […]. In the business divisions, there was a strong belief that the Russian market would soon boom." (Lambda-Russia – Area Director MSOD)

> "We saw that something was going wrong. But when we asked about the decreasing performance and the reliability of the present market strategy, some remained optimistic. They continued trying to convince us of the correctness of the present approach. A way of personal protection combined with a dose of optimism." (Eta – Member of the Board)

> "In practice, a large difference exists between both perspectives. […] And these are not always compatible." (Lambda-Turkey – Area Director MSOD)

[8] This observation also refers to the literature on escalation of commitment (e.g., Staw 1976, Whyte 1986, and Ross and Staw 1993). In Phase 5, we come back to the escalation and de-escalation process (Drummond 1995).

Case	The dominant coalition	The challenging coalition
Kappa-Spain	Former corporate top management	New corporate top management
Kappa-Belgium	Corporate top management	Local sales executives
Eta-Japan	Top management of division X_2 and corporate top management	Middle management of division X_2
Lambda-Turkey	Local management in Turkey and corporate top management	Corporate area management
Lambda-Russia	Top management of the business divisions	Corporate area management
Sigma-UK	Corporate top management	Local management

Table 7-5: Members of the dominant and challenging coalition

Given a high level of causal ambiguity, two unequal and conflicting coalitions seemed to emerge (see Table 7-5). On the one hand, a coalition clustered around the feeling of endogenous stress. This <u>dominant coalition</u> had relatively high hierarchical power. On the other hand, a smaller and less powerful <u>challenging coalition</u> seemed to have emerged in three of the cases. This coalition clustered around the experience of exogenous stress.

Hence, we set the following proposition:

P_{3b}: When expected performance of a venture does not materialize, and causal ambiguity remains high, the dominant coalition clusters around the experience of endogenous stress and a challenging coalition clusters around the experience of exogenous stress.

Although reacting in a fundamentally different way, the two coalitions seemed to behave similar at least in three ways. Firstly, each coalition had developed or began to develop a particular logic which was rooted in their frame of reference and which was built upon their explanation of decreasing performance (Cyert and March 1963; Narayanan and Fahey 1982; Johnson 1988; and Ocasio 1995 for theoretical and empirical support). Secondly, both coalitions exhibited sequential searching – or even ‘first-is-best’ behavior – for alternative options to resolve the situation (cf. Lindblom 1959; Aharoni 1966; Mintzberg, Raisinghani and Théorêt 1976; and Kuwada 1998). Thirdly, both coalitions were risk prone within their own frame of reference; i.e., stress increased the propensity of searching and adopting alternative solutions (Bowman 1982; Hambrick and D’Aveni 1988; Fiegenbaum and Thomas 1988; Howell and Higgins 1990; and Barr, Stimpert and Huff 1992 for support). Next, we dig deeper into the particular behavior of both coalitions.

7.4.1 Single Loop Learning: Accumulation of Commitment

As Table 7-4 and P_{2b} suggest, the dominant coalition reacts by increasing their commitment to the current strategic approach. In fact, the initial tactical reaction by the organizations (proposition 3a) were all taken by the dominant coalition, which held the hierarchical responsibility over the venture. In all cases except Eta-Germany and Sigma-Brunei, we observed that managers who are hierarchically and formally responsible for the well-being of the venture reacted in an inertial and operational[9] way when performance declined. Some quotes may illustrate these observations:

> “At that time, it had been decided to develop a plate exclusively for the Japanese markets. This time, we wanted to do it right. […] We took this product to the Japanese market and found out that it was not the right product. The product was not compatible with the Japanese technical environment […] Although the new product was better than the previous version, it was not yet good enough. One example: […] So we had to decide whether to

[9] The reactions of the dominant coalition are inertial and operational when they are rooted in the current stock of steady state routines at the level of the individual venture (Volberda 1996; see also the conceptual framework presented in Chapter 4). In the remainder of this chapter, we use ‘tactical’ as a synonym for operational.

> modify this product or to step out. However, at that time we were enthusiastic because we had some successes and new customers. We started, so we continued. Therefore, we made a new positive plate, a modified one that was compatible to this [technical] environment. […] It took about 2 to 3 years until we finally had a new product that really worked in the Japanese market. However, at the time it was released it was a me too product." (Eta-Japan – Marketing and Sales Director).

> "In 1992, I went over every week. The Belgian subsidiary incurred heavy losses. However, bringing in management capacity reversed the situation within a year. […] When we decided to release it again, losses increased instantly. This indicated that management capacity was too low. […] After we had dismissed the Dutch manager, we did not want to engage a new man. The sales staff would not have accepted someone new. They were convinced of the fact that they could handle the problems and reverse the situation themselves. Accordingly, we decided to install [the sales staff as] a two-headed management team. […] Again, a year was lost. In 1994, we decided to discharge one of the managers and we appointed the most reliable of the two as managing director of the Belgian subsidiary. At the same time, however, we decided to close the place down. […] The newly appointed director argued that this was an unfair decision; he did not have the chance to prove himself. [...] So we decided to continue for one more year." (Kappa-Belgium – Sales and Marketing Manager)

The dominant coalitions seemed to follow standard routines of approaching declining performance, which were within their authority. Hence, we set the following proposition:

P_{3c}: Managers who experience increasing endogenous stress – the dominant coalition – adopt routine procedures within the limits of their authority to increase performance.

The institutionalization of the venture (proposition 1) has provided the dominant coalition with a formal mandate over routine procedures within the scope of the strategic institutionalization of the venture (Haveman 1993). Sticking to this mandate, in disregard of information that may challenge the dominant strategic logic, they react in an inertial and tactic way. Thereby, they confirm the current strategic logic and institutionalization of the venture. As it was discussed in Study I, this evolution is captured in the process of single loop learning (Argyris and Schön 1978).

Endogenous stress experienced by the mandated managers results in inertial behavior that provides a logic for single loop learning (Argyris 1976; Tushman and Romanelli 1985; Doz and Prahalad 1997; and Sanchez and Heene 1997). As their mandate provides them with hierarchical power, this coalition aims at detecting and correcting the causes of the misfit through pre-established modification routines, as long as they perceive a certain degree of maneuverability or feasibility within the scope of the current strategic logic (Mintzberg, Raisinghani and Théorêt 1976; Nelson and Winter 1982; Dutton and Duncan 1987; Amburgey, Kelly and Barnett 1993; Mezias and Glynn 1993; Drummond 1995; and Kuwanda 1998).

Both the case data and the literature indicate that single loop learning is characterized by 'satisficing' behavior and increased sequential searching (March and Simon 1958; and Aharoni 1966). In case of sequential searching for solutions, the first solution that fits is adopted. Only one alternative solution is submitted at any one point of time to a set of explicit or implicit tests (Lindblom 1959). An outcome satisfies when it reaches a subjective level of aspiration. This is comparable to what Nelson and Winter (1982) call 'a good first approximation'. 'Satisficing' behavior and sequential searching are rooted in the agent's motivation for minimizing searching costs and minimal ambiguity.

7.4.2 Double Loop Learning: Creating Strategic Flexibility

While the dominant coalition continues to decide on the organization's behavior in reaction to the decreasing performance, a challenging coalition that holds a different perspective on the situation may emerge. Some quotes illustrate this evolution:

> "As I perceived it, we were like a drifting ship. Everybody was looking and trying in a different direction. We tried to do something about it but we were afraid of burning our fingers. Ultimately, we were able to discuss the issue with someone at the top. This is how things began to change." (Kappa-Belgium – Sales Executive)

> "As I see it, in the beginning it was really a problem of communication. We did not know what the Japanese market really wanted, until X went over and made communication easier so that Germany could see what Japan needed. X did detailed work about what the market really needed. Then, it became more easy to tell people here that Japan needed something totally different." (Eta-Japan – Marketing and Sales Director)

> "It depends on who is supporting this perspective. […] At a certain moment, these new

> perspectives find their way up into the organization." (Lambda-Turkey – Area Director MSOD)

> "This […] brought about strong reactions, especially from the business directors. They accused me of being a defeatist. […]. In the business divisions, there was a strong belief that the Russian market would soon boom. […] It was very hard to run counter to the official perspective." (Lambda-Russia – Area Director MSOD)

In the perspective of the challenging coalitions, resolving the problems was not feasible within the scope of the current strategic logic of the ventures. They refuted the tactical reactions which were implemented. Moreover, in some of the cases, exogenous stress was an impetus for the development of <u>alternative strategic options</u> that clearly went beyond the limits of the present institutionalisation and logic of the venture. Moreover, withdrawal was explicitly proposed very early in three of the cases:

> "The first time I raised the idea of leaving, was when I was 6 months in Japan. That was in 1989." (Eta-Japan – Regional Export Manager)

> "I was there when it all happened. The business came to a stand still. […] In contrast to our main competitor across the street, we reacted very fast. While they did not gave any signal of crisis, we instantly changed to a survival strategy: no more cash drain." (Lambda-Turkey – Area Director MSOD)

> "As soon as I was involved in Russia, we had made a financial exercise. However, the conclusions of this exercise caused panic because a clear financial disaster. We had to restructure and reduce the size of the organization. If not, withdraw entirely." (Lambda-Russia – Area Director MSOD)

Across the cases, we observed <u>three types of reactions</u> of the challenging coalition (see Table 7-6). These types differ in their degree of impact on the following phases of the decision-making process.

Type of Reaction	Explanation	Cases in Study I	Cases in Study II
1. Refutation	A challenging coalition refutes the tactical measures of the dominant coalition. However, this coalition does not develop or propose alternative solutions.	Delta	Kappa-Belgium Sigma-UK
2. Creation of strategic flexibility	A challenging coalition refutes the tactical measures of the dominant logic. Moreover, the challenging coalition is able to initiate the development and preparation of a strategic alternative in parallel to the tactical actions.	Beta Gamma	Eta-Japan Lambda-Russia
3. Implementation of strategic alternative[10]	Hardly any tactical measure is taken. The challenging coalition is able to change course and reallocate resources very soon.	N/A	Kappa-Spain Lambda-Turkey

Table 7-6: Three types of reaction of the challenging coalition

For all types, a challenging coalition emerged due to (1) causal ambiguity on the decreasing performance and (2) a relative degree of autonomy of some members of the organization. Indeed, the organizational members who doubted the efficacy of the present tactical measures all had a relatively low commitment to the current dominant strategic recipe in this venture. Hence, we propose the following:

P_{3d}: Managers who experience increasing exogenous stress – the challenging coalition – refute routine modification procedures to increase performance when they have a certain degree of autonomy.

[10] As it is discussed below, in Type3-cases phases 3 and 4 of the decision-making process on international market withdrawal are almost entirely skipped.

When a manager experiences increasing exogenous stress, his/here individual mental models on this issue are dissonant with the dominant logic of the organization (Johnson 1988). Furthermore, a certain degree of autonomy is required to be able to express this exogenous stress (Hitt, Keats and Demarie 1998). In line with the literature, our cases suggest that a manager's autonomy is relatively high when: (1) s/he is new to the organization and has no prior commitment to the current logic (Kappa-Spain; Tushman, Newman and Romanelli 1996), (2) the manager is involved in boundary-spanning activities within and outside the organization (Lambda-Turkey and Lambda-Russia; Hambrick 1981; and Hutt, Reingen and Ronchetto 1988), and/or (3) s/he is operating in the foreign subsidiary itself, thereby experiencing divisional independence and having access to additional market-specific information (Kappa-Belgium, Eta-Japan and Sigma-UK; Ghertman 1988; and Hitt, Keats and Demarie 1998). In general, members of the challenging coalition are all less influenced by inertial forces relative to the current strategic recipe (Huff, Huff, and Thomas 1994).

Nevertheless, in Type1-cases (Kappa-Belgium and Sigma-UK) the challenging coalition did not propose alternative solutions to the problem. In Type2- and Type3-cases, to the contrary, the challenging coalition did propose and develop an alternative strategic option. We would argue that this can be explained by the availability of particular information, resulting in knowledge power (Burgelman 1996) for the challenging coalition with respect to the incurred problem. Some quotes illustrate the increasing power base of the challenging coalitions in Type2- and Type3-cases:

> "The real centers of power are in Paris, Stuttgart and Antwerp. However, this venture did not receive the strategic drive we would have expected. […] I had the luck to be there when it all happened. I had hands on when the crisis emerged and saw how our competitors reacted. […] In this case, I may conclude that this decision was taken locally and 'sold' to the top management." (Lambda-Turkey – Area Director MSOD)

> "Despite our financial calculations and our rather pessimistic reports on what we had seen, it was extremely hard to run counter to the official point of view. Lobbying against the business divisions was tough. However, some top managers saw that the situation was getting worse, despite everything. […] In fact, soon after the crisis, Paris decided to refocus on the cash flow, thereby overruling all business directors." (Lambda-Russia – Area Director MSOD)

Hence, we set the following proposition:

P_{3e}: Managers, who experience increasing exogenous stress – the challenging coalition – refute routine modification procedures and develop an alternative strategic option to increase performance, when they have a certain degree of autonomy and knowledge power.

Support for this proposition is found in the literature. Doz and Prahalad (1987) argue that lower managers may become aware of the need for strategic redirection. However, they may lack access, influence, data, and receptive ears to develop and push alternative ideas. We argue that this is the case in Type1-cases. Although we were not able to interview the local management team in Sigma-UK, the fact that they had all been resigned at the time of this study supports our argument about their lack of power in this issue. Contrary to Type1-cases, the challenging coalition in Type2- and Type3-cases engaged in <u>double loop learning</u> (Argyris and Schön 1978). When increased exogenous stress and a certain degree of autonomy go along a relatively high degree of knowledge power, managers may develop a <u>non-routine solution</u> which refutes the current dominant logic. In accordance, Barr, Stimpert and Huff (1992) and Rajagopalan and Spreitzer (1996) define double loop learning as a process that requires additions to or changes in the dominant logic of the firm.

While <u>hierarchical power</u> induces single loop learning within the frame of the dominant logic, <u>knowledge power</u> induces double loop learning by a challenging coalition (Argyris 1976; and Burgelman 1996). The challenging coalition has acquired knowledge, which provides it with an alternative logic for the development of a non-routine solution (Doz and Prahalad 1987; Dutton and Duncan 1987; and Hutt, Reingen and Rochetto 1988). As discussed earlier in this section, it is quite possible that knowledge power is based upon information that is freely available in- or outside the organization. However, the dominant coalition may have interpreted this information as dissonant to the dominant logic and/or, as a consequence of satisficing behavior, may have disregarded or refuted it (March and Simon, 1958; Johnson 1988; and Barr, Stimpert and Huff 1992).

Double loop learning is a kind of higher order learning, which may result in increased strategic flexibility to the venture (Burgelman 1994, 1996). However, it may not be regarded as synoptic learning in which agents (1) identify and systematically order objectives, (2) comprehensively survey all means, (3) exhaustively examine sequences, and (4) make a choice that maximizes an acceptable level of achievement (Lindblom 1959; Argyris 1976, and Frederickson 1983). The cases illustrate that double loop learning remains characterized by sequential searching of alternatives. When a challenging vision emerges, typically, only one strategic path results from it. No further selection is adopted or deemed necessary (Mintzberg, Raisinghani and Théorêt 1976).

Fundamentally, no great difference exists in the explanatory factors of Type2- and Type3-cases. In both types, exogenous stress, autonomy and knowledge power start up a double-loop learning process. However, in Type3-cases (Kappa-Spain and Lambda-Turkey) we observed that hardly any tactical measures was taken and that management reallocated resources and changed course very soon after exogenous stress had increased. We would argue that this is caused by the coincidence of knowledge power and hierarchical power. As a consequence, we hardly observed any inertia or conflict in the decision-making process of Type3-cases. Hence, we argue that in Type3-cases phases 3 and 4 of the decision-making process on international market withdrawal are almost entirely skipped.

7.4.3 The Champion of Change

In support of our findings, many authors have argued that frame-breaking changes are all spearheaded by a relatively small number of executives from outside the dominant logic (Tushman, Newman and Romanelli 1986; Doz and Prahalad 1987; Gersick 1991; and Barker and Duhaime 1997).

However, one major explanatory factor of the emergence of strategic flexibility was disregarded up until now: the role of a 'champion of change'. Due to the coincidence of knowledge power and hierarchical power in the person of the champion of change, his/her decisive role is most apparent in Type3-cases. In Kappa-Spain, a new managing director had just been appointed. Not much information was needed for him to decide to close the venture:

> "When I started in this firm November 1, 1990 – and I did not know anything about selling trucks – I asked myself what we were doing in Spain. The only thing I could see was a 1.5 meters high legal file and Fl. 1.5 million of losses in 1990. So, November 1 I closed that venture. This could not have been a bad decision." (Kappa-Spain – General Manager)

In case Lambda-Turkey, an Area Director had been appointed to restructure the venture just weeks before the crisis:

> "At that time, the Turkish subsidiary was in big problem. And, I was there, almost by accident, standing right in front of it. I was not the general manager but I was in charge. At that time, [the general manager] hardly had any influence on decisions. He left a year later. For the next 1.5 years, a troika was leading the venture: the marketing director, the financial director, and myself. In fact, however, I was in charge." (Lambda-Turkey – Area Director MSOD)

Clearly, these two persons can be labeled 'champions of change'. They played a crucial role in the decision-making to withdrawal. In fact, these persons initiated, decided and implemented the withdrawal.

While the role of the champion of change is obvious in Type3-cases, we also found evidence of a champion of change in the Type2-cases. Although his role was less important than in the aforementioned cases, the regional export manager of Eta-Japan initiated the development of a new business plan for the Japanese market. In Lambda-Russia, the Area Director behaved as a champion of change too. However, his hierarchical power was not established instantly.

Referring to cases Beta and Gamma of Study I, a challenging coalition holding knowledge power emerged soon after exogenous stress had increased. However, hierarchical power came only later with the resignation of the old sales manager and the appointment of the champion of change as the new sales manager in Beta and with the overruling of the Belgian manager's authority over the French venture by the Dutch top management in case Delta (see Phase 5 in Study I).

In Type1-cases, no championing behavior was observed and the challenging coalition even disappeared. In Kappa-Belgium the local sales team refuted the tactical measures. However, we would argue that they lacked autonomy, knowledge, and hierarchical power and support in order to develop a strategic alternative. In Sigma-UK, the local management had been laid off soon. The new local management had a lack of knowledge power and may not even have experienced exogenous stress. As a consequence, knowledge power seems indispensable as an impetus of double loop learning as well as of a challenging coalition to emerge around a champion of change. Hence, we propose:

P_{3f}: A challenging coalition which creates strategic flexibility, tends to emerge around a 'champion of change' who is holding knowledge power.

Ample evidence on the characteristics and the role of the champion of change was found in the literature. Many authors recognize the importance of a champion of change to break routines and inertia (e.g., Aharoni 1966; Tushman and Romanelli 1985; Hutt, Reingen and Ronchetto 1988; Huff, Huff and Thomas 1992; Burgelman 1994; Mezias and Glynn 1993; and Jarvenpaa and Stoddard 1998).

Our cases agree with the literature on the characteristics of the champion of change. The champion typically is:

- external to the dominant logic (Hambrick 1981; and Burgelman 1996)
- early involved in the decision-making process (Aharoni 1966),
- a middle manager who is more involved in boundary-spanning or output tasks of the organization than in internal and operational process routines (Hambrick 1981; and Hutt, Reingen and Ronchetto 1988, Kuwada 1998).

Although the champion of change is highly involved in the venture, he perceives low levels of personal risk with the development of strategic flexibility (Howell and Higgins 1990). Better than others, the champion seems able to detach personal risk of failure from the risk of failure of a (‘his/here’) new strategic approach in this venture. Moreover, more than others, the champion is acquiring knowledge, which reduces causal ambiguity and which allows him/her to refute the current dominant logic as well to support the strategic reorientation on a motivated basis.

7.5 PHASE 4: POWER PLAY TOWARD THE STRESS THRESHOLD

As the decision-making process went on, performance continued to decrease. The tactical measures, which were adopted in Type1- and Type2-cases, turned out to be increasingly ineffective (see Table 7-7).

Nevertheless, the dominant coalitions seemed not to give up their commitment towards more tactical measures, to the contrary. In discussion of phase 5 below, we will illustrate that in Kappa-Belgium and in particular in Sigma-UK (Type1-cases), the ongoing experience of endogenous stress, without the creation of strategic flexibility, results in escalating commitment and strategic drift within the framework of the increasingly inappropriate strategic logic.

Case	Ineffectiveness of tactical measures ***(Illustrative quotes)***
Kappa-Belgium	"The objective remained a foreign subsidiary which was able to walk on its own. It is not acceptable that the top has to be involved in managing it on a day-to-day basis. However, as soon as we had left, profitability dropped again." (Marketing and Sales Manager)
Eta-Japan	"This was the second approach in the market and all in all it again was not a profitable one. With the first approach, we were losing money. With the second, we could barely break even. Over a period of 7 to 8 years we had lost 8 to 10 million DM." (Marketing and Sales GS)
Lambda-Russia	"All business division expected to redress the situation. However, the Ruble collapsed August 17 and the bombshell had been dropped. Instantly we sent out a signal : 'We are losing our shirts'." (Area Director MSOD)
Sigma-UK	"As a consequence, you could see that the heart was out of the venture." (Former Group President)

Table 7-7: The ineffectiveness of tactical measures

Furthermore, this increasing stress and poor performance strengthened the challenging coalition of Type2-cases in their efforts to develop a strategic alternative. Table 7-8 illustrates that ongoing and increasing stress made the champions of change as well as the challenging coalition to increase their commitment towards the emergent strategic alternative. Moreover, as this strategic alternative gained momentum in the organization, the champion sought support for it in higher echelons of the organization (see Table 7-8). As such, s/he was trying to provide the strategic alternative with hierarchical power. The increasing commitment towards a strategic alternative as well the increasing hierarchical power of the challenging coalition made exogenous stress and its impact in the organization increase further. As the power of the challenging coalition had increased dramatically, the outcome of this phase was a switch of power from the dominant coalition to the challenging coalition with respect to the authority over this particular venture. As we had observed in cases Beta and Gamma of Study I, an open confrontation between the coalitions took place in Lambda-Russia:

> "This […] brought about strong reactions, especially from the business directors. They accused me of being a defeatist. […]. When this vision got accepted at HQ level, I had the business director against me. They simply did not want to accept the situation." (Lambda-Russia – Area Director MSOD)

Case	Increasing commitment	Hierarchical support *(Illustrative quotes)*
Eta-Japan	"We requested Eta Japan to make a business plan in which a short and a long-term plan were developed, which also described expectable problems and how to tackle them. […] In this business plan, three strategic options were developed. We had to do something." (International Marketing Manager)	"We presented the business plan to the management committee of the business unit and some technical experts. […] showing the various strategic options." (International Marketing Manager)
Lambda-Turkey	"In the beginning, things went slowly. I was not convinced about it. The situation switched over when I got involved emotionally, when I started to believe in the plan. From that moment on, things began to proceed fast." (Area Director MSOD)	Another key factor is my good relationship with the director of International Operations. He is mature enough to cope with bad news. He does not panic. The thrust that existed between subsidiary and headquarters acted as a differentiator." (Area Director MSOD)
Lambda-Russia	"In Turkey, I was emotionally related to the venture. I felt very responsible for these people. After the Turkish experience, I had decided never to tie my self again. I tried to do so in Russia. However, I failed. You need the feeling, which requires emotional attachment. You have to commit yourself personally towards these people. […] It took a long time before I was committed to the Russian venture and market." (Area Director MSOD)	"Lobbying against the business divisions was tough. However, some top managers saw that the situation was getting worse, despite everything. The director of International Operations understood that the situation was bad. In fact, soon after the crisis, Paris decided to refocus on the cash flow, thereby overruling all business directors. […] As a consequence, our platform of reorientation had become stronger." (Area Director MSOD)

Table 7-8: Increasing commitment to and hierarchical support for the strategic alternative in Type2- and Type3-cases.

Though without a dramatic confrontation, a switch of power occurred in the other Type2- and Type3-cases as well. In case Kappa-Spain the newly appointed managing director himself was the champion of change. In case Eta-Japan, the commitment of the business division had increased so much that the business management felt ready to decide on a withdrawal from the current product/market combination themselves and defend the strategic reorientation towards a new business at the Board of Directors. In Lambda-Turkey[11], the switch of power went smoothly due to the coincidence of the reorganization assignment of the Area Director and the crisis. As no challenging coalition existed at the end of phase 4 in Type1-cases (Kappa-Belgium and Sigma-UK), power could not switch and the dominant coalition remained in charge over the venture. From these observations, we set the following two propositions:

P_{4a}: Stress increases dramatically due to (1) ineffective tactical measures, (2) the creation of strategic flexibility and (3) increasing hierarchical support for a strategic alternative.

P_{4b}: Stress reaches a threshold when the decision-making power over the venture switches from the dominant coalition to the challenging coalition.

Earlier, we assumed that international market withdrawal is an ill-structured and non-routine decision (Mintzberg, Raisinghani and Théorêt 1976). In accordance, we assume here that no clear cut modification routines exist in the dominant logic of the firms of business units we study. In the literature, ample support is found for the inappropriateness of routine-based learning when frame-braking change is required (Argyris 1976; Tushman and Romanelli 1985). The modification routines, which are adopted, are proxy routines at best. There seems to be no 'kit for organizational response' (Ocasio 1995) to the unique problems, which require international market withdrawal.

Nevertheless, the dominant coalition continues to increase its commitment to the dominant logic. This evolution fits with theories of treat-rigidity (e.g., Staw, Sandelands and Dutton 1981; and Ocasio 1995), which argue that continuing adversity increasingly leads to a restraint of information processing, constriction of control, and increased rigidity in organizational behavior. The dominant coalition feels more and

[11] Although we labelled Lambda-Turkey a Type3-case, the Area Director's plan for strategic reorientation had to be approved of by the top management of the firm.

more threatened by the environmental dynamics and, in Type2-cases, by the increasing strategic flexibility created by the challenging coalition. Endogenous stress increases dramatically as a consequence of continuing adversity and increasing threat-rigidity behavior.

In contrast to the rigid behavior of the dominant coalition, the challenging coalitions are increasingly committed to the creation and adoption of a strategic alternative. Due to the ongoing search for (dissonant) information beyond the dominant logic and the increasing commitment to double loop learning, causal ambiguity decreases and exogenous stress increases dramatically (Johnson 1988; and Huff, Huff and Thomas 1994). The 'real' troubling facts become clear to more and more members of the organization (Aharoni 1966).

Taking together the reactive threat-rigidity behavior of the dominant coalition and the proactive failure-induced learning of the challenging coalition, we claim that, as commitment to the conflicting learning paths tends to increase, both endogenous stress and exogenous continue to increase (Schwenk 1989; and Ocasio 1995) . However, the power base seems to be shifting away form the dominant coalition towards the challenging coalition. As soon as causal ambiguity begins to decrease, we learn from the cases that the challenging coalitions start to gain hierarchical support for their vision on the future of this venture.

We found process studies on strategic decision-making in which hierarchical support seeking by champions of change is indicated as a critical event towards the strategic reorientation in the venture (e.g., Hutt, Reingen and Ronchetto 1988; and Howell and Higgins 1990). Maidique (1980) and Burgelman (1994) even differentiate between the 'project' champion and the 'organizational' champion, the latter being a top manager who sponsors the change program and pushes it through the formal decision-making process in the next phase. As more members with hierarchical power become aware and convinced about the availability of a strategic alternative beyond the scope of the current strategic logic, the impact of exogenous stress on the organizational decision-making increases at the expense of endogenous stress and the power basis begins to shift.

In fact, tactical measures continued to be adopted not because endogenous stress was higher than exogenous stress, but because the coalition who experienced endogenous stress was more powerful than the coalition who experienced exogenous stress. Over different phases of the decision-making process, we observed an increasingly important political process between the proponents of two strategic logics, which Huff, Huff and Thomas (1992) label a dialectic between accumulating exogenous stress and accumulating inertia within the framework of the dominant logic.

At a certain moment the venture, however, reaches rock bottom. A stress threshold is reached. Barr, Stimpert and Huff (1992: 19) define this threshold as the point where "the level of [exogenous] stress (the level of pressure to change) exceeds the level of inertia (the level of pressure to maintain)". The process towards this threshold is case-specific, and hence, so is its timing and impact. Empirical studies suggest that the timing of a stress threshold is influenced by the organization's resource availability, slack and power distribution (e.g., Mintzberg, Raisinghani and Théorêt 1976; Narayanan and Fahey 1982; and Barr, Stimpert and Huff 1992). The cases suggest that the impact of reaching a threshold may be extreme, depending on the preceding process. The consequences of reaching the threshold are discussed in the next section.

7.6 PHASE 5: VACUUM VERSUS FAIT ACCOMPLI

We operationally define phase 5 as the episode in the decision-making process which starts at the stress threshold and ends with the formal decision to withdraw. Although we could hardly identify this episode in some cases (e.g., Lambda-Turkey and Lambda-Russia), the time gap between maximum stress and the formal decision to withdraw was considerable in others (e.g., in Sigma UK up to 15 years). Moreover, this phase turned out to be an episode of extreme behavior across the cases. Nevertheless, at least two elements were identified, which typify this phase: (1) a high degree of strategic instability, and (2) the isolation of the venture.

Firstly, we learn from the cases that the decision-making process culminates from the threshold towards the formal decision to withdrawal through an episode of high strategic instability. Even in cases in which we observed a very short 5th phase, the high degree of strategic instability of the venture resulted in critical incidents, which largely influenced the further decision-making process. This observation is in line with Bettis and Prahalad (1995) and Burgelman (1996) who discuss the increasing instability of complex organizations as they move away from an equilibrium – the old dominant logic – towards a new strategic logic, which requires the reallocation of resources.

Secondly, Table 7-9 illustrates that in all cases except Eta-Germany, management had assessed the isolated position of the venture just before the formal decision to withdraw was taken. The perceived degree of market interconnectedness seemed to play a major constraining role in the final phases of the decision-making process. Considering the venture's interconnectedness with other markets may indicate that a withdrawal was about to be accepted as a viable alternative for which opportunity costs had to be calculated. In some cases, business in this venture had never been dependent upon the business in other ventures or vice versa (e.g., Kappa-Spain and Sigma-Brunei). As a consequence, a withdrawal would not have a negative impact beyond the opportunities in the venture itself. In other cases, the corporate international marketing strategy had intentionally or unintentionally resulted in the isolation of the venture.

Case	Isolation of the venture *(Illustrative quotes)*
Kappa-Belgium	"[…] but I could not figure out what the Belgian outlet contributed to our idea of a global distribution network." (General Manager)
Kappa-Spain	- As the Spanish venture was an isolated venture from the outset, this issue was not questioned. -
Eta-Japan	"Moreover, you could say we had to stay in Japan to cover other countries in the region. However, this is not correct. Japan is really isolated." (Regional Export Manager)
Lambda-Turkey & Lambda-Russia	"Given the global importance of our company and the characteristics of our business, we cannot easily withdraw. We cannot take national governments as hostages. The public telephone operators need us more than ever. […] If, eventually, we would have to withdraw, we cannot think about re-entering that country for the next ten years. Moreover, our global reliability would take a terrible knock, thereby threaten the survival of the entire company. […] However, we remain flexible in countries and will avoid large cash drains by reducing our activity" (Area Vice President)
Sigma-Brunei	"You know, Brunei was a small market, which operated independent from other operations. All engineering was performed locally." (Project Engineer Manager)
Sigma-UK	"The English market remains very particular. Holland is Europe, England is not. An important asset is our European triad: Amsterdam, Antwerp, and Magdenburg. From this triad we cover Western and Eastern Europe entirely. (Former Group President)

Table 7-9: Considerations on the isolation of the venture

In Kappa-Belgium and Sigma-UK, the ventures had lost their role in the international corporate expansion strategies. In Sigma-Turkey and Sigma-Russia, to the contrary, all respondents explicitly assured that a full withdrawal had to be avoided at any cost. In these cases, a full withdrawal would have had a potential major negative impact on the credibility of Lambda in other foreign markets (see case description in Chapter 5). However, since operations in both ventures were fully integrated locally, a (partial) withdrawal would not have had an impact upon operational activities in other countries. In all, the isolation of the venture was a key requirement before full withdrawal could be accepted as an alternative.

Douglas and Craig (1995, 1996) discuss the constraining impact of market interconnectedness in connection with the degrees of freedom for a dynamic market portfolio management. Varadarajan (1999) goes even further, arguing that: "[traditional] approaches to portfolio analysis are not relevant to multi-business firms with a large number of businesses in their portfolio that are interrelated." (p.91).

Notwithstanding the ultimate – full or partial – withdrawal of the ventures in all cases, the decision-making process which culminated to this decision largely differed between Type1-cases on the on hand, and Type2- and Type3-cases on the other. In Type1-cases, venture performance had reached rock bottom and endogenous stress as well as causal ambiguity had not decreased despite increasing efforts to redress the situation. To the contrary in Type2- and Type3-cases, a challenging logic had gained momentum in the organization, causal ambiguity had decreased, and a strategic alternative had gained hierarchical power.

In general, we observed that the coincidence of extreme strategic instability at the level of an increasingly isolated venture resulted in two extreme decision-making paths toward international market withdrawal. Next, we describe these two paths separately.

7.6.1 Strategic Withdrawal

In cases Kappa-Spain, Eta-Japan, Lambda-Turkey and Lambda-Russia, we observed that the challenging coalition had gained hierarchical power, which gave this lobby a mandate to implement a strategic alternative for this venture. However, the analysis revealed that in this phase corporate top management decided on (1) the reallocation of the resources, and (2) the withdrawal of the old venture separately, adopting different criteria.

In all three cases, corporate top management first decided on the reallocation of resources. As Table 7-10 illustrates, existing resource in the market were reallocated to a new product/market-combination (Eta-Japan), towards a new entry strategy (Kappa-Spain), towards a new strategic thrust (Lambda-Turkey), or towards a new organizational set up for growth (Lambda-Russia).

Case	**Strategic reallocation of resources**	
	From	**To**
Kappa-Spain	Local growth through forward integration into local distribution	Regaining market power using a lower level entry strategy
Eta-Japan	Conventional chemical-based instruments	Computer- and software-based systems
Lambda-Turkey	Export driven growth strategy	Survival strategy in preparation of dominant local presence
Lambda-Russia	Scattered and project-driven market skimming at business division level	Survival strategy in preparation of synergetic growth strategy at corporate level

Table 7-10: Strategic reallocation of resources

The following quotes, however, illustrate that this formal decision merely approved a fait accompli. As the strategic alternative had been the former entry strategy, a strategic alternative was available in Kappa-Spain right away. In three cases, the implementation of the strategic alternative had first been implemented as soon as in phase 3, the phase in which the challenging coalition had started to develop the strategic alternative:

> "The decision to step out of the Japanese market was a decision by the management of the business division in [Frankfurt…]. We just informed the Board of Directors about our decision. To make it precise, I think the president of Eta Japan informed them." (Eta-Japan – Marketing and Sales Director)

> "I think that this kind of decisions is taken in the field. […]. All major decisions are taken in this way. […] From a certain moment on, it is 'sold' to the top. However, if you have someone who strongly defends the idea, they will accept in all cases." (Lambda-Turkey – Area Director MSOD)

> "The implementation is a fait accompli. […] In fact, we do not even bring a detailed strategy to [the top management] but a vision." (Lambda-Russia – Area Director MSOD)

During the decision-making process, causal ambiguity of the challenging coalition had decreased due to successful implementation of their strategic option, in disregard of the official strategy in the market. Operationally, the challenging coalitions had hands on in all four cases. As experimentations with or real implementation of their strategic alternative had reduced causal ambiguity, commitment to the strategic alternative had increased and organizational support could easily be won. Generally stated, in all three cases <u>organizational commitment to the strategic alternative had preceded the formal decision.</u>

This finding is supported in the extant literature (e.g., Aharoni 1966; Huff, Huff and Thomas 1992; and Burgelman 1994). In line with our findings, Narayanan and Fahey (1982), and Hutt, Reingen and Ronchetto (1988) argue that commitment to a strategic alternative begins to evolve during the early stages of decision making rather than after the decision is made. If a champion's vision is in conflict with the status quo (Type2-cases), the champion does not wait for formal approval before implementing his project (Howell and Higgins 1990). As a consequence, the formal decision merely brings the official strategy in line with the real activities and current practices are formally routinized (Burgelman 1994). Moreover, top management makes this decision without any particular knowledge of the venture beyond the information that they had requested from the dominant coalition. Finally, and in line with our findings, Mintzberg, Raisinghani and Théorêt (1976) suggest that it is more the personal commitment of the champion of change which is evaluated than his solution for the problems.

The old dominant coalition could/did not oppose to this strategic alternative. As all available routine procedures to redress the situation had turned out ineffective, their commitment to the venture had decreased along with their hierarchical power.

> "The process is speeding up now. All dinosaurs – all business directors – are leaving the country. We can now build up an integrated management structure." (Kappa-Russia – Area Director MSOD)

Nevertheless, all tactic measures, which had been taken up to the threshold had increased the degree of institutionalization of the venture (proposition 1). Now, however, the venture had to be de-institutionalized to be withdrawn.

To the challenging coalition, market withdrawal had been an evident part of the strategic alternative to the challenging coalition (see also the discussion on the emergence of the strategic alternative in phase 3 in section 7.4.2 above). Up until now, however, top management has missed the appropriate internal strategic context – which had been dominated by the dominant coalition – to decide on this withdrawal. Although the strategic alternative ultimately provided the required strategic context for withdrawal, we observed that top management performed some additional analysis to assess the (opportunity) costs of withdrawal with respect to the venture's position in the international market portfolio (see Table 7-9). Since the operational isolation of all ventures was a fact (see above), the low degree of market interconnectedness did not complicate the further decision-making process[12]

The literature suggests that this de-institutionalization may not be problematic if: (1) a strategic alternative for the freed resources is available, (2) when the venture is isolated from the current strategic context of the venture, and (3) causal ambiguity is low (Simonson and Staw 1992; Ross and Staw 1993; and Drummond 1995).

In summary, top management decides on: (1) the adoption of a strategic alternative on the basis of the personal commitment of the champion; and (2) the withdrawal of the venture on the basis of the venture's opportunity costs in the framework of the international market portfolio. Nevertheless, both decisions merely acknowledge a fait

[12] We can imagine that market interconnectedness may be quite high, thereby requiring additional steps in the decision-making process to isolate the venture before the venture can be withdrawn. However, we did not observe this in any of the cases.

accompli, as the new dominant coalition had already started to implement both the reallocation of the resources and the de-institutionalization of the venture. Hence we set the following proposition:

P_{5a}: Beyond the stress threshold, top management decides (1) to reallocate resources and (2) to withdraw the venture, both as a fait accompli when a challenging coalition has gained hierarchical power.

Additional support for this proposition was found in the literature. In many models on organizational change, the decision to adopt a new strategic direction is separated (in time) from the decision to leave the old strategic logic (e.g., Tushman and Romanelli 1985; Gersick 1991; and Barker and Duhaime 1997). Burgelman (1996) argues that strategic reorientation is a process in two steps. Firstly, management recognizes that the old strategic logic may bring the company where they do not want to have it. In another decision, management recognizes where they want the company to head on. Although these findings are in line with ours at the level of the challenging coalition, we observed that, at the level of top management, the formal decision to adopt the strategic alternative precedes the decision to de-institutionalize and withdraw.

7.6.2 Tactic Withdrawal

When the stress threshold is reached in Type1-cases, the dominant coalition has reached the point at which it understands that none of the tactical measures have been effective. As a consequence, organizational commitment to the ventures decreases dramatically and the ventures soon becomes isolated from the rest of the international market portfolio.

> "It is my experience that top management's interference decreases as things begin to go worse. The message is: please continue trying hard, but don't bother us. […] The time top management devoted to these two ventures can be expressed in minutes, not in hours." (Lambda – Area Director MSOD)

However, since no strategic alternative for the venture's resources is available, the decision to withdraw is not taken. After all, the tactical measures which were taken had increased the institutionalization of the venture and had resulted in a strategic context in which market withdrawal had not been a viable alternative.

Both in Kappa-Belgium and in Lambda-UK, management's interest in the venture decreased rapidly after it was written off. Instead of withdrawing the venture, we observed that commitment began to escalate at the operational level of the venture. The following quotes illustrate this:

> "During that period, we were worked in a highly uncontrolled way and we hardly communicated with headquarters. There was no explicit strategy about how to redress the situation. If we communicated, it was about operational facts. So we made a plan ourselves. However, thinking about it now, we may have made major errors at that time." (Kappa-Belgium – Sales Executive)

> "At a certain moment, we realized that we were not making it through. As a consequence, managerial attention shifted to more promising challenges. However, the initial problem remained. As our attention decreased, local management, who recognized that the venture was under discussion, began to do everything to save it from closing down. They fetched in very risky and underestimated orders. Then, it really started going wrong and the venture started to incur even more major losses than before. This, however, attracted management's attention again. […] The moment you decide not to continue, you should decide to withdraw immediately as well. We didn't do that. As a consequence, a vacuum came into existence because at the same time we were very busy with the growth plan in Asia […]. Only after the last convulsions of the local management had resulted in major losses, we came to the decision to withdraw. However, these convulsions had not only incurred losses, they had also decreased our flexibility to withdraw. If we would have withdrawn immediately, we could have done it in a controlled way. Now we are in a situation in which we first have to resolve major problems with unhappy customers." (Sigma-UK – Former Group President)

In fact, a vacuum emerged when the organizations had started to detach themselves from the venture without withdrawing it. In this vacuum, strategic control had decreased instantly while stress had remained very high. The cases suggest that this vacuum may continue to exist for a long time – in Sigma-UK for more than 15 years. As we observed in Study I (proposition 4c), a triggering event ultimately created the context in which withdrawal remained the only, but troublesome, option.

In summary, we propose:

P_{5b}: When no strategic alternative is available beyond the stress threshold, the organization increasingly detaches itself from the venture without de-institutionalizing it. As a consequence, a vacuum emerges in which lower level commitment to the venture tends to escalate up to a triggering event (strategic drift), which forces top management to withdraw instantly.

The process of increasing detachment is comparable to what Ross and Staw (1993) and Burgelman (1996) describe as organizational de-commitment. As economic adversity, causal ambiguity and a stream of negative information continue to increase the organization turns its head toward more promising challenges, leaving the venture to its fate. Aharoni (1966), Johnson (1988), and Drummond (1994, 1995) support our finding that a venture comes into a vacuum when no alternative is available at the stress threshold. Within this vacuum, local commitment begins to escalate and the venture comes into a state of strategic drift[13]. Inertial behavior and creeping rationality emanating from the dominant logic, turns into escalating commitment and strategic drift when the venture is isolated and no organizational control remains over the activities in the venture. (Bowen 1987; Frederickson and Iaquinto 1989; Kelly and Amburgey 1991; and Ross and Staw 1993).

Finally, the literature suggests that a triggering event, which has disproportionate and symbolic influence is required to break out of this vacuum. In fact, it does not directly cause withdrawal. It only provides the last straw for top management to decide on the withdrawal (Huff, Huff and Thomas 1992; 1994 and Gersick 1994).

[13] From the local venture's point of view, the organization is in a state 'strategic drift' as commitment to the status quo begins to escalate in disregard of environmental dynamics. However, from an organizational point of view, Volberda (1996) would call this a state of 'strategic neglect': top management has slacken the reins on this venture, which now has lost any association with the renewed dominant logic. See also Chapter 4 for a discussion of strategic drift and strategic neglect as two extreme points of strategic flexibility.

7.7 THEORETICAL REPLICATION: TEMPORALLY PACED WITHDRAWAL

Sigma-Brunei does not fit within the decision-process of a strategic or tactic withdrawal. As it was the case in Alpha (Study I), no endogenous stress had been experienced in Sigma-Brunei. Accordingly, no tactical measures had been taken to redress the situation. From the beginning, management had considered this venture as a hit and go operation.

> "We had always considered Brunei as a 'hit and go' operation. We knew that the window would close sooner or later. There is no sustainability in this country. The issue was to leave as soon as possible; as soon as our market position would begin to weaken. […] These project-driven international ventures are typical in our business." (Sigma-Brunei – Former Group President)

Nevertheless, management began to search for a strategic alternative to reallocate the freed resources as soon as exogenous stress begun to increase.

> "Of course, closing the organization in Brunei frees money and resources. So we looked for other opportunities in the region, which we found in Malaysia. The withdrawal of Brunei and the expansion in Malaysia are to be considered as part of the same restructuring process." (Sigma-Brunei – Project Engineer Manager)

As a consequence, the main managerial issue had become the synchronization between the withdrawal process and the development of a strategic alternative for the freed resources. No increased political dynamism was observed in Sigma-Brunei. Although we may not consider Sigma-Brunei as a product replacement decision, the decision-making process highly resembles that of case Alpha in Study I.

This process corresponds to what is called temporally paced decision-making in the literature (e.g., Eisenhardt 1989b; and Gersick 1994). A change process becomes temporally paced when an implicit or explicit deadline influences or even redefines the decision-making process (e.g., Janis and Mann's 1977 Conflict Theory) In contrast to an event paced change – such as our strategic, and more in particular, our tactic decision-making process – which is characterized by reactive inertial behavior, a temporally paced strategy induces voluntary and proactive decision-making. As a consequence, optimizing entrainment[14] becomes a major challenge. In general, organizations are more able to adapt to their environment (and reduce stress) if they match their temporal pacing with the rate of environmental change in a better way (Gersick 1994).

[14] In Chapter 3, entrainment was defined as the adjustment of the pace of one activity to match or synchronize that of another one (Ancona and Chong 1996).

7.8 PHASE 6: BEYOND THE WITHDRAWAL

In all cases, the ventures were withdrawn. Eventually, looking back at the decision-making process, the motivation for a tactic withdrawal turned out to be significantly different from the motivation for a strategic withdrawal.

In cases of a tactic withdrawal (Kappa-Belgium, Sigma-UK, and Eta-Japan to a lesser extent), single loop learning has resulted in the unsuccessful adoption of all available routine and tactic measures. Ultimately, the organization detached itself from the venture, not knowing what to do about it next, and releasing strategic control. As a consequence, painful de-institutionalization occurred through an uncontrolled process of local escalation of commitment. A tactical withdrawal is an extreme measure, which is decided upon in order to cope with continuing losses if management has not succeeded in finding the real reason for this failure.

If, to the contrary, we consider a strategic withdrawal (Lambda-Turkey, Lambda-Russia, and Eta-Japan to a lesser extent), we see that double loop learning has resulted in a strategic alternative, which came in the place of the old dominant logic as soon as the challenging coalition had overtaken hierarchical power. Moreover, this strategic alternative had created the strategic context which was needed for the withdrawal. In contrast to a tactical withdrawal, causal ambiguity and stress had decreased dramatically as soon as the venture was withdrawn and the strategic alternative was adopted. A strategic withdrawal is decided upon as an evident measure in the framework of a strategic reorientation, which is required to cope with environmental dynamics.

The cases illustrate that the stress threshold marked the beginning of an episode of extreme instability that continued beyond the formal decision to withdrawal. In the case of a strategic withdrawal, this strategic context allowed for strategic flexibility and higher order learning beyond the scope of the original venture. In the case of a tactic withdrawal, the ventures had been stigmatized as a failure and causal ambiguity remained high. Due to the organizational de-commitment hardly any learning effect was observed after a tactic withdrawal.

7.8.1 Beyond a Strategic Withdrawal

The cases illustrate that a strategic withdrawal of one particular venture may become a nucleus towards additional strategic decision making and change at the level of the international market portfolio, or even at the level of the internationalization of the firm:

> "With this decision, we brought the rest of the company in jeopardy. Up until that moment, nobody had cared about profits and losses in the Japanese market because you HAD to be there for strategic reasons. However, after our decision, they started to ask questions about their own presence in Japan. Now the Board has to make a fundamental decision whether they can afford to be present in Japan and at what cost. People are now looking for guidelines." (Eta-Japan – Marketing and Sales Director)

> "During that particular meeting, we considered all ventures in Japan. When a business division decides on a strategic reorientation, the Board may go even further. We developed an overall strategy for Japan – a 150 pages document. A concrete decision like this can result in reassessing the entire business portfolio in Japan." (Eta-Japan – Member of the Board of Directors)

> "What we are doing in Russia now runs ahead of Lambda's international marketing strategy and organization. We are pioneering. At HQ level, top management is reorganizing our international marketing organization. However, in Russia we have already implemented it." (Lambda-Russia – Area Manager MDB)

> "We have used this crisis as a leverage to push our strategic vision." (Lambda-Russia – Area Director MSOD)

Moreover, all new strategic options were more time-paced than the old ones. More than before, explicit control mechanisms and deadlines were built in.

> "In fact, we have set an internal deadline for the new strategy. If our potential local partner does not approve of our plans, I suggest we have a new Board meeting …" (Eta-Japan – Marketing and Sales Director)

> "The deadline headquarters had set was 'no cash burden'. In fact, we had set this deadline ourselves. […] On top of the yearly control reports we had intermediate reports every three months." (Lambda-Turkey – Area Director MSOD)

In summary, we propose:

P_{6a}: When a new strategic logic results in a strategic withdrawal, this decision is a nucleus for strategic reorientation beyond the original venture.

Support for the 'nucleus'-idea is found in the literature. Gersick (1991) and Burgelman (1994) describe dramatic corporate strategic reorientations, which had been initiated by a strategic reorientation at a lower level. Aharoni (1966), Burgelman (1994) and Kuwada (1998) argue that firms who have strategically existed from a business are likely to have a better understanding of the links between their distinctive competence and the basis of competition in the industry or market. The development of a strategic alternative has resulted in a lower degree of ambiguity on the relationship between resources and the key success factors in the market. This notion of higher order learning beyond the scope of the international venture supports our initial assumption that a strategic withdrawal may bring a firm to a higher level of internationalization due to the reorientation of its international market portfolio during an episode of strategic flexibility.

7.8.2 Beyond a Tactic Withdrawal

Four years after Kappa-Belgium had been withdrawn, an analysis of the present international market portfolio of Kappa suggests that this withdrawal had hardly inferred upon the overall international marketing strategy of the firm, to the contrary. At least three other subsidiaries in Eastern Europe were found, which do not fit into the particular global marketing perspective of the firm and, as a consequence, may need to be withdrawn.

In Sigma-UK, the decision to withdrawal has only recently been taken. Therefore, it is too early to learn about its effect on the rest of the portfolio. However, the fact that the British subsidiary had 'survived' in a strategic vacuum for over 15 years, induces us to expect that the impact of this withdrawal on the international marketing strategy of the firm will be negligible.

Hence, we set the following proposition:

P_{6b}: When inertial behavior ultimately results in a tactic withdrawal, the organizational de-commitment prevents higher order learning within and beyond the scope of this venture.

7.9 THEORETICAL REPLICATION : GLOBAL CONTRACTION OF A PRODUCT RANGE

Soon after data collection had started, it became clear that Eta-Germany was in fact one of the many international market withdrawals that was decided upon within the framework of a global contraction of a product range. Although, the decision-making process turned out to be extremely different from the other cases, we continued investigating it in order to find (1) additional explanations for specific critical incidents, which we had observed in the other cases and (2) points of reference for the relative description of events and processes[15]. As the initial motivation for withdrawal was different from that in other cases, we expected that critical factors in the process would behave differently too. The decision-making process in this case was different from the other cases in at least four aspects: (1) the proactive and explicit set up of the process, (2) the strategic control over the process, (3) the long implementation period, and (4) the impact on similar decisions in the future.

The process was initiated explicitly at the top in consultation with an external agency, which was involved in the implementation of the withdrawal from start to finish. The international marketing manager of the division was put in charge of the process. During the process, different departments of the firm were consulted and involved in the decision-making on the elimination procedures as well as in the implementation of the process. Ultimately, the learning effect of this exercise is considerable; debriefing with other departments resulted in a framework which provided detailed modification routines – including specific software and control mechanisms – for analogue decisions in the future.

[15] For instance, if we argued that the development of a strategic alternative is a ‘non-routine’ process, we did so because it was described and perceived as such and because we could compare it to the extremely routine-based process in Eta-Germany.

In addition to the detailed description of the process in the Chapter 5, a final quote may give a sense of the tenets of this process:

> “The learning effect of this process is high. In all steps we have involved the production and logistics department. And everybody in this firm knows about this exercise. Many people from other departments have come to discuss how we did it. We have written a number of software applications, which we can easily share with other departments.” (General Manager Business Group GS).

In contrast to all other withdrawal cases, Eta-Germany had been carefully planned ahead including intermediate and final deadlines, a detailed process manual, concrete divisional responsibilities and detailed working procedures were divided in three phases. Applying the analytic concepts we used for the description of tactic and strategic withdrawal processes, a fundamentally different process of strategic reorientation seems to emerge.

When the external consultancy firm measured the ‘complexity costs’ (cf. case description in Chapter 5) of the business group, endogenous stress had increased. However, there was no reason for exogenous stress to increase. The market evolved smoothly and, as expected, it had now reached a new stage in its life cycle. As a consequence, causal ambiguity was and remained low and no challenging coalition stood up. There was no reason for challenging the current strategic perspective and a reorientation plan had been developed within the framework of the current dominant logic. In this plan, explicit deadlines were set. As a consequence, decision-making and implementation became a time-paced and pro-active process.

Although it was a major managerial effort and the financial impact may have been larger than the financial impact of any of the other international market withdrawals, this reorientation may be considered as a tactic measure within the framework of the current strategic logic of the business group.

7.10 CONCLUSION

In this chapter, we developed a descriptive strategy process model of international withdrawal, which is summarized in Figure 7-2. In general, this process refines the preliminary framework which was developed in Study I. Moreover, we were able to analyze and describe the rise and fall of coalitions and the role of the champion of change in a better way. Moreover, we distinguished among three types of challenging reactions which allowed us to better differentiate between a tactic and a strategic withdrawal. Finally, we redefined phase 5 and developed the notions of strategic vacuum and the withdrawal as a nucleus for strategic reorientation beyond the initial problem. In the next chapter, we build upon this descriptive model and develop an explanatory theory which proposes the generative mechanisms of the strategy process of international market withdrawal.

In the introductory section of Chapter 6, we identified three dimensions that could complicate the withdrawal process in large organizations in comparison to withdrawals by small organizations which were the focus of Study I: organizational structure, market knowledge, and planning behavior. At this point in the analysis, however, none of these dimensions seem to interfere strongly in the withdrawal process. Firstly, we learned that the number of managers involved in the decision-making process is very limited – even in very large organizations. As consequence, we cannot support our earlier assumption that more individuals with diverging expectations at more levels of the organization would be involved in the withdrawal process by large organizations. Secondly, the relationship between headquarters and local subsidiaries came into the picture in Study II. However, the character of this relationship did not refute basic assumptions of the preliminary model of Study I. Thirdly, it was certainly the case that some managers of these large organizations had access to and used very expensive and accurate market information. Nevertheless, dissemination and interpretation of this information remained highly moderated by individual frames of references, as we had found in Study I. As such, access to market information did not interfere directly with the decision-making process and the driving forces of Study I remained intact.

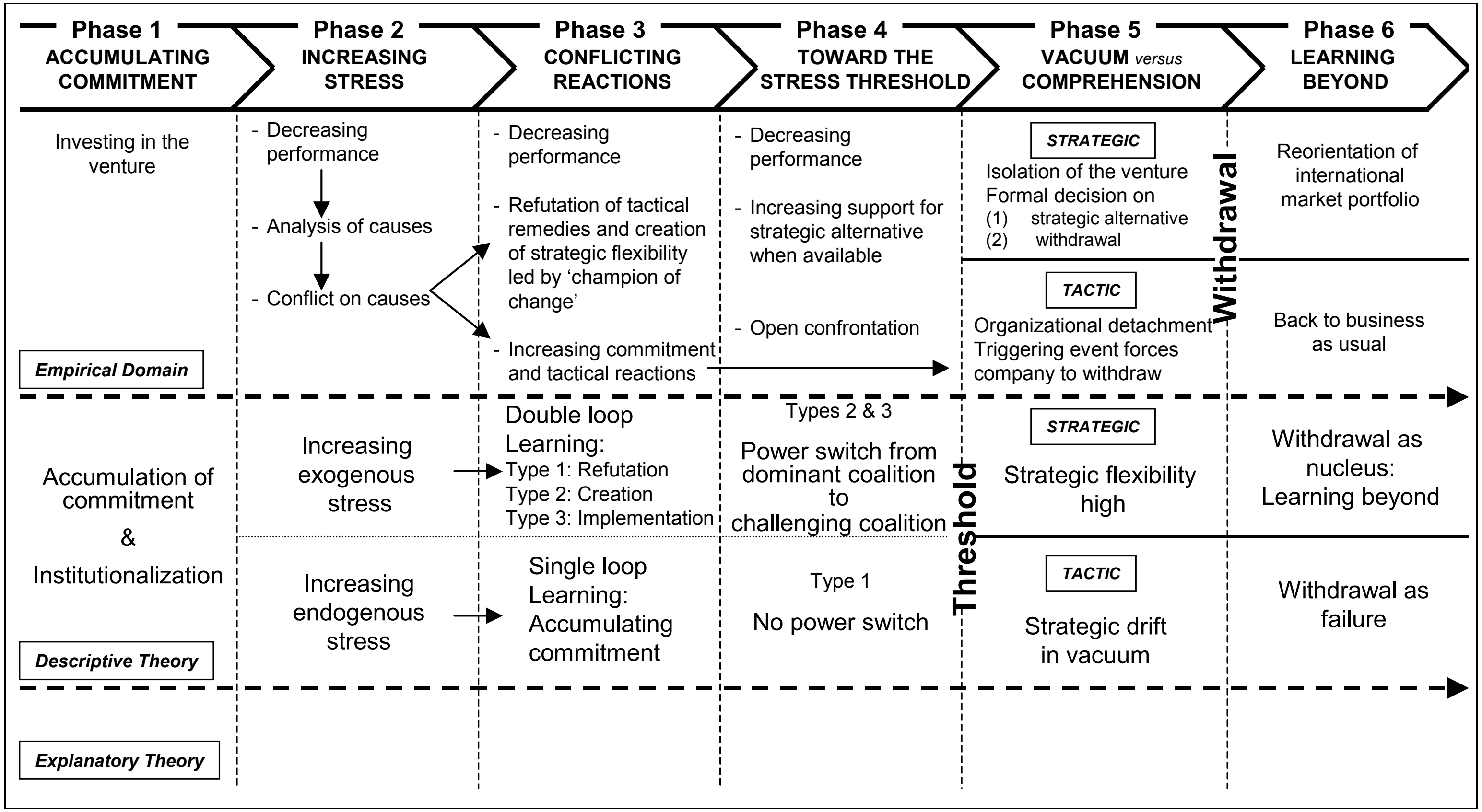

Figure 7-2: A descriptive process model of international withdrawal

Fourthly, we expected larger organizations to adopt more formal planning systems and to be more inclined towards designing formal plans in advance of non-routine strategic decisions. This Chapter makes clear, though, that the decision-making process of international market withdrawal in large multinationals is far from a formally planned process.

CHAPTER 8:
THE GENERATIVE MECHANIMS OF INTERNATIONAL MARKET WITHDRAWAL

8.1 INTRODUCTION

In this chapter, we discuss the generative mechanisms which drive the strategy process of international market withdrawal. In reference to sub-processes and the chain of process propositions, which were developed in Study I and II, these interrelated generative mechanisms provide the descriptive model of Chapter 7 with explanatory power. Theoretical replication and degrees of freedom analysis are adopted to validate the model against established theories of strategic and organizational change. This way, we assess the analytic generalizability (Yin 1994) of the middle-range theory of international market withdrawal.

This chapter is structured as follows. In section 8.2 , the explanatory part of the model of international market withdrawal is developed upon the analytic output and the chain of process propositions of Study I and II. To underpin the descriptive model, we rely on the typology of generative mechanisms of organizational change which we presented in Chapter 4. The explanatory part of the model consists of three interrelated generative mechanisms. In the next section, we assess the limits of this model through a summary of the theoretical replication we performed throughout the study. Thereby, we, refer to the cases which seemed not to fit into this model. Finally in section 8.3 , 'Degrees of Freedom' analysis is applied to validate the emergent explanatory strategy process theory against two established multi-mechanism theories of organizational and strategic change.

8.2 AN EXPLANATORY MIDDLE-RANGE THEORY OF INTERNATIONAL MARKET WITHDRAWAL

Before explicating the tenets of our explanatory middle-range theory, it is import to remember that this model is founded upon a cognitive framework. This framework results from our ontological stance, which is discussed in Chapter 3. A key assumption in this cognitive perspective is that the environment cannot be objectively determined; instead, it is enacted by managers and represented by cognitions (Johnson 1992). In a cognitive perspective, managerial perception, interpretation and action are explicitly embedded in and biased by individual schemata, the prevailing organizational and strategic logic, the organizational culture, and the industry recipe[1]. Since these cognitive structures and biases occur at the individual level, we must explain how organizations composed of individual decision-makers with separate schemata reach decisions (Schwenk 1989).

This cognitive framework is apparent throughout the descriptive model of international market withdrawal. In phase 2, managers individually and subjectively evaluate the causes of decreasing performance. From phase 3 on, coalitions emerge and fade away and a champion of change may stand up. In phase 4, coalitions may confront. In general, stress – the subjective interpretation of misfit – results as a prime driver of the decision-making process and managerial enactment is the prime driver of the manager's action.

In section 5.4, we explored the generative mechanisms of the framework of export market withdrawal. Three generative mechanisms seemed to underlie this process: a mechanism which inhibits the decision-making process, a mechanisms which seems to accelerate the process, and a mechanisms which seems to arbitrate between the first two co-existent but conflicting mechanisms. In general, Study II confirms these preliminary findings. With reference to the output of Study II and to additional reading, we deepen this exploratory perspective and refine our perspective on these generative mechanisms. More in particular, we focus on how these mechanisms manifest themselves in the decision-making process and on how these mechanisms are interrelated.

8.2.1 An Incremental Mechanism: Homeostasis

Evolutionary or incremental change seems immanent throughout the entire process of international market withdrawal. Given a high degree of causal ambiguity and endogenous stress due to changes in the environment and decreasing performance, and assuming that a firm's management wants to (1) strengthen the core capabilities of the organization and (2) reduce stress and ambiguity, managers give preferential treatment to alternatives, which represent continuation of present programs over those that represent change. As a consequence, an organization aims at maintaining a strategic status quo (March and Simon 1958; Nelson and Winter 1982; and Mezias and Glynn 1993).

As it was discussed in Chapter 7, evolutionary theory provides an explanatory logic for the institutionalization of the venture (phase 1), for the emergence of single loop learning (phase 3), for organizational de-commitment (phase 5) and for the local escalation of commitment beyond the stress threshold (phase 5). In case of a tactic withdrawal, organizational behavior is incremental throughout the process. Due to organizational de-commitment beyond the threshold, ongoing local inertial behavior results in escalation of commitment and strategic drift. In case of a strategic withdrawal, this incremental behavior, which dominates organizational reactions up to phase 4, is overturned by a teleological mechanism.

[1] We refer to Chapter 3 for an elaboration of the subjectivist approach in organizational research and to Schwenk (1984), Smircich and Stubbart (1985), Stubbart (1989), and Isabella (1990) for an introduction to the cognitive framework in organizational science.

In general, this underlying evolutionary mechanism inhibits – both in terms of speed and analytic comprehensiveness – the decision-making process from phase 1 up to phase 6. This mechanism drives endogenous stress and routine-based decision-making within the framework of the dominant strategic logic. Fundamentally, this mechanism is homeostatic – it has the tendency to maintain the internal stability of the system owing to the coordinated response of its parts to any situation tending to disturb its normal condition or function (Sahal 1979; and Kay 1984).

8.2.2 A Teleological Mechanism: Homeorhesis

Due to a cognitive perspective, we were able to distinguish between endogenous stress and exogenous stress throughout the decision-making process. Whereas endogenous stress seems to be driven by an incremental mechanism, exogenous stress is driven by a teleological mechanism. In a teleological foundation we assume that members of an organization, in disregard of the present status quo, socially construe new perspectives and goals to cope with increased (exogenous) stress. This social construction is a kind of higher order learning, which results in decreasing causal ambiguity and the reorientation of commitment. As a consequence, the strategic status quo is refuted and, in some instances, replaced by a new logic (Argyris 1976; and Tushman and Romanelli 1985; Gersick 1991; and Burgelman 1994).

Teleology provides an explanatory logic for the double loop learning from phase 3 on, which results in the creation of strategic flexibility and higher order organizational learning beyond the original venture (phase 6). This teleological mechanism advances – both in terms of speed and analytic comprehensiveness – the decision-making process and is immanent to the decision-making behavior of the challenging coalition throughout the entire process. In general, an underlying teleological mechanism drives exogenous stress and higher order learning beyond the framework of the dominant strategic logic. Fundamentally, this sub-process points at homeorhesis – a self-organizing system's ability to seek out new developmental pathways (Sahal 1979; and Kay 1984).

If we compare this teleological mechanism with the incremental mechanism within the framework of international market withdrawal, two important remarks can be formulated. First, a teleological mechanism is fundamentally in conflict with an incremental mechanism. Whereas the latter tends to reinforce the current dominant logic of the organization, the former tends to refute it and aims at replacing it by another. As such, both generative mechanisms manifest themselves in conflicting sub-processes (see Table 8-1). Furthermore, we learn from both studies that managers do not and cannot integrate a re-active incremental approach with a pro-active teleological approach as one of both is in conflict with their frame of reference (see P_{2a} in Study II).

Phase	**Incrementalism drives**	**Dialectics drives**	**Teleology drives**
1	Institutionalization		
2	Perception of endogenous stress	Conflict in perception on origin of stress	Perception of exogenous stress
3	Single loop learning Accumulation of commitment Tactical reactions	Creation of coalitions Tactical reactions predominate	Double loop learning Refutation of current status quo Recreation of strategic logic
4		*Strategic*: power switch *Tactic*: status quo	
5	*Tactic*: organizational detachment and strategic drift		*Strategic*: isolation of the venture and reallocation of means
6	Back to business as usual		Learning beyond and reorientation of the international market portfolio

Table 8-1: The relationship between generative mechanisms and the most critical sub-processes

Secondly, the incremental nor the teleological mechanism is capable of explaining the (lack of) interaction among these mechanisms up to phase 5, the indirect bargaining game during phase 5, and the cause of the prevalence of one the mechanisms beyond phase 5. Therefore, a third generative mechanism is required which is able to explain the co-existence of the incremental and the teleological mechanism as well as the internal dynamic of the model, which allows for tactic or strategic withdrawal to result.

8.2.3 A Dialectical Mechanism: Relating Homeostasis and Homeorhesis

In cybernetics, Sahal (1979), characterizes self-organizing systems[2] – such as firms – by two properties: homeostasis and homeorhesis[3]. However, as these two generative mechanisms are fundamentally in conflict, we argue that a dialectical mechanism is needed to explain the co-existence of homeostasis and homeorhesis within one system. Moreover, no power balance exists among these mechanisms in the short run. As a consequence, either of these two mechanisms is predominantly manifested in the strategic behavior of the organization. When environmental dynamics impact upon the relevance of the current strategic logic, the dialectic mechanism explains how these changes in the environment directly impact upon the power balance between the dominant and the challenging coalition, as well as the eventual power switch. In sum, we claim that the immanent conflict between homeostasis and homeorhesis in relationship with environmental dynamics is the prime driver of organizational progression.

[2] Kay (1984) defines self-organization as the process by which a system modifies its internal structure and function so as to move its operating point to the optimum operating point and maintain it there.

[3] In fact, homeostasis and homeorhesis are fundamental concepts of cybernetics. In this field, these two concepts are conceived as follows: "Once the optimum operating point [of a system] has been identified there are two separate situations to be investigated; that of a <u>constant environment</u> and that of a <u>changing environment</u>. In the first situation investigation would center on how the system evolves so as to reach the optimum operating point and then maintain itself there. The second situation requires that it be ascertained whether the optimum operating point remains fixed or changes. If it remains fixed then investigation focuses on how the system maintains itself at the optimum operating point in the face of environmental change (<u>homeostasis</u>). If it changes, investigation concentrates on how the system will adapt itself so as to reach the new operating point (<u>homeorhesis</u>)." (Kay 1984, s.p., underlining added).

In Study I and Study II we have observed that two coalitions holding contradictory values and objectives emerge and compete with each other for domination and control. Due to adhesive and cohesive forces within the organization, the incremental and teleological mechanisms may co-evolve within the organization in strictly separated coalitions for some time. Whereas hierarchical power of the dominant coalition gives them the opportunity to implement tactical measures in reaction to emergent stress, the knowledge power of the challenging coalition grows as their perspective seems to outperform the more increasingly invalid perspective of the dominant coalition. For some time hierarchical power confronts with knowledge power. In case the power switches from the dominant to the challenging coalition, the latter is able to install a new strategic logic and start the implementation of their strategic alternative.

Quoting George (1972: 756), Murray (1978: 970) argues: "[W]e believe that conflict is normal, perhaps even inevitable, and potentially healthy. [...].[I]nternal disagreement about policy within the organization is not necessarily an abnormal strain that must be abolished in the interest of rational decision-making. Conflict may rather help produce a better policy if it can be managed or resolved properly". Moreover, we support the visions of Mintzberg, Raisinghani and Théorêt (1976), and Narayanan and Fahey (1982) that internal bargaining between visions held by coalitions is a prime driver of organizational evolution, and that it replaces analytic evaluation and more or less synoptic decision making in many instances.

In general, stability and change are explained by the balance of power and conflict in reaction to environmental dynamics. Although a dialectic perspective suggests that a synthesis results from the clash between the thesis and the antithesis, we argue that, in the short run, homeostasis and homeorhesis cannot integrate into a synthesis. We claim that this synthesis is reached in the long run, as the organization has progressed through numerous cycles of homeostasis and homeorhesis, which are related by a dialectical process. Figure 8-1 presents this emergent explanatory model and completes our strategy process theory of international market withdrawal.

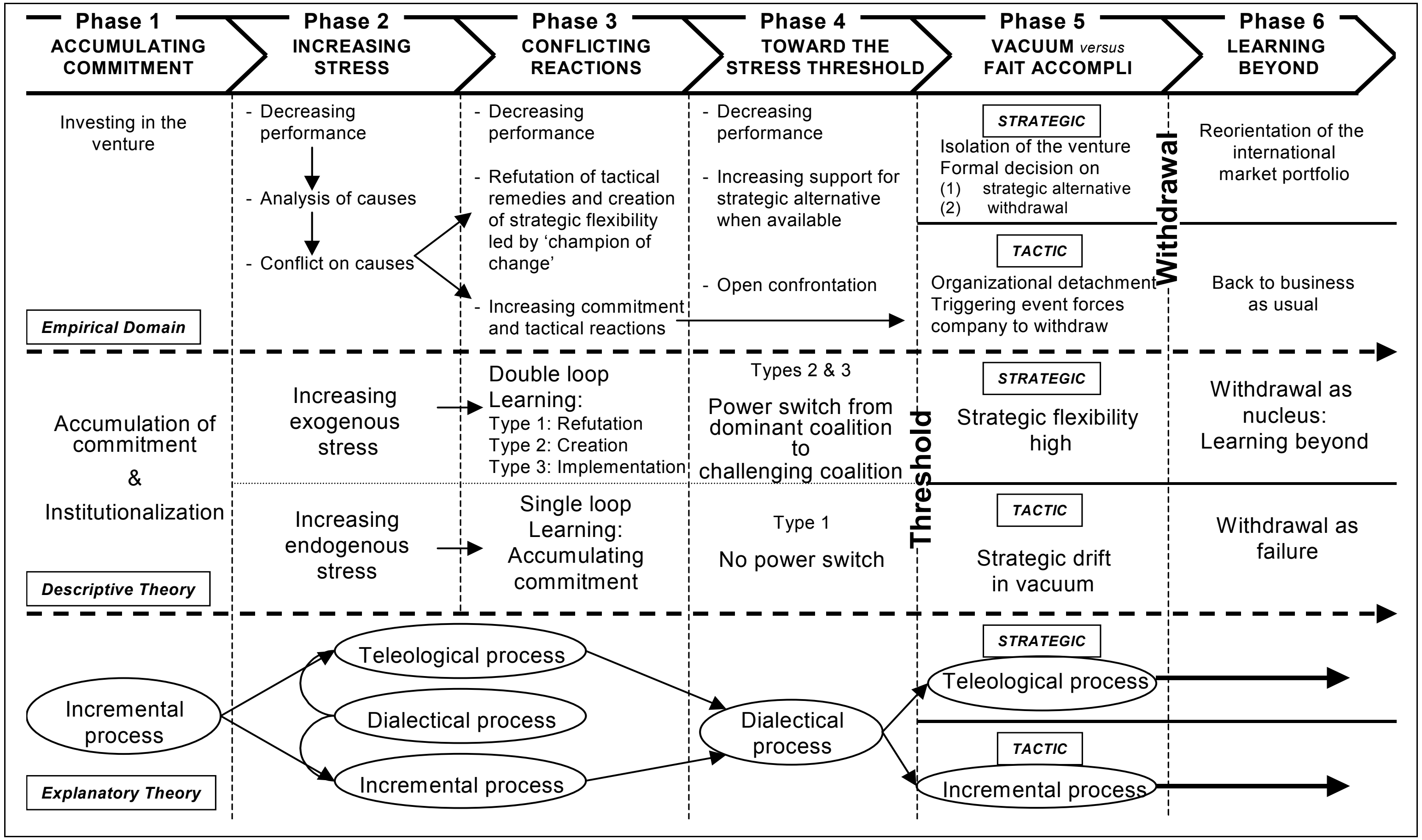

Figure 8-1: An explanatory process model of international market withdrawal

8.3 ASSESSING THE LIMITS OF EXPLANATION: THEORETICAL REPLICATION

The withdrawal process behaved fundamentally different from the emergent strategy process model in three cases of Study I and II. For each of these cases, the reasons for this alternative behavior were analyzed in separate sections of Chapters 5 and 7. Next, we summarize these findings in an effort to delineate the explanatory power of our strategy process model.

In case Alpha of Study I no endogenous misfit was perceived by any of the managers. Accordingly, no single loop learning process was started. In Study I, we argued that the main cause of stress accumulation in this case seemed to be the synchronization problem between the withdrawal of the venture and the launch of the new product in the new market. Therefore, we considered Alpha more as an example of a product replacement decision-making process. In Study II, it was found that case Sigma-Brunei did not fit within the framework of the emergent strategy process model of international market withdrawal either. In fact, Sigma-Brunei seems very comparable to Alpha. As it was the case in Alpha, no endogenous stress had been experienced in Sigma-Brunei either. Accordingly, no tactical measures had been taken to redress the situation. As in Alpha, it was concluded that the main managerial difficulty had become the problem of synchronizing the withdrawal process with the development of a strategic alternative for the freed resources. Moreover, no increased political dynamism was observed.

Whereas the process in Alpha and Sigma-Brunei was exclusively driven by exogenous stress and the accompanying synchronization problem, Eta-Germany turned out to be a case which was driven exclusively by endogenous stress. No exogenous stress seemed to have emerged in this case, which was an international market withdrawal within the framework of a global product range contraction. In Chapter 7, we discussed that the decision-making process in this case was (extremely) different from the other cases in at least four aspects: (1) the proactive and explicit set up of the decision-making process, (2) the strategic control over the process, (3) the long implementation period, and (4) the impact on similar decisions in the future. However, there was no reason for challenging the current strategic logic and a reorientation plan had been developed within the framework of the current dominant logic. In this plan, explicit deadlines had been defined.

Although Eta-Germany fundamentally differs from Alpha and Sigma-Brunei, all three have a common inherent driver which was not found in the mainstream cases. In all three cases the decision-making process turned out to be temporally paced. Due to a relatively low level of causal ambiguity in all three cases, stress was defined in a relatively unambiguous way throughout the organization and no political process emerged. As a consequence, these organizations were able to pro-actively organize and plan the reorientation process and make it temporally paced. In all three cases decision-making and implementation was (at least implicitly) led by temporal deadlines. In all three cases, timing and entrainment were key managerial issues and major challenges.

In sum, we conclude that our process theory of international market withdrawal seems to hold no (or only partial) explanatory power over time-paced decision-making processes which are typified by more formal planning behavior, less political action and clear deadlines.

8.4 PATTERN MATCHING: DEGREES OF FREEDOM ANALYSIS

In this section, we validate the emergent explanatory strategy process theory of international market withdrawal against two established multi-mechanism theories of organizational and strategic change: the punctuated equilibrium model of organizational change (e.g., Tushman and Romanelli 1985; Gersick 1991; and Romanelli and Tushman 1994), and Burgelman's (1994, 1996) process theory of strategic business exit. The tenets of both models were briefly discussed in Chapter 4. More than others[4], these two theories seem to accommodate for our descriptive theory of international market withdrawal and provide for an established theoretical explanation. In this section, we compare these extant theories to our explanatory theory in a systematic way. Assuming that it fully accommodates for the empirical observations and the descriptive model of international market withdrawal, our emergent explanatory theory holds an added value for strategy process theorizing. However, it is a unique strategy process theory only if it fundamentally differs – at least in one particular fundamental characteristic – from both established theories. If not, we should be able to restate it in terms of an established theory. To assess this uniqueness, we adopt degree of freedom analysis[5]. As such, we validate our explanatory theory of international market withdrawal.

[4] Initially, we considered all ten multi-mechanism models presented in Van de Ven and Poole (1995). Moreover, to the best of our knowledge, Burgelman's (1994, 1996) is the only multi-mechanism strategy process theory on business exit.
[5] We refer to Chapter 3 for a detailed discussion of this method.

Next, we compare our strategy process theory on international market withdrawal to the punctuated equilibrium model and the process theory of business exit a systematic way (Figure 8-1). Therefore, we adopt Frederickson's (1983) six dimensions of strategy process research. In Chapter 1, we presented these dimensions to define what the focus of strategy process research should be. Here, we adopt these dimensions to compare the three explanatory models and to validate the explanatory model of international market withdrawal. This systematic comparison allows us to assess the tenets of a strategy process theory in a more abstract way.

At first sight, both the punctuated equilibrium model and the process theory of strategic business exit seem to be able to accommodate for our description of the international market withdrawal decision-making process. This full accommodation would corroborate the established theories as well as validate our strategy process study. A systematic scrutiny, however, points at some specific differences between our explanatory theory and the two established theories. Next, we compare the tenets of the three theories.

8.4.1 Analytic Comparison with the Punctuated Equilibrium Model

To a certain extent, the fundamental mechanisms of the punctuated equilibrium model (PEM) parallel ours: both models describe progression through incremental evolution and teleology. At the organizational level of analysis, both PEM and our theory seem to result in a similar cycle of progression through alternating phases of convergence/homeostasis and reorientation/homeorhesis. In both models, only one generative mechanisms predominates organizational decision-making and implementation in a certain episode. At a lower level of analysis, though, our model additionally describes and explains the co-existence of and interplay between both generative mechanisms. The impact of these two mechanisms is ruled and moderated through a dialectical sub-process. In fact, this dialectic co-existence of an incremental and a teleological mechanism is missing in PEM.

Dimensions	Strategy process theory of international market withdrawal	Punctuated equilibrium model of organizational change	Strategy process theory of business exit
Motives for initiation	Endogenous versus exogenous stress leads to threat-rigidity versus failure-induced behavior	Convergence: inertia Reorientation: sustained low performance and changes in the environment	Enacted disharmony among 5 forces: the basis of competitive advantage, current strategic action, distinctive competence, the official corporate strategy, and the internal selection environment.
Concept of goals	Reduction of causal ambiguity: Homeostasis: maintaining the status quo Homeorhesis: the creation of strategic flexibility and the adoption of a new strategic logic	Convergence: diversity decreasing -> internal consistency Reorientation: diversity increasing -> external consistency	Strategic context dissolution Increasing harmony among the 5 forces after resource shifting.
Relationship between means and ends	Tactic process: goals constrain means Strategic process: commitment and means precede formal decision-making and alternative goals definition	Convergence: structural context determination Reorientation: strategic context determination	Redirection of commitment by middle-management precedes formal corporate strategic redirection.

Dimensions	Strategy process theory of international market withdrawal	Punctuated equilibrium model of organizational change	Strategy process theory of business exit
Concept of choice	Homeostasis: ‘satisficing’ within strategic logic Homeorhesis: ‘optimizing’ towards new goal Dialectic between ‘satisficing’ and ‘optimizing’ behavior.	Convergence: internal fit and efficiency Reorientation: external fit and effectiveness	Internal selection criteria – bottom-up autonomous decision-making and open debate between recommitted middle management and top management.
Analytic comprehensiveness	Low: sequential searching within a dominant or emergent strategic logic.	Convergence: low due to sequential searching Reorientation: unspecified	Relatively low. May be increased by strategic recognition capacity of managers.
Integrative comprehensiveness	Tactic withdrawal: low -> decision in isolation. Strategic withdrawal: high -> withdrawal as nucleus for international market portfolio reorientation	High during convergence periods; low during reorientation periods.	High through retroactive rationalization, continuing higher order learning beyond the original problem.

Table 8-2: Multidimensional comparison of three explanatory strategy process theories

In sum, we consider our model to be highly compatible with PEM at the organizational level of analysis. Many empirical findings of Study I and Study II corroborate theoretical aspects of the punctuated equilibrium model and vice versa. Nevertheless, our model goes beyond the punctuated equilibrium model in describing and explaining the dialectical co-existence and interplay between the incremental and teleological mechanism at a lower level of analysis.

8.4.2 Analytic Comparison with the Process Model of Strategic Business Exit

Secondly, we compare our theory with Burgelman's (1994, 1996) process theory of strategic business exit (SBE). Even more than in PEM, the fundamental mechanisms of SBE parallel ours. Both models describe progression through incremental evolution and teleology with a role for a dialectic sub-process. In Chapter 4, we argued that Burgelman (1994) implicitly resorted to a dialectical framework to allow for a teleological mechanism to emerge and get nested into an ongoing evolutionary process. Although the same generative mechanisms underlie SBE and our model, a major difference exists in the hierarchical relationship between the incremental and the teleological mechanism in the two models.

In our model, the relative power balance between the two mechanisms varies along with environmental dynamics. *Ceteris paribus*[6], relative power balance depends upon the external relevance of both mechanisms. According to our theory, an organization is self-organizing as power gradually shifts to the coalition, which holds the stance that is most relevant in the (changed) environment. In SBE, to the contrary, the teleological mechanism remains nested within an ongoing evolutionary process and the hierarchical position of the teleological mechanism vis-à-vis the evolutionary mechanism remains stable. In accordance, in SBE the concept of choice is an internal selection mechanism.

[6] In Chapters 5 and 7 it was discussed in detail why and how this power balance may be disturbed due to organizational inertia, which (at least partially) emerges from hierarchical power itself.

As such, our model seems to be more dynamic in its ability to explain the relative power of the generative mechanisms throughout the process.

In general terms, it can be stated that in our model strategic withdrawal is driven by an external selection mechanism – which is inherently dynamic – , whereas a strategic business exit in Burgelman's model is driven by an internal selection mechanism[7] – which is only dynamic when management decides to change the internal selection rules. As we discuss in the concluding Chapter 9, this particular difference in the concept of choice allows for normative implications to increase organizational control over the international market withdrawal process, in order to avoid escalation of commitment, strategic drift and inappropriate decision-making.

[7] One of the fundamental drivers of an evolutionary process is 'selection' (Nelson and Winter 1982). Originally, however, selection was conceived at a population (i.e., industry) level and resulted in an important stream of literature on population ecology (e.g., Hannan and Freeman 1984). In developing an evolutionary theory of the firm level, scholar such as Burgelman, Kogut and Zander have introduced this selection mechanism within the boundaries of a strategizing firm (Barnett and Burgelman 1996; see also Chapter 2).

8.5 SUMMARY AND BEYOND …

In this chapter, we presented a middle-range explanatory strategy process model of international market withdrawal. We fully acknowledge that this process model needs additional empirical verification and conceptual refinement up to the formulation of hypotheses before it can be adopted as a theoretical framework for empirical non-exploratory studies. Nevertheless, we tried to define the tenets and limits of this emergent theory accurately and to validate it against two well-established process theories on organizational change. We concluded that our emergent theory is highly complementary to the extant models and adds important elements, which could intensify the explanatory power of both.

A seminal field of research for future conceptual and theoretical borrowing for this strategy process model is <u>cybernetics</u> in general, and the study of <u>self-organizing living systems</u>, more in particular. Scholars such as May (1977), who discusses the role of the stress thresholds in the evolution of systems, and Sahal (1979), Ho and Saunders (1979) and Kay (1984), who develop a particular paradigm and a unified theory of the study of self-organizing systems, may all largely contribute to our endeavors to develop strategy process theories on organizational change. To illustrate the potential contribution of this theoretical borrowing exercise, we regularly referred to typically concepts and definitions of cybernetics in this and earlier chapters.

CHAPTER 9:

SYNTHESIS AND CONCLUSIONS

9.1 INTRODUCTION

In this dissertation we presented a comparative case study of ‘international market withdrawal’ – a firm’s voluntary action to reduce its engagement in market-related activities in a foreign product-market. The core research question of this study was: “How do business units strategically withdraw from foreign market operations ?”. Therefore, we focused at an in-company analysis of antecedents, (sub-)processes – more in particular strategic decision making and organizational behavior – and consequences, which are situated within an inner (e.g., the corporate strategy of the firm) and outer (e.g., local market dynamics) context of an international market withdrawal. The main empirical issues of this study were aimed at gaining insight into: (1) the internal and external drivers and moderators of international market withdrawal, (2) the organizational and behavioral processes at work in the decision-making and implementation stages, and (3) the consequences of the withdrawal to the overall international market portfolio management of the firm. In the course of this study, two intermediate goals were set: (1) a scrutiny of three theoretical frameworks of the internationalization of the firm in search of a theoretical position of de-internationalization and (2) the development of a more explicit ontological, epistemological and methodological framework for strategy process research. Eventually, the aim of this study was to develop a middle-range explanatory strategy process theory of international market withdrawal.

In this final chapter, we summarize the findings of our study in section 9.2 and discuss its contributions to the extant literature in section 9.3 . We conclude with a discussion of the managerial implications (section 9.4), and the limitations suggestions for future research (section 9.5).

9.2 SUMMARY OF THE STUDY

We set out this study with a scrutiny of three theoretical frameworks for the explanation of the internationalization of the firm: (1) the ‘stages’ models of internationalization, (2) the ‘core’ theory of international business, and (3) a global strategy framework. Through a systematic comparative analysis of these three frameworks, we came to the conclusion that all three contribute significantly to the explanation of different aspects of the internationalization of the firm. Because all three frameworks have paradigmatic qualities, we argued not to integrate the frameworks but to consider them as highly complementary for the explanation of the multi-faceted phenomenon of the internationalization of the firm.

At the same time we assessed the frameworks’ power to explain de-internationalization – any voluntary or forced action that reduces a company’s engagement in or exposure to current cross-border activities. Unfortunately, we came to the conclusion that none of the three frameworks easily accommodate for de-internationalization. More in particular, all three theoretical frameworks miss a clear dynamic character, which does not allow for (much) managerial discretion and a non-linear process perspective.

Therefore, we presented (1) a ‘new’ theory of the firm, which relies upon an integration of the resource-based view and evolutionary economics, and (2) a strategy process perspective on internationalization. We ended Chapter 2 by arguing that future theorizing on the internationalization of the firm – including de-internationalization and international market withdrawal – should start from one of these dynamic frameworks. Given the research questions and empirical issues of our study, we decided to adopt the strategy process framework for our study of international market withdrawal. Moreover, later analytical sections of this dissertation illustrate that both frameworks are highly complementary and even supplementary.

In Chapter 3, we developed the ontological, epistemological and methodological framework of our strategy process research. From a subjectivist approach, which focuses on managerial discretion and an explicit time dimension, we set out five methodological anchors for our study: (1) iterative grounded theory, (2) the comparative case study, (3) retrospective interviewing, (4) triangulation, and (5) pattern matching logic. In the second part of Chapter 3, we discussed the research design of our empirical study. Figure 9-1 summarizes the structure of our study.

STUDY I **A comparative study of four export withdrawal cases by four SMEs in a business-to-business context**	**Input:**	A conceptual frame, case data
	Analysis:	Inferential pattern coding via sequential incidents networks and a causal network across cases
	Output:	A preliminary strategy process framework, including a preliminary chain of process propositions
STUDY II **A comparative study of eight international withdrawal cases by four multinationals in a business-to-business context**	**Input:**	Output Study I, case data
	Analysis:	Inferential pattern coding using NUD*IST
	Output:	A descriptive strategy process theory of international market withdrawal, including a chain of process propositions
ANALYTIC GENERALIZATION	**Input:**	Causal networks of Study I & II, competing theories
	Analysis:	Degrees of freedom analysis
	Output:	A 'middle-range' explanatory strategy process theory of international market withdrawal

Figure 9-1: The research process

As a starting point for the strategy process study of international market withdrawal, we presented a typology of four generative mechanisms of organizational change: lifecycle process, teleology, evolutionary change and dialectical change. We postulated that our emergent process model of international market withdrawal could be explained by a complex system of one or more of these generative mechanisms. Furthermore, we developed a framework of four central concepts – market commitment, organizational inertia, strategic flexibility and strategic fit – which are embedded in two central paradoxes. The first paradox points at the conflict between accumulation of commitment – which leads to higher performance, and escalation of commitment – which leads to failure. The second paradox points at the positive effect of strategic flexibility on the strategy process in contrast to the increasing risk of instability, strategic drift and strategic neglect.

In Study I, we investigated four cases of export market withdrawal by four small and medium sized companies. From this exploratory study, we were able to define a preliminary framework of strategic export market withdrawal, which includes six stages: (1) the firm's initial and accumulating commitment in the particular export venture, (2) increasing endogenous and exogenous stress, (3) two opposing reactions: escalation of commitment and increasing detachment, (4) the evolution towards a stress threshold, (5) a stage of de-escalation of commitment, and (6) learning beyond the withdrawal. The outcome of Study I provided us with a clear focus and additional research issues for Study II.

In Study II, we investigated eight cases of international market withdrawal by four large multinational enterprises. Using NUD*IST, a software tool for systematic qualitative data analysis, we refined and, in some instances, redefined the preliminary framework on export market withdrawal of Study I into a descriptive theory of international market withdrawal. Table 9-1 summarizes the six phases of this descriptive theory and presents the accompanying process propositions.

Phases **of the international market withdrawal process**	**Process propositions**	
Phase 1: **Accumulating commitment**	P_1:	Increasing commitment to a venture results in increased institutionalization of that venture in the international marketing strategy and organization of the company.
Phase 2: **Increasing stress**	P_{2a}:	When performance is unsatisfactory, managers predominantly experience either endogenous stress or exogenous stress.
	P_{2b}:	If people's frame of reference fits with the dominant logic of the organization, stress is expected to be endogenous. As a consequence, they will focus their attention on resolving problems within the scope of the institutionalized venture.
	P_{2c}:	If people's frame of reference does not fit with the dominant logic of the organization, stress is expected to be exogenous. As a consequence, they will focus their attention on resolving problems beyond the scope of the institutionalized venture.
Phase 3: **Conflicting Reactions**	P_{3a}:	When expected performance of a venture does not materialize, organizations react with tactical measures, thereby increasing their commitment to the current strategic logic.
	P_{3b}:	When expected performance of a venture does not materialize, and causal ambiguity remains high, a dominant coalition clusters around the experience of endogenous stress and a challenging coalition clusters around the experience of exogenous stress.
	P_{3c}:	Managers who experience increasing endogenous stress – the dominant coalition – adopt routine procedures within the limits of their authority to increase performance.
	P_{3d}:	Managers who experience increasing exogenous stress – the challenging coalition – refute routine modification procedures to increase performance when they have a certain degree of autonomy.

Phases of the international market withdrawal process	Process propositions	
	P_{3e}:	Managers who experience increasing exogenous stress – the challenging coalition – refute routine modification procedures and develop an alternative strategic option to increase performance, when they have a certain degree of autonomy and knowledge power.
	P_{3f}:	A challenging coalition which creates strategic flexibility, tends to emerge around a 'champion of change' who is holding knowledge power.
Phase 4: **Toward the stress threshold**	P_{4a}:	Stress increases dramatically due to (1) ineffective tactical measures, (2) the creation of strategic flexibility and (3) increasing hierarchical support for a strategic alternative.
	P_{4b}:	Stress reaches a threshold when the decision-making power over the venture switches from the dominant coalition to the challenging coalition.
Phase 5: **Vacuum versus fait accompli**	P_{5a}:	Beyond the stress threshold, top management decides (1) to reallocate resources and (2) to withdraw the venture, both as a fait accompli when a challenging coalition has gained hierarchical power.
	P_{5b}:	When no strategic alternative is available beyond the stress threshold, the organization increasingly detaches itself from the venture without de-institutionalizing it. As a consequence, a vacuum emerges in which lower level commitment to the venture tends to escalate up to a triggering event (strategic drift), which forces top management to withdraw instantly.
Phase 6 : **Learning beyond**	P_{6a}:	When a new strategic logic results in a strategic withdrawal, this decision is a nucleus for strategic reorientation beyond the original venture.
	P_{6b}:	When inertial behavior ultimately results in a tactic withdrawal, the organizational de-commitment prevents higher order learning within and beyond the scope of this venture.

Table 9-1: A summary of the process propositions of the 'middle-range' theory of international market withdrawal

Ultimately, in Chapter 7, we developed an explanatory theory of international market withdrawal upon three fundamental generative mechanisms of organizational and strategic change: an incremental mechanism and teleological mechanism, which are interrelated by a dialectical mechanism. In sum, Figure 9-2 graphically presents the three layers of our strategy process study: the empirical domain, the descriptive theory and the explanatory theory. Furthermore, we validated the explanatory model against two established theories of strategic and organizational change: the punctuated equilibrium model of organizational change (e.g., Tushman and Romanelli 1985) and a process model of strategic business exit (e.g. Burgelman 1994).

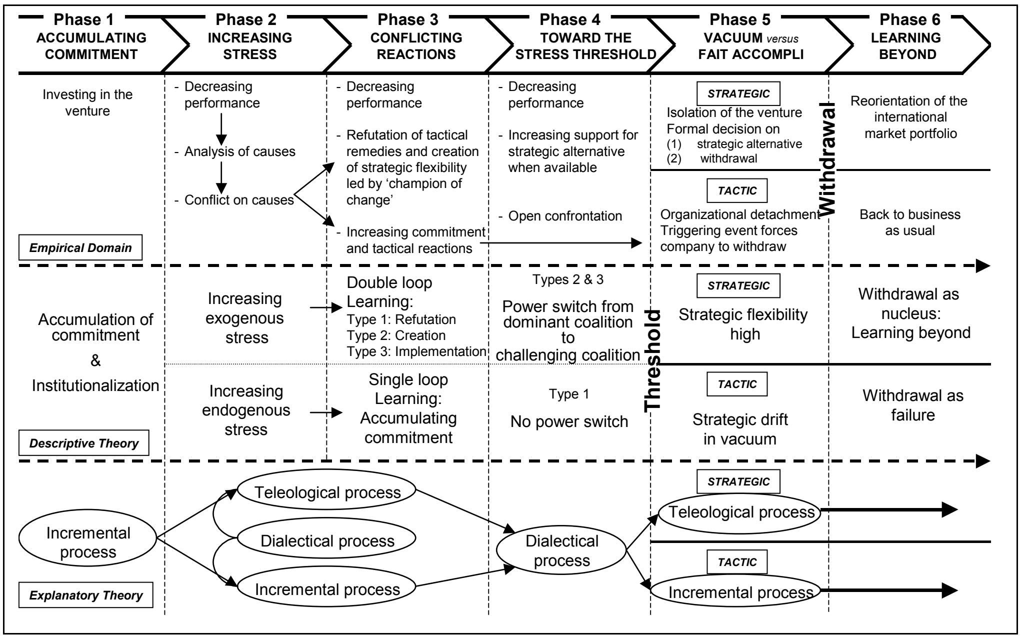

Figure 9-2: An explanatory process model of international market withdrawal

9.3 CONTRIBUTIONS TO THE EXTANT LITERATURE

In a seminal paper, Melin (1992) argues that "research [on the internationalization of the firm] is characterized by cross-sectional approaches, or at least by findings expressed in terms of structural constructs. The process perspective is (with few exceptions) absent in analysis and theory" (p.112). A more dynamic perspective on the internationalization process, however, "needs radically different research methodologies than those that have been used in the field of internationalization, such as ethnographic and interpretive field work approach." (p.114). Finally, Melin (1992) argues that a process perspective on the internationalization of the firm requires a "better connection between international management and theoretically more mature disciplines of management [such as] organization theory and strategic management." (p.114). In this section we discuss the contributions of our study to a strategy process perspective on the internationalization of the firm.

In line with Melin's (1992) last recommendation, this strategy process study adopts a <u>multidisciplinary approach</u>. At the outset of this dissertation we focused on the commonalities and boundaries of three theoretical frameworks for the study of the internationalization of the firm, which are rooted in competing theories of the firm. To the best of our knowledge a systematic scrutiny of this form is without precedence. Secondly, the middle-range strategy process theory of international market withdrawal is largely multidisciplinary itself. In building this theory we regularly recurred to organization theory, strategic management and evolutionary theory. In fact, we endorse Melin's (1992) conclusion "that the internationalization dimension should be regarded as an empirical focus and not form the basis for a theoretical field of management on its own" (p.114). Bringing together and bridging established and more recent findings from adjacent streams of research has turned out to be a real challenge but also a worthwhile effort. In the next two sections we summarize how our study contributes to international management research and to the business strategy and organizational behavior theory.

9.3.1 Contributions to International Management

From an international management perspective, this study is highly complementary to more traditional studies in international management and it is ‘frame-breaking’ in three respects.

Firstly, we introduced de-internationalization in three important theoretical frameworks: the ‘stages’ models of internationalization, the ‘core’ theory of international business, and the integrated global strategy framework. Therefore, we built upon recent work by Benito and Welch (1997). In an effort to depart from the static or predeterministic character of these frameworks, we presented an emergent ‘new’ theory of the firm, which is based upon the resource-based view in the context of evolutionary theory. We argued that future theorizing on the internationalization should take this evolutionary perspective as a point of departure. Our middle-range theory illustrates the potential of this new theoretical framework for the study of the internationalization of the firm.

Secondly, we adopted international market withdrawal as an empirical focus. As such, this study aims at a (short) episode of extreme dynamism, which is embedded in a longer epoch of the international growth of a firm. In this way, we were able to magnify organizational and strategic processes as well as underlying generative mechanisms of the internationalization process of the firm. Whereas international market withdrawal as such merits academic interest, this study goes beyond. It contributes to a better understanding of organizational decision-making and learning within the frame of the international growth of the firm.

Thirdly, this study contributes to the development of a methodological framework for (retrospective) longitudinal process research in the context of the internationalization of the firm. We would argue that this framework significantly adds to the development of the premature field of strategy process research, which holds potential far beyond the study of the internationalization process of the firm.

9.3.2 Contributions to Business Strategy and Organizational Theory

Apart from the contribution to the development of a methodological framework for strategy process research, this study contributes to business strategy and organization theory in three main respects.

First of all, our explanatory strategy process theory, which is driven by a <u>triad of interrelated generative mechanisms</u> – an incremental, a teleological and a dialectical mechanism – holds potential for the foundation of many more process studies of strategic change and the explanation of strategic change in fields, such as technological innovation and corporate strategic reorientation.

Secondly, this study sheds light on some <u>'hot' research issues</u> in the business strategy and organizational behavior literature. Phenomena such as the role and behavior of an organizational champion of change, the coexistence of parallel paths of organizational learning and the emergence of higher order learning processes, strategic behavior and decision-making with respect to increasing strategic misfit, 'political & power' behavior between emerging coalitions and organizational power switching, the emergence of strategic drift and strategic neglect, etc. are all investigated within the context of an episode of high organizational dynamism.

Finally, this study adds to the comprehension of <u>two paradoxes in strategic and organizational theory</u>, which formed the initial conceptual framework of this study (cf. Chapter 4): the paradox of market commitment, and the paradox of strategic flexibility. The comparative analysis of the twelve cases of international market withdrawal has contributed to the understanding of the relationship between performance-bringing accumulation and performance-breaking escalation of commitment in the context of increasing strategic misfit. Furthermore, both empirical studies have explicitly focused on the development and the role of strategic flexibility as a result of higher order learning.

9.4 MANAGERIAL IMPLICATION

In the present turbulent international environment, new strategic windows may open and current opportunities may vanish rapidly. Accordingly, a multinational firm should pro-actively manage its international market portfolio. In this perspective, an international withdrawal may be a deliberate, well-considered and pro-active decision, which optimizes a firm's international market portfolio in response to (dramatic) environmental changes. As such, an international market withdrawal should not *a priori* be considered a failure or a symptom of decline or increased rigidity in the internationalization process of a firm. Some of the cases clearly illustrate that a successful strategic withdrawal may lead to a better strategic foundation of the entire international market portfolio. Nevertheless, the withdrawal process itself risks failing when it is inappropriately approached, poorly executed or unnecessarily postponed. In that case, it may harm the overall development and performance of the international market portfolio of a firm.

In this section we shortly discuss three strategic measures, which may help top executives to withdraw successfully from an international market when necessary and to use this withdrawal as a leverage towards the optimization of the entire international market portfolio: (1) decrease information ambiguity, (2) build a time-paced internal selection mechanism, and (3) capture the momentum of a withdrawal process.

<u>Decrease information ambiguity</u> – One of the main causes of a failing withdrawal process is the ambiguity of information. Typically, an international withdrawal process is triggered by 'soft' signals. Managers perceive symptoms of weakening performance in particular markets and tend to make their own inferences about the 'real' underlying problems and the required remedies. The cases illustrate that managers, who have hierarchical power over a particular venture typically adopt the current strategic logic of the venture to interpret environment changes, in disregard of alternative interpretations that may exist at other/lower levels of organization. While we explained this phenomenon from a 'politics and power' perspective, it points at myopia and

selective perception, a shortcoming in many organizations, which may result in rigidity and inappropriate decision-making.

In this respect, it is important to develop a management information system, which explicitly focuses on boundary spanning and market information. Much of this information is informal and comes from lower levels in the organization (e.g., account managers) and from local subsidiaries. Currently, though, a bottom-up management information systems is underdeveloped in many firms.

Adopt a time-paced internal selection mechanism – As it is discussed in section 8.3, ou model focuses at event-paced decision-making. Ad hoc interpretation of external events is the prime driver of (strategic) decision-making. As such, we concluded that international market withdrawal was the result of an external selection mechanism, which goes largely beyond managerial control. Learning from the theoretical replication and cases Alpha, Sigma-Brunei and Eta-Germany, time-paced decision-making seems to be a valuable goal for management teams. In an effort to increase pro-active managerial discretion with respect to a firm's international market portfolio – which includes decisions to expand, extend and contract the portfolio – it is important to develop an internal selection mechanism. To reach this aim, three additional strategic tools are required.

First, top management should build a shared perception about which remedies are to be taken if a venture's performance falls short of certain targets. Therefore, a limited set of scenarios and routines for venture expansion and contraction should be developed *in tempore non suspecto*, i.e., from the outset of a new investment. Secondly, a company should permanently look for alternatives for current ventures even when a venture is prospering. In this way top management can keep tabs on the viability and efficiency of its resources in each venture, relative to the potential of new opportunities. Thirdly, ventures should be evaluated on regular intervals. If, at a certain moment, a the venture falls short of a target, reaction scenarios may be activated. In this respect, it is essential to adopt 'hard' financial and strategic evaluation criteria and to install 'early warning signals' (e.g., on competitive moves, changing customer behavior, problems in channel management, etc.). The key success factors that can be identified in each business may provide valuable indications on the early warning signals.

In general, accumulating commitment to internationalization should be considered as a phased process, which needs regular evaluation and adjustment. Indeed, neither a firm's internationalization process nor its international market portfolio should be treated as predetermined or self-regulating. Pro-active and time paced portfolio management is required to optimize the performance of the internationalization of the firm. Accordingly, strategic flexibility should be built into every new strategic course allowing a firm to maximize the output of experiential learning while a (new) venture develops.

<u>Capture the momentum of the withdrawal process</u> – Firstly, cases such as Sigma UK and Kappa Belgium clearly illustrate that a withdrawal process may result in a strategic vacuum. This vacuum emerges when a firm has strategically isolated a venture without implementing the withdrawal. In that case, a firm looses its hold over the venture and the venture runs the risk of falling into a state of strategic drift or neglect. To avoid this, strategic isolation of and organizational detachment from a venture should instantly be followed by withdrawal. Secondly, cases such as Beta and Lambda Turkey illustrate how the withdrawal of a single venture can be a leverage towards strategic change in other international ventures, up to strategic reorientation at the level of the entire international market portfolio of the firm or business unit. In this respect, it is important that top management recognizes and captures the momentum, which is inherent to a strategic withdrawal. Withdrawals are considered Far too often as isolated end points. However, given the increasing interrelatedness between international ventures of a global firm, a strategic reorientation, and more in particular a withdrawal, should be followed by the strategic reconsideration of the entire portfolio. To do so in a most efficient and effective way, top management should recognize the inherent dynamic of a strategic withdrawal and capture its momentum. Typically, the champion of change is the critical pivotal point in this process of organizational learning. His or

her eminent role in the withdrawal of one particular venture should be reoriented towards a higher level of analysis: the management of international market portfolio. Therefore, this person should be given additional hierarchical power and top management's support.

9.5 LIMITATIONS OF THE STUDY AND DIRECTIONS FOR FUTURE RESEARCH

None of the findings in this study are conclusive. Although many dimensions of the international market withdrawal process were clearly illustrated and theoretically explained, they require additional investigation within different settings and different theoretical and conceptual perspectives. Issues such as the institutionalization of a venture, the perception and interpretation of external dynamics in terms of stress, the relationship and the power switch between the dominant and the challenging coalition, the agents' enactment of organizational learning, the co-existence of different learning processes on a single issue within an organization, the notion of the stress threshold, the role of the champion of change, the strategic vacuum, the notion of 'withdrawal-as-nucleus', etc. all merit further empirical and theoretical investigation within a process perspective of strategic and organizational behavior. On top of the boundaries of this study, which were set in Chapter 1, this study has additional limitations that allow us to formulate four concrete directions for future research.

<u>A typology of international market withdrawal</u> – In Chapter 3, we discussed how difficult it was to find cases that fit within our definition of internationalization market withdrawal and how laborious it was to convince respondents to cooperate in this study. Unfortunately, we were not able to comply with the initial sampling framework of Study II, in which we had set out to select cases in a single industry. Additional effort should be done in future studies to control for context variables. Moreover, future strategy process studies on international market portfolio management would merit largely from a relevant typology of strategic change and/or organizational decision making, which could steer the sampling process as well as theory development during the analysis. Typically, however, current typologies in international business and marketing theory are of no use for case selection as they only allow for ex post categorization, i.e., after a case has been fully analyzed. Therefore, the study of this phenomenon merits investigation from alternative theoretical standpoints.

<u>The internationalization of the firm within the 'new' theory of the firm</u> – One of these promising theoretical perspectives is the 'new' theory of the firm. The further elaboration of an evolutionary theory of the firm, which allows for managerial discretion will definitely benefit our understanding of the internationalization process of the firm, within the scope of our ontological and epistemological framework. From this point of departure various typologies and taxonomies on business strategy and decision making seem valuable to underpin future theorizing on this issue.

<u>A strategy process study of international market portfolio management</u> – Although we indicated the power of an international market withdrawal as a nucleus for higher order strategic decision-making, our study ends where a strategy process study of international market portfolio management begins. Strategy process research at the level of the international market portfolio and the overall internationalization process of the firm remains an unexplored area. Although our study can be adopted as a starting point in this respect, the complexity of such a study goes far beyond ours: more people at more organizational levels and locations are involved, real-time longitudinal fieldwork seems required, etc. Nevertheless, strategy process research on the level of the international market portfolio of the firm is critical for the eventual development of a strategy process theory of the internationalization of the firm.

<u>The paradoxes of market commitment and strategic flexibility</u> – Additional theoretical investigation of the core concepts of this study is required. Market commitment, organizational inertia, strategic (mis)fit and strategic flexibility remain abstract constructs. As long as academic consensus on the operational definition of these core concepts is missing, the elaboration (translation) of our middle-range theory into a (positivist) empirical model will remain impossible. In this respect, we propose to adopt the paradoxes of increasing market commitment and strategic flexibility within the framework of an evolutionary resource-based theory of the firm as a conceptual starting point.

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APPENDICES

APPENDIX A: TOPIC LIST

General characteristics of the exporter

1. General characteristics of the respondent and the company
2. General characteristics of the export activity of the firm

Characteristics of the withdrawn export venture

3. Description of the initial entry
4. Characteristics of the export activity
5. Characteristics of the export market
6. The perception of the withdrawal at the moment of the decision/implementation
7. The actual perception of the withdrawal - after the implementation
8. What arguments dominate the perceptions at different levels of the organization

Decision making criteria

9. On what 'facts/evaluations' is the formal withdrawal decision founded
10. What facts (if any) accelerated the decision making process

Decision making process

11. Formal procedure to evaluate the export venture portfolio
12. Time between the formal withdrawal decision and the actual implementation
13. Time between the first idea that 'this venture is a candidate for withdrawal' and the formal decision
14. Who is involved in the decision making process and at what level of the organization is the withdrawal decision taken

Implementation of the withdrawal

15. What additional investment were made to redress the business
16. What difficulties were experienced during the implementation
17. The implementation went smoothly or disjointed
18. During the withdrawal the organization was in a state of crisis

After the withdrawal

19. What reallocations of resources followed the implementation
20. Did a shift in the (marketing) strategy accompany this withdrawal
21. What is the influence of this withdrawal on the future management of other export businesses
22. When the withdrawal has to be redone; how would the decision making and implementation be adapted
23. Under what circumstances will this particular market be reentered

APPENDIX B: INTERVIEW FOLLOW-UP

Summarized and disguised – originally in Dutch

DESCRIPTIVE CHARACTERSITICS

A number of descriptive characteristics of your firm, of its activity and of the market you have withdrawn from are summarized in Table A. Please verify the information in this Table. Take care: digits and data refer to the moment you left the export market. If some of the data are correct (or corrected by you), but you prefer not to have this published, please mark this specific data. In all cases, your company name will be disguised.

TABLE A

INTERVIEW AND SUMMARY OF THE CASE STUDY

Below, I have included a transcript of the interview we had about the market which had been abandoned x months ago, as well as a summarized case study of this interview. Please, read this summary in detail and correct errors and/or complete them.

INTERVIEW

SUMMARY OF THE CASE STUDY

PROPOSITIONS

Below, you find a list of propositions about export market withdrawal. Please indicate your personal opinion about each proposition by ticking off at the appropriate place on the dotted line. These propositions do not necessarily apply to your company.

I would like to contact you by phone within a couple of days to go briefly through this questionnaire together.

1: Managers do not formally apply financial and/or strategic criteria to systematically evaluate their performance in different countries.

I-------------------------I-------------------------I
Total agreement No idea No agreement

2: (Top-)managers are badly informed about changing conditions in export markets.

I-------------------------I-------------------------I
Total agreement No idea No agreement

3: Factors internal to the company are more likely than factors external to the company to result in an export market withdrawal.

I-------------------------I-------------------------I
Total agreement No idea No agreement

4: The longer we are active in a certain country, the less likely it becomes to leave that particular export market.

I-------------------------I-------------------------I
Total agreement No idea No agreement

5: Compared to inexperienced exporters, experienced exporters run less risk of having to leave an export market as a consequence of poor performance and/or poor management.

I-------------------------I-------------------------I
Total agreement No idea No agreement

6: It is possible that we would leave a non loss making export market because of a new strategic direction of the firm (e.g., to free resources for new product development).

I-------------------------I-------------------------I
Total agreement No idea No agreement

7: When an ‘export-market-in-trouble’ is ‘discovered’, initially more resources will be dedicated to save this market.

I-------------------------I-------------------------I
Total agreement No idea No agreement

8: When an export market is being left, the nature of the relationship between the involved (export/product) manager and top management will slow down the development of this process.

I-------------------------I-------------------------I
Total agreement No idea No agreement

9: If a firm has left an export market before, it is better prepared to withdraw again if necessary.

I-------------------------I-------------------------I
Total agreement No idea No agreement

10: (Too) high personal involvement of management in a particular export market leads to unnecessary postponement of the formal exit decision.

I-------------------------I-------------------------I
Total agreement No idea No agreement

11: If the decision-making process on a withdrawal is headed by a manager who was not involved in the export market before, the exit process will run more smoothly.

I-------------------------I-------------------------I
Total agreement No idea No agreement

12: The decision to exit an export market is always taken by <u>top management</u>.	I-------------------------I-------------------------I Total agreement No idea No agreement
13: The decision-making process for withdrawal always results in <u>conflicts</u> between <u>lower</u> and <u>higher</u> management.	I-------------------------I-------------------------I Total agreement No idea No agreement
14: The decision-making process for withdrawal always results in <u>misunderstanding and conflict between the managers who are involved and those who are not-involved.</u>	I-------------------------I-------------------------I Total agreement No idea No agreement
15: The decision to leave a market will be <u>postponed as long as this market generates profits</u>, even if sales and profit budgets are not attained.	I-------------------------I-------------------------I Total agreement No idea No agreement
16: In the end, <u>external factors</u> will be indicated as the prime reasons for leaving a particular market.	I-------------------------I-------------------------I Total agreement No idea No agreement
17: Leaving a particular export market should not always be considered as a <u>failure</u>.	I-------------------------I-------------------------I Total agreement No idea No agreement
18: It is required to take a possible market exit into account <u>at the outset of the market entry</u> decision.	I-------------------------I-------------------------I Total agreement No idea No agreement
19: In general, <u>different levels</u> in the organization hold <u>different opinions</u> about a possible withdrawal.	I-------------------------I-------------------------I Total agreement No idea No agreement
20: When an exit is completed, it may bring <u>tactical and strategic insights</u>, which add to a better management of the international activity of the firm.	I-------------------------I-------------------------I Total agreement No idea No agreement
21: A completed exit leads to a better idea about the <u>strategic priorities</u> of the company.	I-------------------------I-------------------------I Total agreement No idea No agreement
22: In general, an export exit leads to a more negative attitude towards export.	I-------------------------I-------------------------I Total agreement No idea No agreement

APPENDIX C: CRITICAL INCIDENT NETWORK

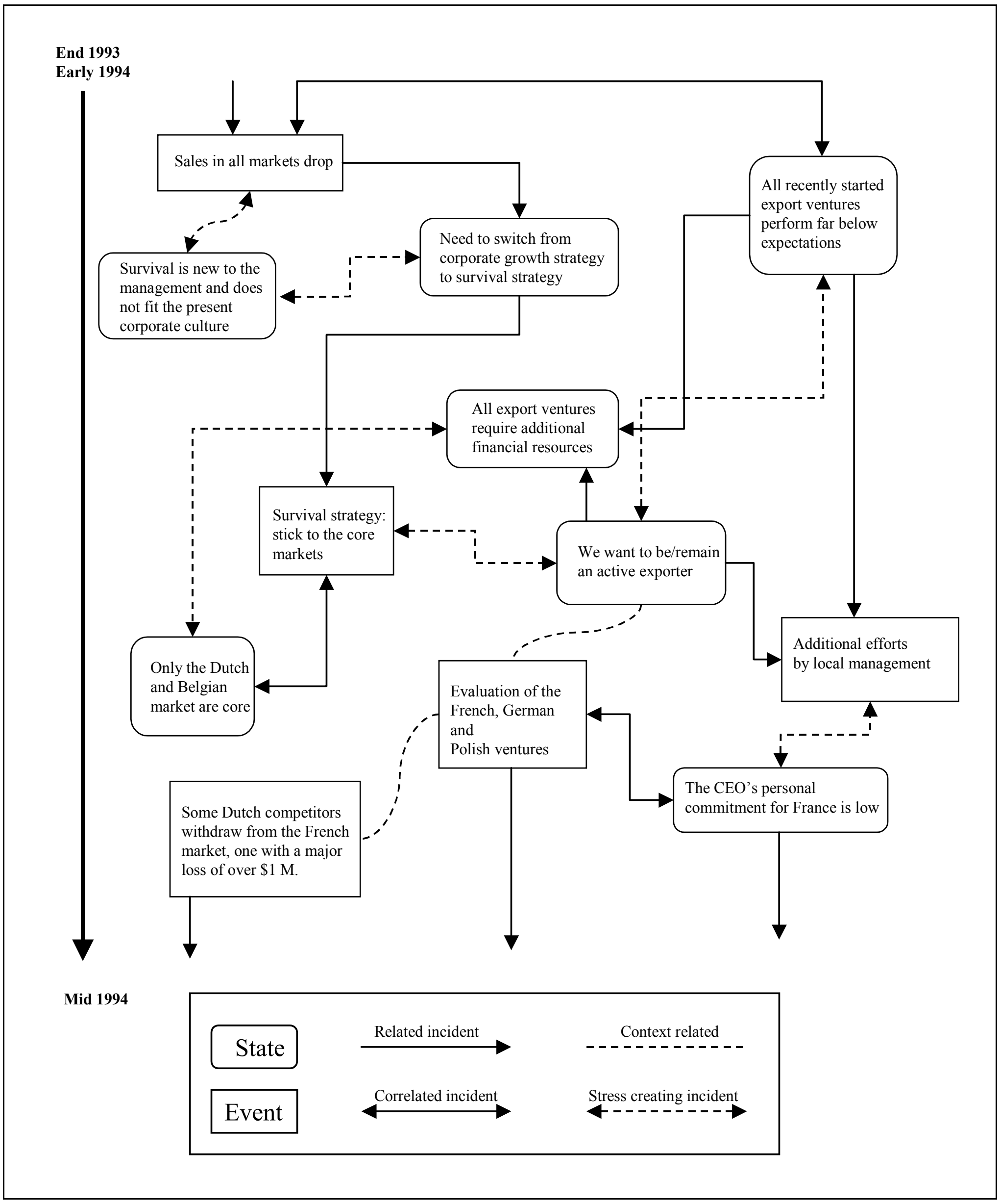


Figure C-1: Critical incident network of case Beta (extract)

APPENDIX D: A TYPOLOGY OF PROGRESSION

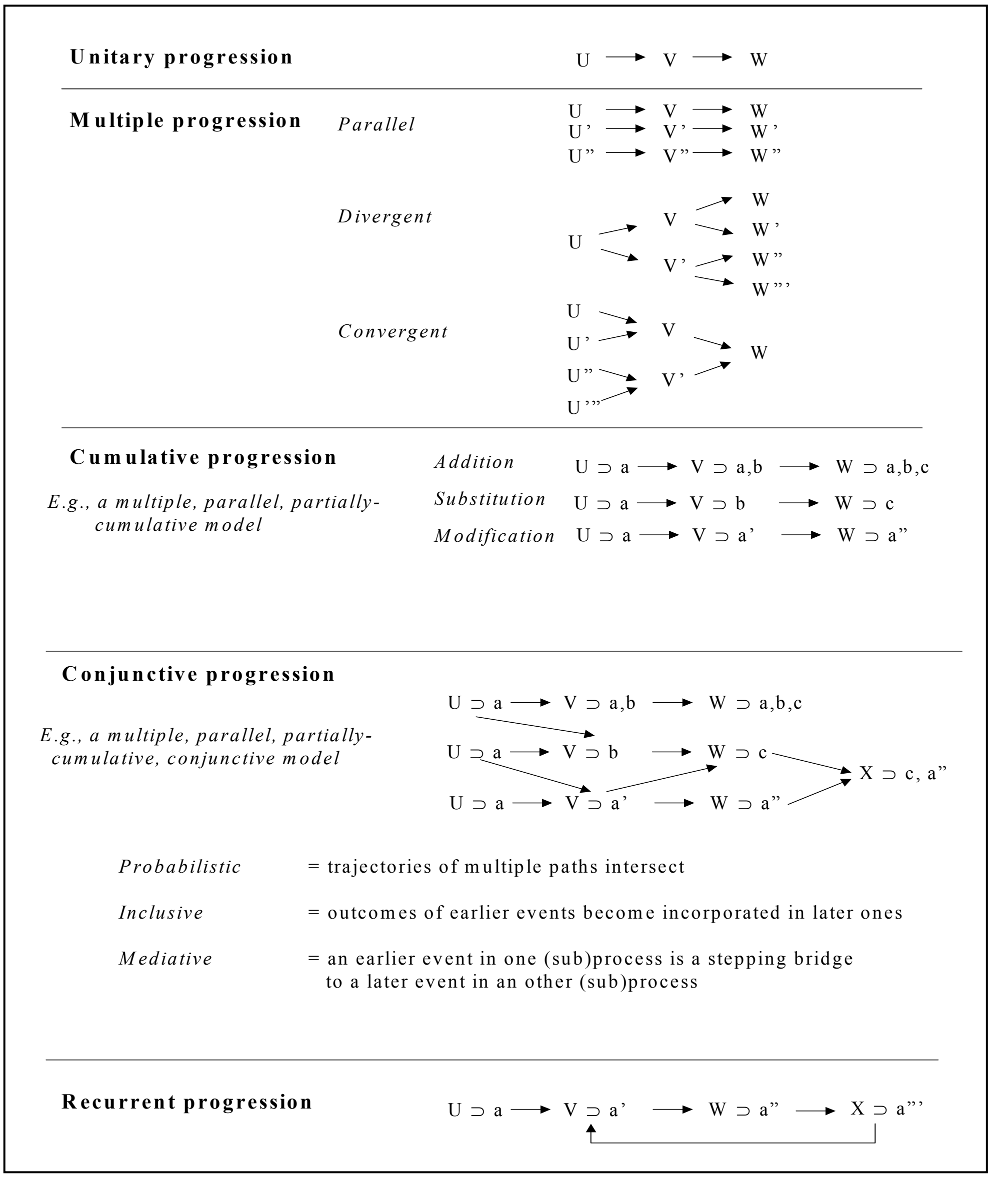


Figure D-1: A typology of progression (Van den Daele 1969)

APPENDIX E: ANALYTIC PROCESS OF STUDY II

In this Appendix, the analytic process of Study II is briefly discussed. Firstly, the software tool QSR NUD*IST 4 is introduced. Next, we present the analytic process that was performed in four stages using NUD*IST. These four stages reflect the inferential pattern coding process as it was discussed in Chapter 3. For each stage, we present the node index system, which resulted from the intermediate analysis, as well as an illustrative selection of the 'coded documents' section and the 'hypotheses' section if available. Printing the full 'coded documents' and 'hypotheses' sections for each stage in a more or less readable manner would take between 150 and 200 pages. Moreover, all data would have to be translated and disguised since the analysis was performed using the raw interview transcript data (including all names of firms and respondents), which was both in Dutch and in English. Therefore, the purpose of this appendix is not to give full insight in the raw data, but rather to make the reader acquainted with the analytical procedures of NUD*IST.

NUD*IST stands for Non-numerical Unstructured Data Indexing Searching and Theorizing. Figure E-1 summarizes the qualitative analytical process as it can be performed using NUD*IST.

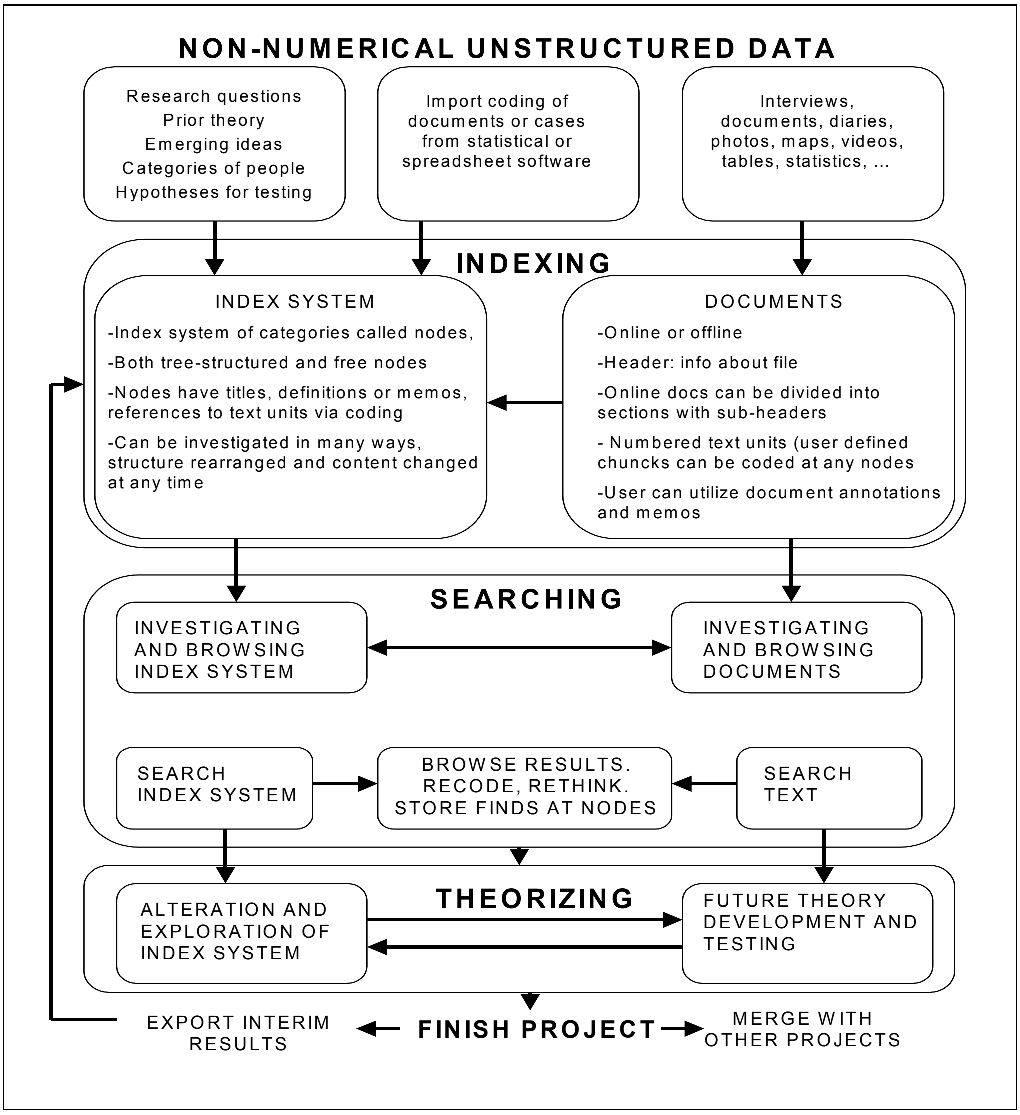


Figure E-1: Analytical process using NUD*IST 4

QSR NUD*IST 4 was released in 1997 and is one of the most widely used software tools for handling non-numerical and unstructured data in qualitative analysis. NUD*IST is primarily designed for theory development via inferential pattern coding (see Figure E-1 and the QSR NUD*IST VER 4 User Guide 1997).

To present the analytic process of Study II using NUD*IST, three illustrative window screen prints are provided for each analytic stage: (1) 'coded documents', (2) 'hypotheses' and (3) the 'node index tree'. A screen print of the 'coded documents'-windows presents a selection of text units from one transcribed interview that has been coded with one or more nodes. A screen print of the 'hypotheses'-windows presents a list of propositions for a particular node at that stage in the analytic process. Finally, the 'node index tree' represents the interrelationship and position of the nodes or inductive categories which linked coded data to hypotheses at that stage of the analysis. A node is identified through its place in the 'node index tree'. For instance, node 'risk seeking behavior' has address (1 2 1). This node is the first 'child' of node (1 2). This 'node index tree' evolves from a roughly related enumeration of abstract ideas about the decision making process towards a structured list of well-defined constructs that comes close to the final descriptive and explanatory model of international market withdrawal as it is presented in Chapter 6.

Stage 1: Creating A Basic Node Structure

We set out the analysis by creating a basic node structure (start list of nodes – Figure E-2). This structure has a double origin. Firstly, Study I provides a conceptual and an exploratory framework of export market withdrawal, which was abstract enough to rely upon for the creation of a basic node structure. The four initial concepts – market commitment, organizational inertia, strategic fit, and strategic flexibility – were retained and integrated in the basic node structure. Secondly, additional nodes and relationships between nodes were introduced after reading a limited number of theoretical and empirical works, which we considered as fundamental to the study of international market withdrawal within our ontological and epistemological framework: Aharoni (1966), Allison (1971) and Burgelman (1994) (see Chapter 3).

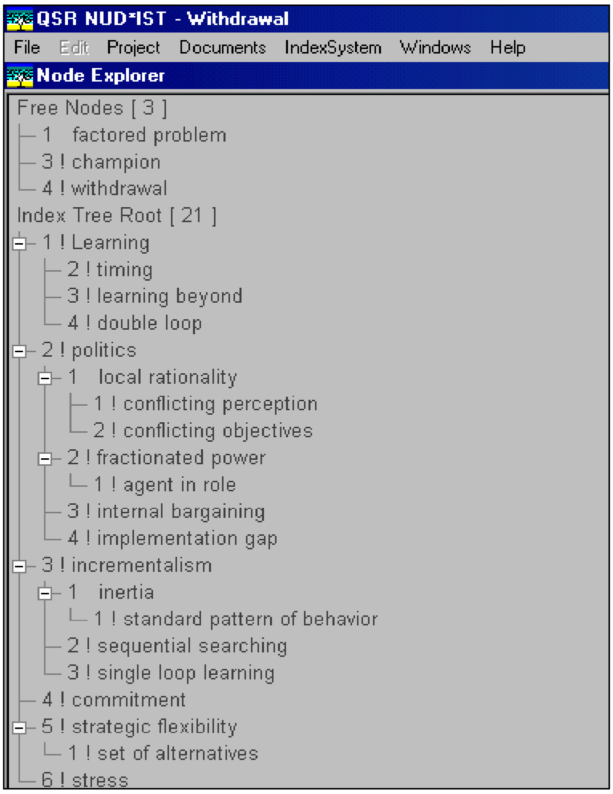


Figure E-2: Initial 'node index tree'

A second step in Stage 1 was the integration of the raw data, which will be coded in the subsequent analytic stages. Figure E-3 presents a section of an interview as it enters the analytic procedure.

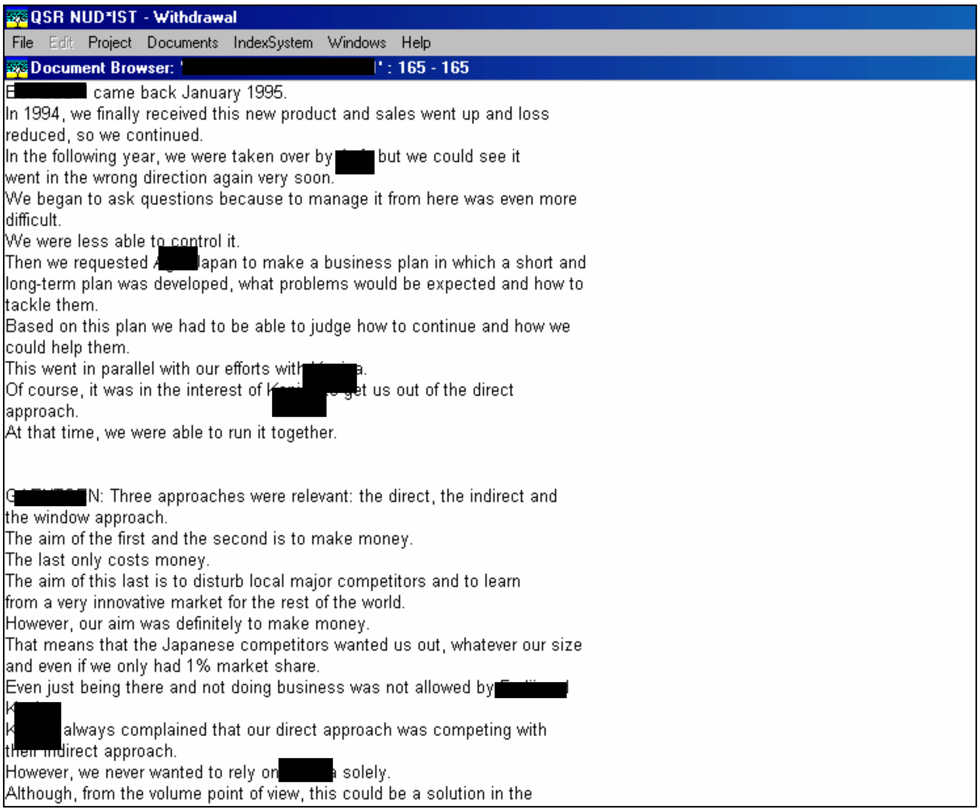


Figure E-3: Screen print of transcribed interview section

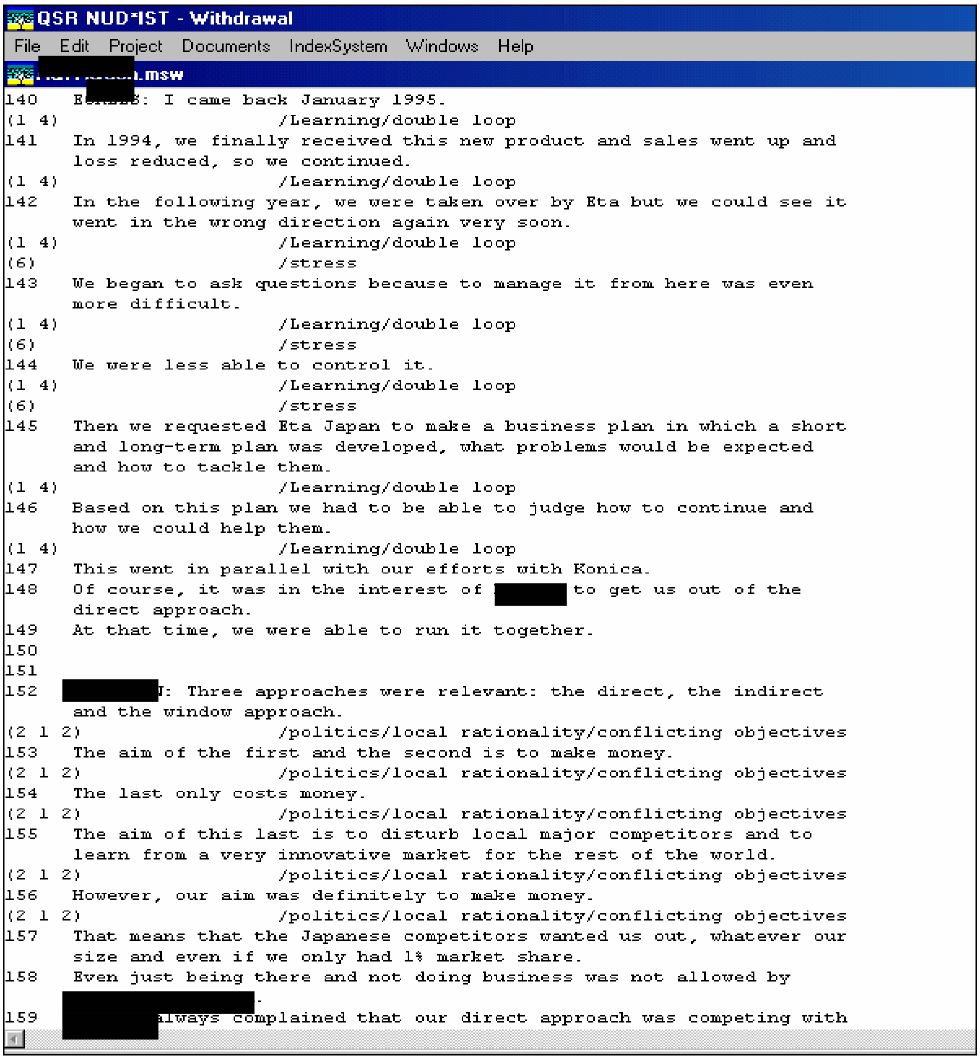
Thirdly, we formulated initial propositions for each node. These propositions emerged from Study I and/or from reading of aforementioned works. Figure E-4 presents a section from the 'hypotheses' window.

```
QSR NUD*IST
File Edit Project Documents IndexSystem Windows Help
MEMO - '(2 2)'
H1: The pattern of power structure is the decisive factor in the
decision, not the formal standard operating procedure or the
organizational manual. (Aharoni 192)

:: potentially in conflict with (node (3 1 1)) = standard pattern of behavior)
:: whereas Cyert & march imply that all members of a
coalition/organization have similar power ("an organization as a
coalition of mediocre people" Aharoni: 269), Aharoni refutes the
symmetry of power assumptions ==> political behavior

H2: the power of an individual with respect to a certain decision
process tends to be greater the earlier his involvement in the
decision process (Aharoni 296)
```

Figure E-4: Initial propositions for node (2 2) 'fractionated power'

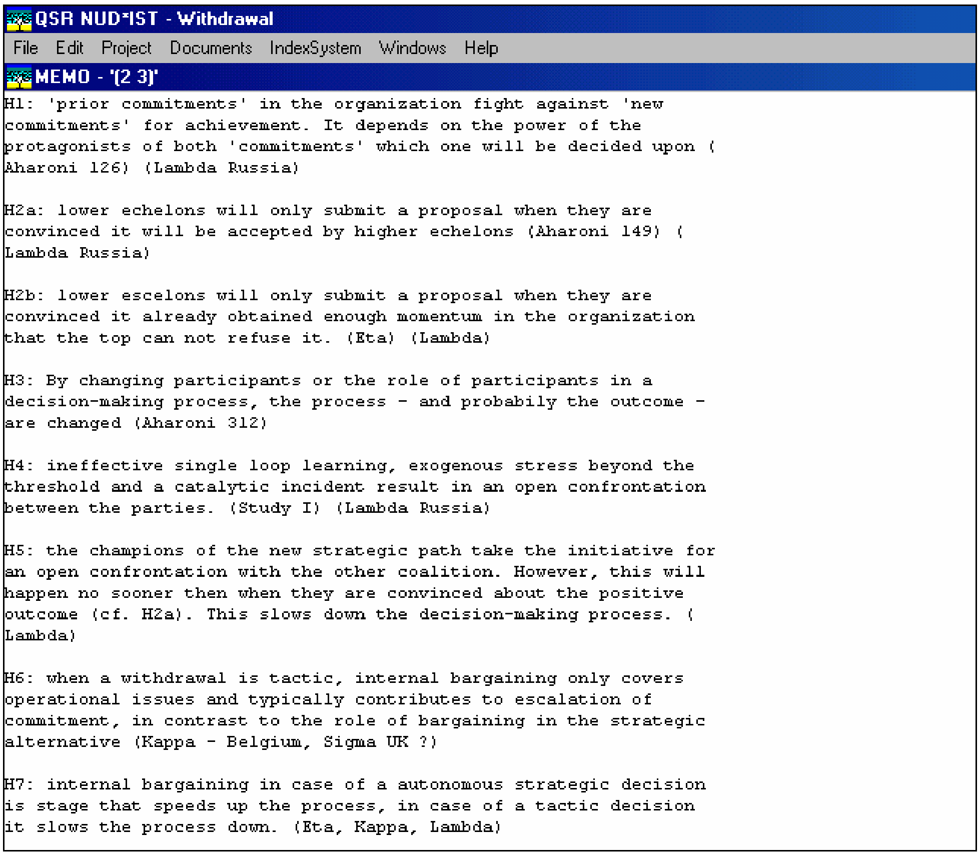
Stage 2: Inferential Pattern Coding

In Stage 2, the interview data was coded for the first time. Next, we present a screen print of the section as it was presented in Figure E-3, but now with codes (Figure E-5). Figure E-6 presents the propositions that were reformulated after coding for node (2 3). Finally, Figure E-7 presents the 'node index tree' after coding. Compared to the initial tree, some nodes were removed, relationships between nodes were altered and some new nodes were added.



```
QSR NUD*IST - Withdrawal
File  Edit  Project  Documents  IndexSystem  Windows  Help
[redacted].msw
140    [redacted]: I came back January 1995.
(1 4)                  /Learning/double loop
141    In 1994, we finally received this new product and sales went up and
       loss reduced, so we continued.
(1 4)                  /Learning/double loop
142    In the following year, we were taken over by Eta but we could see it
       went in the wrong direction again very soon.
(1 4)                  /Learning/double loop
(6)                    /stress
143    We began to ask questions because to manage it from here was even
       more difficult.
(1 4)                  /Learning/double loop
(6)                    /stress
144    We were less able to control it.
(1 4)                  /Learning/double loop
(6)                    /stress
145    Then we requested Eta Japan to make a business plan in which a short
       and long-term plan was developed, what problems would be expected
       and how to tackle them.
(1 4)                  /Learning/double loop
146    Based on this plan we had to be able to judge how to continue and
       how we could help them.
(1 4)                  /Learning/double loop
147    This went in parallel with our efforts with Konica.
148    Of course, it was in the interest of [redacted] to get us out of the
       direct approach.
149    At that time, we were able to run it together.
150
151
152    [redacted]: Three approaches were relevant: the direct, the indirect
       and the window approach.
(2 1 2)                /politics/local rationality/conflicting objectives
153    The aim of the first and the second is to make money.
(2 1 2)                /politics/local rationality/conflicting objectives
154    The last only costs money.
(2 1 2)                /politics/local rationality/conflicting objectives
155    The aim of this last is to disturb local major competitors and to
       learn from a very innovative market for the rest of the world.
(2 1 2)                /politics/local rationality/conflicting objectives
156    However, our aim was definitely to make money.
(2 1 2)                /politics/local rationality/conflicting objectives
157    That means that the Japanese competitors wanted us out, whatever our
       size and even if we only had 1% market share.
158    Even just being there and not doing business was not allowed by
       [redacted].
159    [redacted]lways complained that our direct approach was competing with
```

Figure E-5: Screen print of coded data



QSR NUD*IST - Withdrawal

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MEMO - '(2 3)'

H1: 'prior commitments' in the organization fight against 'new commitments' for achievement. It depends on the power of the protagonists of both 'commitments' which one will be decided upon (Aharoni 126) (Lambda Russia)

H2a: lower echelons will only submit a proposal when they are convinced it will be accepted by higher echelons (Aharoni 149) (Lambda Russia)

H2b: lower escelons will only submit a proposal when they are convinced it already obtained enough momentum in the organization that the top can not refuse it. (Eta) (Lambda)

H3: By changing participants or the role of participants in a decision-making process, the process - and probabily the outcome - are changed (Aharoni 312)

H4: ineffective single loop learning, exogenous stress beyond the threshold and a catalytic incident result in an open confrontation between the parties. (Study I) (Lambda Russia)

H5: the champions of the new strategic path take the initiative for an open confrontation with the other coalition. However, this will happen no sooner then when they are convinced about the positive outcome (cf. H2a). This slows down the decision-making process. (Lambda)

H6: when a withdrawal is tactic, internal bargaining only covers operational issues and typically contributes to escalation of commitment, in contrast to the role of bargaining in the strategic alternative (Kappa - Belgium, Sigma UK ?)

H7: internal bargaining in case of a autonomous strategic decision is stage that speeds up the process, in case of a tactic decision it slows the process down. (Eta, Kappa, Lambda)

Figure E-6: Propositions after coding for node (2 3): 'internal bargaining' in the 'hypotheses' window

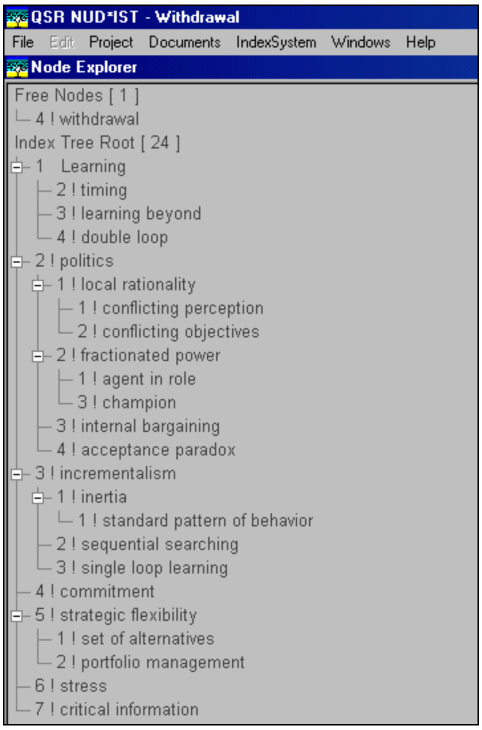
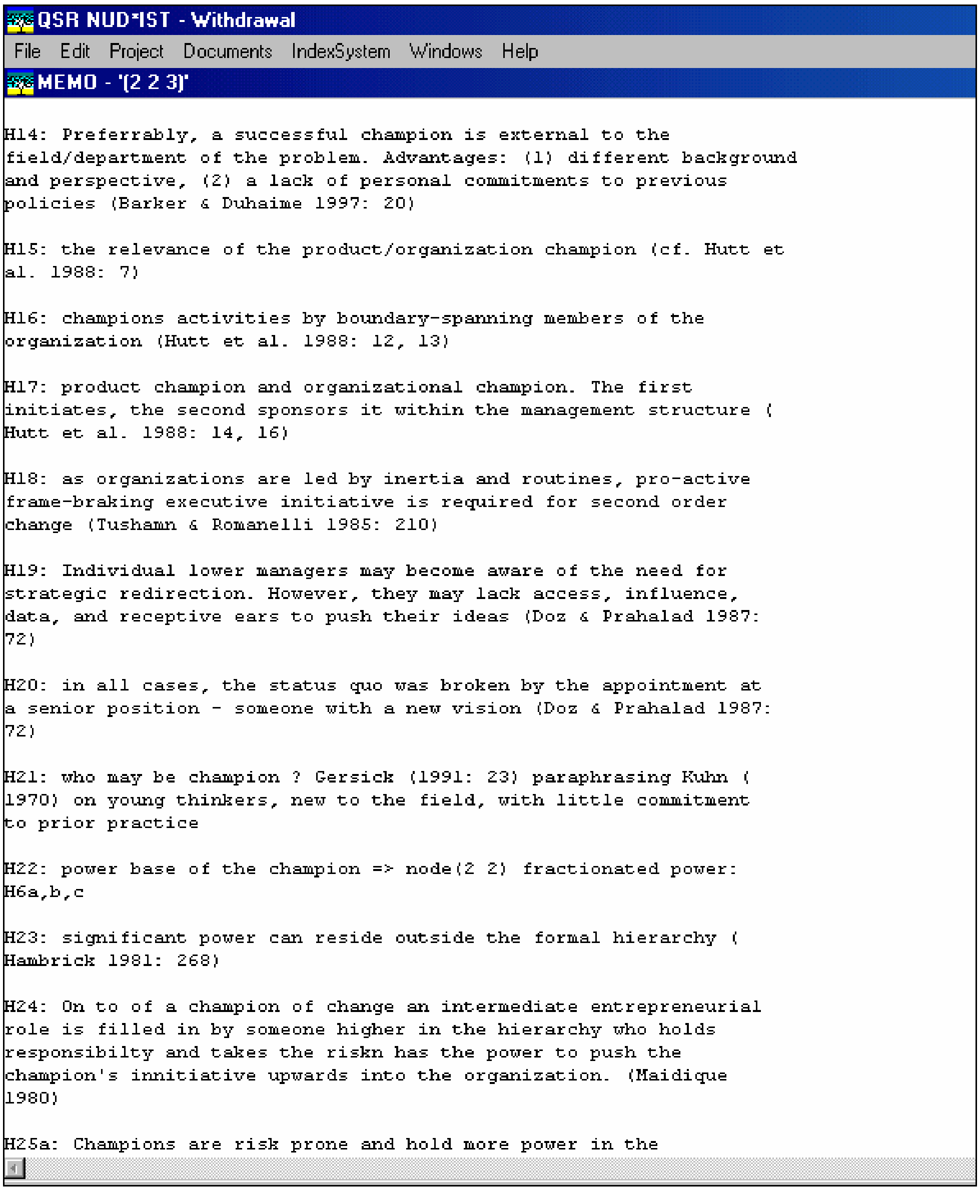


Figure E-7: 'Node index tree' after coding

Stage 3: Iteration With The Extant Literature

After the data was coded for the first time, extensive reference was made to findings in the extant literature, which supported and/or refuted the emerging propositions and the structure of node index tree. Since no additional coding took place in this stage, we only provide screen prints of propositions (Figure E-8) after iteration and of the node index tree (Figure E-9), which had changed.



QSR NUD*IST - Withdrawal

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MEMO - '(2 2 3)'

H14: Preferrably, a successful champion is external to the field/department of the problem. Advantages: (1) different background and perspective, (2) a lack of personal commitments to previous policies (Barker & Duhaime 1997: 20)

H15: the relevance of the product/organization champion (cf. Hutt et al. 1988: 7)

H16: champions activities by boundary-spanning members of the organization (Hutt et al. 1988: 12, 13)

H17: product champion and organizational champion. The first initiates, the second sponsors it within the management structure (Hutt et al. 1988: 14, 16)

H18: as organizations are led by inertia and routines, pro-active frame-braking executive initiative is required for second order change (Tushamn & Romanelli 1985: 210)

H19: Individual lower managers may become aware of the need for strategic redirection. However, they may lack access, influence, data, and receptive ears to push their ideas (Doz & Prahalad 1987: 72)

H20: in all cases, the status quo was broken by the appointment at a senior position - someone with a new vision (Doz & Prahalad 1987: 72)

H21: who may be champion ? Gersick (1991: 23) paraphrasing Kuhn (1970) on young thinkers, new to the field, with little commitment to prior practice

H22: power base of the champion => node(2 2) fractionated power: H6a,b,c

H23: significant power can reside outside the formal hierarchy (Hambrick 1981: 268)

H24: On to of a champion of change an intermediate entrepreneurial role is filled in by someone higher in the hierarchy who holds responsibilty and takes the riskn has the power to push the champion's innitiative upwards into the organization. (Maidique 1980)

H25a: Champions are risk prone and hold more power in the

Figure E-8: A selection of propositions after iteration for node (2 2 3): 'Champion' in the 'hypotheses' window

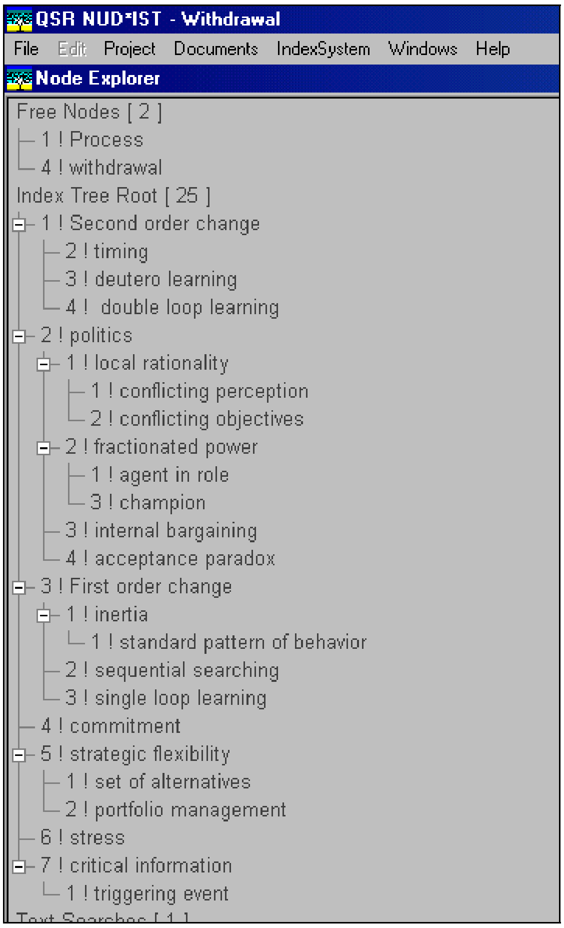


Figure E-9: 'Node index tree' after iteration

Stage 4: Causal Networking

In the final stage, data was first recoded using the node index tree and the intermediate propositions that emerged from the previous stage. Next, for each node the propositions were rearranged following the coded data structure. The node index tree provided a basis for the structure of Chapter 6. In Figure E-10 we present the same section as in Figure E-3 and in Figure E-5, but now it is recoded. In Figure E-11, the final list propositions for node (1 2) is presented. This list served as the basis for writing on this pattern in Chapter 6. Finally, Figure E-12 presents the resulting 'node index tree'.

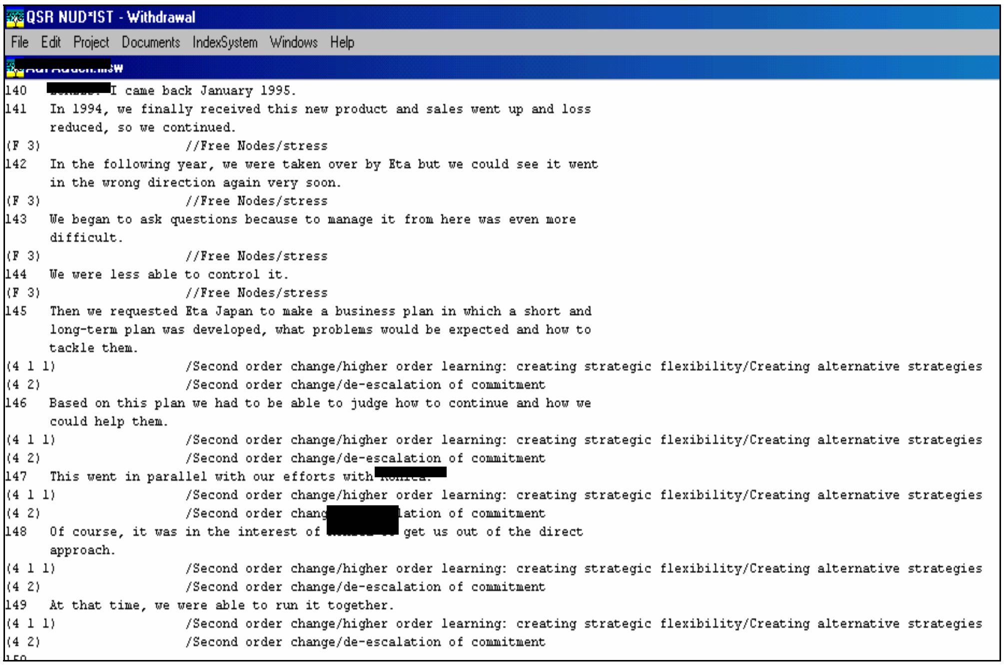
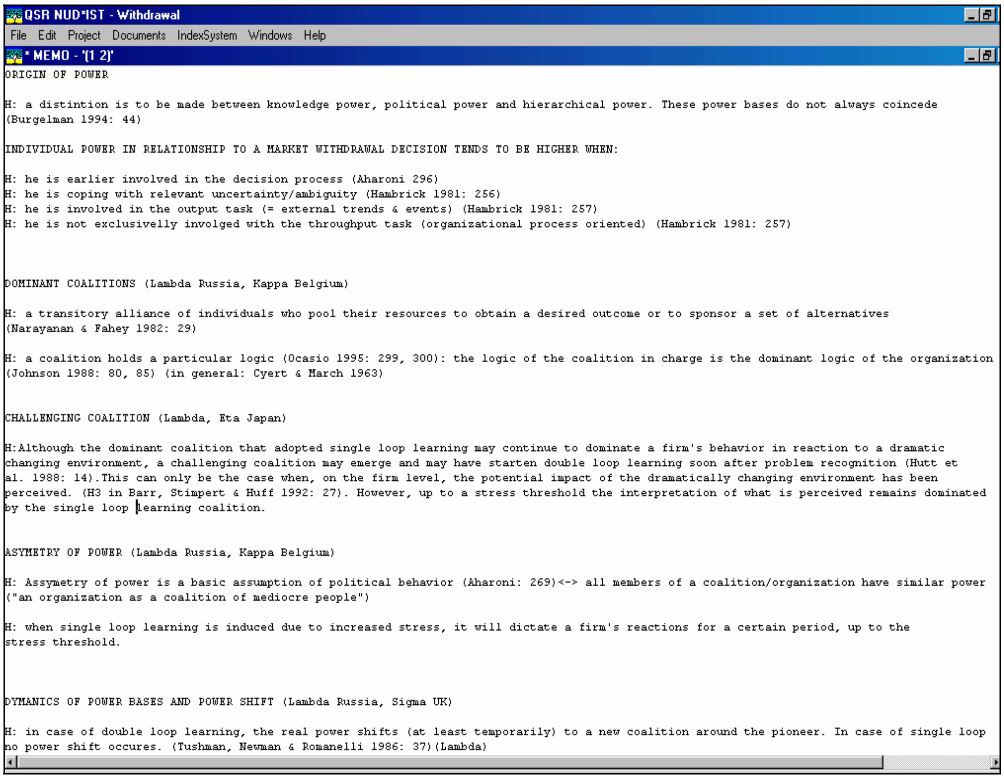


Figure E-10: Screen print of recoded interview section


QSR NUD*IST - Withdrawal

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* MEMO - '(1 2)'

ORIGIN OF POWER

H: a distintion is to be made between knowledge power, political power and hierarchical power. These power bases do not always coincede (Burgelman 1994: 44)

INDIVIDUAL POWER IN RELATIONSHIP TO A MARKET WITHDRAWAL DECISION TENDS TO BE HIGHER WHEN:

H: he is earlier involved in the decision process (Aharoni 296)
H: he is coping with relevant uncertainty/ambiguity (Hambrick 1981: 256)
H: he is involved in the output task (= external trends & events) (Hambrick 1981: 257)
H: he is not exclusivelly involged with the throughput task (organizational process oriented) (Hambrick 1981: 257)

DOMINANT COALITIONS (Lambda Russia, Kappa Belgium)

H: a transitory alliance of individuals who pool their resources to obtain a desired outcome or to sponsor a set of alternatives (Narayanan & Fahey 1982: 29)

H: a coalition holds a particular logic (Ocasio 1995: 299, 300): the logic of the coalition in charge is the dominant logic of the organization (Johnson 1988: 80, 85) (in general: Cyert & March 1963)

CHALLENGING COALITION (Lambda, Eta Japan)

H:Although the dominant coalition that adopted single loop learning may continue to dominate a firm's behavior in reaction to a dramatic changing environment, a challenging coalition may emerge and may have starten double loop learning soon after problem recognition (Hutt et al. 1988: 14).This can only be the case when, on the firm level, the potential impact of the dramatically changing environment has been perceived. (H3 in Barr, Stimpert & Huff 1992: 27). However, up to a stress threshold the interpretation of what is perceived remains dominated by the single loop learning coalition.

ASYMETRY OF POWER (Lambda Russia, Kappa Belgium)

H: Assymetry of power is a basic assumption of political behavior (Aharoni: 269)<-> all members of a coalition/organization have similar power ("an organization as a coalition of mediocre people")

H: when single loop learning is induced due to increased stress, it will dictate a firm's reactions for a certain period, up to the stress threshold.

DYMANICS OF POWER BASES AND POWER SHIFT (Lambda Russia, Sigma UK)

H: in case of double loop learning, the real power shifts (at least temporarily) to a new coalition around the pioneer. In case of single loop no power shift occures. (Tushman, Newman & Romanelli 1986: 37)(Lambda)

Figure E-11: Propositions after recoding and rearranging for node (1 2): 'power and coalitions' in the 'hypotheses' window

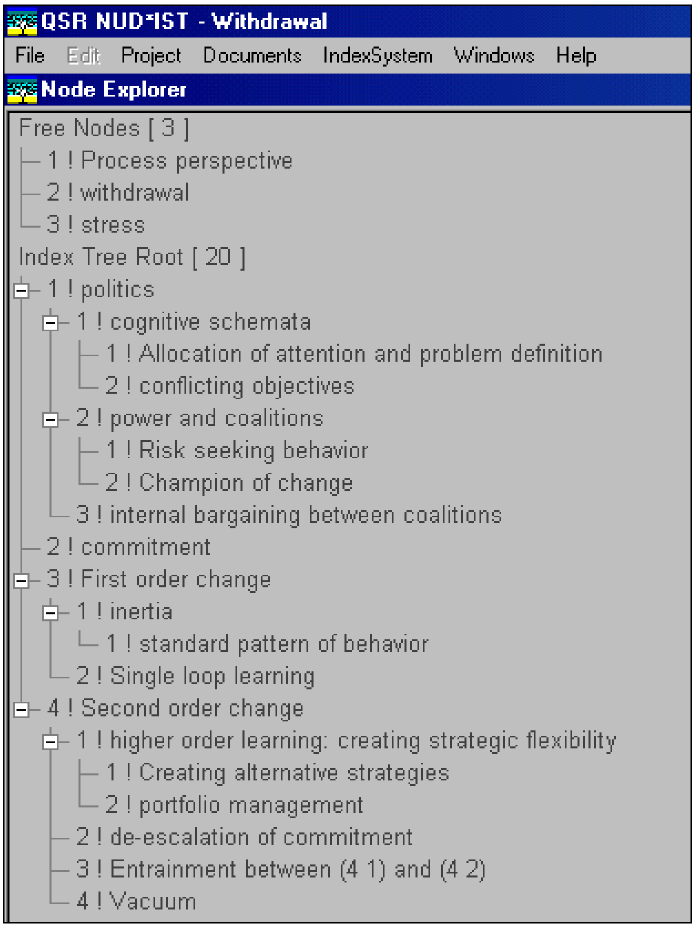


Figure E-12: Final 'node index tree'

SAMENVATTING

In dit proefschrift stellen we een vergelijkende casestudie voor over hoe bedrijven zich terugtrekken uit buitenlandse markten. We definiëren dit fenomeen als de vrijwillige beslissing van een bedrijf of bedrijfseenheid om haar activiteit in één of meerdere buitenlandse markten terug te schroeven. De kernvraag van dit onderzoek luidt als volgt: “Hoe trekken bedrijven zich strategisch terug uit buitenlandse markten?” Om een antwoord te formuleren op deze onderzoeksvraag voeren we een bedrijfsinterne analyse uit van antecedenten, van (deel-)processen – meer in het bijzonder van strategische besluitvorming en het gedrag van de organisatie – en van de gevolgen die zich situeren in de interne (vb. het algemeen beleid van de onderneming) en de externe (vb. lokale marktdynamiek) omgeving van een beslissing tot terugtrekking uit een buitenlandse markt. Het belangrijkste doel van deze studie is inzicht verkrijgen in: (1) de interne en externe mechanismen en moderatoren van een terugtrekking uit een buitenlandse markt, (2) de processen zich afspelen op het niveau van de organisatie en van de manager tijdens een terugtrekking en (3) de gevolgen van een terugtrekking op het internationaal marktportfoliobeleid van de onderneming. Daarenboven worden twee aanvullende doelstellingen nagestreefd. Ten eerste voeren we een systematische en kritische literatuurstudie uit van drie theoretische kaders waarbinnen internationalisatie van de onderneming wordt bestudeerd. Hierbij gaan we op zoek naar een theoretisch platform voor ‘deïnternationalisatie’. Ten tweede wensen we een meer expliciet ontologisch, epistemologisch en methodologisch kader uit te werken voor het onderzoek van strategische processen. Het uiteindelijke doel van deze studie is te komen tot een verklarende ‘middle-range’ strategieprocestheorie over terugtrekking uit buitenlandse markten.

We vatten deze studie aan met een kritische literatuurstudie van drie theoretische kaders waarbinnen de internationalisatie van de onderneming wordt bestudeerd: (1) de modellen van gefaseerde internationalisatie, (2) de ‘kerntheorie’ van internationaal ondernemen, (3) het ‘global strategy’ kader. Aan de hand van een systematische vergelijkende analyse van deze drie theoretische kaders, komen we tot de conclusie dat ze alle drie significant bijdragen tot de verklaring van verschillende aspecten van de internationalisatie van de onderneming. Aangezien deze drie theoretische kaders eigenschappen van een paradigma hebben, pleiten we ervoor om ze niet te integreren maar om ze te beschouwen als erg complementaire uitgangspunten voor de verklaring van de internationalisatie van de onderneming als multidimensioneel fenomeen. Tegelijkertijd evalueren we het potentieel van deze drie kaders als theoretische platforms voor de verklaring van 'deïnternationalisatie' – elke vrijwillige of gedwongen vermindering van de activiteit van een bedrijf op een buitenlandse markt.

Spijtig genoeg komen we tot de conclusie dat geen van deze theoretische kaders in staat is dit fenomeen te verklaren. Meer specifiek blijken deze kaders statisch van aard te zijn en sluiten ze de beslissingskracht van managers als verklarend fenomeen uit. Daarom stellen wij twee alternatieve platforms voor: (1) een nieuwe theorie van het bedrijf voor die voortkomt uit een integratie van het 'resource-based' kader met evolutie-economie en (2) een strategieprocesperspectief op de internationalisatie van de onderneming. Hoofdstuk 2 wordt afgerond met een pleidooi om bij theorievorming over de internationalisatie van de onderneming – inclusief deïnternationalisatie en terugtrekking uit buitenlandse markten – voortaan te vertrekken vanuit één van deze twee meer dynamische platforms. Rekening houdend met de onderzoeksvragen van deze studie, besluiten wij voor dit onderzoek om binnen het strategieproceskader te werken. Latere, meer analytische, secties van deze scriptie illustreren bovendien dat deze twee dynamische platforms mekaar in grote mate aanvullen.

In hoofdstuk 3 werken we een ontologisch, epistemologisch en methodologisch kader uit voor dit onderzoek. Vanuit een subjectivistisch standpunt, dat vertrekt vanuit de autonome beslissingskracht van de manager en vanuit een expliciete tijdsdimensie, definiëren we vijf methodologische uitgangspunten: (1) de methode van 'iterative grounded theory', (2) de vergelijkende casestudie, (3) retrospectief interviewen, (4) triangulatie, en (5) 'pattern matching logic'. In het tweede deel van hoofdstuk 3 bespreken we het onderzoeksplan van onze empirische studie. De structuur van het empirisch en analytisch werk wordt in Figuur 1 voorgesteld.

STUDIE I **Een vergelijkende casestudie van vier terugtrekkingen uit exportmarkten door vier KMO's (MKB's) in een business-to-business context**	**Input:**	Een conceptueel kader, gegevens over de cases
	Analyse:	'Inferential pattern coding' via netwerken van sequentiële gebeurtenissen en een causaal netwerk over de cases heen
	Output:	Een initieel strategieprocesmodel samen met een initiële keten van procesproposities.
STUDIE II **Een vergelijkende casestudie van acht terugtrekkingen uit buitenlandse markten door vier multinationale ondernemingen in een business-to-business context**	**Input:**	Output Studie I
	Analyse:	'Inferential pattern coding' aan de hand van NUD*IST
	Output:	Een beschrijvend strategieprocesmodel over terugtrekking uit internationale markten met daarbij een keten van procesproposities
ANALYTISCHE VERALGEMENING	**Input:**	Causale netwerken van Studie I en II, alternatieve theorieën
	Analyse:	Analyse van de vrijheidsgraden
	Output:	Een 'middle-range' verklarende strategieproces-theorie over terugtrekking uit buitenlandse markten.

Figuur 1: Het onderzoeksproces

In hoofdstuk 4 stellen we een typologie voor van vier generatieve mechanismen – een levenscyclusproces, een teleologisch proces, een evolutionair proces, en een dialectisch proces – evenals een conceptueel kader die samen het uitgangspunt vormen voor de empirische studie. Het conceptueel kader is opgebouwd uit vier centrale constructen: marktbetrokkenheid, inertie van de organisatie, strategische flexibiliteit, en strategische afstemming ('fit') die zijn ondergebracht in twee centrale paradoxen. De eerste paradox wijst op het conflict tussen de toename van betrokkenheid, die leidt tot betere prestaties, en escalatie van betrokkenheid, wat leidt tot faling. De tweede paradox wijst op het positieve effect van strategische flexibiliteit op het strategisch proces dat in contrast staat met het daarbij verhoogde risico van instabiliteit, van strategische ‘drift’ en strategische verwaarlozing.

In Studie I (hoofdstuk 5) bestuderen we vier cases van terugtrekking uit buitenlandse exportmarkten door vier kleine of middelgrote ondernemingen. Vanuit dit verkennend onderzoek zijn we in staat een initieel model te definiëren. Dit model omvat zes fasen: (1) de initiële en toenemende betrokkenheid van de onderneming in de exportmarkt, (2) de toename van endogene en exogene stress, (3) twee tegengestelde reacties: escalatie van betrokkenheid tegenover toenemende afstandelijkheid, (4) de evolutie naar een stressdrempel, (5) deëscalatie van betrokkenheid, en (6) het leerproces na de terugtrekking. Studie I resulteert in een duidelijke onderzoeksfocus en in aanvullende onderzoeksthema’s voor Studie II.

In Studie II (hoofdstukken 6 en 7) onderzoeken we acht cases van terugtrekkingen uit buitenlandse markten bij vier grote multinationale ondernemingen. Aan de hand van NUD*IST, een softwarepakket voor systematische kwalitatieve gegevensanalyse, zijn we in staat om het initieel model uit Studie I te verfijnen en op sommige vlakken te herdefiniëren. We werken dit model uit tot een beschrijvende theorie over terugtrekking uit buitenlandse markten. Tabel 1 vat de zes fasen van deze theorie met de bijbehorende procesproposities samen.

Vanuit deze beschrijvende theorie ontwikkelen we in hoofdstuk 8 een verklarende theorie die zich baseert op drie fundamentele generatieve mechanismen van de verandering van organisaties: een evolutionair mechanisme en een teleologisch mechanisme die verbonden zijn door middel van een dialectisch mechanisme. Samenvattend loopt dit proces als volgt. Het evolutionair mechanisme stuurt routinematig gedrag van de dominante coalitie dat leidt tot tactische reacties naar aanleiding van de gepercipieerde endogene stress. Deze tactisch reacties blijven uitgaan van de bestaande en tot dan toe aanvaarde strategische logica binnen de product/marktcombinatie. Ervan uitgaande dat de strategisch logica niet meer is afgestemd op veranderende omgeving, leidt dit incrementeel proces echter tot inertie en escalatie van betrokkenheid, en uiteindelijke strategische drift. Het teleologisch mechanisme stuurt het gedrag van de uitdagende coalitie die, vanuit de ervaring van exogene stress, op zoek gaat naar een alternatief voor de tot dan toe aanvaarde strategische logica. Daarbij wordt van onder uit strategische flexibiliteit gecreëerd. Terwijl het evolutionair mechanisme een rem betekent voor het besluitvormingsproces, verhoogt het teleologisch proces het analytisch niveau van dit proces, en daarmee haar uiteindelijke efficiëntie en snelheid. Deze twee tegengestelde mechanismen ontwikkelen zich tegelijkertijd binnen de organisatie.

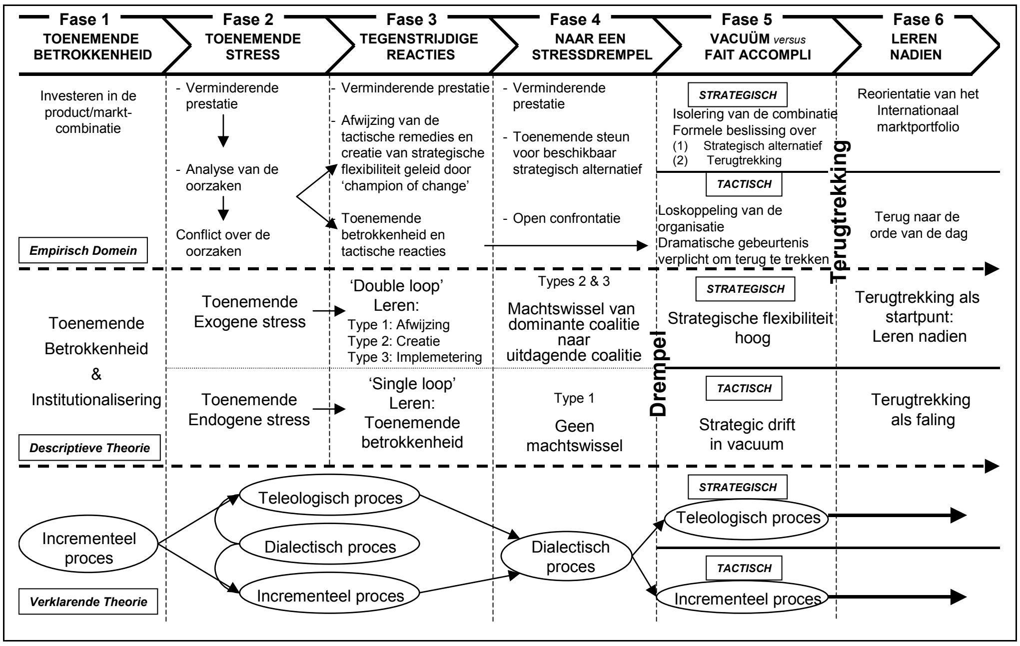
Een derde dialectisch mechanisme verklaart de dynamiek tussen de twee eerste mechanismen. Via een spel tussen hiërarchische macht en ‘kennismacht’ evolueert de impact van beide mechanismen op de besluitvorming doorheen het de tijd. Ervan uitgaande dat de bestaande strategische logica niet meer is afgestemd op de veranderende externe dynamiek – en dat het toenemend gevoel van exogene stress terecht is – zal de kennismacht van de uitdagende coalitie het uiteindelijk halen van de hiërarchische macht van de tot dan toe dominante coalitie. De uitdagende coalitie neemt dan ook formeel de macht over van de vorige dominante coalitie en kan dadelijk overgaan tot de implementatie van haar nieuwe strategie. In dit kader krijgt de terugtrekking een strategisch karakter en betekent deze beslissing het startpunt van een intense strategische heroriëntatie. Wanneer de dominante coalitie om verschillende redenen toch de macht behoudt tot voorbij het kritische stresspunt, dan zal de terugtrekking uiteindelijk toch moeten gebeuren. In dat geval zal dit echter een tactische beslissing zijn die geen aanleiding geeft tot verdere leerprocessen op andere niveaus van het internationalisatiebeleid van de onderneming.

Fasen **van het terugtrekkingsproces uit buitenlandse markten**	Procesproposities	
Fase 1: **Toenemende betrokkenheid**	P_1:	Toenemende betrokkenheid bij een product/marktcombinatie leidt tot toenemende institutionalisering van die combinatie in de internationale marketingstrategie en in de organisatie van een onderneming.
Fase 2: **Toenemende stress**	P_{2a}:	Wanneer verwachte resultaten uitblijven, ervaren managers eerder endogene stress of eerder exogene stress.
	P_{2b}:	Wanneer het referentiekader van managers overeenkomt met de dominante logica binnen de organisatie, dan zal stress eerder endogeen van aard zijn. Als gevolg daarvan zullen deze managers hun aandacht richten op het oplossen van de problemen binnen het strategisch kader van de geïnstitutionaliseerde product/marktcombinatie.
	P_{2c}:	Wanneer er geen overstemming is tussen het referentiekader van managers en de dominante logica binnen de organisatie, dan zal stress eerder exogeen van aard zijn. Als gevolg daarvan zullen deze managers hun aandacht richten op het oplossen van de problemen buiten het strategisch kader van de geïnstitutionaliseerde product/marktcombinatie.
Fase 3: **Tegenstrijdige reacties**	P_{3a}:	Wanneer de verwachte resultaten van een product/marktcombinatie niet worden verwezenlijkt, dan reageren bedrijven met tactische maatregelen waarbij ze hun toewijding aan de huidige strategische logica verhogen.
	P_{3b}:	Wanneer de verwachte resultaten van een product/marktcombinatie niet worden verwezenlijkt en de causale ambiguïteit hoog blijft, dan vormt zich een dominante coalitie rond de ervaring van endogene stress en vormt zich een uitdagende coalitie rond de ervaring van exogene stress.
	P_{3c}:	Managers die eerder toenemende endogene stress ervaren – de dominante coalitie –, wenden binnen de grenzen van hun verantwoordelijkheid routinematige procedures aan om de prestatie te verhogen.
	P_{3d}:	Managers die eerder toenemende exogene stress ervaren – de uitdagende coalitie –, weerleggen routinematige procedures om prestatie te verhogen indien zij over een bepaalde graad van autonomie beschikken.
	P_{3e}:	Managers die eerder toenemende exogene stress ervaren – de uitdagende coalitie –, weerleggen routinematige procedures en ontwikkelen alternatieve strategische opties om de prestaties te verhogen indien zij over een bepaalde graad van autonomie beschikken en voldoende kennismacht hebben.

Fasen **van het terugtrekkingsproces uit buitenlandse markten**	**Procesproposities**	
	P_{3f}:	Een uitdagende coalitie die strategische flexibiliteit creëert, neigt te ontstaan rond een 'champion of change' die de kennismacht in zich draagt.
Fase 4: **Op weg naar de stressdrempel**	P_{4a}:	Stress verhoogt aanzienlijk omwille van (1) ondoeltreffende tactische maatregelen, (2) het creëren van strategische flexibiliteit, en (3) de toenemende steun voor een strategisch alternatief in de organisatie.
	P_{4b}:	Het stressniveau bereikt een drempel wanneer de besluitvormingsmacht over een product/marktcombinatie overgaat van de dominante coalitie naar de uitdagende coalitie.
Fase 5: **Vacuüm versus fait accompli**	P_{5a}:	Voorbij de stressdrempel beslist het top management om (1) middelen te herverdelen en (2) de product/marktcombinatie te verwijderen. Beide beslissingen zijn een fait accompli wanneer de uitdagende coalitie de hiërarchische macht heeft verworven.
	P_{5b}:	Wanneer er, voorbij de stressdrempel, geen strategisch alternatief voor handen is dan zal de organisatie zich steeds meer loskoppelen van de product/marktcombinatie zonder die te deïnstitutionaliseren. Als gevolg daarvan ontstaat een vacuüm waarin de betrokkenheid van het management op een lager niveau neigt te escaleren (strategische drift) tot op het moment dat een dramatische gebeurtenis zich voordoet. Deze gebeurtenis dwingt het management tot onmiddellijke terugtrekking.
Fase 6 : **Leerproces na de terugtrekking**	P_{6a}:	Wanneer een nieuwe strategische logica leidt tot een strategische terugtrekking, dan is deze beslissing een startpunt voor een strategische reorganisatie voorbij de grenzen van de oorspronkelijke product/marktcombinatie.
	P_{6b}:	Wanneer inertie uiteindelijk leidt tot een tactische terugtrekking, verhindert de verminderde betrokkenheid van de onderneming een leerproces op een hoger niveau en voorbij de grenzen van de oorspronkelijke product/marktcombinatie

Tabel 1: Procesproposities van de 'middle-range' theorie over terugtrekking uit buitenlandse markten.

Figuur 2 vat de drie niveaus van onze studie samen: het empirisch, het beschrijvend en het verklarend niveau. In hoofdstuk 8 bespreken we de analytische veralgemeenbaarheid van dit model waarbij we het valideren ten opzichte van twee gevestigde theorieën over (strategische) verandering van organisaties: het ‘punctuated equilibrium’ model (Tushman en Romanelli 1985) en een procesmodel van strategische ‘business exit’ (Burgelman 1994).



Figuur 2: Een verklarende procesmodel van terugtrekking uit buitenlandse markten

Tenslotte bespreken we in hoofdstuk 9 de beperkingen van deze studie en formuleren we praktische aanbevelingen en aanbevelingen voor verder onderzoek. Daarbij pleiten ervoor verder onderzoek van het internationalisatieproces van ondernemingen te oriënteren vanuit een dynamische theorie van de onderneming.