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The role of market orientation, relational capital, and internationalization speed in foreign market exit and re-entry decisions under turbulent conditions

Serdar Yayla[a,*], Sengun Yeniyurt[a], Can Uslay[a], Erin Cavusgil[b]

[a] Rutgers Business School at Newark and New Brunswick, Rutgers University, 100 Rockafeller Road, Piscataway, NJ, 08854, United States
[b] University of Michigan-Flint, 2126 Riverfront Center West, Flint, MI, 48502, United States

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ABSTRACT

Firms' internationalization strategies can vary with changing environments. Occasionally, a firm may choose to re-enter a foreign market it had abandoned in the past if environmental conditions have improved. The present study provides insight into the foreign market exit and subsequent re-entry processes. Specifically, we utilize the strategic flexibility perspective to investigate the impact of market orientation, relational capital, and internationalization speed on market exit and re-entry decisions under turbulence in a host market. Using a sample of 156 Turkish firms that operated during the Arab Spring in the Egyptian market between 2010 and 2015, we find that the market-oriented firms are more flexible in their market exit decisions than less market-oriented organizations. In addition, relational capital specific to the host country has a negative impact on market exit decisions under conditions of political conflict. The results also suggest that strong ties with partners in the host country increase the propensity to re-enter the market.

1. Introduction

The rise in trade protectionism, expanding conflict zones, and ongoing political populism trends in both developed and developing nations raise the question of whether world trade is undergoing a round of deglobalization. Although the future of deglobalization is debatable (Contractor, 2017), a firm's response to major changes in its host country has, nevertheless, become a critical issue and is worth investigating.

During the last decade, unexpected changes in host countries have forced many firms to consider the option of exiting. Brexit, the Arab Spring, and the Ukraine crisis are just a few of the challenging economic and political events that have forced firms to deal with high levels of uncertainty in the last decade. In this paper, we aim to shed light on the impact of host country relationships, a market-oriented culture, and the speed of foreign market internationalization on exit and re-entry decisions in response to elevated levels of uncertainty in host markets.

For firms, the environment in host countries can often be less-than-welcoming. Protectionist measures such as foreign equity limits, discriminatory licensing practices, controls on foreign management, and even the threat of nationalization can put firms at a competitive disadvantage in many host countries. Another complication can stem from complex environmental factors such as excessive political risk (Covin & Slevin, 1989). Firms have had to develop mechanisms to successfully navigate the inherent challenges of each market where they conduct business; as such, these mechanisms often include frameworks to consider switching and exit options. Remedies that may be considered before exiting a hostile environment include the evaluation of potential partners and the strengthening of existing contractual agreements. Thus, multinationals seek to mitigate risk while ensuring an acceptable level of continuity (Cavusgil & Cavusgil, 2012; Liesch, Welch, & Buckley, 2011). Another common approach is to conduct extensive market research, bolster support within the local government, seek opportunities for innovation, and create payment incentives within the host country (Cyert & March, 1963). Although uncertainty and risk can be managed via these mechanisms, firms are more vulnerable to the turbulences that stem from radical changes.

Dealing with radical change—particularly in host countries—requires a sustained effort to identify, understand, and deleverage risk. This requires firms to adjust their strategic plans by balancing input from local partners with effective decision-making processes to ensure the trade-offs are in line with the global ambitions of the firm. In these instances, the firms will need to consider how well the strategic shift will shield them from the radical change in the host

* Corresponding author.
E-mail addresses: serdar.yayla@rutgers.edu (S. Yayla), yeniyurt@business.rutgers.edu (S. Yeniyurt), can.uslay@business.rutgers.edu (C. Uslay), erinc@umflint.edu (E. Cavusgil).

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market. Therefore, our focus turns to the role of market orientation, which can be considered as the market-sensing capability of the firm as well as relational capital, which enables the firm to interact with local firms and access knowledge in the host market (Deligonul & Cavusgil, 2006; Lorenzoni & Lipparini, 1999). This also requires new learning processes and time to understand the extent of adjustment and an effective response. Since the available resources for learning processes and time are linked with the internationalization history of the firm, we also focus on the internationalization speed of the firms.

The forces responsible for market exit vary widely, leading to a lack of research on market re-entry. These forces can be labeled as voluntary or involuntary. The leading drivers of voluntary market exit include local demand, competition, resource costs, exchange rate fluctuations, shifting strategic priorities, product failures, or retirement of key personnel. Conversely, involuntary exit often stems from political risk factors including nationalization, economic boycotts, warfare, or other security concerns. In our effort to examine market exit/re-entry phenomena, we first sought to identify a sample set of exit and re-entry cases. To build this sample set, we focused on involuntary exits that were influenced by an external factor, specifically the market exit and re-entry decisions of firms from the Egyptian market during the Arab Spring. This allowed us to scrutinize the involuntary exit processes of several firms in the same industry during a time of extreme turbulence. As such, our study sheds light on a prevalent type of foreign market exit while additionally providing insight on the market re-entry processes of firms. Moreover, our examination of the involuntary exit builds on earlier studies that have focused on unplanned internationalization (e.g., Crick & Crick, 2014; Dai, Eden, & Beamish, 2013).

Following market exit, a re-entry into a foreign market after some period of dormancy has become a frequent occurrence. In fact, it is not limited to emerging markets as a number of market re-entries have taken place in developed markets in recent years. For example, in 2015, Alfa Romeo re-entered the United States market, and PSA Peugeot Citroen re-entered the Iranian market. Similarly, the market re-entries of Coca-Cola into the Chinese and Indian markets were not de novo entries. Coca-Cola exited mainland China following the Communist Revolution in 1949 while withdrawing from India due to other political risk factors in 1977.

Regarding de novo entry, Raval and Subramanian (1996) argue for a difference between an initial market entry and *re-entry* following exit. This is due to the consequences of the earlier decision such as financial outcomes, residual perspective, brand image, knowledge, and market-specific experience. As such, firms that exit a foreign market can restart operations once conditions improve and adequate connection to the market remains – e.g., local partners, brand image, and knowledge.

Much remains to be discovered about the foreign market re-entry process. Vissak, Francioni, and Musso (2012) as well as Welch and Welch (2009) recommend that more attention be given to nonlinear market expansion processes such as re-internationalization and market re-entry. While the re-internationalization process of some firms has been examined by scholars including Crick (2002, 2003, 2004) and Bernini, Du, and Love (2016), the market re-entry process remains largely unexplored in international business and marketing. This is evidenced by the absence of quantitative studies on foreign market re-entry (e.g., Javalgi, Deligonul, Dixit, & Cavusgil, 2011). In their literature review of 1053 foreign market entry studies over the last four decades, Surdu and Mellahi (2016) noted the dearth of research on foreign market re-entry and concluded that future research on this topic is highly warranted. Therefore, a significant gap remains in the literature regarding the role of relational capital, market orientation, and internationalization speed in the foreign market exit and re-entry processes.

The present study addresses several issues. First, we seek to determine whether foreign market exit is permanent. Second, we contribute by examining the impact of the decision to *exit* a foreign market: a relatively understudied phenomena as much of the existing literature focuses on market expansion (Kotabe & Ketkar, 2009; Sousa & Tan, 2015). Third, despite the rise in globalization, market exit events have increased in recent years (Sousa & Tan, 2015). However, there is scant documentation of the antecedents of the foreign market exit process (Berry, 2013; Soule, Swaminathan, & Tihanyi, 2014). Fourth, the link between crisis situations and internationalization has been examined by only a few researchers (Engwall & Hadjikhani, 2014); in fact, Sousa and Tan (2015) point out the need for studies that shed light on the foreign market exit process. We aim to fill this gap and additionally to examine foreign market re-entry.

This study aims to contribute to the literature in several ways. First, this study examines exit and re-entry decisions of firms under turbulence and post-turbulence conditions in a host market. Consistent with previous research that suggests that the international market exit process is contingent on the environmental factors of the host country, our analysis focuses on the consequences of turbulence and post-turbulence stemming from political conflict. Our study also examines the behavior of firms from a particular country (Turkey) in a turbulent foreign market (Egypt). While previous literature has primarily looked at this phenomenon through case studies (e.g., Hadjikhani and Johanson's (1996) study of Swedish firms in Iran and Darandeli & Hill's (2016) study of Turkish firms in Libya), we were able to conduct an empirical study in this understudied area of international business.

Second, our study is unique in that it is one of the limited number of studies on the non-linear nature of the internationalization process. It relies on the perspective of strategic flexibility in that we examined the role of market orientation, market-specific relational capital, and internationalization speed on market exit decisions. Our findings suggest market orientation and market-specific relational capital have opposite effects on market exit stemming from political conflict.

In addition, we provide the first empirical study on the market re-entry process of multinationals to a particular international market: a significant gap in international business literature (Javalgi et al., 2011; Surdu & Mellahi, 2016). Recognizing the importance of "sleeping relationships" that can be revived for mutual benefit (Hadjikhani, 1996) and "beautiful exit" where existing ties can be maintained even upon exit (Alajoutsijärvi, Möller, & Tähtinen, 2000), we found that market-specific relational capital can be exploited while reentering into a foreign market.

The organization of the rest of the paper is as follows: first, we present a literature review of market exit and re-entry, market orientation, relational capital, and internationalization speed. Second, we present our hypotheses. Third, we discuss our context, data, and methods. Fourth, we present our findings and discuss them. We conclude with the limitations and future directions of the current study.

2. Literature review and conceptual framework

Benito and Welch (1997) define deinternationalization as "any voluntary or forced actions that reduce a firm's engagement in or exposure to current cross-border activities" (p. 9). They argue that deinternationalization arises in many forms, including reduction of operations and withdrawal from the market (market exit), switching operation modes and decreasing the level of commitment, selling of sales, service, and manufacturing subsidiaries, decreasing ownership stake in a foreign venture, and asset seizure by local authorities. We provide the selected studies regarding inward international activities in Table 1.

Whether a firm chooses partial or full deinternationalization, there are occasions when the only available option is market exit. However, these instances may coincide with barriers to exit (Caves & Porter, 1976) such as limitation on the movement of tangible and intangible resources (Siegfried & Evans, 1994) and the interrelatedness between units, as in the case of joint production (Benito & Welch, 1997). Based on previous studies of deinternationalized firms, there is a tendency to re-engage international operations in exited markets (Bernini et al., 2016; Roberts & Tybout, 1997; Welch & Welch, 2009). During this

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