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Re-Internationalization v/s Initial Internationalization: Comparison of Modes of Operations

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Abstract

Re-internationalization is defined as firms' re-entry into international operations after they have abandoned all their previous internationalization efforts. In this paper, we report findings from a survey administered among senior-level managers of re-internationalized Indian firms where we studied the differences in firms' choices in modes of operations during re-internationalization phase as compared to initial internationalization phase. The results from the survey indicated that firms tended to go for high involvement modes of operations during re-internationalization as compared to the relatively low involvement modes of operations undertaken during initial internationalization. This trend of going for higher involvement modes of operations was more visible in firms that had a presence in a relatively higher number of countries during the re-internationalization stage. This incremental nature of internationalization, *i.e.* going from initial low involvement modes of operations toward high involvement modes of operations as firms gained experience in both time and space from their initial through re-internationalization attempts, found support for the Uppsala model of internationalization. Being among the first studies on the topic, we expect this study to serve as a foundation for researchers to explore deeper related queries. This study also has meaningful practical and policy implications.

Keywords

Re-Internationalization, India, Modes of Operations, Uppsala Model of Internationalization

1. Introduction

Re-internationalization, or firms' re-entry into international markets after they have withdrawn from all their previous internationalization activities [1], involves at least four stages: initial internationalization, de-internationalization or exit from internationalization, a time-out stage where no international operations take place, and finally a re-entry into internationalization.

One-fifth of all firms that internationalize exit internationalization [2]. Despite being found that intentions for re-entry to international activities among firms that have exited their initial internationalization are high [3] [4], re-internationalization has received sparse attention in the published literature [1]. Though studies on re-internationalization have sprouted up in recent past [5]-[10], differences in firms' choices in modes of operations during various stages of internationalization have not been explained yet. We tried to address this gap from this study.

We shortlisted Indian firms that had undergone re-internationalization from the early 1990s till mid-2010s based on financial details available in CMIE-Prowess database. Post-1990s was significant in the Indian context, as it was during that period that economic activity thrived in the Indian markets due to the liberalization policies adopted by the union government [11], which significantly helped the initial internationalization of many firms. After cross-verification of the shortlisted firms with four other databases, and also based on direct interviews, we generated a final list of 73 firms. A questionnaire survey was administered among senior managers of these firms to compare and contrast modes of operations adopted during initial internationalization and during re-internationalization stages.

Firms' initial international experiences leave them with an international heritage [1] [12], the learning from which firms are expected to utilize while they re-internationalize. Accordingly, we anticipated and later found that firms went for higher involvement modes of operations during re-internationalization period, utilizing their learning and experiences from the initial internationalization phase(s). We also found that firms having a presence in more No. of countries especially went for higher involvement modes of operations as compared to those firms that had a presence in lesser No. of countries during re-internationalization. This incremental nature of internationalization, *i.e.* from low involvement modes of operations toward high involvement modes of operations as firms gain experience both in time (initial to re-entry phase) and space (presence in more number of countries) finds support for Uppsala model of internationalization. Uppsala model of internationalization is explained as firms' incremental process of building commitment in host nation(s) utilizing their experiences during the passage of time [13] [14].

Being among the pioneer studies that discuss and compare modes of operations during various stages of internationalization, we expect the findings from this research would be a valuable contribution toward international business management theory, apart from having meaningful implications to practice and policy.

The rest of this paper is structured as follows. We first discuss and locate the phenomenon of re-internationalization in the context of previous scholarship, then discuss the methods adopted for the study to collect data, and subsequently present the results and analysis, and finally conclude the study by delineating implications and limitations.

2. Literature Review

Internationalization is defined as firms' activities that stretch beyond national boundaries in factor and/or product markets [15]. It can either be outward activities such as firms exporting their products and/or services, alliances, JVs, branches, subsidiaries, FDI, etc. beyond the territorial boundaries of their home markets, or inward activities such as import of raw materials or services, strategic alliances, countertrade, cooperative manufacture, etc., or activities where outward and inward activities are inter-linked [16].

Re-internationalization is defined as re-entry to internationalization after a firm has abandoned all its previous internationalization activities [1]. It is different from re-entry to previously abandoned international market(s), as re-internationalization occurs after a complete withdrawal from all international territories a firm had previously been operational, whereas re-entry to a specific international territory can occur even if a firm had partially exited the specific market while it continued operations in other markets.

De-internationalized firms intend to re-internationalize due to several internal and external factors, such as assets and liabilities flowing from initial internationalization, new international influences occurring after de-internationalization, and firm experiences during the time-out stage [1]. Also, changes in strategic orientation, changes in top management, or changes in other external factors such as environmental, political, competitive, technical scenarios can considerably influence re-internationalization of firms. The residual mind-share or psychological experiences flowing from firms' initial internationalization activities may also influence firms' decision and approach toward re-entry [12].

Re-internationalization has received limited attention in extant literature [1]. Some recent studies describe various aspects of re-internationalization, but none of these has addressed the query we tried to understand from this study. The case study of a UK-based firm talks about a firm that faced troubles even in the domestic market after exiting from initial internationalization [9]. It prompted this family-owned enterprise to professionalize managerial roles that were otherwise being held by family members alone, and this later helped the firm not only to overcome challenges in domestic market, but it also paved way for the firm to tap overseas opportunities and hence to successfully re-internationalize.

Another study [8] described the successful re-internationalization of Australian born-global firms which initially were forced to retrieve from international markets due to external pressures and resource constraints. The focus of this study is on the entrepreneurial roles of managers, who quickly restructured their organizations to re-internationalization strategies as and when they found favorable circumstances emerged during their time-out periods.

A study on re-internationalization paths of French SMEs identified the major elements aiding successful re-internationalization as learning, resilience, and the internationalization orientation of the entrepreneurs [6].

Internationalization and/or re-internationalization can be an outcome of several external or internal factors. For instance, it could be triggered by fortuitous foreign orders, a decline in domestic demand, government policy implications, exchange rate fluctuations, changes in competitive scenarios, changes in top management, changes in strategic orientation, developments in R&D, etc. [1].

Firms re-entering international operations would already possess experiences in terms of knowledge, skills, familiarity acquired from such operations [17] including experiences of key individuals involved in initial operations. For instance, it is strongly supported by export-related studies that previous international experiences of managers have a positive impact on internationalization of firms [8] [18]. Firms may also have built networks and relationships, gained knowledge and access to certain markets, and knowledge about cultural and legal aspects of certain markets [12]. Continuity in their inter-organizational networks and key personnel associated with international operations could be valuable for firms' re-internationalization prospects.

A prolonged time-out from internationalization is expected to diminish the usefulness of firms' learning and experiences [19] acquired from initial internationalization, as new and different challenges and events are expected to occur during the time-out phase [1] [12]. Nonetheless, some of the intangible resources including experiential knowledge and managerial skills are expected to remain with a firm to some extent [20] [21] from its initial through re-internationalization stages [1].

Firms' learning and experiences from their initial internationalization phases(s) through de-internationalization and time-out periods could be capitalized by firms during their re-internationalization phase [1]. We, therefore, anticipated that the learning and experiences carried forward from initial international operations would enable a firm to re-enter international operations with higher involvement modes of operations.

The above argument is indirectly followed from the Uppsala school of thought on the process model of internationalization [13] [14], which articulates that firms enhance their commitments in host nations over time as they accrue experience and learning from foreign markets. Accordingly, firms are expected to move ahead from an initially low-involvement modes of operations for internationalization such as direct exports or trading via agents to higher involvement modes of operations for international operations such as having branch offices, joint ventures, or establishing own subsidiaries.

In our study, we tried to understand whether this was indeed the case or not by comparing the modes of operations during initial internationalization and that during re-internationalization periods.

3. Methods

3.1. Sample Selection

In order to generate an initial shortlist of firms for the study, firstly we downloaded financial data of firms for the period from the 1990s till mid-2010s from CMIE-Prowess database, and this was supplemented with data from Capitaline database. With the help of STATA software we used the following criteria on the downloaded financial data to shortlist the firms: minimum two years of recorded data of forex (foreign exchange) revenue during initial internationalization period, followed by an exit period of minimum two years with zero forex revenue, followed by minimum two years of forex revenue during the final re-internationalization stage.

The criterion of two years is widely used and accepted in internationalization research [22] [23] [24]. The two-year criterion also ensured the exclusion of sporadic exporters or firms that were engaged in intermittent exports with short breaks. The characteristics of such sporadic exporting firms would be different from those firms that had committed initial internationalization operations and then subsequently withdrew due to various reasons [1]. We also excluded firms having less than 1% of their total income recorded as forex revenues and the absolute value of forex revenue below 10 million Indian Rupees, in order to avoid firms that had a very narrow internationalization exposure.

The basic assumption used in this exercise was forex revenue could be an indicator for firms' internationalization activities. However, in order to avoid discrepancies in data we later cross-verified the financial data of the shortlisted firms with annual reports available at Thomson-Reuters Eikon, Insight-DION and EMIS-Emerging Markets Information Science databases to ensure that these firms had actually undergone re-internationalization. This cross-verification exercise, along with direct interactions with executives of the initially shortlisted firms helped us to identify a final list of 73 re-internationalized firms across India.

3.2. Questionnaire Administrations

A survey was administered among top-level managers of the identified 73 Indian firms that have undergone re-internationalization. Our persistent follow-up over email, telephone, and direct visits, helped us to gather responses from almost the entire population of firms identified for the study, as we collected 71 responses of a maximum possible 73.

Managers were asked to mark their responses on the different modes of operations they undertook and the No. of countries they were present in each of the stages. Table 1 shows the questions and items used to collect responses from the survey participants.

Table 1. Questions and items.

Modes of operations (same question repeated for initial internationalization as well as re-internationalization periods)
What all were/are the kind of international operations your organization were/are exposed to: (please tick one or more in each column, as applicable): Exports Agency Franchisee Branch office FDI (foreign direct investment) as shares/investment in other firms Joint venture Strategic alliances Green-field expansion (expanding own firms' outlets to foreign countries) Acquisition of foreign firm Other—kindly explain … (descriptive answer)
No. of countries (same question repeated for initial internationalization as well as re-internationalization periods)
Number of countries you were/are present: (please tick the appropriate tab) Objective question: 1, 2, 3, 4, 5, 6, 7 or more

4. Results and Analysis

4.1. Modes of International Operations—Frequencies

Table 2 and Table 3 show the collated responses from the survey that shows the frequencies of modes of international operations engaged by firms during the two periods of international operations, *i.e.* during initial internationalization and re-internationalization periods respectively.

Major observations from these responses are:

- During both the periods of internationalization majority of the firms engaged in direct exports as well as trading via agencies as their main modes of international operations.
- There is a notable increase in firms operating own branches during re-internationalization period (15 firms) as compared to initial internationalization period (5 firms), *i.e.* 21.1% firms during re-internationalization period as compared to only 7% firms during initial internationalization period.
- Joint ventures as a mode of operation also had a relatively substantial rise from 3 firms (during initial internationalization period) to 8 firms (during re-internationalization period), or 4.2% of firms to 11.3%.
- Green-field ventures as a mode of operation has risen from 0 firms (during initial internationalization period) to 4 firms (during re-internationalization period), or 0% to 5.6%.
- All other modes of operations were relatively similar during both the periods (with the difference being less than 5%).

We reckon that the substantial rise in No. of firms having modes of operations such as branches, joint ventures, and green-field ventures during re-internationalization stage when compared to initial internationalization period can be attributed to firms' learning and experiences from initial international operations. The learning from initial internationalization helped firms to step into higher involvement modes of operations when they re-entered internationalization. This observation supports the Uppsala model of internationalization [13] [14], which says firms' experiences and learning promote their raising of commitment in host nations over time.

4.2. Cross-Tabulation of Presence in No. of Countries v/s Modes of International Operations

Table 4 and Table 5 show the cross-tabulated data for firms' presence in No. of countries v/s the modes of operations during each period of internationalization based on the survey responses.

Major observations from this tabulation are:

- Relatively higher No. of firms had a presence in four or more countries during re-internationalization (56 of 71 firms) as compared to during initial internationalization (just 30 of 71 firms).
- During initial internationalization period, most firms concentrated on direct exports (63 firms of 71) and trading via agencies (32 of 71 firms) as the primary modes of operations, with other modes of operations being very less in numbers.
- Although during re-internationalization period firms continued in modes of operations such as direct exports (63 firms of 71) and trading via agencies (33 of 71 firms), high involvement modes of operations became prominent especially for those firms which had a presence in more No. of countries. For instance, during re-internationalization, most firms that had a presence in four or more countries were engaged in higher involvement modes of operations such as own branches (14 among 15 firms that had branches were present in four or more countries), joint ventures (6 among 8), green-field ventures (4 among 4), and even acquisitions (3 among 3).

Table 2. Frequencies of modes of operations during initial internationalization period.

Initial internationalization modes—frequencies			
Modes of operations	Responses		Percentage of cases
	Number	Percentage	
Exports	63	55.3%	88.7%
Agency	32	28.1%	45.1%
Franchisee	3	2.6%	4.2%
Branch office	5	4.4%	7.0%
FDI	0	0.0%	0.0%
Joint venture	3	2.6%	4.2%
Strategic alliances	6	5.3%	8.5%
Green-field expansion	0	0.0%	0.0%
Acquisition	0	0.0%	0.0%
Other modes	2	1.8%	2.8%
Total	114	100.0%	160.6%

Table 3. Frequencies of modes of operations during re-internationalization period.

Re-internationalization modes—frequencies			
Modes of operations	Responses		Percentage of cases
	Number	Percentage	
Exports	63	44.4%	88.7%
Agency	33	23.2%	46.5%
Franchisee	4	2.8%	5.6%
Branch office	15	10.6%	21.1%
FDI	3	2.1%	4.2%
Joint venture	8	5.6%	11.3%
Strategic alliances	6	4.2%	8.5%
Green-field expansion	4	2.8%	5.6%
Acquisition	3	2.1%	4.2%
Other modes	3	2.1%	4.2%
Total	142	100.0%	200.0%

Table 4. Cross-tabulation of presence in No. of countries v/s mode of operations during initial internationalization period.

Initial internationalization: cross tabulation of No. of countries v/s modes of operations											
No. of countries	Initial internationalization modes										Total
	Exports	Agency	Franchisee	Branch office	FDI	Joint venture	Strategic alliances	Greenfield	Acquisition	Other modes	
1	9	1	0	0	0	1	0	0	0	2	11
2	17	7	1	2	0	1	2	0	0	0	19
3	10	6	1	1	0	1	2	0	0	0	11
4	8	6	0	0	0	0	1	0	0	0	9
5	9	3	0	2	0	0	1	0	0	0	9
6	1	1	1	0	0	0	0	0	0	0	1
7 or more	9	8	0	0	0	0	0	0	0	0	11
Total	63	32	3	5	0	3	6	0	0	2	71

Table 5. Cross-tabulation of presence in No. of countries v/s mode of operations during re-internationalization period.

Re-internationalization: cross tabulation of No. of countries v/s modes of operations											
No. of countries	Initial internationalization modes										Total
	Exports	Agency	Franchisee	Branch office	FDI	Joint venture	Strategic alliances	Greenfield	Acquisition	Other modes	
1	4	1	0	0	0	0	0	0	0	0	5
2	4	1	0	0	1	1	0	0	0	0	5
3	4	1	0	1	1	1	1	0	0	0	5
4	7	6	1	4	0	1	1	1	0	0	10
5	8	5	0	2	0	0	0	0	0	2	9
6	9	5	0	2	1	1	2	1	0	0	10
7 or more	27	14	3	6	0	4	2	2	3	1	27
Total	63	33	4	15	3	8	6	4	3	3	71

This observation, *i.e.* going from low involvement modes of operations to high involvement modes of operations from initial internationalization to re-internationalization period for firms having a presence in more No. of countries, also supports the Uppsala model of internationalization [13] [14]. In this case, it could be argued that, apart from learning and experiences acquired from initial internationalization, firms also accrued useful learning and experiences from their presence in more international territories. This learning helped firms to engage in higher involvement modes of operations during re-internationalization.

5. Conclusions and Synthesis

As this research is among the very first efforts that compare firms' choices in modes of operations during re-internationalization as against that during initial internationalization, we expect the outcomes of this study to serve as a foundation for scholars engaging in deeper queries, apart from its contribution toward international business management theory. For instance, case studies to understand the process of re-internationalization on how and why firms undertook various decisions at different stages of their initial through exit through re-entry stages, especially to understand the reasons why which they opted for higher involvement modes of operations during re-internationalization would be an interesting topic for future research. As the study was undertaken in an emerging economy context, *i.e.* amongst Indian firms, which might have some limitations on generalizability of the findings to a developed economy context, it threw up a noteworthy research agenda for replication of this study in a developed economy context to understand whether the patterns identified in this study were universal or not.

We also expect the findings from this study to be useful for practitioners and policy-makers. From a managerial perspective, the findings that initial internationalization experiences help firms in their subsequent re-internationalization, as it enables them to go for higher involvement modes of operations during re-internationalization, should be motivating for managers, firstly not to be disappointed about initial failure attempts, and secondly and more importantly to invest in facilities such as knowledge management systems that record organizational learning and experiences so as to make it available when required at a later stage. Managers should ideally be exploring and looking forward to future opportunities in international markets rather than being constrained by residual negative mindshare from their initial failed internationalization attempts because learning and experiences even from failed attempts can be helpful during re-internationalization.

From a policy perspective, regulatory authorities should support firms that have retracted from initial internationalization to re-internationalize, as our study provides evidence that learning from initial attempts is indeed helpful for firms when they re-internationalize, which not only helps the firms that re-internationalize, but also in turn will benefit the larger economic prospects of the countries where they're based at as well.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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