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An Integrated Framework of De-internationalization Strategies for Smaller Born-globals

Dr. Susan Freeman
Senior Lecturer,
Department of Management
Monash University
Caulfield Campus, Victoria, 3145
Australia.
Phone: 03 9903 2674; Fax: 03 9903 2718/9232
E-mail: Susan.Freeman@buseco.monash.edu.au

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Abstract

A review of the literature emerging from a number of areas on smaller born-globals reveals that it is fragmented with no coherent theoretical framework. In particular, current conceptualizations of the born-global fail adequately to consider the use of outward-inward strategic partnerships and de-internationalization. This paper draws on in-depth interviews with senior managers in smaller born-globals, to address this research gap and reveals the movement between outward and inward relational entry modes used as a proactive de-internationalization strategy by these firms, during periods of economic decline such as that experienced globally after the dot com crash of 2000. Building on existing theories of network perspective and Dunning's OLI paradigm, a framework provides explanation of the use of multiple entry modes and 'switching' from outward to inward strategies, such as strategic alliance to exclusive reseller, to allow smaller-born globals to continue to expand their commitment to international markets through business relationships.

1. Introduction

Early literature on the stage model viewed internationalization as changes in the firm through incremental commitments to foreign markets. Starting with the entry mode that requires the least commitment of resources, such as exporting, they move to one requiring greater commitment, such as joint venturing (JV) (Cavusgil, 1980). These activities encompass outward connections, such as exports, strategic alliances, JVs, licensing, technology agreements and merger and acquisition, and inward linkages, such as purchasing functions (Karlsen, Silseth, Benito & Welch, 2003), including importing and buying agent. Recent studies focusing on the internationalization of small to medium sized enterprises (SMEs) operating in high-tech industries have observed that they tend to internationalize more rapidly, with market entry routes or paths different from those in low-tech sectors (Crick & Spence, 2005). These SMEs have advanced technologies and capabilities, an educated workforce, and an ability to locate opportunities and act quickly to take first-mover advantage (Bell, 1995). Referred to as born-global firms their exhibited behaviour, in contrast to a stages model, may mean they do not have time to integrate prior knowledge and fully develop the implementation of their international strategies (Johanson & Vahlne, 1977). This implies their strategies may be reactive rather than proactive in nature, strongly supported by technology (e.g. internet), which assists them to make rapid decisions often following unsolicited orders (Eisenhardt, 1989).

However, the limitations of conventional internationalization stage theories for adequately explaining the internationalization process of SMEs in high-tech fields are now numerous (Bell, 1995, Knight & Cavusgil, 1996), such as the behaviour of born-globals. Yet such challenge has not gone beyond questioning the relevance of these theoretical approaches to outward forms of internationalization; that is, that inward activities always precede outward activities; that they have a manufacturing focus and that "inward international activities…usually involve smaller investments and less risk" (Karlsen et al., 2003). Inward activities are regarded as a prelude to the more important platform for subsequent operations, with no suggestion that inward activities may be strategic moves by firms that follow outward activities and address particular external factors. Acknowledging the importance of inward connections and role of procurement in the internationalization of the firm, the current study focuses on born-global SMEs in high-tech industries, involved in switching from outward to inward activities, sometimes referred to as de-internationalized. According to Benito and Welch (1997), de-internationalization encompasses any reduction in a company's engagement in its cross-border activities, e.g. moving from outward to inward entry modes. There is now considerable recognition that in certain instances it is plausible that a firm's internationalization can take the form of dis-investment (Calof & Beamish, 1995, Chetty & Campbell-Hunt, 2004). Hence, de-internationalization raises the question, how relevant are the more traditional approaches to internationalization of SMEs in the new millennium (Fletcher, 2001)?

By contrast, the contingency approach, is based on the premise that firms' international evolution is contingent upon a wide range of market-specific and firm-specific characteristics (Fletcher, 2001).

External situations or opportunities may cause firms to leapfrog stages or to enter markets that are psychically distant (culturally different) from the home country. Alternatively, taking a relational view, "network perspective" (Coviello & McAuley, 1999) attributes internationalization of smaller born-globals to the development of networks of relationships over time to build collaborative partnerships with international buyers, sellers and distributors as they build up knowledge about each other (Freeman, Edwards, & Schroder, 2006). While neither approach addresses de-internationalization of SMEs directly, Mainela (2007) leaves open how deliberately managers are able to develop and use interpersonal relationships for different business purposes. Unlike studies that claim that social networks cannot be planned or managed, Mainela (2007) argues "there exist multiple means known and used in business life through which managers try to influence the nature of the business relationships, making them more personal and useful" (pp. 96-97). Relying on Dunning's ownership-location-internalization (OLI) paradigm, the O-advantages appear to be the "main drivers of internationalisation, irrespective of firm size and internationalisation strategy" (Hollenstein, 2005, p. 431). As the knowledge-base on which O-advantages of smaller firms rests is more constrained than that of larger firms, and opportunities irrefutably drive their strategy (Hollenstein, 2005), there is then no logical reason to assume that SME internationalization is always linear, that is, that inward activities precede outward.

While several researchers in the area of SME internationalization suggest a more holistic view which embraces inward, linked (strategic alliances) as well as outward forms, these studies comment on the extent rather than on the motivations for inward and linked internationalization. For example, Korhonen, Loustarinen and Welch (1996) found that only 44 percent of SMEs began internationalization from the outward side. Luostarinen and Gabrielsson (2004) found that of manufacturers engaged in outward activities, 79 percent were also involved in inward activities and 17 percent in linked activities. Karlsen et al. (2003) point to learning through inward for later outward activities but perceive inward connections as "early activities", suggesting that the connections become less obvious as organizations grow" (p. 394). None provide explanations of the motivation for the selection of alternative governance structures (Oviatt & McDougall, 1994), particularly after SMEs have begun to internationalize. We know that born-globals tend to rely on hybrid structures in their distribution channels such as close relationships and network partners (Madsen & Servais, 1997) and that collaborative partnerships frequently determine their location, through client followership and that they use inward and outward activities (Freeman, Edwards, & Schroder, 2006).

Thus, the broad problem this paper addresses is what are the motivations for outward-inward and linked internationalization of smaller born-global firms? With this in mind, the paper progresses through the following steps: first, inward-outward linkages are reviewed as these are important for gaining better understanding of the nature of complex forms of international resource commitment, which is then linked to our current understanding of born-global SMEs. It is argued that the stages model, which supports time-dependent, deterministic evolutionary paths, does not include contractual and collaborative entry modes in its establishment process, nor the factors that are causing born-global SMEs to switch (move) from outward to inward entry modes, which, on the "surface", appears to be reducing their international involvement, referred to as de-internationalization. Then discussion is provided which suggests that while de-internationalization is quite common, little research has occurred because it is largely viewed as a failure and a reactive strategy. Two questions emerge from the literature. The first asks how do smaller born-global firms move through the de-internationalization process? It is argued that there is a lack of theoretical explanation of the strategic use of outward-inward linkages and de-internationalization in the selection of business partners by born-global SMEs. The different paths along which internationalization theories have evolved and their relation to smaller born-global international involvement and entry mode are then outlined. It is argued that the risk neutral response to legitimating and competitive pressures by larger multinational corporation (MNCs) is not similar to SMEs. A risk neutral response to these two pressures does not account for the first-mover advantage and risk-taker's viewpoint, to enter a market before their rivals, very typical of the behaviour of smaller born-global firms. Thus, the second question asks how do smaller born-global firms choose their entry mode? Multiple, in-depth interviews with senior managers in seven smaller-born globals were conducted to describe proactive de-internationalization strategies, outward-inward entry modes and active use of networks in client followership strategies, a reverse situation to that encompassed by stage theories alone. Findings suggest that following de-internationalization, SMEs have increased their market knowledge and for some born-globals even increased their level of commitment, by switching from outward to inward connections. This challenges the stages model and supports the argument that we lack an integrated approach for understanding born-global SMEs exhibiting pro-active and opportunistic behaviour, focusing on a knowledge-base primarily related to capabilities underpinned by incremental innovations. The findings also support a framework of this process and a new focus is suggested for further research.

2. International involvement and ownership mode

Chan, Makino and Isobe (2006) found that a MNC's market entry decisions are strongly influenced by its own prior entry and exit decisions, marginally influential on its own subsequent market entry decisions at the parent level, and highly influenced by those of other MNCs (legitimacy and competition). In addition, a MNC's market entry decisions have a stronger relationship with the prior entry and exit decisions of other local competitors than of competitor MNCs at the host and global industry levels. Legitimacy refers to the practice of firms increasing their chances of surviving by following the practices and strategies of other firms, given their lack of information about efficiency and effectiveness of their strategies, especially in conditions of uncertainty (DiMaggio & Powell, 1983). Firms will perceive high levels of uncertainty about the outcome of foreign market entry (FME) when they lack information to estimate the present and future market conditions in the host market (Johanson & Vahlne, 1977). While engaging in FME, firms that are less familiar with a foreign market will tend to imitate the actions of other firms operating in the same market, because of the perceived legitimacy of their highly visible entry decisions (Chan, et al., 2006, Guillen, 2002).

Competition can also have a major impact on the FME decision of MNCs. A MNC's tendency to follow the market entry behavior of others firms will peak when firms observe many other foreign firms entering the same market. Many new entrants also signals to potential and entrenched firms the increase in competition, meaning the pressure for resources (e.g. labour, distribution and supplier networks) and customers will intensify, encouraging entrenched firms to raise barriers to entry and deterring new firms from entering (Mitchell, Shaver, & Yeung, 1994). As the organizational density in the host market intensifies, the legitimacy process may be replaced by the competitive process. The tendency to imitate the FME decisions of other firms in a market will fall off beyond a particular threshold as the number of new entrants in the host market increases (Chan, et al., 2006). Similarly, the value of entering a market may become questionable when firms observe large numbers of competitors exiting a given market, as this may signal that the market is too hostile for new entrants and this deters entry (Messallam, 1998).

However, Chan et al. (2006) does not take into consideration the theory of first mover advantage and the theory of internationalization and "implicitly assumes that MNCs are risk neutral and respond to legitimating and competitive pressures in a relatively similar fashion" (p.661). The first-mover advantage generally takes a risk-taker's viewpoint and enters a market before their rivals (Isobe, Makino, & Montgomery, 2000), behaviour very typical of the smaller born-global (Freeman, et al., 2006, Gabrielsson & Kirpalani, 2004). This behaviour is the reverse the stages theory (Johanson & Vahlne, 1977), with a focus on risk-averse behavior in FME, with the underlying argument that firms will initially make small scale, successive increases in their resource commitment to foreign markets that are psychically similar before finally investing in more distant markets. However, this resource commitment behaviour is atypical for smaller-born globals which tend not to be psychically sensitive to distant markets even for their first move (Crick & Spence, 2005, Gabrielsson & Kirpalani, 2004) although there is still some debate about this issue (Chetty & Campbell-Hunt, 2004).

The resource advantage (RA) theory (Hunt, 2002) allows for entry mode choices regarding internalization based on resource exploitation of embedded know-how (e.g. wholly owned subsidiary, merger and acquisition) or collaboration for resource exploration and development (e.g. strategic alliances, licensing and JVs), as it focuses on skills and competencies of the firm (Malhotra, et al., 2003). However, the RA theory does not explain or predict the type of cooperative behavior a firm will choose. The transaction cost analysis (TCA) theory (Williamson, 1975) does state that when adaptation costs (towards environmental uncertainty), performance costs (towards behavioural uncertainty), and safeguarding cost (towards asset building and opportunistic behavior) are low or absent, firms will choose market governance (e.g. strategic alliance, licensing). By contrast, when the costs are perceived as higher than the production cost advantages in the foreign market, firms will choose internal governance mechanisms (e.g. merger and acquisition, wholly owned subsidiary). However, the major limitation of TCA is that firms simply do not base their entry mode choice around issues of reduced transaction costs alone but might also wish to consider non-TCA factors such as global integration and market power (Dunning, 2000). While exporting is still the preferred type of international activity for SMEs, they are increasingly becoming more directly involved in foreign locations through distribution, production and R&D (Coviell & McAuley, 1999). The higher resource constraints facing SMEs than larger firms, implies SMEs are more likely to choose a contractual arrangement and if they choose equity-based activities, they prefer minority-stakes over full ownership. These "soft" forms of international activities help to overcome some of the resource constraints facing SMEs. However, some SMEs, especially in the high-tech, niche markets may choose full ownership as an international strategy (Buckley, 1989). Recently, Dunning's (2000) OLI paradigm of ownership, location and internalizing advantages has been further developed to allow for new world economic forces such as global competition, falling transaction costs and increasing knowledge of economic events, prompting a changing pattern of internationalization, characterized by international networks and strategic alliances (Hollenstein, 2005). In particular, the O-advantages acknowledge international alliances and networks as an efficient means to access assets and to preserve and build the firm's unique resources and capabilities. This later OLI version allows for the possible explanation of a network perspective of internationalization for born-globals and the smaller firm.

However, the issues of control and integration, which underpin TCA, are likely to be increasingly irrelevant as an explanation in the environment described as global, technologically advanced and dynamically innovative where firms can both disinternalize through alliance capitalism and still maintain control (Malhotra, et al., 2003). Nor do these theories adequately explain the lack of internalization by smaller-born globals due to financial constraints, and their preference for collaborative partnerships, including outward to inward, based on network contacts, described by the network perspective. This suggests a need for greater integration of theoretical explanations, especially so for those SMEs involved in accelerated internationalization. The contract-based approach to internationalization has been well represented in recent studies of high-tech and knowledge intensive SMEs, many of whom are born-globals (Chetty & Campbell-Hunt, 2004, Freeman et al., 2006). Internationalization can be perceived as the externalization of multilateral activities and facilitated through a myriad of social and business networks, which, over time, build institutional knowledge from multiple diverse country experiences and also experience in the specific ongoing business rather than experiences at the level of the country (Chetty, Eriksson, & Lindbergh, 2006). The building of knowledge through experience is consistent with a stages model of internationalization (Johanson & Vahlne, 1977) and reduced uncertainty which drives the smaller firm to seek out opportunities in foreign markets (Penrose, 1959). More importantly, the various network relationships influence their initial market entry decision and also the mode of entry for smaller firms (Coviello & Martin, 1999). Bell (1995) observed the use of networks in client followership strategy of smaller born-globals in high-tech industries, where internationalization was noted for its rapid growth, and reactive and opportunistic exporting which preceded planned strategic involvement. Haahti, Madupu, Yavas and Babakus (2005) noted evidence of SMEs employing cooperative strategies to enrich their knowledge base about export markets, which consequently improved their performance. Finally, while de-internationalization can be perceived as a rejection of the internationalization process, it can be understood as such only if we assume an outward strategy is the only pathway in the internationalization process. Fletcher (2001) does not assume this definitive position, leaving open the possibility that de-internationalization is the apparent withdrawal from international activities, in the absence of any further evidence. It is this further evidence to which we now turn.

3. Inward-Outward Linkages

A number of studies have examined the importance of inward activities for SMEs, such as importing (Gruen, 1991, Katsikeas, 1998, Leonidou, 1989). The results have confirmed inward-outward linkages with Welch and Luostarinen (1993) providing evidence that inward internationalization factors play an important role in later outward expansion. A study of the inward-outward internationalization patterns of a large number of Finnish SMEs found that the majority began international operations on the inward side (importing) rather than the outward (exporting) raising profound questions about government policy towards export promotion (Korhonen, Loustarinen, & Welch, 1996). Against a background of more intensive competition in the global arena, increasing use of technology and knowledge involved in innovation, rising costs of production, along with shorter product cycles, many SMEs are being driven towards collaborative arrangements (Coviello & McAuley, 1999). Inward-outward linkages provide evidence of the importance of networks to these collaborative arrangements (Hallen, 1992) in the international market development process (Welch, 1999), and particularly to smaller born-globals (Freeman, Edwards, & Schroder, 2006, Oviatt & McDougall, 1994).

Viewed as time-dependent and deterministic (Andersen, 1997) the stages model does not allow for both large MNCs that are well endowed with resources, and MNCs in the service sectors (Bell, 1995). Nor does it allow for smaller-born globals with low resource commitment, rapid commercialization expectations, and a preference for collaborative entry modes, for example, strategic alliances over independent modes such as exporting (Crick & Spence, 2005). Similarly, the network perspective does not provide a predictive model and appears ad hoc in its understanding of the internationalization process (Malhotra, Agarwal, & Ulgado, 2003). Coviello and McAuley (1999) posit that convergence of the stages model and network perspective is required because of the dynamic and broad nature of SME internationalization.

4. De-internationalization

Fletcher (2001) argues that internal and external factors are driving SMEs to adopt a more dynamic as opposed to an incremental approach and to switch between forms of international involvement as changing market circumstances require. He calls the opposite of the stepwise progression and forward momentum de-internationalization, and incorporates this into his model with forward and backward linkages between the outward and inward internationalization activities (strategies). However, because of the poor response to his survey on SMEs exhibiting de-internationalization, he was unable to draw any generalizations. Identified as a limitation of his study, he called for "a more comprehensive list of firms which reduced their international involvement needs to be obtained and…inquir[y] as to the factors causing their de-internationalisation" (p.47).

Studies, such as Chan et al. (2006) focus on large MNCs only, engaging in FME through "foreign direct investment rather than through arm's length contractual modes, such as licensing and exporting or importing" (p.643). This view conflicts sharply with Buckley's (1993) view of the "new" industrial organization which features cooperative arrangements and alliances and envisages a new structure of international competition based around collaboration (Malhotra, Agarwal, & Ulgado, 2003). Described as alliance capitalism over hierarchical capitalism, the new organization is motivated by a desire to reduce transaction cost, which leads to enhanced ownership-specific advantages to overcome entry barriers (Dunning, 1995). These new organizations behave with strategic flexibility by typically disinternalizing activities outside of their core competencies and subsequently forming strategic alliances and network relationships (Dunning, 1995, Welch & Welch, 1996). However, this theory does not consider the smaller firm that might engage in strategic alliances or collaborative partnership as its first, not subsequent, entry mode choice typical of smaller born-globals. Nor does it account for their move to subsequent entry modes that could be described as inward such as exclusive reseller, while simultaneously moving to JV for joint manufacturing in another foreign market, again typical for smaller born-globals (Freeman, Edwards, & Schroder, 2006).

Fletcher (2001) found that contrary to the suggestion of Benito and Welch (1997), none of the factors, which predict internationalization, operated in reverse in the case of de-internationalization. Those factors, which were found to be unique to increased internationalization, centered on management characteristics such as commitment and experience of employees with regard to involvement in international activities. By contrast, those factors unique to de-internationalization did not include any management characteristics and those relating to firms' characteristics were confined to developing new products for overseas markets. External impediments related to lack of continuity in overseas orders and poor performance of overseas agents. Fletcher (2001) argued that these factors point to a more reactive approach on the part of the firms that have experienced de-internationalization rather than a conscious attempt to reduce immediate international involvement in order to strengthen the firm's future domestic or international position. While, Fletcher's (2001) study does not mention it directly, it is conceivable that a lack of network contacts may also be contributing to this outcome – de-internationalization. To overcome this possible limitation, the current study will investigate the 'linkages', both 'inward' and 'outward' specified in Fletcher (2001) and Hollenstein, (2005) to ascertain their influence on smaller born-globals' de-internationalization process.

By contrast, Benito and Welch (1994) argue that de-internationalization can result in increased market knowledge and commitment, despite withdrawal. Based on this view, de-internationalization results in international experience, irrespective of the firm withdrawing from the foreign market. The gaining of international experience is consistent with an incremental process model. Benito and Welch (1997) identified a number of situations in which de-internationalization could take place.

Take in Table 1 here

Similarly, Hadjikhani (1997) found that the degree of internationalization might actually increase when a firm makes a planned de-internationalization from a market. Pauwels and Matthyssens (1999) also developed a model to explain de-internationalization. They demonstrated how organizations behave, cope with opposing perspectives, evaluate and ultimately withdraw. Commitment to the venture and the interplay between different mangers were seen as important explanatory variables. From prior research it is clear that de-internationalization is an integral part of the internationalization process of some SMEs, though it remains a neglected area of research.

5. Method

In this study, the important aspects of outward-inward activities and de-internationalization will be identified in a qualitative sense using time series data. It is recognized that a grounded theory method reveals theory from data which is systematically collected and appropriate for research into unknown terrain (Glaser & Strauss, 1967) and it is understood that it is also appropriate to use a grounded theory method to obtain a fresh perspective (Stern, 1994, Weerawardena & Mort, 2006). This study will use a grounded theory method to address the need for an integrated, coherent framework in the field and to develop an empirically derived framework of outward-inward internationalization for smaller born-global firms. Following the recommendations of Stern (1994), a review of the relevant literature concluded that existing theories were inadequate, and so they were placed aside and the researcher turned to the field to focus on the phenomenon of smaller born-globals to derive an inducted framework. Two questions were developed, and definitions derived as guides to the research. The objective of the study is to conduct pattern-matching (Miles & Huberman, 1994) of the de-internationalization schema (5 situations) as described by Benito and Welch (1997) through in-depth and holistic profiling against seven Australian smaller born-global firms at different stages in their internationalization development process, observing for increased market knowledge and commitment following de-internationalization. The SMEs were selected to provide a sufficient number for cross-case analysis, taken from the commercially available

Australian Exporters Database. Australia was selected as the context because of the prevalence of the phenomenon of the smaller born-global, earlier identified by McKinsey and Co. (1993), and later by Chetty and Campbell-Hunt (2004) and Freeman et al., (2003).

Adopting Strauss and Corbin's (1998) guidelines, detailed and systematic comparisons across the cases were used to identify the saturation point and selection of cases consistent with Eisenhardt's (1989) approach. Senior managers were interviewed on multiple occasions. The two broad questions allowed use of semi-structured, open-ended questions and probes to elicit views and opinions during interviews (Creswell, 2003). Individual interviews totalled 58 hours, and focus group discussions with 3 to 14 senior managers, totalled 5 hours, reaching 63 overall. The interview was the unit of analysis lasting usually 1½ hours. To ensure interviewees were not idiosyncratic in nature, care was taken in the selection to ensure they exhibited excellent knowledge of the processes. Fieldwork was conducted from 2001 to 2005. Multiple insights into how and why senior management made their decisions provided a robust, comprehensive and unfolding story. Names of the SME case studies were coded. Details on the seven cases are located in Appendix A. Eisenhardt (1989) emphasizes that an exploratory approach to data analysis is guided by a process of understanding field-data, bringing some order, structure and meaning to the mass of collected data. Analyses of primary data were from transcribed interviews and secondary sources, such as company memos and reports, to complete a detailed data base on each firm, which included past history, allowing triangulation of these data (Creswell, 2003). The analysis methods used several techniques to focus on the two questions and were adopted from a grounded theory approach (Creswell, 2003, Strauss & Corbin, 1998, Yin, 2003) as part of the theory-building process (development of a framework) as well as pattern-matching (Miles & Huberman, 1994). To explain de-internationalization it was demonstrated how the smaller born-globals behave, cope with opposing perspectives, evaluate and ultimately withdraw, identified in a model by (Pauwels & Matthyssens, 1999).

Case analysis was used to develop the themes, and then the themes were linked back to current studies to identify difference or similarities for smaller Australian born-globals in high-tech industries. An important factor in the research design was that mode or within mode changes cannot be examined without adopting a case study approach (Calof & Beamish, (1995). Matrices were used as analytical tools to organize, prioritize, observe similarities, separate into segmented transcribed text for coding of emergent themes of the large body of data, development of sub-themes, progressive development of smaller overall themes through pattern-matching and effective categorization (Miles & Huberman, 1994). Initially, the analysis included open, axial and selective coding to interpret and develop the descriptive narrative about the central phenomenon (Strauss & Corbin, 1998). For example, observance of an increase in the degree of internationalization when a firm makes a planned de-internationalization from a market, as described by Hadjikhani (1997) was considered. The grounded themes were then integrated into a framework for smaller born-globals. Finally, re-visiting the literature, the emergent themes were compared with the literature to build on earlier frameworks to indicate extension, confirmation and refutation. Consistent with Eisenhardt (1989), linking emergent theory to extant literature provides increased internal validity, robustness and theoretical generalizability. This new conceptualization is then discussed as well as interpreted along with implications for theory and practice.

6. Findings

The research findings are first presented as a narrative incorporating the emergent themes of the in-depth interviews, followed by the integration of the themes into a coherent framework for smaller born-globals. It commences with the first question, how do they move through this de-internationalization process? This is followed by the second question, how do smaller born-global firms choose their entry mode?

6.1. Thematic analysis

Emergent themes are discussed below for both questions. The first question discusses use of deliberate defensive strategy; proactive response to hostile environments; temporary switching of entry modes and reducing volume of exchange; and continual management of changing relational entry modes by smaller born-globals. The second question discusses collaborative arrangements with domestic competitors; collaborative relationships following temporary de-internationalization; and existence of a strong regional presence in a foreign market prior to de-internationalization.

6.1.1. Deliberate defensive strategy

De-internationalization in Case B could be described as a switching in emphasis from a heavy reliance on outward (exporting) to inward (importing, strategic alliances) activities such as exclusive importer. One can infer that de-internationalization has been a deliberate defensive strategy, rather than a pulling out of international markets. An enhanced degree of international commitment has been observed by utilizing a different international strategy, namely an inward linkage to foreign markets. The exclusive seller relationships with large US based suppliers have also continued to give Case B a foreign customer connection and customer base in foreign markets, especially lead markets. This has enabled them to continue to sell their new product development, as a small company with limited financial resources, by utilizing an inward internationalization strategy, perceived by some as a pulling out.

Pulled out of any overseas work except the DRA (Digital Radio Analyzer)! We'll probably still continue with that…The domestic market and international partnerships to re-sell. So, we don't have this great dream – of the London office! The N.Y. office! This is not – for a small company! It is not right! Not viable!...A better way is to chase up the competitors because they've already got existing distribution channels! Chains in those areas! So just use them! And do alliances with them and sell better gear! So we make more money out of this backend services and then to ultimately sell our product out through them as well. We made more money through them. We're not actually competing with them (other overseas suppliers)…Because we couldn't get a base! And the downturn in the market was so great (CEO)

6.1.2. Proactive response to hostile environment

While other competitors pulled away from overseas customers and suppliers, Case B followed a different pathway, remaining connected with these overseas relationships by switching their entry mode. This modal switch involved the use of strategic alliances and through those exclusive business relationships, Case B has been able to continue to grow while other small and large firms in the global market have suffered severe decline or closure, locally and globally.

Ah global (recessions)…It is still promising. There is no question of that. Our problem, or my problem, is that the innovations are too advanced. It provides a model for international sales as you go out through other people, who have international market places like HP, E., Like P. who are developing these very advanced service systems, which require my technology…So therein lies the secret of selling out through people who already have a customer base and giving them a differentiation in the service provision business. …Well that's our international sales strategy at the moment – 'sell out'! Because our technology is so advanced, you can't sell it direct to the customers. So it's really quite an irony (CEO).

A hostile economic environment can also put considerable financial strain on overseas customers. The added pressure can lead to the relationship faltering and as in Case E, the SME was forced to withdraw from a foreign market, but existing network contacts were still used to find new contacts which later linked the SME back into former and new foreign markets. Despite this temporary reduction or cessation in sales, learning by the SME still took place, increasing the SMEs internationalization experience.

The problem that we had with that initial introduction into those markets was we probably chose the wrong partner on the way in. And that's extremely important with any distribution activity that you *undertake in any market, whether it's domestic or international, you need to be choosing the right partner* (General Manager)

6.1.3. Temporary switching of entry modes and reducing volume of exchange

De-internationalization through a decline in Case B's outward international strategies was perceived as temporary. Nearly a year after they pulled out of most foreign markets in terms of outward international strategies, the global market started to improve economically, locally and globally. Foreign customers began to consider buying discussions with them once again. They managed to keep these foreign buyer networks active through constant dialogue following their de-internationalization strategy over a twelve month period, using inward (importing) linkages to lead markets, to enable a rapid take up of their old foreign networks through outward linkages as the market, globally, began to improve.

We've stayed in contact and had occasional interaction back and forward. But until the environment stabilises, until the projects start again. Because typically we're needing commitment from an organisation to change the way they are doing something. And we probably don't have the capability to persuade them to do that. Yes, they need to decide that 'yes'. They are going to replace that network, this network management system or do this or do that (CEO)

Perseverance with established foreign network contacts was a deliberate strategy for Case E as the global market contracted sharply due to oversupply. By working with existing customers and willingly reducing their supply so as to maintain some contact, they continued their visibility and international experience through interaction. Thus, foreign sales were drastically reduced by the SME, indicating a proactive strategy and maintenance of small orders. The continued personal contact meant the SME could still pursue opportunities through shared learning until the global market intensified. This implies that the SME is taking a long-term view of the relationship rather than a short-term sales approach.

It's very labour intensive; it's very capital intensive, entering those markets. But, you do have to persevere and eventually that will come right. But we see that recovery phase probably being 18 months, two years away. So providing you can stick to your guns and continue to pursue some of the opportunities over there, knowing that you get small volumes up front, but you could grow into bigger and better things."(General Manager)

Despite sales ceasing temporarily, as in Case F, the active pursuit of existing contacts in foreign markets through informal networks, usually results in the return to outward activities within a short time. The interruption to repeat orders by the foreign customer is not seen as a termination by the SME but as part of relationship management in foreign markets. Informal links are seen as essential for long-term commitment to FME.

So we were targeting people used to small boutique wines in San Francisco and New York and I'm still in touch with someone in San Francisco and we may still do some business. So it's developed two ways; one we went out to try and find markets and the other were people who came in here and generated exports (Original Owner/Consultant)

6.1.4. Continual management of changing relational entry modes

The continual management of business relationships is needed, achieved through foreign network contacts by Case B. This has continued since their de-internationalization strategy was implemented, and this type of network communication is likely to enable them to progressively reconnect into the UK market, a lead market, requiring additional resource commitment, as global demand improves.

We will take up more quickly in Europe than North America and we'll probably go after such acquisitions. So, we're going to get ourself funded to take over. Do some takeovers in Europe and North

America. That's probably the model that would make sense now. I guess when we first started, particularly in Europe, the operators, pretty much contracted directly for our type of product. I have a feeling now that may or may not be the case (CEO)

When does "pulling out of a market" actually occur? It is argued that this is really a state-of-mind and not simply related to physical sales for Case F. After 3 years of "silence" following an initial order from an overseas client, the SME did not perceive this as the end of the relationship but part of the process required to build credibility. Thus the relationship moved from active to inactive, meanwhile, further contacts were being developed so as to reconnect with former and new customers in foreign markets through new orders, at a later time.

It didn't take long. We had some contacts and sent some wine to Hong Kong. Haven't heard back from that, although it's three or four years ago, but it went there and we were paid for it. And we sent some wine to Singapore on the same basis. The real ones that we're interested in are the London ones, getting feedback. The St. Paul Minneapolis one because we're getting feedback and we are now in the process to sending more wine to a different outlet in Singapore and Hong Kong but we're using somebody who is trying to set himself up as the business that does it." (Original Owner/Consultant)

Withdrawal may also be interrelated with other international activities by the SME. Case D was asked to engage in a strategic alliance, for a short period of time, for high-tech support in one foreign market by a new foreign customer before they would buy products from the SME in their main foreign market. This suggests that the first activity, which terminated within a few months, was not a simple matter of withdrawing from one foreign market by the SME but about building credibility and commitment to foreign activities with this larger global player for successive markets in Latin America.

Some of our international customers have got large manufacturing facilities in Brazil and have basically told us to go to Brazil because they want technical support in that market…the management told us that before we would be considered for sales, we would have to give them support in their Sao Paolo operations (Managing Director)

6.2. Collaborative arrangements with domestic competitors

Analysed in question two, Case A, has had to initiate a number of collaborative arrangements with their domestic competitors to act collectively as a single voice for marketing and developing a global brand and secondly to rely on pulling in domestic competitors to work collaboratively in strategic alliance partnerships to meet large foreign customers' requests. They did this because they had previously had to withdraw from fulfilling some prior foreign customer orders as they were too large for their small firm to meet. They withdrew from a number of exporting arrangements and instead initiated two joint initiatives with the same clients within two years of leaving the foreign markets, without which they would not have been able to fulfil the customer orders and thus compete effectively or as quickly, as a global player in the citrus export business. Exporting alone was not providing them with the entry advantages of collaborative JV or strategic alliances, such as grower contracts and joint regional brand sharing with domestic exporters. They perceive that utilizing the latter modes, i.e. JVs and strategic alliances, more frequently in the future will enable them to compete more effectively as a global player.

R&D, through an export division we worked with…an exporter that supplied the UK last year. We didn't have enough fruit on our own…We got 2 others to help us. Last year, in S.W., they wanted more fruit than we could supply them, and we got two others exporters to work with us. Supplying America through Riversun, organized a collective coordinated approach for that market. Joint branding to the extent that we are the main supporter of Australia Fresh for citrus and that is now linking in with apples and with pears. Last year we did use other packing houses to pack fruit for us…and because we wanted to preserve our quarantine freedom for the US. [joint activities are] on the rise…Last 2 to 3 years(MD)

6.2.1. Collaborative relationships following temporary de-internationalization

Following a local and global downturn in the high-tech communication network industry, Case B sought to use more elaborate (moving from exporting to strategic alliances) relationships with key customers and suppliers. This means relationships are evolving considerably. This subsequent strategy of building closer business relationships with network actors following their temporary de-internationalization strategy is designed to accelerate the process. Closer relationships have been formed by establishing strategic alliances with large foreign suppliers as exclusive re-sellers in their own domestic markets. As an exclusive re-seller of large US based supplier products into their domestic market, it can be regarded as an inward strategy.

The subsequent outward re-sale is achieved by working in partnerships with the same foreign suppliers for new product development and product modification. They found that forming closer relationships with customers and suppliers takes more time and one can infer they have had to move away from initial predatory behavior that tended to be transactional and short-term. They have moved to a more collaborative, long-term view of relationships. This later re-entry strategy into international markets following their de-internationalization requires changing business relational attitudes.

We leverage our product with the offshore products… At the moment 100 percent of them…We've got offshore production of sourced material from other people plus mine…Software as well. We're importing, buying in things from somebody overseas where they produce it – then modify it…pink, blue! Add value! And then on-seller it!...We don't distribute any of it ourselves…Marketing and sales [performed overseas]….About 30 percent [of sales offshore] at the moment… Both direct and strategic alliance…Doing it ourselves and getting other people to do it too! Get the strategic alliances up. Sort of a bit in conflict with the earlier ones…The distribution we don't do any of that at all, we use other people to do that…R&D, sub-assembly production is all here (CEO)

Signalled withdrawal might appear to be the situation if a firm exports less than in previous years to some existing foreign customers. However, this might be due to climatic conditions that drastically reduce their stock levels. Rather than sending no stock to any key foreign customers, in Case G, the SME sent reduced amounts to key customers for a fixed period of time. In this way the SME was proactively managing the connections to these major customers during climatic variations through ongoing interaction.

Of course there are limitations in terms of the amount of grapes that we can have, or get our hands on and the amount of wine that we can make in our facility. And then there are obviously quality issues. We don't want to compromise the quality to expand at a rate, because I think it's very much a situation that if you start to compromise the quality of the wines, you're going to suffer in the long run anyway. It might be great in the short-term if you have a huge market but you've got to be very careful not to overdo things (Chief Winemaker)

6.2.2. Strong regional presence in a foreign market prior to de-internationalization

JV and strategic alliances in Europe and a jointly owned sales and design office in London three months after their first overseas activity, a special project in Germany, have also provided Case C with a very strong position in European networks. These outward activities occurred prior to the setting up of the home market, a de-internationalization strategy, namely, an inward linked strategy, a shared sales and design office, 12 months after their overseas activities. Evidence of considerable planning and close, long established person-centered contacts in Europe really complemented these very relationship-driven multiple entry modes adopted very early in their international process. The early use of a JV mode by the SME enabled joint ownership of a subsidiary in the lead market, London, in the European region and now the US and also financed the subsequent home office.

We planned and designed but we were teaching their design people, so we came in and designed the concept and rolled out a number of them and planned probably somewhere between 60 to 100. They kept faxing us the plans for critiquing when we were in London…from their design office. .. Primarily in

Germany and certainly some in what was East Germany at the time…America is a different kettle of fish, which we are now looking at going in, in a different way now…LJ., who we have worked with for a long time now…He has expressed a lot of interest to start up an office in the US selling our ideas and principles and looking at this new K. concept that we are developing, K. Asia (Joint MD)

6.3. Development of a multidimensional framework

The preceding section of descriptive narratives is embedded in the text to provide emergent themes from the data analysis. The emergent themes are now linked to literature to identify both conflicting and similar frameworks (Eisenhardt, 1989), resulting in integrated themes and development of an empirically grounded framework of smaller born-globals. See Figure 1. The findings suggest that de-internationalization strategy soon after inception was not a complete cessation of international activities. Rather, SMEs proactively switched from outward to inward international strategies. This enabled them to continue to use foreign networks to sell their products through inward relationships to foreign suppliers and to expand their international commitment. Some SMEs became exclusive re-sellers for large US suppliers into their own domestic market. They were able to use these strategic alliances with large foreign customers to later buy and distribute their new products and modified products to lead foreign markets, such as the US. It would otherwise have been almost impossible for them to continue to expand international sales using an outward international strategy such as exporting during a local and global economic downturn in the industry or when experiencing temporary financial constraint. De-internationalization strategy was a temporary, but proactive strategy and provided a suitable and inexpensive mechanism for maintaining connections to important contacts and thus foreign markets.

Take in Figure 1

The findings suggest that the behavior of smaller born-globals towards inward-outward strategies and de-internationalization is substantially different from that found in larger MNC literature and recent literature attempting to conceptualize smaller born-globals. For example, the 5 situation descriptions of de-internationalization by Benito and Welch (1997) are an inadequate explanation. Levels 1-3 are far too broad. Level 1 does not look at the motivations behind the movement, assuming a passive, reactionary process. Levels 2 and 3 do not allow for the strategic, proactive switching from exporting and JVs to importing which does not necessarily entail a lowering of commitment at all, under a network perspective, but an increase in personal and organizational foreign contacts consistent with Hallen's (1992) frameworks. As the SMEs are continually linked to foreign networks through subsequent inward activities following de-internationalization, this gradual expansion of contacts, both social and business, continually increases their international experience and knowledge, consistent with Coviello and Martin (1999) and Chetty et al., (2006).

The pace of internationalization accelerates when SMEs are able to use strategic alliances initially, rather than more distant modes such as exporting. Through the use of strategic alliances (linked modes) SMEs were able to achieve FME more quickly than had they relied on exporting alone. To assist the development of strategic alliances, the use of smaller, special projects, used by some SMEs, can create visibility of the firm in the foreign network as well as helping to build trust and to demonstrate commitment to foreign customers. Commitment can be enhanced with the use of a foreign presence. For example, a high level injection of resources through a JV sales office or strategic alliance which is less formal, less expensive, but which provides a highly visible commitment to the foreign customer's market and assists with the development of network connections in the foreign markets for local customer knowledge and new customers. When outward linkages such as exporting and JVs to foreign customer networks were slow or not possible, small firms could use inward linkages. Examples such as importing and strategic alliances to foreign supplier networks which could later be developed into outward linkages, such as JVs, merger and acquisition and vice versa were being used by these SMEs to continue a rapid level of international growth. In this sense de-internationalization followed by switching and/or simultaneous inward and outward international strategies can be perceived as an innovation.

Similarly, an initial special project, an outward link, followed by a shared sales office in London (strategic alliance), also an outward link, away from its home market, with a subsequently, de-internationalization to set up in the home market as an inward strategy, as a sales and design office, explains why Level 4 is inadequate for explaining the phenomenon. Benito and Welch (1997) fail to examine why the situation has occurred, as the de-internationalization, as in this case, is allowing the freeing up of limited resources by the SME to fund another JV or sales office through strategic alliance in the home market. Level 4 denies that a switch, identified as an adaptation cost, might be a proactive response, designed to reduce environmental uncertainty (Williamson, 1975). The adaptation can occur in overseas markets, through the use of a proactive de-internationalization strategy, such as switching to an inward activity. Finally, Level 5 is expropriation and not part of a proactive, multi modal relational strategy. Thus, de-internationalization, with subsequent switching to inward activities can be viewed as a proactive decision by the SME to reduce economic uncertainty and free up financial resources. This decision allows the SME to then seek out opportunities in foreign markets, consistent with Penrose (1959). Above all, proactive, planned de-internationalization, which allows subsequent inward and cooperative strategies to build SME knowledge about foreign markets, enhances foreign performance of SMEs, consistent with Haahti et al. (2005).

7. Conclusion and implications for theory, management, policy and future research

It has been argued that current research has suffered from lack of a unified and coherent framework capturing the unique behaviour of born-global SMEs. Their use of outward-inward relational modes following planned de-internationalization is perceived as a response to environmental uncertainty and financial constraints. The capability of the network of the SME and their proactive, planned use of de-internationalization and outward-inward relational strategies implies a multi-dimension construct for realized de-internationalization strategies of smaller born-globals. “A construct is referred to as multi-dimensional when it consists of a number of interrelated attributes and dimensions and exists in multi-dimensional domains” (Weerawardena & Mort, 2006, p.13). Therefore, realized de-internationalization strategies of smaller born-globals can be viewed as an overall abstraction of the capability of the network, internal and external environment and forces, and strategic partnerships, referred to as relational modes. The findings answer Fletcher’s (2001) question about whether it is a reduction in internationalization and run counter to the Benito and Welch (1997) study. Fletcher (2001) identified inward and outward international linkages, but in the present study a pro-active de-internationalization strategy is identified using inward activities during a global recession allowing continual growth and development of foreign relationships, later used for outward strategy development. Prior to this study, it was known that a link existed between inward strategy and de-internationalization and the link is now made to accelerated internationalization, present in born-global SMEs.

Similarly, the RA theory does not explain or predict the type of cooperative behaviour these SMEs choose, nor does TCA theory alone explain how or why they choose market governance (e.g. strategic alliance, licensing). However, similar to Dunning’s OLI paradigm and specifically the O-advantages, these SMEs do partially base their entry mode choice around issues of reduced transaction costs and product/market opportunities, and do consider non-TCA factors such as global integration and market power. Legitimacy and cost reduction as explanations for SME de-internationalization are also incomplete. A proactive decision to reduce sales to an existing foreign customer by an SME is not about reducing costs to them but about easing their customer’s costs. The real cost saving to the SME is the preservation of the foreign relationship, explained by a network perspective. Legitimacy explains why SMEs might follow competitors into a new market as a first-mover advantage. However, while Case B did use a first-mover advantage by entering a market early in the industry life cycle, they were following clients and not competitors. In addition, when the costs of doing business in foreign markets rise, they do not withdraw but proactively reduce sales to ease the burden on the client, until such as time as they are able to recover from a short term financial constraint. When the global environment improves, and the client is again interested in increasing purchases of the product, the relationship is still intact.

More directly though, smaller born-globals rely on client followership through network contacts to direct, albeit planned, market location choices and types of entry modes, relying on cooperative over competitive governance mechanism for reasons to do with lack of finance, speed and flexibility. However, the OLI paradigm does not allow for the obvious build up of institutional knowledge through diverse overseas country experiences subsequent to de-internationalization, consistent with Chetty et al. (2006). For this reason, a network perspective is also needed to explain how networks, through de-internationalization, allow continued connection to foreign actors and environments, building the SMEs international experience and knowledge. Thus, SME internationalization level did not in fact fall during the de-internationalization process. However, the nature of their international activities did change, outward to inward and then back to outward. Thus, these findings are also partially explained by a stages model (Johanson & Vahlne, 1977), providing for a linear, step-by-step progression in learning and knowledge, which is not recognized sufficiently by Fletcher (2001).

Each of the SMEs developed an international strategy for rapid FME through the use of multiple modes with a tendency to use more elaborate arrangements such as strategic alliances and JVs rather than straight exporting or importing early in their development. This preference for relational entry modes accelerated the pace of their internationalization process. The domestic market was also set up after entering a considerable number of international markets by one SME, the result of a planned de-internationalization strategy. Collaborative partnerships were also combined with a proactive use of de-internationalization following perceived economic uncertainty or to free up limited resources for further commitment to internationalization through other relational modes. Without the JV arrangement, based on long established personal contacts, a small, new high-tech firm like this would not have been able to establish such a strong regional presence in a foreign market so quickly. In addition, a great deal of planning lay behind the network contacts established as a quick and effective strategy for accelerating the pace of their international participation in Europe, Asia, the Middle East, Scandinavia and the US. No evidence of psychic distance was found to explain their market selection or entry mode choice. Rather this can be explained by a network perspective and O-advantages, with particular evidence of client followership and the slow and incremental increase in their personal and organization foreign contacts, explained by the stages model approach.

Managerially, de-internationalization should not be perceived as a rejection of the internationalization process as is normally understood if we assume the outward strategy is the only pathway. Rather, de-internationalization is part and parcel of the manner in which smaller born-globals enhance their international commitment rapidly and continually and how they build and manage relationships and expand the capability of their networks. This study found that inward activities and linkages to outward activities are all part of the internationalization process and as such should be included as prior studies have suggested. Fletcher (2001) describes de-internationalization as the apparent withdrawal from international activities. However, it is argued, that replacing outward (exporting) with inward (exclusive re-seller) activities as part of the process of de-internationalization and use of re-seller relationships as connections to foreign networks for linkages to outward activities namely, new product development, R&D and manufacturing is not a withdrawal or reduction. Instead it represents a critical increase in the SME’s experience, learning and knowledge. Thus, internationalization for smaller born-globals is defined to include all inward-outward and de-internationalization activities, which lead to an incremental increase in diverse foreign experiences through an expansion in their personal and organization contacts, leading to enhanced commitment over time. Future research should apply the framework to other markets well known for the presence of smaller born-globals, and also to SMEs involved in international expansion.

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Appendix A: Case Descriptions, Organization and Industry

Name of organization	**First overseas market**	**Number and order of overseas markets (approx)**	**Industry category**	**Organizational structure**
Case A	Japan	7 Central Asia, US	Citrus fruit exporter incorporating state-of-the-art high-tech processes	Managing Director and Board of Directors
Case B	Indonesia	12 Asia, Europe, US	High-tech communication products in digital communication and air-wave distortion	CEO and Board of Directors
Case C	Germany	25 Western, Central and Eastern Europe, Middle East, US	CAD and manufacture for retailer outlets incorporating state-of-the-art high-tech processes	Joint Managing Directors
Case D	Japan	1	High-tech manufacturing	Joint Managing Directors
Case E	United Kingdom	11 UK, UK, Hong Kong, Sweden, Holland, France, Singapore, Japan, Canada, Fiji, Taiwan	Wine producer and exporter incorporating state-of-the-art high-tech processes	Original Owners, Board of Directors and Professional Management
Case F	United States and United Kingdom	3 US, UK, Hong Kong	Wine producer and exporter incorporating state-of-the-art high-tech processes	Jointly owned and managed by Original Owners
Case G	United Kingdom	4 UK, Singapore, Canada, Russia	Wine producer and exporter incorporating state-of-the-art high-tech processes	Listed on the Australian Stock Exchange

Table 1: Situations of De-internationalization

Number	**Situation description**
1	*Reduction of operations, in whatever form, in a given market or withdrawal from that market*
2	*Switching to operation modes that entail a lower level of commitment*
3	*Sell-off or closure of foreign sales, service or manufacturing subsidiaries*
4	*Reduction of ownership stake in a foreign venture*
5	*Seize by local authorities of assets owned by a foreign company*

Source: Benito and Welch (1997)

Figure 1: An Integrated Framework of De-internationalization Strategies for Smaller Born-globals