ON CAUSALITIES OF DE-INTERNATIONALIZATION OF FAMILY BUSINESSES: CASE EVIDENCE FROM GERMAN SMES

INTRODUCTION

In today's international markets family firms of all sizes are becoming more and more prominent players exploring business opportunities even aside of often inhabited market niches (DB-Research/BDI, 2011). Facing this increased international exposure, family firms' business operations need to quickly align with often unacquainted international market configurations (Bettis, 2000; Sanchez, 1997), which especially hold for small-/medium-sized family businesses (SMFB) being restrained by liabilities of smallness (Aldrich & Auster, 1986), accompanied by liabilities of foreignness (Hymer, 1976; Zaheer, 1995). Taking this into account it is no wonder that aside many successful internationalization cases of small-/medium-sized family firms, there is also a flipside of the coin: empirical evidence shows that international market processes select out numerous family firms which consolidate their international business operations shortly after international inception or even years later (IFM, 2007). Little is known of those de-internationalizations of SMFB especially as to the underlying strings of manifold causes and effects, which form different sequential patterns and result into more or less beneficial consolidation outcomes (Reiljan, 2004; Turcan, 2003). To reveal those causalities – especially against the background of idiosyncratic family dynamics which widely affect family business operations (Habbershon & Williams, 1999, 2006) – could help to remove existing taboos as well as bring forth first ideas on how to avoid or beneficially structure de-internationalization actions in family firms.

Taking this into account, we scrutinize causes and effects of de-internationalization in SMFB. In doing so, we put out the following research question: *What are causes and effects of de-internationalization in small-/medium-sized family firms?* Thereby, we primarily focus the internal dimension of the firm, which allows us to pay special attention to potential family dynamics influencing the run of events. To answer our question, we proceed as follows:

First, we outline a basic understanding of the subject matter of de-internationalization and highlight the status quo of research on de-internationalization in family firms. Related to that, we employ competence-based theory of the firm (henceforth: CbTF) (Freiling et al., 2008) as a sensitizing framework which allows us to deduce first causalities of de-internationalization and draft tentative propositions which direct our inherently explorative fieldwork (Miles & Hubermann, 1994, Maxwell, 2005; Eisenhardt, 1989). On this basis we present the results of

our multiple case-study empirical work which forms the center piece of our paper, discuss main findings and finally provide a brief outlook on further research possibilities.

STATE OF THE ART ON DE-INTERNATIONALIZATION IN FAMILY FIRMS

De-internationalization is understood as "a process of decreasing involvement in international operations in response to organizational decline at home or abroad, or as means of enhancing corporate profitability under non-crisis conditions" (Mellahi, 2003). Thereby de-internationalization can be executed more or less effectively which either winds up in the sole protection of the status quo by shedding unprofitable international operations or enhance business profitability by freeing up internationally bound resources and purposefully rededicate them to more beneficial operations (Turner & Gardiner, 2007; Fletcher, 2001). Referring to family firms' business operations, obviously the latter is more desirable as firms' long-term competitiveness depends on recurring processes of bundling, unbundling and re-bundling of firms' resources and competences, which are *purposefully aligned* by industrial foresight of business leaders (Hamel & Prahalad, 1994). However path dependent thinking tells us that the run of events is always imprinted by prior events (Arthur, 1989; Sydow et al., 2009), which further motivates us to go one step back on the chain of causalities to focus on potential causes of de-internationalization lying especially inside the family firms' boundaries (Alexander & Quinn, 2002; Swoboda et al., 2011). So doing, we conduct a literature review on family firm specific causes of de-internationalization which explicate first ideas of why international operations are being terminated and what kind of family dynamics may influence the run of events.

- insert table 1 about here -

Building upon these findings we press for the need of a theoretical backing, which firstly allows us to integrate the descriptive findings into a cohesive framework and secondly offers a sound footing to a so far inherently essentialistic coined research area.

SENSITZING FRAMEWORK AND A PRIORI CAUSALITIES

With respect to our essentialistic groundwork two basic requirements are put forward as to needed content and context of an adequate theory (Pettigrew, 1987):

- A holistic-systemic perspective has to be adapted, which understands firms' operation in an ongoing interaction with internal (i.a. resources, competences) as well as external (i.a. commodities, customers, suppliers) factors, which allow us to grasp the evolvement of more or less successful international business operations as well as consolidation actions, respectively.

- Family influences need to be accounted for, as distinct logics, competences and resources connected to family members are tightly intervened with firms' business operations and the overall family firm vision.

Against this background, we employ the CbTF (Freiling et al., 2008) as a sound base for our theoretical reasoning which is further developed by adapting Habbershon and Williams' (1999, 2006) construct of familiness (Frank et. al, 2010; Zellweger et al., 2010).

Since the explanandum of CbTF is the competitiveness of business operations in (international) market processes; further the survivability of firms over time, it directly complies with our first basic requirement. CbTF is situated in the interpretive paradigm (Burrell & Morgan, 1979) assuming subjectivism of the people, radical uncertainty, moderate voluntarism and relevance of time. As for human behavior CbTF adapts the concept of the acting man (homo agens) (Mises, 1949) who decides according to 'trial and error' being restrained by bounded reliability (Verbeke & Greidanus, 2009) rather than bounded rationality. This line of reasoning opens up for the so far missing 'family dimension' which according to Habbershon & Williams (1999, 2006) materializes into idiosyncratic firm-level bundle of resources and capabilities evolving from the systemic interaction between the family, its individual members and the business. Familiness adds the second brick to our sensitizing framework which is than specified by introducing the open system view of the family firm (OSVFF) (see originally Sanchez & Heene, 1996, 1997).

- insert figure 1 about here -

Figure 1 portrays this systemic view of the family firm, which includes the many interfaces of the firm to the business environment, illuminates issues of internal coordination as well as sensitizes for potential impact of family influences on business competences and resource endowments. In this context the OSVFF helps us to systematically identify and structure first bottlenecks and potential pitfalls in firms' international operations, which eventually materialize in concrete causes of de-internationalization. Further OSVFF provides us with insights on how and under what conditions reconfigurations of firms' business operations may materialize more or less successfully which adds to our preliminary understanding of determinants influencing the effectiveness of consolidation actions.

Going through the different elements of the value-added system we derive a first set of tentative propositions on causes and effects of de-internationalization in small-/medium-sized family firms which are then meant to frame our empirical research:

P1. Inert familial logics promote an inadequate alignment of firm goals in international operations, thus are positively related to the propensity of de-internationalization.

P2. Conflicting familial logics promote an in-concurrent alignment of firm goals in international operations, thus are positively related to the propensity of de-internationalization.

P3. Constrictive familiness counteracts an effective alignment of firms' competence and resource endowment in international operations, thus is positively related to the propensity of de-internationalization.

P4a. The degree of 'retraction flexibility' is correlated to the existent causes of de-internationalization.

P4b. The effectiveness of consolidation actions is positively related to the degree of 'retraction flexibility'.

RESEARCH METHODOLGY

Against the background of (i) a massively under-researched domain, (ii) the idiosyncratic, complex nature of the de-internationalization phenomenon and (iii) complying with the epistemological stand of CbTF leaning towards the interpretative paradigm, we employ a *qualitative exploratory research design* (Eisenhardt & Graebner, 2007). Thus we seek to carefully check, extend and newly identify strings of causalities which help us to interconnect the many factors which obviously play a pivotal role in family firms' de-internationalization actions. This approach complies with Gioia and Pitre's (1990) understanding of theory building processes, which we substantiate by using the epistemological principle of *pattern prediction* put forward by Hayek (1972). To further specify this theory building process we agree with Kubicek's (1977) postulate that there is no room for an artificial separation of exploration and explanation in scientific research processes. This neither lets us adapt a purely inductive nor deductive logic than rather an *iterative research strategy* (Barrat et al., 2011; Eisenhardt, 1989). On this basis we comprehend the researcher as a *well-informed traveler* who is sensitized by prior knowledge (tentative propositions), which provides him/her with necessary orientation to explore into a so far opaque research domain (Witzel & Reiter, 2012). Having laid out the research logic and cornerstones of research design we further operationalize our empiric endeavor by conducting multiple case studies longing for a

‘replication logic’ (Yin, 2009). In doing so, we comply with basic criteria for rigorous case study research (Eisenhardt, 1989; Yin, 2009) to counteract the often claimed arbitrary and insufficient generalizability of qualitative research designs (Miles, 1979; Gephart, 2004).

Using a purposive sampling approach (Stake, 2000), our empirical fieldwork was carried out in the year 2012 with seven German small-/medium-sized family firms. In line with Witzel and Reiter (2012) we applied problem centered interviewing techniques, which – aside a pre-structuring momentum – provided to us the needed room for large narrative parts of the interview that sufficiently helped to enlarge our set of causalities. For the purpose to avoid biases as far as possible, we applied two different modes of triangulations: interviews were separately conducted with one family member and one non-family member, who both held in depth knowledge of the investigated de-internationalization case. Secondly, we triangulated the data by using externally collected firm information as a third source.

All interviews, held in the native language of the interview partner, were digitally recorded and afterwards transcribed, whereas data analysis was conducted in MAXQDA by using coding techniques (Mayring, 2003; Miles&Huberman, 1994). This enabled us to identify main cause and effect structures within each case and secondly to explicate common patterns among the cases carrying out a cross case analysis (Yin, 2009; Eisenhardt & Graebner, 2007). The results from empirical inquiry are then contrasted to our prior developed (theoretically imprinted) tentative prepositions which allow us to revise and further develop our understanding of the subject matter.

FINDINGS

Our case study research shows that entering the field with a prior developed sensitizing framework is helpful, indeed. However, it marks just cornerstones in a multifaceted explorative expedition into a complex phenomenon. Taking this into account some of our main findings are the following:

- International operations of SMFB are more likely to default when family decision makers persist on well-known business configurations which “always have and always will be” valid to achieve profitable growth; as in reality these business configuration are outdated and objectively not sufficient to compete in the specific international market segment.
- International operations of SMFB are more likely to default when family decision makers increasingly escalate into their inferior ideas on how to successfully work the

international market without being properly sanctioned by other family members or outside-family employees.

- International operations of SMFB are more likely to default when familial rationales abrogate economic rationales which imbalances the alignment of firm goals and sooner or later tips off international business operations to become unprofitable.
- International operations of SMFB are more likely to default when family decision makers lack international expertise, however are granted extensive authority in abroad business operations.
- Consolidation actions are likely to be more effective when the following attributes hold true which overall strengthen firms' 'retraction flexibility': (i) the international engagement is part of the firms overall strategy and remains as such also during de-internationalization process, (ii) internationalization as well as de-internationalization processes are systematically executed and flanked by analytical instruments, (iii) de-internationalization is not badly stigmatized by central decision makers, but rather understood as an 'informatory adventure'; lessoned learned are directly extracted, reflected and implemented into new strategic options.

REFERENCES

Aldrich, H.E. and Auster, E. (1986). Even Dwarfs Started Small: Liabilities of Size and Age and their Strategic Implications, *Research in Organizational Behaviour* 8: 165-198.

Alexander, N. and Quinn, B. (2002). International Retail Divestment, *International Journal of Retail & Distribution Management* 30(2): 112-125.

Arthur, W. B. (1989). Competing Technologies, Increasing Returns, and Lock-In by Historical Events, *Economic Journal* 99: 116-131.

Barratt, M., Choi, T. Y. and Li, M. (2011). Qualitative Case Studies in Operations Management: Trends, Research Outcomes, and Future Research Implications, *Journal of Operations Management*, 29(4): 329-342.

Bettis, R. A. (2000). The Iron Cage is Emptying, the Dominant Logic no longer Dominates, Baum, J. A. C. (Ed.): Economics Meets Sociology in Strategic Management,Stamford, 167-174.

Burrell, G. and Morgan, G. (1979). *Sociological Paradigms and Organisational Analysis: Elements of the Sociology of Corporate Life*, London.

Db-Research/Bdi (2011). *Die größten Familienunternehmen in Deutschland*, Institut für Mittelstandsforschung Bonn, Mainaschaff.

Eisenhardt, K. M. (1989). *Building Theories from Case Study Research*, Academy of Management Review 14(4): 532-550.

Eisenhardt, K. and Graebner, M. (2007). Theory Building from Cases: Opportunities and Challenges, *Academy of Management Journal* 50(1): 25-32.

Fletcher, R. (2001). A Holistic Approach to Internationalisation, *International Business Review* 10(1): 25-49.

Frank, H., Lueger, M., Nosé, L. and Suchy, D. (2010). The Concept of "Familiness": Literature Review and Systems Theory-based Reflections, *Journal of Family Business Strategy* 1(3): 119-130.

Freiling, J., Gersch, M. and Goeke, C. (2008). On the Path Towards a Competence-based Theory of the Firm, *Organization Studies*, 29(8-9): 1143-1164.

Gephart, R.P. (2004). Qualitative Research and the Academy of Management Journal. *Academy of Management Journal*, 47(4), 454-462.

Gioia, D. A.and Pitre, E. (1990). Multiparadigm Perspectives on Theory Building, *Academy of Management Review*, 15(4): 584-602.

Habbershon, T. G. and Williams, M. L. (1999). A Resource-based Framework for Assessing the Strategic Advantages of Family Firms, Family Business Review, 12(1): 1-25.

Habbershon, T. G., Williams, M. and Macmillan, I. (2006). A Unified Systems Perspective of Family Firm Performance, In: Poutziouris, P. Z./Smyrnios, K. X./Klein, S. B. (Eds.): *Handbook of Research on Family Business*, Cheltenham, 67-79.

Hamel, G. and Prahalad, C. K. (1994): *Competing for the Future*, Boston/MA.

Hayek, F. A. von (1972). *Die Theorie komplexer Phänomene*, Tübingen.

Hymer, S.H. (1976). *The International Operations of National Firms*. Cambridge, MA

Institut für Mittelstandsforschung Bonn (2007). Die Bedeutung der außenwirtschaftlichen Aktivitäten für den deutschen Mittelstand. Gutachten im Auftrag des Bundesministeriums für Wirtschaft und Technologie, Institut für Mittelstandsforschung, Bonn.

Kubicek, H. (1977). Heuristische Bezugsrahmen und heuristisch angelegte Forschungsdesigns als Elemente einer Konstruktionsstrategie empirischer Forschung. In: Köhler, R. (Ed.): *Empirische und handlungstheoretische Forschungskonzeptionen in der Betriebswirtschaftslehre*, Stuttgart, 3-36.

Maxwell, J. A. (2005). *Qualitative Research Design: An Interactive Approach*, 2nd Ed., Thousand Oaks.

Mayring, P. (2003). *Qualitative Inhaltsanalyse*, 7th Ed., Basel.

Mellahi, K. (2003). The De-internationalization Process: A Case Study of Marks and Spencer. In: Wheeler, C., Mc Donald, F. and Greaves, I. (Eds.): Internationalization: Firm Strategies and Management, Houndsmills, 150-162.

Miles, M. B. and Huberman, A. M. (1994). *Qualitative Data Analysis: An Expanded Sourcebook*, 2nd Ed., Thousand Oaks.

Miles, M.B. (1979). Qualitative data as an attractive nuisance: The problem of analysis, *Administrative Science Quarterly*, 24(4): 590-601.

Mises, L. von (1949). *Human Action: A Treatise on Economics*, Irvington-on-Hudson.

Pettigrew, A. M. (1987). Context and Action in the Transformation of the Firm, *Journal of Management Studies*, 24(6): 649-670.

Reiljan, E. (2004). Theoretical Framework for Analyzing Reasons for De-internationalization, Working Paper, Faculty of Economics and Business Administration, Tartu.

Sanchez, R. (1997). Preparing for an Uncertain Future, *International Studies of Management & Organisation*, 27(2): 71-94.

Sanchez, R. and Heene, A. (1996): A Systems View of the Firm in Competence-based Competition. In: Sanchez, R., Heene, A. and Thomas, H. (Eds.): *Dynamics of Competence-based Competition: Theory and Practice in the New Strategic Management*, Oxford, 39-62.

Sanchez, R. and Heene, A. (1997): Reinventing Strategic Management: New Theory and Practice for Competence-based Competition, *European Management Journal*, 15(3): 303-317.

Stake, R. E. (2000). Case Studies. In: Denzin, N. K. & Lincoln, Y. S. (Eds.): *Handbook of Qualitative Research*,Thousand Oaks, 435-486.

Swoboda, B., Olejnik, E. and Morschett, D. (2011). Changes in Foreign Operation Modes: Stimuli for Increases versus Reductions, *International Business Review*, 20(5): 578-590.

Sydow, J., Schreyögg, G. and Koch, J. (2009). Organizational Path Dependence: Opening the Black Box, *Academy of Management Review* 34(4): 689-709.

Turcan, R. V. (2003). De-internationalization and the Small Firm. In: Wheeler, C., Mc Donald, F. and Greaves, I. (Eds.): *Internationalization Firm Strategies and Management*, Houndmills, 208-222.

Turner, C. and Gardiner, P. D. (2007). De-internationalisation and Global Strategy: The Case of British Telecommunications (BT), *Journal of Business & Industrial Marketing*, 22(7): 489-497.

Verbeke, A. and Greidanus, N. S. (2009). The End of the Opportunism vs. Trust Debate: Bounded Reliability as a New Envelope Concept in Research on MNE Governance, *Journal of International Business Studies*, 40(9): 1471-1495.

Witzel, A. and Reiter, H. (2012). *The Problem-centred Interview: Principles and Practice*, Thousand Oaks.

Yin, R. K. (2009). *Case Study Research: Design and Methods*, 4th Ed., Thousand Oaks.

Zaheer, S. (1995). Overcoming the Liability of Foreignness, *Academy of Management Journal*, 38(2): 341-363.

Zellweger, T. M., Eddleston, K. A. and Kellermanns, F. W. (2010). Exploring the Concept of Familiness: Introducing Family Firm Identity, *Journal of Family Business Strategy*, 1(1): 54-63.

Table 1. Family firm specific causes of de-internationalization (own illustration)

INTERNAL CAUSES OF DE-INTERNATIONALIZATION	
Firm level	**Findings**
Strategic intents and decisions	*Change in strategic intents of central decision makers and/or firms‘ strategic goals:* ▪ Strategic misfit of international operations with firms‘ existent portfolio of business operations ▪ Issues of profitability/allocation of resources; longing for a new ‘optimal’ allocation of business operations ▪ Change in international orientation of central decision makers (e.g. change of board control, new members on management board) *Absence of/deficient analysis (ex-ante, interim):* ▪ Misinterpretation of international market potentials ▪ Underestimation of international environment, complexity of cooperation and/or intensity of competition ▪ Misfit of product offerings with existent customer preferences in international target market ▪ Deficient timing and speed of international market cultivation ▪ Insufficient mechanisms to secure international transactions
Allocation of resources and competences/ skills and qualification	*Misfit of firms‘ resources and competences with environmental requirements:* ▪ Missing of skilled (management) employees ▪ Lack of sufficient financial capital ▪ Insufficient slack of resources to compensate environmental/market dynamics *Change in firms‘ resources and competences cause misfit with environmental requirements:* ▪ Exit of employees critical to the system ▪ Termination of cooperative international operations caused by e.g. inter-partner conflicts and problems of acculturation ▪ Defects in leveraging of resources/competences according to international target market needs
Processes of coordination and feedback	*Deficient communication and coordination:* ▪ Intransparency and/or lack of communication between principal and agent (e.g. headquarter and international subsidiary), deficiencies in coordination between cooperating parties *Lack of learning and reflection processes:* ▪ Less qualitative information-, communication-, controlling- and QM-systems; competition-critical information are not or just insufficiently transmitted ▪ Missing feedbacks, thus insufficient or no error-correcting measures are executed ▪ Feedback is deficiently processed, thus inadequate decision making evolves over time *Realized learning and reflection processes:* ▪ Error-correcting measures in international operations are executed ▪ Re-evaluation of existent international market approach; identification of new configurations
FAMIY DYNAMICS INFLUENCING DE-INTERNATIONALIZATION	
Family level	**Findings**
Distinct logics	▪ Strategic intents of central decision makers are imprinted by beliefs and interests of family members. The alignment of international operations is interconnected with familial preferences and reasoning, which change over time (e.g. tolerance towards risk taking, personal affection/reluctance towards specific international markets, need to adhere tradition and autonomy)
Harmony vs. conflicts	▪ Intra-family conflicts produce disagreements between business partners. Governance of international operations is harmed, which also restricts sufficient financing (e.g. family capital)
Qualification and structure	▪ The alignment of international business operations is affected by the organizational structure and structural processes (e.g. inter-generational succession, appointment of family adolescents in central management positions)
Distinct norms and values	▪ The basic understanding of family firms is largely influenced by familial norms and values, which at the same time are important determinants of business transactions with international partners/suppliers/customers. Strongly divergent norms and values of partners restrict international business operations
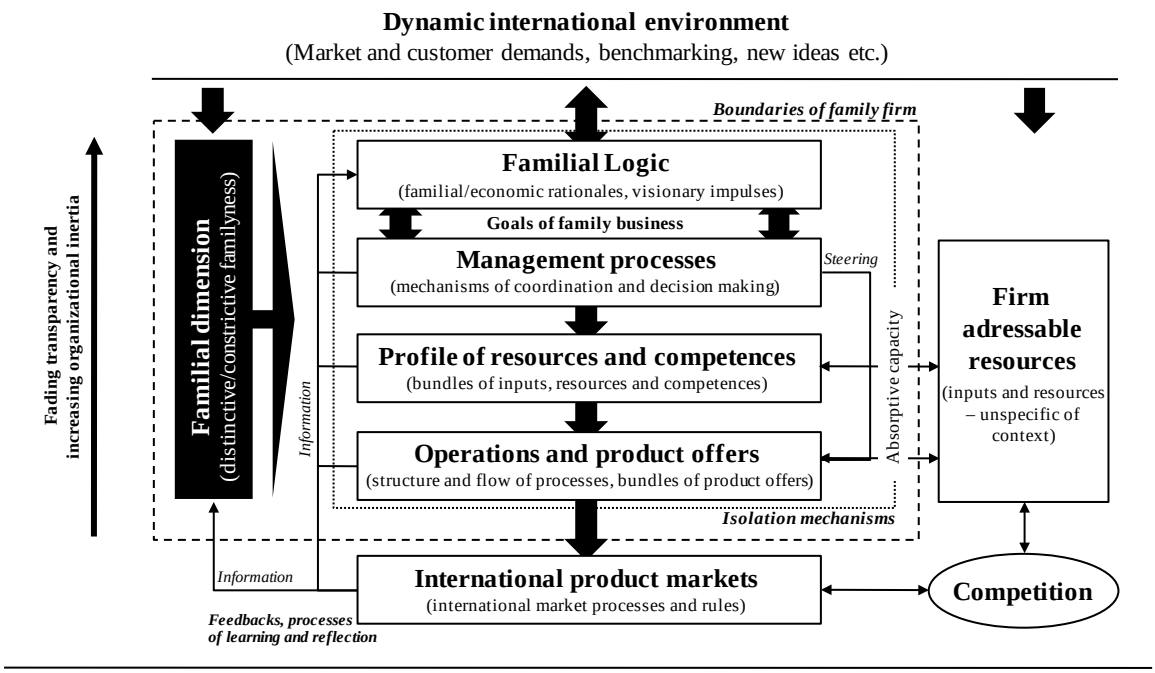
Figure 1. The open system view of the family firm (own illustration)