



International market exit by firms: Misalignment of strategy with the foreign market risk environment

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ABSTRACT

International market withdrawals by firms continue to persist regardless of geography, industry, firm experience, and national origin. The extant literature argues that a host of factors, such as firm characteristics, organizational capabilities, host country environment, international business risks, strategy and strategic choices are among the likely reasons for firms to prematurely exit the markets they have entered. Drawing from the contingency theory, we contend that underlying most market exit events is the misalignment of firm strategy with the foreign market risk environment. This happens when managers fail to optimize strategy formulation and implementation in view of the foreign market risk environment. Based on an in-depth examination of 62 cases of foreign market exits via pattern coding using NVivo 12, we delineate common patterns accounting for market withdrawals. We then formulate propositions with respect to how misalignment between strategy and risk environment interferes with foreign market exits in accordance with the contingency theory. We conclude with a discussion of theoretical implications, managerial recommendations, and suggestions for future research and limitations.

1. Introduction

It is not unusual that firms enter a foreign market only to exit later and, in the process, incur substantial cost and damage to their reputation. This phenomenon persists regardless of geography, industry, firm experience, and national origin. Well-publicized examples of market abandonment, sometimes soon after initial entry, abound. Peugeot-France left India (1997), McDonald's-U.S., Bolivia (2002), eBay-U.S., Japan (2002), Carrefour-France, South Korea (2006), Aldi-Germany, Greece (2010), Best Buy-U.S., Turkey (2011), New Look-U.K., Russia (2014), UBER-U.S., China (2016), and Suzuki-Japan, China (2018). Often companies do not announce their exits due to reputational concerns (Koc, 2016); thus, the incidence of market withdrawals is even more common than acknowledged. When one considers international market exits (IMEs) by smaller firms, which do not necessarily make the news, this phenomenon is even more pervasive than commonly acknowledged. In this context, at least two questions arise: Why do firms with high initial expectations and abundant experience exit prematurely from international markets? Are there some common patterns and explanations behind their egress?

While international divestment activity increasingly intrigues researchers (Alexander, Quinn, & Cairns, 2005; Arte & Larimo, 2019), little is known about the reasons for market withdrawals (Arte & Larimo,

2019; Welch & Welch, 2009; Yayla, Yenyurt, Uslay, & Cavusgil, 2018). More importantly, the arguments provided in the literature are inconsistent, the findings are contradictory, and there is a lack of conceptualization around the IME phenomenon (Arte & Larimo, 2019; Schmid & Morschett, 2020). Responding to this gap, the current study addresses the following research questions: Why do firms exit from the foreign markets they entered with great expectations? Are there common patterns and explanations behind the phenomenon of IME? If so, is it possible to conceptualize the IME phenomenon based on these common patterns? Our empirical findings indicate that there is a typical pattern behind the IME phenomenon, and it is possible to formulate a conceptualization with a set of propositions.

Drawing from contingency theory, and considering the literature on environmental alignment (Fiol & Lyles, 1985) and organizational adaptation, we contend that an IME typically stems from a misalignment between strategy and the foreign market risk environment. In this context, being the very first step in strategy making process, environmental scanning plays a key role. Uncertainty in a foreign market increases risk in international business (Miller, 1992; Werner, Brouthers, & Brouthers, 1996). Accordingly, firms have to identify the distinctive conditions and international business (IB) risks in a foreign market environment through environmental scanning. Therefore, the effectiveness of environmental scanning is critical for the alignment of

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strategy with the foreign market risk environment. Otherwise, misalignment between strategy (both strategy formulation and implementation) and foreign market risk environment may cause firms to underperform in foreign markets, leading them to abandon the market prematurely.

Risk is becoming increasingly more critical for firms with escalating uncertainty and unexpected changes in international markets (Cavusgil & Cavusgil, 2012; Liesch, Welch, & Buckley, 2011). Scholars especially underscore the risk that emanates from operating in an unfamiliar environment (Javalgi, Deligonul, Dixit, & Cavusgil, 2011). The shadow of the environment, when falling on a firm in foreign soil, completely redefines the internal processes, and it obsoletes many of the home-market solutions or impedes the transfer of relevant ones to the new market. If poorly managed, risks associated with the host country environment, or unexpected changes in this environment may drive the firms to market exit (Yayla et al., 2018).

In this research, we analyze a set of firm exits from various country markets. The current study is important because the IME puzzle – why so many firms exit the markets they enter prematurely – remains largely unresolved. The extant studies have provided only an incomplete explanation of market withdrawals. Accordingly, this study aims to contribute to knowledge in the following ways. First, we revisit and analyze the IME phenomenon from the perspective of a new theoretical basis – the contingency theory. Second, we report evidence for the relevance of misalignment between strategy and foreign market risk environment as the principal contributor to IMEs. Therefore, we delineate the key role of strategy in divestments, and suggest that ineffectiveness in strategy formulation and implementation tends to contribute to the likelihood of IMEs. We develop a conceptual framework and offer propositions based on the contingency theory. Third, we also highlight the criticality of the very first step in strategy making process, foreign market risk environment scanning, and its potential to influence the effectiveness of all the succeeding steps. Finally, we employ a new data set, and report the findings of an empirical investigation of 62 actual withdrawal cases that give support to our conceptualization and propositions.

The remainder of this paper is organized as follows: First, we provide an overview of the literature and the contingency theory. Contingency theories argue that firm performance is the result of the fit between two or more factors, such as strategy and firm environment (Tosi & Slocum, 1984; Van de Ven & Drazin, 1984). The contingency theory is the ideal conceptual foundation in the present context as we associate IMEs with the misalignment between strategy and the foreign market risk environment. Next, we elaborate on foreign market risk environment. We provide the main constructs and the definitions connected to the main topic. We then detail our empirical methodology. Following the discussion of our findings, we formulate propositions for the IME phenomenon in light of the contingency theory. Finally, we conclude with the discussion including the theoretical implications, managerial recommendations, and directions for future research and limitations.

2. International market exit phenomenon in the literature

Scholars have used different terms to call attention to the exit phenomenon, such as de-internationalization, divestment, withdrawal, failure, closure, disengagement, liquidation, total sales, and sell-off (Burt, Dawson, & Sparks, 2003). De-internationalization refers to “any voluntary or forced actions that reduce a firm’s engagement in or exposure to current cross-border activities” (Benito & Welch, 1997, 9). Firms may limit or reduce their operations in a host country or ultimately exit from such markets in this context (Yayla et al., 2018). The present study focuses on complete withdrawal from the foreign market rather than reduced operations. Thus, we use the term ‘market exit’ and adopt Sousa & Tan (2015, 84) definition: “Exit refers to a firm’s voluntary decision to liquidate or sell an active operation in a foreign market.” In this context, the sale of assets, international store swaps,

bankruptcy, and similar processes all lead to an exit or withdrawal (Burt et al., 2003).

Extant studies have linked market withdrawals to a host of internal and external factors. We provide an overview of the contributions in Table 1 and Fig. 1. Based on an exhaustive review of the IME literature, we identified past contributions and related constructs. Table 1 summarizes the findings in the selected studies. Using the method of backward-tracing, we checked the references in new publications from 2019 and 2020 so as not to miss any key contributions. We then formulated Fig. 1 to depict the constructs in extant literature and their relationships with the dependent variable IME. As mentioned, the arguments provided in the literature are inconsistent and the findings are mixed.

In our examination, internal factors are firm-specific and include such firm characteristics as age and size (Burt et al., 2003; Mata & Freitas, 2012), organizational capabilities (Arte & Larimo, 2019; Boddewyn, 1979; Li, 1995; Wang & Larimo, 2020), strategy and strategic choices (Boddewyn, 1979; Etgar & Rachman-Moore, 2007; Hennart, Roehl, & Zeng, 2002; Li, 1995, [Li, 2019] 2019; Sousa & Tan, 2015; Wang & Larimo, 2020) and poor performance (Berry, 2013; Burt et al., 2019; Haynes et al., 2003; Sousa & Tan, 2015). We consider strategy and strategic choices to be an antecedent of poor performance. It includes poor pre-investment analysis, overoptimistic market forecasts, and ineffectiveness in achieving fit (Boddewyn, 1979; Hennart et al., 2002).

External factors mainly stem from the adverse environmental conditions associated with the political system, economic conditions and cultural distance in a host country (Boddewyn, 1979; Hennart et al., 2002; Javalgi et al., 2011; Song, 2014; Wang & Larimo, 2020). Apart from adverse conditions in host countries, favorable conditions in other international markets may also lead to IMEs. Firms may change strategy and withdraw from existing countries with the intention of entering more attractive markets (Berry, 2010; Fisch & Zschoche, 2012).

Based on our comprehensive assessment, we contend that misalignment between strategy and foreign market risk environment appears as the principal cause behind IMEs. We report from our in-depth study of 62 IMEs and provide an integrative conceptualization of this phenomenon.

3. Conceptual foundations: contingency theory

Conceptual framework for our study draws from the contingency theory. Contingency theory is rooted in the contingency approach of science. The contingency approach suggests that the relationship between two variables (X and Y) depends on a third variable (Z) (Donaldson, 2001). Contingency theories argue that firm performance is the result of the fit between two or more factors, such as strategy, structure, people, technology, culture (Tosi & Slocum, 1984; Van de Ven & Drazin, 1984), and firm environment. This theory applies to such organizational characteristics (Donaldson, 2001) as organizational structure, leadership (Fiedler, 1967), and strategic decision-making process (Fredrickson, 1984). Thus, for organizational effectiveness, characteristics of an organization must fit into the contingencies associated with the situation of this organization (Donaldson, 2001). Environment and organizational strategy are the two crucial contingencies in this context.

The concept of fit (Venkatraman & Camillus, 1984), or congruency, has its roots in the contingency and the population ecology literature and is central to contingency theory (Tosi & Slocum, 1984; Volberda, Van Der Weerd, Verwaal, Stienstra, & Verdu, 2012). It has been an important element to the organization theorists (Drazin & Van de Ven, 1985) and strategic management scholars (Ginsberg & Venkatraman, 1985; Venkatraman, 1989). Firms seek adaptation to changing contingencies to be able to achieve fit.

In the context of this study, contingency theory is the ideal theoretical framework for the following reasons: First, we employ the concept of fit or alignment for success, and argue that international

Table 1
Selected Studies on International Market Exit (De-internationalization: Divestment, Withdrawal).

No	Study	Literature: Dependent Variables	Selected Reason(s) For Exit	Method - Data
1.1	Burt et al. (2003)	Failure	Suggests ten propositions: p5. Failure is related to the stage of organizational development, normally viewed as the Age and Size of firm	–
1.2	Mata and Freitas (2012)	Exit	Age leads to an increase in exits of foreign firms, and to decrease in purely domestic firms.	Bureau van Dijk data used on firms operating in <u>Portugal</u>
1.3	Norback, Tekin-Koru, and Waldkirch (2015)	Likelihood of Divestment	- Size of Affiliate	Detailed confidential survey data of <u>Swedish</u> multinationals
1.4	Kolev (2016)	Divestitures / Divestment	- Presence of Other Affiliates Nearby; Sales of Affiliates Elsewhere	
2.1	Li (1995)	Likelihood of Exit	- Firm Size and Firm Diversification - Prior Divestment Experience - Weak Unit Performance	A meta-analysis based on a sample of 35 studies
2.2	Kim, Delios, and Xu (2010)	Exit Rate of Subsidiary	- Organizational Learning and Experience - Diversification Strategy; Entry Strategy	Entry and survival of foreign subsidiaries in the <u>U.S.</u> computer and pharmaceutical industries over the 1974-89 period, Using a hazard rate model.
2.3	Kim, Lu, and Rhee (2012)	Survival	- Experiential Learning; Vicarious Learning Moderator: Subsidiary Organizational Geography	Japanese subsidiaries located in <u>China</u>
2.4	Kim, Lu, and Rhee (2012)	Survival	- Experience of Sister Subsidiaries Moderator: Level of Environmental Change	Empirical analysis of <u>Japanese</u> foreign subsidiaries
2.4	Wang & Larimo (2020)	Likelihood of Survival	- Acquisition-specific Experience Moderator: Full/Partial Acquisition	Cox Proportional Hazard Model: 1275 acquisitions by <u>Finnish</u> firms
2.5	Shaver, Mitchell, and Yeung (1997)	Probability of Survival	- Foreign Presence in the Target Industry at the time of investment Moderator: Firm's Experience in the Host Country.	Evidence based on the survival to 1992 among 354 <u>U.S.</u> investments undertaken by foreign firms in manufacturing industries during 1987
2.6	Park and Chung (2019)	Subsidiary Divestment	- Expansion of Business Operations Through Competence-creating Learning Behaviors	A sample of 6040 foreign subsidiaries operating over 14 years
3.1	Garg and Delios (2007)	Survival of Foreign Venture	- Business Group Affiliation Moderator: Host Country Development Stage	Foreign subsidiaries of multinational firms from <u>India</u>
3.2	Benito (1997)	Divestment	- Economic growth in the host country Moderator: Acquisition/Greenfield Operation Moderator: Related / Unrelated Subsidiary	Empirical study with 93 <u>Norwegian</u> firms
3.3	Song (2014)	Exit Decision	- Market Conditions in Host Country (Favorable/Unfavorable) Moderator: Investment Level Moderator: Institutional/Financial Development of Host Country	Cox proportional hazard rate model with a dataset of <u>Korean</u> foreign direct investments
3.4	Yayla et al. (2018)	Propensity to Exit	- Firm's Market Orientation; Firm's Relational Capital Moderator: Turbulence in a Foreign Market	Empirical study with 156 <u>Turkish</u> firms in Egyptian market.
3.5	Belderbos and Zou (2009)	Probability of Divestment	- Adverse Environmental Changes in the Host Country Moderator: Macroeconomic Uncertainty	Dataset consists of 1095 manufacturing affiliates operational in early 1995 that were wholly or partially controlled by 412 <u>Japanese</u> firms in the broad electronics industry in nine Asian countries.
3.6	Demirbag, Apaydin, and Tatoglu (2011)	Foreign Subsidiary Survival	- Institutional variables: Economic Distance, Economic Freedom Distance and Subsidiary Density.	<u>Japanese</u> foreign equity ventures in the Middle East and North Africa
3.7	Dhanaraj and Beamish (2009)	Mortality of Subsidiaries	- Institutional Environment: Political Openness, Social Openness Moderator: Entry Mode, JV	A sample of 12,000+ <u>Japanese</u> overseas investments (1986–1997) in 25 countries, with Cox hazard models
3.8	Javalgi et al. (2011)	Exit	- Government Regulation; Financial Crises; Unstable Economy	Provides findings from 45 cases of reentry
3.9	Belderbos (2003)	Closure of Manufacturing Plant	- Repeal of EU Antidumping Measures	Logit model including 209 subsidiaries Japanese Firm's <i>Divestments</i> in EU.
3.10	Pattnaik and Lee (2014)	Divestment of Affiliates	- Cross-national Distance: Economic, Financial, Political, Cultural Administrative, Demographic, Knowledge & Global Connectedness. Moderator: Entry Mode and Experience in Host Country	A data set of 1697 multinational corporations headquartered in <u>Korea</u> and their 2435 affiliates in 67 host countries from 2000 to 2010
3.11	Hennart et al. (2002)	Exit	- Liability of Foreignness	Exit reasons for 32 cases
3.12	Sharma and Manikutty (2005)	Actual Divestment	- Leader's Realization of the Need to Divest a Business Unit Moderator: Community Culture; Family Structure	–
3.13	Dai, Eden, and Beamish (2013)	Likelihood of Foreign Subsidiary Exit	- Exposure to Geographically Defined Threats Moderator: Concentration of Home Country Peers Moderator: Dispersion of Same-parent Subsidiaries in H. Country	Dynamic modeling of conflict zones: Street-level analysis of geographic information systems data for 670 <u>Japanese</u> MNE subsidiaries in 25 conflict-afflicted host countries over 1987–2006.

(continued on next page)

Table 1 (continued)

No	Study	Literature: Dependent Variables	Selected Reason(s) For Exit	Method - Data
4.1	Berry (2010)	Divestment Decision	- Lower-cost Production Opportunity - New Market Opportunities Moderator: Diversified Companies	Panel of U.S. manufacturing firms and gathered information: Compustat Database from 1977–2000, Sample size of 190 firms.
4.2	Coucke and Sleuwaegen (2008)	Exit Behavior	- Globalization: International Sourcing ; Local market developments and local competition. Moderator: Domestic Firms / MNE Subsidiaries	<u>Belgian</u> firms that offshore activities to non-European Union countries
4.3	Fisch and Zschoche (2012)	Closure of Individual Subsidiaries	- Rising and Uncertain Labor Costs Moderator: Ease of Dismissing Workers	596 production locations of 189 <u>German</u> manufacturing firms
5.1	Li (2019)	Failure	Moderator: Opportunity to Shift Production Emic Perspective: Ineffectiveness in understanding Chinese market Etic Perspective: Competitors, failure to be embedded in China.	Empirical evidence based on two rounds of interviewing.
5.2	Delios & Makino, 2003	Subsidiary Survival	- Timing of Entry Moderator: Asset's Possessed	A sample of 6955 foreign entries of 703 Japanese firms
5.3	Tao, Zhanming, & Xiaoguang (2013)	Subsidiary Survival	- Entry Mode Moderator: Economic/Cultural Distance	<u>Chinese</u> Firms (01/1996 – 12/2004) Sample: 489 FDI in 39 Countries
5.4	Mudambi and Zahra (2007)	Survival of Foreign Entrant	- Entry Mode Moderator: Firms' Competitive Strategy	Data from 275 <u>British</u> firms
5.5	Ogasavara and Hoshino (2008)	Subsidiary Survival	- Entry Strategy and Interfirm Trust	A sample of 224 <u>Japanese</u> manufacturing subsidiaries established in <u>Brazil</u> over 1989–2003 provides empirical evidence for this study
5.6	Papyrina (2007)	Likelihood of Subsidiary Survival	- Entry Mode : JV vs. Wholly Owned Subsidiaries Moderator: Joints established during the early/late stage of institutional reforms	The sample included 1733 subsidiaries of 564 <u>Japanese</u> firms in China drawn from <i>Kaigai Shishutsu Kigyō Souran, Kuni-Betsu [Japanese Overseas Investments, by Country]</i>
5.7	Gaur & Lu (2007)	Subsidiary Survival	- Ownership Strategy Moderator: Institutional Distance and Host Country Experience	Exploring a sample of Japanese foreign subsidiaries.
5.8	Delios, Xu, and Beamish (2008)	Subsidiary Performance	- Within-country Product Diversity Moderator: Institutional Strength of Host Country Moderator: Firm's Corporate Level Product Diversity	Sample of 12,992 foreign subsidiaries of <u>Japanese</u> multinational firms
5.9	Bane and Neubauer (1981)	Failure (Liquidation)	- Diversification of product range	69 continental <u>European</u> multinationals with 1942 entries and 175 liquidations (exits) so that the overall probability of exit in the 25 years from 1945 to 1970
5.10	Benito (2005)	Divestment	- Type of Strategy pursued by the corporation: Subsidiaries established as part of global strategy	-
5.11	Benito and Welch (1997)	De-Internationalization: Withdrawal	- Commitment of Firms to International Operations	Overview of de- internationalization literature
5.12	Sousa and Tan (2015)	Exit	- Strategic Misfit with Foreign Affiliate	Questionnaire data from Chinese outward foreign direct investment firms
6.1	Berry (2013)	Divestment	- Poor Performance Moderator: Geographic Market Differences.	Data from the BEA benchmark and annual surveys of <u>U.S.</u> direct investment
6.2	Boddewyn (1979)	Divestment	- Poor Performance Integrates the findings of studies in US, Europe & Japan dealing with the magnitude & causal factors of divestment	Integrates literature with several methodologies (Surveys, case studies)
6.3	Li and Liu (2015)	Possibility of Divestment	- Profitability; Market Shares; MNC Performance	Data from <u>Chinese</u> Industrial Enterprises Database from 1997-2008
6.4	Tan and Sousa (2019)	Exit Decision	- Performance Moderator: Innovation Capability Moderator: International Experience	Secondary and primary data collected from multiple respondents from <u>Chinese</u> outward foreign direct investment firms
6.5	Delios and Beamish (2001)	- Subsidiary Survival - Profitability of Subsidiary/ JV	- MNE's Possession of Intangible Assets - MNE's Experience in a Host Country - MNE's Experience with JVs Note: Survival and profitability have different antecedents.	Sample of 641 <u>Japanese</u> firms and 3080 subsidiaries derived from the Analyst's Guide, a directory of information on domestic nonfinancial firms whose stocks are listed on the first section of the Tokyo Stock Exchange
6.6	Chung, Lee, and Lee (2013)	Exit	- Profitability Moderator: Subsidiaries with Single/Dual Options	703 <u>Korean</u> overseas manufacturing subsidiaries in Asian countries
6.7	Hamilton & Chow (1993)	Divestment	- Size and Growth Rate of Company Motivation: Need to convert unattractive assets into liquid	Chief Executives from <u>New Zealand's</u> largest companies were surveyed: Divestment of 208 business units in 1985- 1990
7	Belderbos and Zou (2006)	Magnitude and Pattern of Foreign Divestment	Magnitude and Pattern of Foreign Divestment and Relocation Across nine East Asian Countries.	Divestment by <u>Japanese</u> firms in nine East Asian Countries during 1995-2003
8	Boddewyn (1983a)	Theoretical understanding of Foreign Divestment Decision	Differences between <i>Foreign Divestment</i> and Domestic Divestment <i>Decisions</i>	Theory
9	Boddewyn (1983b)	Foreign Direct Divestment Theory	Whether Dunning's eclectic theory of foreign direct investment is applicable in reverse to foreign divestment	Theory

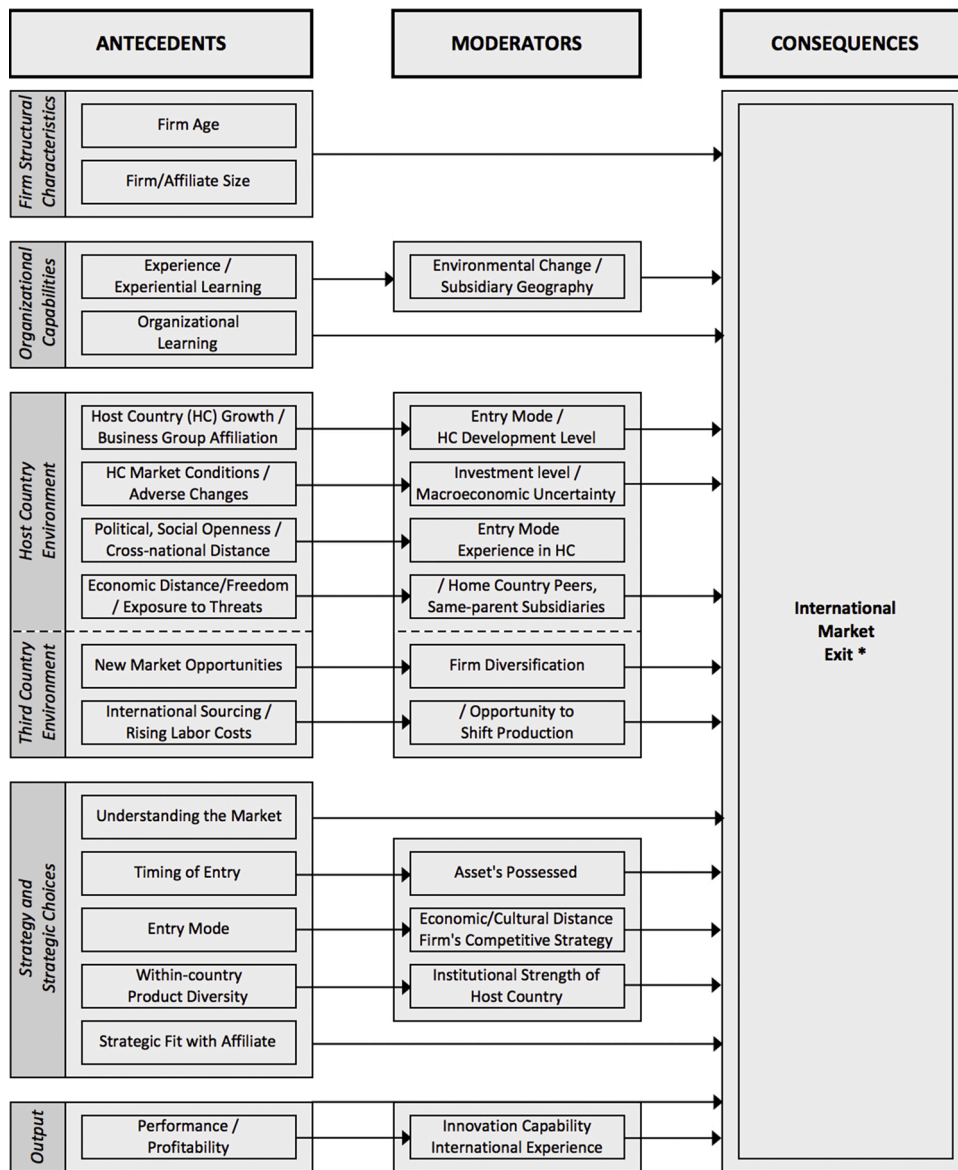


Fig. 1. Theoretical Constructs in Extant Literature.

*De- internationalization, divestment, withdrawal, mortality, survival, and failure are some of the other terms used in the literature for international market exit.

expansion may end up with an exit due to misfit or misalignment with the foreign market risk environment. Second, we refer to the two most essential contingencies in developing our theory: organizational strategy and the external environment. Strategy development is a critical managerial function in setting the direction and the objectives of an organization. Firm resources need to be aligned with the environmental conditions for an effective strategy (Bourgeois, 1980; Chandler, 1969). The fit between the firm strategy and the firm’s external environment is

indispensable for success (Miles, Snow, Meyer, & Coleman, 1978; Naman & Slevin, 1993; Volberda et al., 2012; White & Hamermesh, 1981).

Consequently, we suggest a preliminary conceptualization under the contingency theory as illustrated in Fig. 2. When it comes to the contingencies for firm success, strategy and environment are the two key ones. First, firms have to align with their uncertain environment to mitigate risks and be competitive for long-term survival and growth

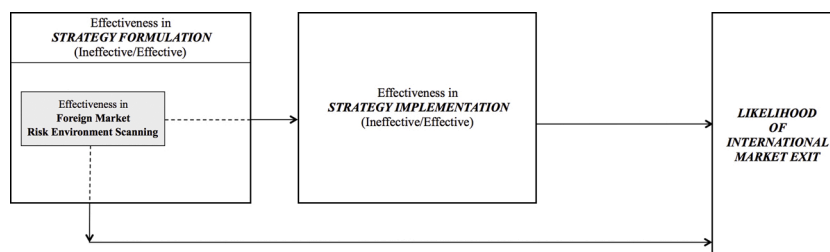


Fig. 2. Preliminary Conceptualization of the International Market Exit Phenomenon.

(Fiol & Lyles, 1985). Second, strategy making is the sole process that firms analyze, understand, and adapt to their external environment (Wolf & Floyd, 2017). Therefore, achieving alignment between strategy and foreign market risk environment is indispensable. Accordingly, we argue that an IME is due to misalignment between strategy and foreign market risk environment. Misalignment may arise in any of the two main steps of strategy making: formulation and implementation.

4. Foreign market risk environment and strategy

International business differs from domestic business in that firms are routinely exposed to international business risks (Cavusgil, Knight, & Riesenberger, 2020). It is the uncertainty in a foreign market that increases risk in cross-border business (Miller, 1992; Werner et al., 1996). According to Miller (1992), firms face two major categories of uncertainty in their international markets: general environmental uncertainty, and industry-related uncertainty. The former includes such ambiguities as political and macroeconomic events. These two uncertainties refer to country risk and currency risk, respectively (Cavusgil, Knight et al., 2020). The latter includes changes in consumer tastes and rivalry among existing competitors. They are associated with cross-cultural risk (Cavusgil, Knight et al., 2020). There are many uncontrollable factors associated with country, currency and cross-cultural risks in an unfamiliar foreign market risk environment.

It is the purpose of the strategy to align the firm with its uncertain, unfamiliar and risky international market (Miller, 1992). Alignment between the strategy and the foreign market risk environment is the key for success. According to strategic management literature, strategy making process is basically composed of two stages: i) strategy formulation, ii) strategy implementation (Boyd & Reuning-Elliott, 1998; Dess, 1987; Hill, Jones, & Schilling, 2014; Wheelen, Hunger, Hoffman, & Bamford, 2018). Therefore, misalignment between the firm strategy and the foreign market risk environment may arise due to ineffectiveness in any or both of these stages.

Strategy formulation includes the upstream dimensions of internal and external environmental scanning, and such downstream dimensions as goal setting and strategy development (Boyd & Reuning-Elliott, 1998; Dess, 1987; Hill et al., 2014; Wheelen et al., 2018). With strategy formulation, we posit that misalignment emerges as part of ineffectiveness in external environmental scanning and/or strategy incongruence. Ineffectiveness in External Environment Scanning refers to any deficiency in understanding, analyzing, assessing, and responding to the uncertainties or risks in a foreign market. Strategy refers to a firm's plan that provides competitive advantage in the foreign market environment to achieve the goals. Strategy incongruence happens, when such a strategy plan does not help to realize the goals. This deficiency may stem from the ineffectiveness and/or underestimation of scanning.

We conceive three dimensions accounting for strategy implementation: i) developing the action plan, ii) allocating the necessary resources, and iii) executing the action plan. Similarly, any incongruence and/or ineffectiveness may account for the occurrence of misalignment. Action plan refers to the planning of the courses of action at the functional, business and corporate levels to accomplish the strategy plan (Clarke & Fuller, 2010; Hill et al., 2014; Wheelen et al., 2018). In the scope of an action plan, marketing program or mix refers to the policies and procedures related to the product plans, price, place (point of sale) and promotion (4 Ps) (Borden, 1964). Action Plan or Marketing Mix Incongruence happens as a result of misalignment with strategy, and therefore with the foreign market environment. Internal Resources refer to all resources, including monetary, humans, and tools that are indispensable to accomplish an action plan. Resource Incongruence happens in case of having insufficient and/or unqualified resources to execute the action plan. Ineffectiveness in Execution refers to the incompatibility of the acts and/or actual results with the action plan.

5. Analysis of international market exit cases

5.1. Method

In the current study, we adopt the case study methodology (Eisenhardt & Graebner, 2007; Eisenhardt, 1989a; Miles, Huberman, & Saldana, 2014; Tsang, 2013; Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mantymaki, 2011; Yin, 2014). The case approach is one of the preferred methods in the divestment stream of research (Burt, Coe, & Davies, 2019; Dominguez & Mayrhofer, 2017). Our approach is both deductive and inductive (Tsang, 2013; Welch et al., 2011). On the one hand, we use deductive logic to explain and verify suggested theory. On the other hand, we are exploratory, and open to induce a new theory from the data.

Three fundamental conditions exist in our research for the case study methodology (Yin, 2014: 50). First, we aim to explain why firms exit from foreign markets. Case study is an appropriate method to address explanatory "how" and "why" questions, providing the rich, real-word context, as opposed to parsimonious abstraction, for analysis (Eisenhardt & Graebner, 2007). It goes beyond the simple observables and delves into more in-depth reasons behind a phenomenon (Eisenhardt, 1989a). Second, our research question is about a contemporary phenomenon, where manipulation cannot be employed. It is an aspiration of our science to conduct experiments. However, for apparent difficulties, experiments have minimal application except in a few contexts. As indicated by Eisenhardt and Graebner (2007), multiple case studies come closest to emulating series of related laboratory experiments. As a practical alternative to experimentation, case studies provide many of the appealing features of repeated probing of real life complexity (Welch et al., 2011). Third, we have little or no control over the actual behavioral events related to IME phenomenon (Poliakova, Riddle, & Cummings, 2020).

We conducted multiple case analyses for the following reasons. First, we aim to "deepen understanding and explanation" (Miles et al., 2014; Welch et al., 2011). Seeking not only similarities but also differences across cases leads to stronger theories. Second, multiple case studies are as capable as the alternatives in attaining generalizability and transferability of the findings to other contexts. In this approach, our strategy is variable-oriented, which is conceptual and theory centered (Miles et al., 2014). Our focus is to discover the broad patterns across several cases rather than the details in each individual case. Accordingly, we studied 62 cases considering theoretical saturation.

5.2. Sample and data collection

We use secondary data in our analysis from various sources, providing comments and declarations of individuals, such as CEOs, firm spokesman, and analysts. As well known, firms do not necessarily publicize their unfavorable experiences in foreign markets. Consequently, there is relatively limited number of publicly available cases of IMEs. In this context, all of the studied cases illustrate experiences of companies with relatively good reputation. They are well known and often considered to be leaders in their respective business sectors. Therefore, we are not biased in choosing such replicating cases, and follow theoretical sampling (Eisenhardt & Graebner, 2007; Eisenhardt, 1989a). All of the cases shed light on relationships between constructs, and contribute to theory development. All are from the 1980s on, where globalization started to accelerate. Table 2 provides the breakdown of the firms based on their origin: Europe (31), North America (25), and Asia (6).

In total, we identified 71 market exit cases. Nevertheless, the analysis in this paper is based on 62 cases. We excluded those where we could not clearly delineate the primary causes of market exits, or we could not find data sources other than blogs. We collected data in four waves and analyzed it in three steps (Petriglieri, Petriglieri, & Wood, 2018) through pattern coding (Eisenhardt, 1989a; Miles et al., 2014) using NVivo 12.

Table 2
The List of IMEs Included In The Analysis.

Firm	Origin	Industry	Foreign Market	Reason For Exit	Year of Exit	Year of Entry
Aldi	Germany	Retail - Food	Greece	Alignment + Country Risk	2010	2008
Auchan	France	Retail - Food	U.S.	Alignment	2003	1988
Best Buy	U.S.		China	Alignment	2011	2006
Best Buy	U.S.	Retail - Consumer Electronics	Turkey	Alignment	2011	2009
Best Buy	U.S.		U.K.	Alignment + Country Risk	2012	2010
Boots	U.K.	Retail - Health & Beauty Pharmacy	Japan	Alignment	2001	1998
Borders	U.S.	Retail – Book & Music	U.K.	Alignment	2007	1998
Carlsberg	Denmark	Beverage	China	Alignment	1999	1995 Acquire
C&A	German-Dutch	Retail - Fashion	U.K.	Alignment	2000	1922
Carrefour	France	Retail	Colombia	Alignment	2012	1998
Carrefour	France	Retail	Greece	Country Risk	2012	1991
Carrefour	France	Retail	India	Country Risk	2014	2000
Carrefour	France	Retail	Japan	Alignment	2005	2000
Carrefour	France	Retail	Singapore	Alignment	2012	1997
Carrefour	France	Retail	S. Korea	Alignment	2006	1996
Clorox	U.S.	Consumer Household Products, Healthcare, Food	Venezuela	Country Risk + Currency Risk	2014	1990
Daewoo	S. Korea	Automotive	US	Other	2002	1997
Danone	France	Food Processing	China	Other	2009	1996
Dixons	U.K.	Retail – Consumer Electronics	Spain	Alignment	2011	2001
eBay	U.S.	Internet	China	Alignment + Country Risk	2006	2002
eBay	U.S.	Internet	Japan	Alignment	2002	2000
GM-Chevrolet	U.S.	Automotive	India	Alignment	2017	1996
Google	U.S.	Internet, Software	China	Alignment + Country Risk	2010	2006
Hailo	U.K.	Taxi Management	U.S.	Alignment + Country Risk	2014	2013
Home Depot	U.S.	Retail	China	Alignment	2012	2006
IKEA	Sweden	Retail	Japan	Alignment	1986	1974
Isuzu Light Weight	Japan	Commercial Vehicles Manufacturing	US	Other	2009	1992
Kingfisher	U.K.*	Retail – Home Improvement	Portugal Russia Spain	Alignment	2018	– 2006 2003
Louis Vuitton	France**	Fashion	Argentina	Country Risk	2012	2006
M&S	U.K.	Retail	China	Alignment	2017	2008
Mattel	U.S.	Entertainment	China	Alignment	2011	2009
McDonald's	U.S.	Fast Food	Bolivia	Alignment + Country Risk	2002	1997
McDonald's	U.S.	Fast Food	Iceland	Country Risk + Currency Risk	2009	1993
McDonald's	U.S.	Fast Food	Jamaica	Alignment	2005	1995
New Look	U.K.	Fashion Retail	China	Alignment	2018	2014
New Look	U.K.*	Fashion Retail	Russia Ukraine	Country Risk	2014	2009
Nokia	Finland	Telecom	India	Alignment	2014	1994
Office Depot	U.S.	Specialty Retail	Mexico	Other	2013	1994
Peugeot	France	Automotive	India	Alignment + Other	1997	1994
Peugeot	France	Automotive	U.S.	Alignment	1991	1958
Philipps	Holland	Mobile Phone	India	Alignment + Country Risk	2003	1996
Piaggio (Vespa)	Italy	Motor Vehicle Manufacturing	India	Other	1999	1983
Renault	France	Automotive	India	Alignment	2010	2005
SCA	Sweden	Hygiene Forest Products	India	Alignment	2017	2013
SK Telecom	S. Korea	Telecom	U.S.	Alignment	2008	2005
Starbucks	U.S.	Coffee Shop	Israel	Alignment + Country Risk	2003	2001
Sterling	U.K.	Automotive	U.S.	Alignment	1991	1987
Suzuki	Japan	Automotive	China	Alignment	2018	1993
Suzuki	Japan	Automotive	U.S.	Alignment + Country Risk + Currency Risk	2012	1985
Taco Bell	U.S.	Fast Food	China	Alignment	2008	1999
Taco Bell	U.S.	Fast Food	S. Korea	Alignment	early 1990	mid 1980
Target	U.S.	Retail	Canada	Alignment	2015	2011
Tengelmann	Germany	Retail	Russia	Country Risk	2016	2003
Tesco	U.K.	Retail	Japan	Alignment	2011	2003
Tesco	U.K.	Retail	U.S.	Alignment + Country Risk	2013	2007
Toshiba	Japan	TV Sets & Home Appliances	Singapore	Alignment	2015	1974
Uber	U.S.	Transportation	China	Alignment + Country Risk	2016	2013
Walmart	U.S.	Retail	Germany	Alignment + Country Risk	2006	1997
Walmart	U.S.	Retail	Japan	Alignment	2018	2002
Walmart	U.S.	Retail	South Korea	Alignment	2006	1998
Wendy's	U.S.	Fast Food	Japan	Other	2009	1980
Yahoo	U.S.	Web Services Provider	S. Korea	Alignment	2012	1997

* Left more than one market at a time due to one single reason.

** More than one firm left this market at a time due to one single reason.

The objective of collecting data and coding it in successive waves was to apply coding in a controlled manner. First, we divided the data by data source, such as academic and non-academic, to achieve stronger results (Eisenhardt, 1989a, 1989b). Our approach to secondary data collection and verification followed the triangulation method (Patton, 2002; Yin, 2014). Second, we checked the consistency of primary coding at the end of each wave. Third, we aimed to systematically review the emergent results from pattern coding in between waves. Finally, we considered the principle of theoretical saturation to stop analyzing further cases.

We used publicly available secondary data sources including academic articles-case studies, classroom teaching case studies, and the narratives: i) articles in popular press, such as BBC News, France 24, NBC News, NPR, Reuters, ii) information in magazines and newspapers, such as China Daily, Financial Times, Forbes, Fortune, Independent, South China Morning Post, The Guardian, The Japan Times, The Korea Times, The Telegraph, The Wall Street Journal, iii) information in trade publications, such as Autoweek Magazine and Driving (Postmedia Network Inc.), iv) news in digital business news site, Business Insider, and v) information in business/consulting firm websites. We entered all as PDF file in NVivo 12, and carried out the analysis in four waves.

In the first wave, we carried out a search via Google Scholar, Web of Science, and Case Centre for Educators for available case studies. We used several keywords, such as “de-internationalization”, “international/foreign market exit”, “divestment”, “withdrawal”, “subsidiary survival”, “failure”, “reentry”, “IB risks”, and a combination of these keywords. We also employed the method of backward-tracing (Arte & Larimo, 2019; Cooper, 1998). Accordingly, we analyzed first 20 cases appeared in our web search. In the second wave, we examined the narratives from popular press, magazines, newspapers, and firm/consultant websites for the 20 cases identified in Wave 1. We reviewed the same story from non-academic sources to discover further details, and to check the consistency. Similarly, we again searched narratives on Google and identified an additional 20 and 22 cases in Waves 3 and 4, respectively. In the fourth and last wave, in addition to the web search findings, we also used cases from the previous longevity research (Koc, 2016): Aldi, Auchan, C&A, Delhaize Group, Dixons, Kingfisher, Louis Vuitton, and Tengelmann.

5.3. Data analysis

We followed three steps in our analysis at the end of each successive data collection wave: Step 1 (Listing IME Cases), Step 2 (Primary Coding), and Step 3 (Pattern Coding). We repeated our analysis several rounds to group “descriptive” and “subgrouping” codes into pattern codes. We compared our analysis with previous waves to be consistent. We considered the concurrent exits by multiple firms or concurrent exits of one firm from multiple markets as a single case of exit, given that the root cause of such concurrent exits was identical. Thus, our study is incident based. We have three such cases in our study. Table 2 provides all the pattern codes in the “Reason for Exit” column. Coding details are available from the author.

Step 1: We started with filling Table 2 to summarize the raw data for each case. First, we entered the name and the origin of the firm, its industry, the foreign market, and years of exit and entry. We added ‘reason for exit’ at the end of Step 3. For the subsequent steps, we adopted descriptive coding and subcoding (Miles et al., 2014). We used at least two different data sources for each case to be able to understand and verify the reasons. We could organize the data easily by using NVivo 12.

Step 2 (Primary Coding): We adopted “pattern coding” methodology (Miles et al., 2014), and followed a similar approach explained in Petriglieri et al. (2018). We started with identifying the “reason(s) for each exit” given in the data. Then, we assigned corresponding “primary codes” based on our preliminary conceptualization and also on other emergent topics as follows. First, we contend that an IME stems from the misalignment between firm strategy and the foreign market risk environment. Accordingly, where applicable, we labeled the primary cause

indicating the “uncertainty or risk factors leading to an exit”, and the “ineffective step in strategy-making”. For instance, “misreading customers” arises during the “external environmental scanning (Scan)” step of the “strategy formulation (SF) process.” The corresponding primary code is “SF_Scan – Customer_Misread.”

Second, we used the IB risk definitions (Cavusgil, Knight et al., 2020). “Country risk refers to the potentially adverse effects on company operations, and profitability caused by developments in the political, legal, and economic environment in a foreign country. Currency risk, or financial risk, refers to the risk of adverse fluctuations in exchange rates.” We conducted primary coding using the factors given in these definitions, such as “economic environment” and “exchange rate”. Finally, we also used codes, such as “Joint Venture (JV),” where applicable, per the data.

Step 3 (Pattern Coding): At this step, we proceeded with the “Pattern Coding” (Miles et al., 2014). We labeled primary codes as “alignment,” “country,” or “currency,” in accordance with our preliminary conceptualization and IB risk definitions, where applicable. We labeled the rest as “other.”

6. Results and integrative framing of principal causes

First, as illustrated in Fig. 3, our analysis reveals that strategy accounts for 79 percent of the IMEs in our sample. Of these, 74 percent relates to initial strategy and the remaining five percent are accounted by subsequent change in strategy. The related cases point out a misalignment between strategy and the foreign market risk environment, especially cross-cultural risk environment. This high percentage of occurrence indicates that the premises of contingency theory apply in the context of IME, and the suggested conceptualization in Fig. 2 is meaningful. Furthermore, 90 percent of the exits are associated with IB risks in total, of which 11 percent are attributed to country and currency risks only. This is plausible because IB differs from domestic business in that firms are routinely exposed to IB risks (Cavusgil, Knight et al., 2020). Next, we elaborate on the causes of misalignment in the strategy making process for the initial strategy-related exits.

Second, for the initial strategy- or misalignment-related exits, strategy formulation is the most critical process that accounts for IMEs with an occurrence of 42 percent individually. Fig. 4 illustrates the results of the analysis. Strategy formulation may directly lead to an IME under the preliminary conceptualization in Fig. 2. Moreover, some 29 percent out of 42 are attributed to the ineffectiveness of foreign market environment scanning. Some nine percent of the exits stem from ineffective scanning only. Some 20 percent are associated with both ineffective scanning and strategy incongruence. Giving support to the preliminary conceptualization and the premises of contingency theory, this finding also provides additional insight into strategy incongruence.

Third, apart from the individual contribution of strategy formulation, we find that strategy formulation and implementation lead together to IMEs in 51 percent of the initial strategy-related exit cases. Ineffective foreign market scanning and action plan incongruence mutually account for 30 percent of these exits. Ineffective scanning and other combinations, all together, lead to IME in 12 percent of the cases. Therefore, some 42 percent is associated with scanning. Apart from this, we also infer that action plans have to be aligned with the firm strategy, and they both have to be in line with the foreign market environment at the same time in accordance with the contingency theory. This finding also provides additional insight about the role of action planning in IMEs.

When one considers all the initial strategy- or alignment-related cases, strategy formulation and foreign market environment scanning are attributed to 93 percent and 71 percent of the IMEs, respectively. The critical role of ineffective scanning in IMEs is the very vital point in our study. It is the key to identify the risks during scanning and then align the strategy with the foreign market risk environment. This provides even greater support for the premises of the contingency theory,

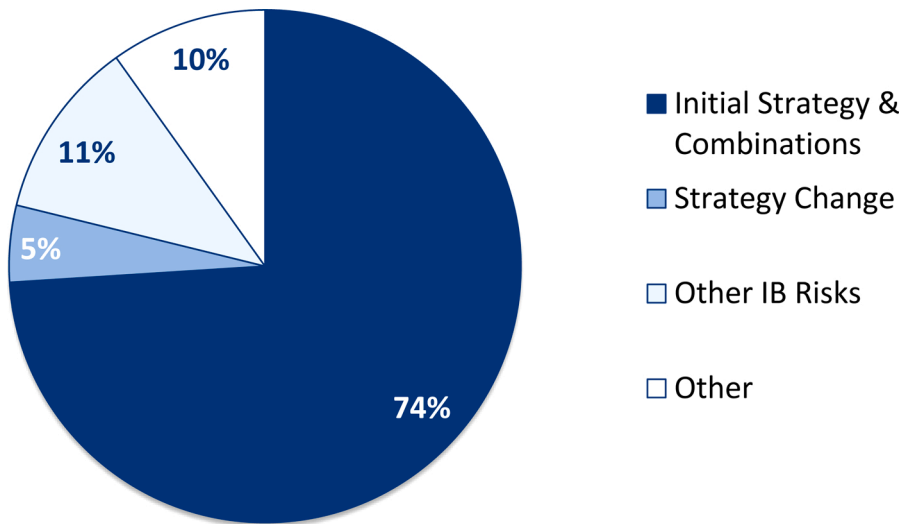


Fig. 3. Reasons for International Market Exits.
 Note 1: Our analysis reveals that 74 percent of the exits are associated with initial strategy and combinations.
 Note 2: When “initial strategy (74 percent)” and “strategy change (five percent)” are combined, some 79 percent of the exits are associated with strategy in total.
 Note 3: IB risks other than strategy-related account for 11 percent of the IMEs.
 Note 4: Therefore, 90 percent of the exits are associated with IB risks.

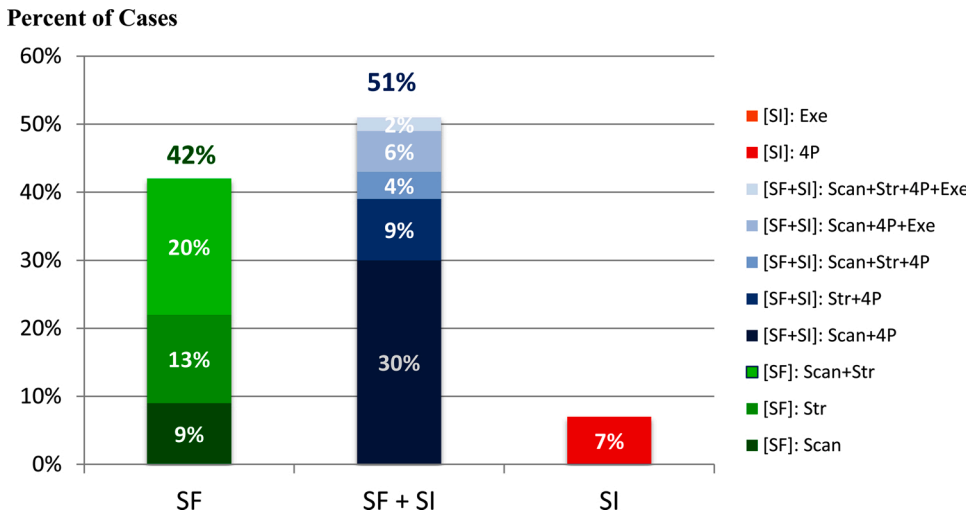


Fig. 4. Initial Strategy Related Exit Cases.
SF: Strategy Formulation:
Scan: Ineffective External Environmental Scanning
Str: Strategy Incongruence
SI: Strategy Implementation:
4P: Action Plan Incongruence due to Marketing Mix (Marketing Mix Incongruence)
Res: Resource Incongruence
Exe: Ineffective Execution

and the preliminary conceptualization in Fig. 2.

Fourth, strategy implementation can also be the primary cause in IMEs. Some seven percent of the initial strategy related exit cases are related to ineffective action planning. Besides, eight percent is attributed to ineffective execution and combinations. This finding further provides additional insights about action planning and execution. Even if a firm is

effective in formulating how to align itself to a foreign environment, it may fail due to ineffective implementation.

Finally, taking the additional insights from the second, third and fourth findings into consideration, we suggest the final conceptualization for IMEs as illustrated in Fig. 5. IB risks have to be identified during environmental scanning to appropriately align the strategy with the

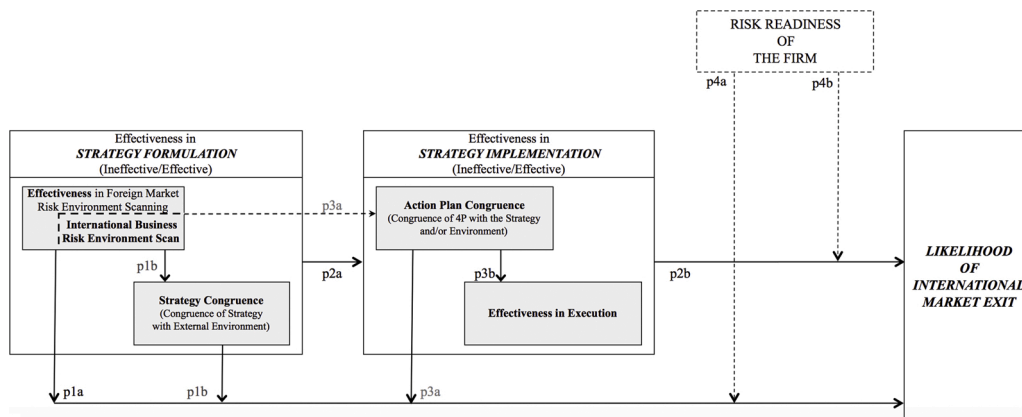


Fig. 5. Final Conceptualization of the International Market Exit Phenomenon.

foreign market risk environment. Otherwise, strategy incongruence, action plan incongruence, and effectiveness in execution may also lead to an IME individually or in combination according to the findings in Fig. 4. They account for 62 percent of the exits in combination with ineffective scanning.

7. Propositions regarding the exit phenomenon

Contingency theories suggest that firm performance is a result of the fit between two or more factors. In this context, environmental alignment literature highlights the organizations' need to align with their environment to be competitive and innovative for long-term survival and growth (Fiol & Lyles, 1985). Organizational adaptation theory supports this proposition by bringing environmental factors also into focus. A firm is supposed to consider and analyze its foreign market environment during strategic planning, which is a systematic approach to strategy formulation and implementation (Wolf & Floyd, 2017). A strategic plan is the backbone of the strategic management (Steiner, 1979), and alignment between strategy and the environment is vital. In this context, strategy literature proposes a positive relationship between strategic planning and firm performance (Bowman & Helfat, 2001; Boyd, 1991; Burt, 1978; El-Ansary, 2006; Miller & Cardinal, 1994; Schwenk & Shrader, 1993). Accordingly, we suggest that there is a negative relationship between the "effectiveness of strategy formulation and implementation" and "likelihood of IME".

7.1. Strategy formulation

According to the findings illustrated in Fig. 4, some 71 percent of the IMEs are associated with ineffective scanning. In parallel, Fig. 3 reveals the very high contribution of IB risks. Therefore, effectiveness in foreign market risk environment scanning is critical (Elenkov, 1997). The success of the rest of the steps in strategy formulation, and also in implementation (Hofer & Schendel, 1978) depends on the quality of this very first step (Hambrick, 1981). It paves the way for achieving fit with the foreign market environment and being successful as implied by the contingency theory. Consequently, collecting reliable and quality information is the key to avoid or mitigate IB risks, and identify critical success factors. Otherwise, misunderstandings, miscalculations or poor choices may lead to loss or failure, and therefore exit in time.

The foreign market risk environment scanning is more critical for multinational firms. They operate in several countries and are exposed to different cultures, laws, and financial conditions. Thus, multinational firms need to understand and adapt to these several countries at the same time, allocate the available and/or possible new resources in the most effective way, and become competitive.

We argue that a firm may be a misfit in a foreign environment in two ways: First, some firms may overlook the critical step of foreign market risk environment scanning. Accordingly, they miss any or all critical information. Second, it is also probable that such firms do not overlook and may carry out scanning. However, they may fail to understand, misunderstand, underestimate or ignore signals from the market. In both the first and the second cases, scanning is not effective. Consequently, a firm may fail to: i) identify and mitigate the IB risks, ii) capture the critical success factors, iii) carry out strategy development effectively, and iv) align with its risk environment. According to the sample cases, a successful firm may choose to adopt its "proven home market strategies" to enter international markets. However, different tastes and habits in foreign markets or cross-cultural risks may inhibit achieving similar results. Therefore, firms need to carry out an effective scanning to understand the uncertainties or risks about the external factors including customers and competition to be able to achieve alignment between the risk environment and strategy. In summary, we argue that an effective scanning predicts likelihood of IME by the firm.

Proposition 1a. The more effective the scanning of foreign market risk

environment, the lower the likelihood of IME.

Fig. 4 depicts that strategy incongruence is attributed to 48 percent of IMEs. A firm strategy has to be in line with the foreign market environment. Uncertainties and IB risks in an unfamiliar foreign market, critical success factors (Leidecker & Bruno, 1984), and corresponding threats and opportunities are the key outputs of an effective scanning. An effective strategy neutralizes threats or risks and capitalizes opportunities. If a firm overlooks, misreads or underestimates IB risks, alignment between the strategy and the foreign market risk environment will be inadequate. Thus, failing to meet the contingency theory premises, a firm may withdraw from a foreign market due to misaligned strategy.

Proposition 1b. The more congruent the strategy with the foreign market risk environment, the lower the likelihood of IME by the firm.

As illustrated in Fig. 4, 93 percent of the initial strategy- or misalignment-related IME cases are associated with strategy formulation. Besides, formulation and implementation, together, account for 51 percent of the withdrawals. An ineffective formulation may directly lead to IME. Alternatively, it may negatively influence the effectiveness of implementation first, and then poor implementation leads to IME. Strategy formulation is a critical process for two reasons: First, firms can only understand and achieve fit with their environment through scanning. It is a crucial process to identify the risks and the key success factors in a foreign market, and to understand the contingencies. Misleading data or assessment will lead to ineffectiveness. In this respect, it has an impact on the whole strategy making process. Second, a strategy is identified taking scanning into account, and action planning is carried out in accordance with strategy. Therefore, strategy implementation is dependent on strategy formulation. It is very likely that ineffective formulation will influence negatively all the remaining steps.

Proposition 2a. The more effective the strategy formulation (external environment scanning and strategy congruence), the more effective the strategy implementation (action plan congruence).

Proposition 2b. The more effective the strategy formulation (external environment scanning and strategy congruence), the lower the likelihood of IME through strategy implementation.

7.2. Strategy implementation

We contend that formulating the fit between firm strategy and foreign market risk environment is a necessary but not a sufficient condition for success. According to the findings illustrated in Fig. 4, action plan incongruence or ineffective strategy implementation may also lead directly to IME. A strategy is meaningful in case it is converted into competitive success (Hambrick & Cannella Jr, 1989), and an action plan is the means for this conversion. Marketing program is an integral part of an action plan, and includes the choices about product, price, place and promotion. In line with the contingency theory, an action plan with marketing program should be aligned with the identified strategies, and therefore with the foreign market uncertainties and risk environment. Therefore, an effective action plan takes IB risks into consideration. There has to be a causal explanation between strategy and action plans (Woodward, 2005).

We argue that a firm may be a misfit in a foreign market in two ways: First, an action plan is not consistent with the strategy. Then, it may not help mitigating IB risks and threats, capitalizing opportunities, and gaining competitive edge. For instance, our data analysis reveals that making the wrong decision on type and location of stores and pricing leads to poor performance. Even if a strategic decision of entering a foreign market is promising, such mistakes at the tactical level may lead to a withdrawal from a promising market. Second, an action or marketing program can be aligned with the strategy. However, the execution may not be consistent with the plan. Consequently, planned actions will again not serve its purpose of mitigating risks, capitalizing

opportunities, meeting market expectations and winning competition.

Proposition 3a. The more congruent the action plan with the foreign market risk environment, the lower the likelihood of IME by the firm.

Proposition 3b. The more effective the execution of an action plan, the lower the likelihood of IME by the firm.

7.3. The moderating role of risk readiness

The primary objective of this study is to explore the underlying causes of IMEs. The results in Fig. 4 give support to the impact of misalignment between strategy and the foreign market risk environment on likelihood of IME. Nevertheless, we wished to carry out a moderation analysis as well. Therefore, we introduced the moderating role of risk readiness to suggest a full conceptualization in Fig. 5. Risk readiness is defined as the responsiveness to disruptive events, and risk management is the means to achieve risk readiness (Das & Lashkari, 2015; Ponomarov & Holcomb, 2009). Risk management can also improve the results from strategy formulation and implementation. However, we argue that a risk management system can only be effective, and offer risk readiness provided that: i) a proven risk management system has to be built and implemented systematically (Andersen, 2008), ii) one of the Top Managers in headquarters has to be appointed as the Process Owner to keep the implementation of the system under control centrally (Beasley, Clune, & Harmanson, 2005; Kaplan & Mikes, 2012), and iii) its “effectiveness” is achieved and improved in time through learning from failures.

Extant literature suggests that performance improves with learning (Fiol & Lyles, 1985; Minniti & Bygrave, 2001). Organizational learning refers to “the process of improving actions through better knowledge and understanding” (Fiol & Lyles, 1985, 803). Accordingly, firm management may improve strategy formulation and implementation process taking their past experience into account (Minniti & Bygrave, 2001). They may trace the results taken associated with their “main strategic decisions,” and “measure” their effectiveness historically. The objective is to understand the primary causes of poor performance, learn from them, make improvements, and maintain each experience in organizational memory. In this context, we suggest that firms may develop a “reliability index” based on the “results of their main strategic decisions” to improve their effectiveness in time and become risk resilient. This is consistent with the suggestions of scholars to conceptualize and measure external risks, such as the country (Brown, Cavusgil, & Lord, 2015) and cultural (Slangen & Tulder, 2009).

Proposition 4a. Risk readiness moderates the negative relationship between effectiveness in strategy formulation and the likelihood of IME.

Proposition 4b. Risk readiness moderates the negative relationship between effectiveness in strategy implementation and the likelihood of IME.

8. Discussion

This study addresses the factors that contribute to foreign market exits. First, analyzing 62 actual cases, we identify typical patterns leading to IMEs. Second, we are able to delineate misalignment between strategy and foreign market risk environment as the primary cause, and suggest an integrated framework. Below, we highlight the key insights gained from the analysis.

8.1. Theoretical implications

The final conceptualization in Fig. 5 depicts the IME phenomenon in an integrated theoretical framework. The findings support the necessity of an alignment between firm strategy and the risk environment to decrease the likelihood of IME under the contingency theory. Highlighting the critical role of foreign market risk environment scanning, we

argue that misalignment may arise in any step of the strategy making process. Corresponding losses or failures may be so vital that management may decide to withdraw. The present analysis suggests that the majority of misalignments stem from cross-cultural risks, and they are customer-, competition- or marketing mix-related.

First, more than 50 percent of the strategy-related exits can be traced to failing to understand, misunderstanding, or underestimating customers. “Not carrying out detailed market research before market entry,” “misreading customer priorities,” “paying too little attention to local consumer tastes,” “finding the right formula to attract customers,” and “failing to sense that trends are changing” are some of the expressions in our data to explain this phenomenon. Regardless of the industry and location, our study reminds that customer orientation is critical for success by mitigating the risks associated with industry-related uncertainties.

Second, competitive rivalry appears as another industry-related uncertainty that gives rise to cross-cultural risks in the foreign market environment. “Incoherent elaboration of the network of retail outlets,” “a super-competitive landscape,” “small state-owned breweries already existed,” “significantly cut its prices to try to compete, and in late 2005 it stopped charging altogether, but it was too late,” and “increased competition from online retailers and supermarkets” are some explanations in the data for the exits. As in the case of customers, it is not sufficient to analyze the competition only before entry. It is imperative to follow the changes in order not to lose the competitive edge in the mid and long term.

Third, the findings reveal, once again, the critical role of the action plans, and therefore the marketing mix: i) appropriate products with the relevant product features have to be offered to foreign markets; and ii) pricing is also critical. For instance, it may not be possible to “compete in a price sensitive market with high quality products.” iii) “Selecting good locations” for the stores is critical. For instance, in one of our cases, the intended concept did not work well as the stores were often adjacent to supermarkets. Shop design and/or size are the other essential factors. iv) Promotional activities need to be consistent with the market environment. “Digital advertising in a country where small businesses do not use the Internet” will definitely be ineffective. “Early announcement of entry” may result in early competitive attacks and change in market scenarios. Therefore, misalignment between action plans and foreign market risk environment may arise again due to industry-related uncertainty.

Fourth, in the context of understanding the market dynamics, some of the cases remind the criticality of market forecasts. “Overestimation of the market volume,” “too high sales expectations and setting unrealistic goals accordingly” can result in favorable feasibility studies. However, actual market conditions may lead to losses and more extended payback periods, which in turn may cause withdrawals. Therefore, uncertainties related to market size may lead to misalignment between strategy and risk environment especially in data-poor markets.

In addition, Fig. 3 reveals another important insight. Some 90 percent of the IMEs are associated with IB risks. Thus, our findings give support to the risk framework suggested in the literature (Cavusgil, Knight et al., 2020). It is plausible that risk contributes to the IME phenomenon greatly. One of the key risks is misalignment of strategy with the foreign market risk environment. Cavusgil, Knight et al. (2020) refer to this type of IB risk as commercial risk (Cavusgil, Deligonul et al., 2020), which is defined as the “firm’s potential loss or failure due to poorly developed or executed business strategies.” The nature of commercial risk is very different from other types of IB risks. A firm has discretion over its choice in managing commercial risk while it has limited control over the other risks. Firms can mitigate commercial risk through information gathering, knowledge, expertise, and effective strategy making and implementation. Surprisingly, commercial risk has been relatively overlooked in the literature.

In the current study, we suggest that IB risks account for 90 percent of the IMEs. Some 79 percent are primarily related to cross-cultural

risks, and stem from strategy misalignment. The remaining 11 percent point to political and currency risks. Apart from the IB risks, some 10 percent of the withdrawals are related to bankruptcy (in other operations), investor request, JV, and labor unrest. We report four exit cases that stemmed from “JV relations.” This reminds us of the importance of partner alignment as highlighted by [Arte and Larimo \(2019\)](#) and [Cavusgil and Deligonul \(2012\)](#). However, it is too simplistic to assume that the premature market withdrawals can only be explained with the factors we delineated. We acknowledge the relevance of other potential primary causes, such as: i) natural disasters, ii) infectious epidemics, iii) terrorism, iv) replacement of a government regime with a hostile one, v) policy changes as a result of acquisitions or mergers, and vi) breakthroughs or disruptive actions by competitors. Such factors can potentially cause misalignment and interrupt business. Therefore, firms have to consider them not only in strategy making but also in business continuity plans ([Czinkota, Knight, Liesch, & Steen, 2010](#)).

8.2. Managerial recommendations

Foreign market expansion is an alternative path to growth and profitability. Firms expend considerable amount of resources for this purpose. IME cases provide important insights for the practitioners to achieve their objectives in international markets. First, our findings reveal that “failing to understand customers” is the major factor in market exits. Addressing customer needs and expectations may be more complex with an increase in cultural distance. It is necessary to find ways to understand customers prior to deciding to allocate limited resources of a firm. Foreign market environment scanning, and especially risk environment scanning is vital in this respect.

Second, successful firms may use their processes and structures elsewhere as a model in new projects. Transporting capabilities from one successful implementation to a new implementation looks rational and advised in theory (e.g. resource based view and knowledge based learning) and practice (e.g. replicating plant layouts). However, the expectation that one successful model will deliver an identical result in most external conditions is not realistic. No single recipe guarantees success. Similarly, our analysis reveals that a successful home market formula may not work in all countries. Successful tactical moves in one country may not work in other settings. Changing internal and external conditions, and context may require adaptation. Thus, managers should not simply rely on past practice in contemplating foreign market entry ([Zeng, Shenkar, Song, & Lee, 2013](#)). Repeated success with existing solutions may not be realized.

Third, considering the cultural distance between advanced and developing economies, we argue that cross-cultural differences may exacerbate uncertainty about a foreign market. Cultural values differ among various markets ([Tihanyi, Griffith, & Russel, 2005](#)). Coping with cultural differences is a component of the market, customer, and competition analysis. Accordingly, firms should give greater emphasis to foreign market risk environment scanning when the cultural distance is pronounced. Fourth, according to our analysis, some 39 percent of the initial strategy- or misalignment-related exits happened in the first five years, some 23 percent took place in six to ten years, and the rest mainly after 15 or more years. It is possible that some markets may fall in time and some others may rise. Therefore, firms have to be proactive in adapting themselves to changing circumstances. Foreign market environment scanning has to be an ongoing and dynamic process to mitigate risks.

8.3. Future research and limitations

Though the present investigation shed additional light on the IME phenomenon, future research is warranted for the following reasons. First, our data include the declarations of firm representatives and analysts about the primary causes of IMEs. Accordingly, we could delineate the misaligned strategy as the main culprit. However, we do not

necessarily explain exactly how the misalignment between strategy and the foreign market risk environment takes place. Is it misleading information from market research and market intelligence systems? Or do inexperienced or incompetent managers formulate ineffective strategy? Scholars may investigate the primary causes of misalignment. On the other hand, a firm may not assess the potential in a foreign market, and may decide to enter just for market testing purposes. Withdrawing from a foreign market at the end of a testing period is neither a failure nor a loss. Collecting detailed information with primary data about the reasons of misalignment will shed light on these uncertainties.

Second, we identified misinterpreting customer tastes and competitive rivalry as the two vital factors that give rise to industry-specific uncertainties, and therefore misaligned strategy. It is interesting and important to explore why firms misread their customers and competition. Does it arise from ineffective firm internal processes, such as market research and market intelligence? Is it because firms prefer to offer their customers a product that they know instead of adapting it? It is crucial to find out the factors that mislead decision makers. In this context, cultural barriers may also impede practitioners to clearly understand their consumers. Polyculturalism is the new stream of research ([Morris, Chiu, & Liu, 2015](#)), addressing the limitations of the traditional paradigm. It introduces the assumption that cultures evolve due to continuous intercultural interactions. Scholars may also explore the impact of the moderating role of polycultural mindset in understanding the market, and eliminating the likelihood of IME.

Third, the current study also reveals that the duration of time to exit varies among the cases. While the majority of firms exit in the first 10 years, others withdraw after 15 years of operation in a host country. Thus, it can be interesting to explore the patterns behind varying duration of time to exit. Why do some firms exit immediately after their entry, while others continue to operate longer, and then exit? Timing of exit can be as important as timing of entry if a firm incurs high costs in an international market.

Fourth, [Javalgi et al. \(2011\)](#) focused on reentry and analyzed the firms that withdrew mainly before 2000. It seems the exits in 1900s are generally associated with country and currency risks ([Javalgi et al., 2011, Appendix A](#)). Our sample mainly includes the cases after year 2000 where globalization was on the rise. We found misalignment between strategy and risk environment as the primary cause in this era. It is reasonable that strategy becomes highly important in a global trade environment where trade barriers disappear and firms increasingly target foreign markets. However, according to the recent studies ([McKinsey Global Institute, 2019](#)), trade intensity tends to fall, giving support to the de-globalization debates. It can be interesting to understand the impact of this changing trade environment on divestment activity.

Fifth, our sample includes firms primarily from advanced economies entering emerging markets (50 % of the cases). Exploring the poor performance of developing economy firms in advanced economies may also offer new and interesting insights. Apart from the variation associated with economic development, cultural differences between advanced and emerging economies can also lead to varying performances. Sixth, the moderating role of the origin of foreign market and industry can be further analyzed. For instance, the conditions may be tough in certain industries, or understanding customer expectations can be more crucial and critical in certain world markets. Therefore, firms may need to allocate more resources.

Finally, we contend that strategy making process may lead to IME if any of its steps is not effective to achieve alignment with the foreign market risk environment. Contrary to extant literature, we find support for the existence of a common pattern behind withdrawals, and highlight the critical role of strategy making process. The key is not the individual role of understanding the market, or taking strategic decisions, such as timing of entry and entry mode, but to achieve alignment with the foreign risk environment through strategy making. However, we also argue that our findings are complementary to previous research. For

instance, variables, such as firm age, firm size, and organizational capabilities may moderate the negative relationship between “effectiveness in alignment” and “likelihood of international market exit.” Future research may explore the impact of such moderating variables.

Several limitations can be identified with respect to the present investigation. First, our sample mainly includes the divestment experiences of traditional firms operating based on traditional business models. For instance, 50 percent of our analyses comprise offline retailing firms. However, we know that disruptive forces have big impact on traditional business models as in the case of online retailing. Firms may not bear similarly huge expenses in digital economy, such as the cost of land, stores, and employees. Therefore, realigning the strategy with the international business risk environment can be less costly for the online retailers. It is plausible that the primary causes of IMEs can be totally different. Second, we analyzed firms operating in business-to-consumer markets. The reasons for exit may again be completely different in business-to-business operations. It is expected that direct communication between buyer and seller dyads is more frequent, and this may eliminate the possibility of misreading market. Third, we used secondary data sources in English. This may be the reason why we primarily reached and analyzed the withdrawal cases of developed economy multinational firms.

Declaration of Competing Interest

None.

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