STAYING OR LEAVING? RESOURCE REDEPLOYMENT AND REAL OPTIONS EFFECTS IN ACCELERATING OR MITIGATING FIRMS' INTERNATIONAL MARKET EXIT DECISIONS

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ABSTRACT

Drawing on the capability-based view and real-options theory from the resource redeployment perspective, this study examines how firm capabilities (i.e., marketing, R&D, and operations capabilities) moderate the relationship between profit performance and international market exit decisions, analyzing 2,618 firm-year observations from North American manufacturing firms (1990–2020).

INTRODUCTION

Given increased globalization, expanding into international markets has become an important strategic option for firms. However, surviving in these markets is challenging due to intense global competition, anti-globalization sentiments, trade barriers, and other headwinds (Sousa & Tan, 2015). Firms facing difficulties in international market activities may choose de-internationalization and exit an international market (Choquette, 2019). Empirical work on mechanisms explaining exit decision-making in international markets remains in its infancy, especially considering the maturity of the foreign market-entry area (Tan & Sousa, 2019). In response to recent scholarly discourse on international market exit (Tang 2023; Kafouros et al. 2022), this study investigates the moderation effects of firm capabilities on the relationship between profit performance and international market exit decisions. Building on the capability-based view and real-options theory from the resource redeployment perspective, the study aims to fill knowledge gaps by addressing these research questions: (1) How do financial considerations (i.e. poor profit performance) explain the international market exit behaviors of North American manufacturing companies?; and, (2) How do firm capabilities (i.e., marketing capability, R&D capability, and operations capability) change the shape and directions of the link between profit performance and international market exit decisions of North American manufacturing companies?

METHODOLOGY

We empirically tested our hypotheses using a random effects probit model on an unbalanced panel of a sample of 314 firms sourced from COMPUSTAT North America through Wharton Research Data Services, with 2,618 yearly observations over the years 1990–2020 with non-missing values for variables in our model. The hypotheses, H1 to H4, have been tested through a staged approach where variables are included successively in the model (Models 1-3).

FINDINGS

The results indicate that profit performance has a negative significant impact on international market supporting H1. Regarding the moderation effect of firm capabilities, the results produce a strong negative moderation effect of marketing capability on the relationship between profit performance and international market exit, supporting H2. On the other hand, the results accentuate a strong positive moderation of both R&D and operations capability on the effect of profit performance on international market exit, with significant positive impacts of R&D and operations capability, providing strong support for H3 and H4.

CONCLUSION

The study contributes to international marketing literature in several ways. First, it empirically examines untested theoretical propositions and considers boundary conditions in explaining the relationship between profit performance and firms' exits from international markets. Second, it specifies conditions under which poor performance triggers international market divestments. Third, we expand the capability-based view by identifying capabilities as a differential mechanism explaining the exit decision, showing different capabilities behave differently depending on profit performance. Fourth, we contribute to real options theory by considering sunk costs in international market exit decisions. R&D capability, characterized by irreversibility, and operations capability, which reduces joint production costs by leveraging idle capacities, often encourage managers to adopt a wait-and-see approach rather than immediate exit. This strategy is driven by future payoff uncertainty and irretrievable sunk costs invested in the current market, considering potential re-entry.

The list of references is available from the first author upon request.