

A Chain of Association:

How Foreign Exit Decisions Happen

中国对外投资企业国际退出行为的决策机制

By Tan Qun

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CHAPTER 1: INTRODUCTION

This chapter begins by discussing the scope of this research study. The research objectives are then enumerated, and the contribution of the study is outlined. Finally, the structure of the book is summarised and a figure (Figure 1.1) with an overview of each stage of the study is presented.

1.1 SCOPE OF THE RESEARCH

International trade is an open and dynamic business cycle, as every year numerous firms initiate their business in foreign markets and a large proportion of firms exit their foreign markets, with new firms stepping in. Firms' entry, expansion and exit are the three basic activities in the cycle (Campbell, 1998). Clearly, these behaviours are not independent from each other because firms' entry, dynamic development, and exit activities are in a long-run equilibrium (Hopenhayn, 1992; Mellahi and Wilkinson, 2004). Therefore, firms' exit rate is usually positively related to entry rate within an industry (Alvarez and López, 2008). In this study, exit refers to an FDI (Foreign Direct Investment) firm's long-run voluntary decision to partially or fully liquidate or sell an active operation in a foreign market (Boddewyn, 1979b; Mankiw, 2011).

At the micro level, accompanying the rapid economic globalisation during the past half century, the increasingly furious worldwide competition frequently pushes many FDI firms to the verge of exiting from the foreign market. This implies that exit decisions have never become as important as now (McDermott, 2010). However, despite the paramount role of such decisions, most managers have no idea how to handle these efficiently and confidently regardless of their previous exit experience (Burgelman, 1996; Sachdev, 1976). Nor do most managers conduct detailed analyses before and after these

decisions are made (Boddewyn, 1983). This may be partly explained by the fact that present research on international exit behaviour is scant (Benito, 2005; Berry, 2010a; Dixit and Chintagunta, 2007; McDermott, 2010; Swoboda, Olejnik and Morschett, 2011) and, therefore, unable to provide insightful instructions for firms' operations. As such, research on what, and how, different factors may influence an exit decision would greatly benefit FDI firms in their activities.

In the literature, severe asymmetry exists in the research on entry, expansion, and exit behaviour. Specifically, there is a plethora of research on firms' entry and expansion behaviour (Griffith, Cavusgil and Xu, 2008), whereas there is a general lack of research (whether conceptual or empirical) on the exit behaviour of FDI firms (Fetscherin, Voss and Gugler, 2010). This is mainly because many firms have a 'closed' attitude towards sharing their exit experience with researchers and tend to perceive exit as a failure (Burt, Dawson and Sparks, 2008; Sachdev, 1976). Choosing the most costly entry mode (i.e. FDI) indicates that the investment is long-term oriented and that the majority of the firms following this approach intend to stay in the foreign market. In this regard, FDI firms' exit behaviour does indicate unsuccessful components when compared to their initial intentions, even though the exit might be a proactive reallocation of those firms' resources. Although research on entry and expansion behaviour may help managers to understand the important factors for success, research on the exit behaviour informs managers about factors that inhibit success. Learning from unsuccessful strategies may be more valuable than learning from success (Madsen and Desai, 2010), as managers can become more aware of success inhibitors based on painful lessons, which may increase the probability of subsequent success (Dillon, 2011; Madsen and Desai, 2010; Shaver, Mitchell and Yeung, 1997). Therefore, firms' exit behaviour should be as important, if not more so, as their entry and expansion behaviour.

1.2 RESEARCH OBJECTIVES

Based on a detailed literature review of the previous studies (see Appendix