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CHAPTER 18

FOREIGN MARKET RE-ENTRY STRATEGIES: THE ROLE OF COGNITIVE BIASES IN DECISION-MAKING

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“If we are uncritical we shall always find what we want: we shall look for, and find, confirmations, and we shall look away from, and not see, whatever might be dangerous to our pet theories.”

Karl Popper (1957: 124).

Exit is not an irreversible, ‘win or lose’ event in an MNE’s lifecycle. Some firms decide to re-enter exited markets. Yet, our knowledge of MNEs’ re-entry strategies remains limited, and where re-entry is discussed, perspectives based predominantly on the rational exploitation of resources and experiential learning prove insufficient. In this chapter, I propose a behavioral lens for understanding complex decisions such as re-entry. Decisions such as re-entry depend on the manner in which the past experience (in this case, the exit) is framed and perceived by decision makers. Given the time out period between exit and re-entry, re-entry choices may be influenced by the subjective and often outdated experiences of managers. International business strategy theory has largely ignored the influence of managerial own emotions and memory in shaping managers’ perceptions of events. We emphasize the importance of different types of cognitive biases as theoretical concepts that complement rationality-based assumptions about the dynamic international business strategies of MNEs.

INTRODUCTION

The international business strategies of firms do not follow a linear, sequential decision-making process. Firms enter foreign markets, but in some cases, divest their operations there and choose to re-enter. Foreign market re-entry (often referred to as re-internationalization) can be characterized by a process of initial market entry, whereby the MNE accumulates market-specific knowledge and experience about operating in the host market, followed by a process of market exit, and a subsequent period of time out, after which the firm renews its operations in the previously exited market (Javalgi et al., 2011;

See Chapter 17 which provides an overview of market exit decisions and a detailed discussion of foreign market exit/international divestment antecedents and outcomes.
News of MNEs divesting their international businesses and re-entering previously exited markets after a time out, are increasingly common and an integral part of business press reporting. Some noteworthy examples include the decision of Pepsi Co. (U.S.), Carlsberg Group (Denmark), and Heineken International (Netherlands) to re-enter Myanmar (2013); fast food chains such as Dunkin’ Brands (U.S.) and Wendy’s (U.S.) returning to the Singapore market (2009); and Tata Motors (India) returning to multiple country markets including Russia (2014), Australia (2013), Philippines (2012), UK (2007), Egypt (2006) and Iraq (2004). Many other reported re-entries go unactualized, in part, due to managers’ limited understanding of whether to re-enter and if so, what re-entry strategies to pursue in order to succeed in the host market the second time around.

Despite the prevalence of the re-entry phenomenon in business practice, we are yet to achieve a clear understanding of how and why firms choose to re-enter previously exited foreign markets. Extant literature has provided some initial evidence suggesting that larger firms with significant experience resources are not necessarily more likely to re-enter (Bernini et al., 2016), and when they do, they do not necessarily re-enter faster than their less experienced counterparts (Surdu et al., 2018). Re-entrants with a higher degree of firm-specific, experiential knowledge were, in fact, found to commit less resources to the market upon re-entry (Surdu et al., 2019), potentially as a result of the inertia that characterizes large, highly experienced MNEs (Bernini et al., 2016). Previous sources of firm specific advantage - such as knowledge acquired through experience - could have a negative effect on firms seeking to re-enter. Past experience may not be sufficiently applicable to changed market environments encountered upon re-entry (Surdu et al., 2018; see also Welch & Welch, 2009). Past knowledge may be partly forgotten, intentionally or unintentionally (Darr, Argote & Epple, 1995; de Holan & Philips, 2004) due to the failed initial entry, making past experience more difficult to access by decision-makers.

Re-entry choices – and, to some extent, I assume, most post-initial entry strategic choices – are driven by how decision makers remember, perceive and interpret the value of past knowledge and experience in order to make subsequent decisions. Often, individuals are expected to construct their judgements based on the speed, ease and frequency with which those memories can be retrieved, rather than objective, systematic calculations of the value or success of a past event (Gilovich, Griffin & Kahneman, 2002). Understanding the process by which managerial perception and interpretation influences the strategic decisions of the MNE is important (Kano & Verbeke, 2015) because international business strategy theory has largely ignored the influence of managerial perception.

In particular, theory and evidence with regards to the role of cognitive biases in international business strategic choices of MNEs is sparse. In the context of entry-exit-re-entry, extant theorizations do not take into account that the applicability of experience and knowledge resources may, in fact, be revisited by firms in a similar context (i.e. re-entry). In some cases, exit may represent a form of ‘trauma’ for the firm but also its decisions makers, previously charged with growing the company into international markets. When framed as an opportunity to mend the MNE’s host market reputation,
reduce home market dependency, address past mistakes and take advantage of host market opportunities, re-entry is likely to be preferred. In turn, the MNEs stakeholders, including other firms may interpret the exit as a significant failure, and further, a clear indication that the company does not have the necessary resources and capabilities to gain an advantage in the market; as such re-entry may be avoided, or if they decide to re-enter, firms would avoid committing significant resources there.

The remainder of the chapter is structured as follows. The chapter starts with an overview of the re-entry literature and key findings and theoretical contributions. Then, the discussion zooms in on the role of behavioural concepts i.e. cognitive biases, to explain what these biases are, as well as how and why they are important to understand managerial perceptions of re-entry. I develop a model which explains the interaction between learning from past knowledge and experience accumulated over time and the managerial framing of the exit experience itself. Since complex and dynamic MNE decisions such as re-entry are heterogeneous, we need more nuanced theoretical lenses to understand them.

OVERVIEW OF RESEARCH ON RE-ENTRY DECISIONS

What constitutes market exit, withdrawal and subsequent re-entry? In practice, some firms divest their foreign operations and exit the international market completely, whilst others (generally exporting firms) tend to engage in intermittent internationalization, whereby they are willing to fulfil international orders when these come up. In some instances, intermittent exporting leads to fully fledged international operations, whilst in others, contact with international customers and partners remains minimal (e.g., through a representative office) or even reduced to merely importing from international markets (in which case, one could consider this as a formal market exit). Whilst inward international activities can, indeed, be used as a springboard for outward internationalization (Welch & Welch, 2009), this chapter focuses on firms partially or totally withdrawing from international sales and resuming these sales in the form of re-entry after a period of time-out of the market.

I provide a brief overview of studies which have examined the foreign market re-entry decisions of MNEs post initial entry and exit. Generally, studies have focused on understanding why firms re-enter, how firms re-enter, i.e. the modes of operation at re-entry, the process of re-entry, or the speed of re-entry, often measured as the period of time which had passed between a firm’s exit and its re-entry. Some interesting findings emerge with regards to the effect of knowledge acquired through experience on the resource commitment and speed of re-entry.

Foreign market re-entry motives

26 In order to be considered re-entrants, firms would have to have maintained their domestic operations before engaging in re-entry. The international entrepreneurship literature discusses more extensively how entrepreneurs close down one business and start another which may have more chances of success in a given market, but this is beyond the scope of this chapter.
MNEs tend to reconsider previously exited markets for various reasons. MNEs tend to exit foreign markets because of lack of firm-specific resources and capabilities needed to compete effectively in the foreign market and or because of external social, political and economic changes in the business environment that result in the host market becoming unattractive for the MNE (e.g., Benito, 2005; Bonaccorsi, 1992; Javalgi et al., 2011; Mellahi, 2003; Nummela et al., 2016). Most MNEs have a limited number of resources to compete, thus choosing to re-allocate these resources to other country markets or re-focusing resources and managerial attention on growth in the home market (Cairns et al., 2008). MNEs which have exited tend to return to previously exited foreign markets when more resources are available and or when the host environment becomes more favourable (Surdu et al., 2019; see also Choquette, 2019; Welch & Welch, 2009). This means that firms, rather than self-selecting opportunities for growth are often forced through intense competition to review markets in which they may have previously failed to exploit their firm specific resources and capabilities.

In an indirect mention of the re-entry process, Loustarinen and Welch (1990) proposed a positive effect of organisational learning from prior knowledge and experience on the possibility of firms returning to previously exited market, although the authors do not discuss which lessons may have been more valuable for the MNE seeking to re-enter and what types of experiences matter most. Later, Welch and Welch (2009) explicitly discuss the importance of understanding re-entry decisions; the authors propose that the time-out period will play a significant role in whether or not firms decide to re-enter foreign markets. Changes in management as well changes in the host institutional and economic environment are expected to be met with renewed interest in the market.

In the context of exporters more specifically, Crick (2004) found that firms which maintained an interest in re-entry were those who were highly confident in their exporting knowledge but required more market-specific knowledge. In a study on Turkish firms re-entering the Egyptian market during the Arab Spring (i.e. between 2010 and 2015), Yayla et al. (2018) found that a longer period of export inactivity, decreases the likelihood of re-entry. The authors explain re-entry as a function of market orientation and response to environmental changes, in that market oriented firms, who are willing to learn and change their products and services to adapt to host market demand, are also more flexible in their exit/re-entry decisions and thus, tend to exit when market conditions are unfavorable and re-enter when market conditions are favorable. The role of context has been also emphasized in re-entry studies, with changes in the conditions of the host market and its institutions being expected to, at least in part, drive firms to re-enter irrespective of their size, age and experiences-specific resources (Bernini et al., 2016; Javalgi et al., 2011; Surdu et al., 2018; 2019; Vissak & Francioni, 2013; Yayla et al., 2018; Welch & Welch, 2009).

Foreign market re-entry modes
The relationship between intangible resources such as past knowledge and experience and an MNE’s mode of operation continues to be well-recognized in the international business strategy literature (e.g., Casillas and Moreno-Menendez, 2014; García-García et al., 2017). This research stream is underpinned by the idea that, with more knowledge acquired through experience, firms learn about international markets, overcome their liability of foreignness and increase their resource commitment to the foreign market. Following this rationale, re-entrants should escalate their commitment upon re-entry. Notwithstanding the relevance of these ideas to initial entry choices, I propose that the bias towards focusing on positive experiences and MNE learning may lead firms to be overconfident in the value of past experience accumulated over the years in which the firm has been an MNE. This may lead MNEs to miss out opportunities to learn from other, potentially negative experiences, such as the exit experience in the context of market re-entries. I argue that the options available to a re-entrant in terms of operation modes are more complex and should consider the effect of the exit experience on managerial perceptions of market attractiveness and their propensity to take high risks upon re-entry.

Specifically, upon re-entry a firm has a set of choices with regards to their mode of operation, all which should relate back to the exit experience (Figure 1). To start with, MNEs may (1) choose not to change their market commitment, by re-entering via the same mode of operation in which they were operating prior to the exit (thus, manifesting path dependent behavior); or (2) MNEs may alter their commitment by re-entering via a different mode of operation. For firms which decide to alter their commitment upon re-entry, they may either (1) escalate commitment, i.e. MNEs which were previously operating via non-equity modes, re-enter via joint or wholly owned subsidiaries or (2) de-escalate commitment, i.e. MNEs previously operating via wholly owned modes decide to lower resource investment and opt for a partner or merely export their products there (Surdu et al., 2019).

Some limited empirical evidence exists with regards to re-entry modes. For instance, Javalgi et al. (2011) discussed a number of anecdotal re-entry events which took place between 1920 and 2005 and found that some of re-entrants chose to escalate their market commitment whilst others were more risk adverse and de-escalated commitment upon re-entry. The authors attributed re-entry commitment choices to the duration of the time-out period between exit and re-entry, i.e. the longer the time passed, the more likely organisations are to forget and thus, place less value on past experience accumulated over time (see also Welch & Welch). In a recent study, Surdu et al. (2019) provided significant empirical evidence that many re-entrants tend to re-enter via the same mode of operation in which they were operating prior to exit (interestingly, irrespective of the time-out period); firms which do tend to change their commitment (escalate or de-escalate), do so mainly when the exit was specifically associated with a poor choice of operation mode during the initial market foray. This provides evidence of organisational learning from the exit experience, irrespective of the experiential knowledge accumulated in the past. Exporters, licensors and franchisors, which do not experience deep involvement in the market, and thus, have fewer opportunities to learn from the exit, tend to be the ones most likely to re-enter via the same modes of operation (Bernini et al., 2016; Surdu et al., 2019).
Foreign market re-entry process

As suggested in Figure 1 also, the choices related to the modes of commitment in a re-entered market and the timing or speed of re-entry into that market are interrelated. Much of the international business strategy literature has assumed that decision makers are rational, that decisions are made to reduce transaction costs associated with operating in an international market, and that decision makers seek to accumulate as much knowledge as possible about that market, after which they can make more informed choices. For instance, the Uppsala model of internationalization\(^{27}\) – often used to understand IB strategies – implicitly assumes that firms accumulate new knowledge from experiences accumulated over time, learn and then make strategic decisions once they are at a stage when close to full market knowledge is acquired. In practice, market conditions change, making knowledge accumulated in the past less relevant. In fact, relying on the ‘outdated’ knowledge and experience of managers may be detrimental. The empirical evidence that exists on re-entrants (Bernini et al., 2016; Surdu et al., 2018; Vissak & Francioni, 2013) appears to suggest that different types of firms, value, and learn from, different types of experiences, which, in turn, influences their re-entry process.

Vissak and Francioni (2013) used the context of a medium-sized construction MNE headquartered in Italy to explain that internationalization processes are not linear – i.e. they are not a function of knowledge and market commitment, leading to increased and faster internationalization. In fact, some firms engage in multiple entries, exits and re-entries depending on market demand, host institutional conditions and managerial preferences. In turn, by focusing specifically on exporters, Bernini et al. (2016) explained that intermittent exporting is highly complex; the authors discuss how larger firms (despite being better resourced and more experienced) often suffer from inertia and fail to quickly recognize the need to change and exit the market when demand is low and re-enter when demand increases. Larger firms may be less likely to exit, but once they have exited, this size and experience does not help them re-enter faster (Bernini et al., 2016). Surdu et al. (2018) draw on organizational learning and institutional theory to explain what leads to more rapid re-entries; the authors find that firms re-enter faster when they have less experience and when the exit experience has been related to poor performance (see also Surdu et al., 2019); in order to address the causes for their past mistakes, firms need to re-enter before changes in their market strategy become outdated.

With regards to the effect of experiential learning on the re-entry process: firms may need time to distil the lessons learned from exit and overcome the potentially traumatic exit experience. Further, when significant time and managerial attention is invested in a market, re-entry may be delayed,

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\(^{27}\) In Chapter 7, the author offers an overview of the Uppsala model perspective starting from its original formulation (Johanson & Vahlne, 1977) to its latest revision (Vahlne & Johanson, 2017), and in doing so, providing a stimulating and open-ended debate on the relationship between market knowledge and experience and market resource commitment.
allowing firms to recover from the initial failure to succeed internationally. Also interesting is that, whilst firm specific factors matter soon after the exit happens, the more time passes, the more firms used the external, institutional environment as a cue for re-entry (Surdu et al., 2018). Hence, there may be a benefit in understanding the role of perceptions as well as memory on re-entry choices.

Re-entrant MNEs must balance knowledge acquired through past experience of operating in the market with effective decision-making about how and when to re-enter. Although uncertainty and risk may be reduced by acquiring knowledge through experience of operating in foreign markets (Casillas & Moreno-Menendez, 2014) and controlling it through high investment operation modes, the exit may reduce the effectiveness of prior learning through market-specific (experiential) knowledge. Once the exit interrupts the linear cycle of acquiring knowledge and committing more to the market, MNEs and their managers must decide how they frame the exit (to themselves and the outside world) as well as how much of the past experience captured through learning over time can be used to re-enter the market.

NEW LENSES TO UNDERSTAND RE-ENTRY: THE ROLE OF COGNITIVE BIASES

Managers do not and cannot always behave rationally (Aharoni, 2010; Aharoni et al., 2011; Buckley et al., 2007; Elia et al., 2019; Schubert et al., 2018; Surdu et al., 2019). We have become increasingly aware that firms deal with complex environments where they lack complete information. The lack of information is further exacerbated when firms seek to make decisions based on future market and institutional changes. This is more so for MNEs which have to manage the uncertainties associated with information asymmetries both at home and abroad (Verbeke & Greidanus, 2019). The complexities of the international environment make it difficult not only to gain access to information about different markets, but also to process the information that the MNE gains access to. This chapter calls for the integration of ideas from behavioral economics into international business strategy research mainly to understand the challenges associated with making strategic choices in international contexts. Emerging from the behavioral perspectives, cognitive biases (Tversky & Kahneman, 19734), in particular, represent a promising theoretical lens through which to explore foreign market re-entry choices.

The underlying rationale of behavioral concepts is that human judgement is rarely characterized by systematic reasoning. In turn, decisions are often the result of a reflexive processes of cognition which is biased by emotion and memory (Gigerenzer & Selten, 2001; Macleod & Campbell, 1992; Muramatsu & Hanoch, 2005). Heuristics – the mental shortcuts that speed up the process of decision making by reducing the complexity and cognitive load associated with processing information about the environment – are influenced by cognitive biases (Cosmides & Tooby, 1994; Gigerenzer & Todd, 1999; Gigerenzer & Gaissmaier, 2011). Cognitive biases deviate from rationality in judgement and enable
managers to focus on the information more easily retrievable at a given point in time, or which confirms their pre-existing values, beliefs or ambitions (Tversky & Kahneman, 1974). Cognitive biases are the result of our memories being formed through subjective and often emotionally driven experiences and they become enacted particularly when complex choices (which are characterized by a certain level of uncertainty and thus, emotional loading) need to be made effectively (Huy & Zott, 2019; Macleod & Campbell, 1992). Thus, when making complex decisions, decision-makers often have to prioritize certain categories of information over others, at the expense of systematic reasoning (Ardalan, 2018; Huy & Zott, 2019; Muradoglu & Harvey, 2012). We explain some of these main categories of observed biases and how they may apply to foreign market re-entry decision making.

Availability heuristics

Availability heuristics (Tversky & Kahneman, 1974) offer a more nuanced understanding of how individuals estimate probability by prioritizing information which can be readily recalled from memory (Gilovich, Griffin & Kahneman, 2002). Rather than individuals making additional cognitive efforts to search for, and retrieve, information that may be relevant to solving a problem, they seek to recall from memory similar events that may help them develop that solution effectively and efficiently. When individuals assume that their own memories are reflective of the external reality, the speed and ease with which past memories are recalled are used as a ‘surrogate’ to estimate the probability of an event or outcome. Availability (of memory) thus becomes the lens through which decisions are made. Because ‘rare’ events are often emotionally significant to the individual, they tend to weigh strongly in people’s minds. Resultantly, rare events tend to be more memorable, and thus, availability biases may skew perceptions of their frequency, making rare events ‘feel’ more prevalent than they truly are.

I propose that availability heuristics may have significant implications concerning the speed with which firms re-enter previously exited markets. For instance, foreign market exit and re-entry, in practice, is much less common in the lifetime of most MNEs than initial market entry. At the same time, the extent to which a firm’s decision to divest operations and exit an international market and the consequences of potential re-entry are much more frequently covered by the media, which in turn, influences the relative importance of the re-entry decision (Surdu et al., 2019). Media prominence makes exits and re-entries easier to recall than initial entries, because failure is fundamentally more appealing than success. Figure 2 shows how I view availability biases to be enacted with re-entry.

Based on the view that heuristics and biases are informed by two key dimensions - emotions and memory - we identified four approaches to re-entry that an MNE may experience. The influence of emotion on post-entry decisions such as re-entry is reflected in how managers frame the exit experience from neutral (or even positive) to negative experience. In turn, memory is reflected in whether the MNE is perceived to have incurred significant learning loses after exit compared to having captured significant learning from the time spent in the market before exit. Hence, there are four types of MNE
re-entrants: “the once bitten, twice why” (Q1: negative framing of exit experience and significant learning captured); “the traumatized” (Q2: negative framing of exit experience and significant learning lost); “the dragon slayers” (Q3: positive framing of exit experience and significant learning captured); and “the tabula rasa” (Q4: neutral/positive framing of exit experience and significant learning lost).

Figure 2

From the MNE’s perspective, the firm is likely to recollect the pre-exit experience in addition to the actual experiences and learning accumulated in the time spent in the foreign market. If the exit experience is a relatively mild one (or even positive), characterized by useful lessons about the motivations for the market failure, firms may re-enter early to address the causes of their failure and exploit the momentum which had been created by their exit decision. Firms which have accumulated significant experiential knowledge and have been able to learn from their experiences and embed these in organisational practices and routines, i.e. the dragon slayers (Q3) they may draw on their learning capabilities to understand what went wrong in the market the first time around and re-enter early with new strategies. Other MNEs may have learned less significant lessons in the market, or these lessons may be lost when managers leave the company (which is often the case when exits occur). The firms, our tabula rasas (Q4), have what we may refer to as a blank slate, and thus re-enter the market more like new entrants, particularly if the exit experience was a neutral one as it is often the case when exit is associated with host institutional changes, and not internalized as a firm specific failure to perform.

In turn, if the exit experience is broadly negative, characterized by significant media attention, host market unemployment, loss of valuable assets and recalled by decision makers as well as other stakeholders such as customers, suppliers and host country institutional actors, then re-entry is likely to be delayed. MNE re-entrants may therefore value more the exit experience than the experience associated with operating in the market for a longer period of time. This may lead to a positive bias if the perception around the exit experience is associated with learning about the market (Q1); and a negative bias, if the exit experience prevents early re-entry, since early re-entry may mean that some of the intangible sources of advantage (business relationships, customer knowledge) are not necessarily lost (Q2). In the latter case, firms may be sufficiently traumatized to delay re-entry or avoid it altogether.

From a rationale perspective, what is the likelihood of a firm failing in a host market and having to divest? Event-specific information can influence subsequent international expansion choices; e.g. decisions made based on the likelihood of them resembling past memorable events, rather than considering how rarely or often firms engage in exit. Hence, exit, because it is linked to re-entry requires less cognitive effort to use to evaluate re-entry options. Assigning probabilities of events happening based on availability biases may increase risk adversity associated with international growth. I propose this to be an important area for future research as very few studies (e.g. Buckley et al., 2007) capture, or even hint at, the difference between actual and perceived risks in their empirical designs.
Commitment biases

The commitment bias arises when individuals support their ideas and past decisions even when they have been unsuccessful and when confronted by contradictory evidence (Staw, 1976). This does not mean that individuals consciously make decisions that are likely not to apply to new situational contexts. Instead, commitment biases result from human tendencies to seek for confirmation that our extant knowledge is correct. In seeking to confirm existing beliefs, humans reduce the search for new information that may disconfirm past beliefs and actions. When we seek for evidence to reinforce our prior knowledge and beliefs, future decisions become consistent with prior commitments. This is particularly the case when individuals feel the need to demonstrate to their peers that they have been correct in their beliefs and their associated behaviors all along. This chapter therefore explains that commitment biases may have significant implications concerning decisions such as re-entry mode choice and speed with which firms re-enter previously exited markets. The rationale is as follows.

International business strategy literature identifies the internationalization choices of MNEs to be largely path dependent (Hutzschenreuter et al., 2007). At the same time, within MNEs, managers are often rewarded for their international growth initiatives and compensated based on the size of the business that they own (Datta et al., 2001). Thus, managerial decision makers are highly incentivized to expand rapidly into as many international markets as possible. In turn, when the MNE fails to perform in an international market, thus having to abandon that market, managers may be also found responsible for that failure, a reputational damage they seek to avoid. If individuals are less likely to recognize the negative outcomes associated with certain decisions, such as choosing the inappropriate mode of operation in the market, then they are likely to opt for the same mode of operation upon re-entry. In turn, the exit outcome can be blamed on other, often unforeseeable events (Kelley, 1973) in the market during the course of their operations there, such as changes in the institutional environment. This, again, means that the initial entry mode decision was the correct one all along.

Further, the more resources are invested to operate in an international market – time, physical effort, psychological effort, reputational risks – the greater the sunk costs accumulated. However, the costs in terms of time and psychological efforts associated with acquiring that market experience will be traded-off against the lack of success in the market, meaning perhaps that not all experiences turn into relevant firm learning. An MNE re-entrant endowed with market-specific experience may become less confident in the usefulness and applicability of these experiences acquired in the past, may become less flexible, and may not expose itself to higher degrees of other types of risks the second time around. Consequently, an experienced MNE requires a re-entry mode that provides this very flexibility to manage its overall level of host country risk exposure. Experiences associated with certain modes of operation are understood to become embedded in organizational practices and routines, meaning that changing from one mode to the other may take time and further effort; scholars have warned against
assuming that the skills and resources required to set up a subsidiary are the same as those required to identify a joint venture partner or design and implement a franchise contract or integrate a newly acquired company (Nadolska & Barkema, 2007). Given the effort invested into a given type of operation mode, managers may drive re-entry via the same mode; this may be particularly the case when the MNE is incentivized to re-enter early. Commitment biases can impede decision makers to make accurate assessments and choose the most appropriate operational mode of re-entry.

Another interesting application of commitment bias refers to the decision to exit itself. We know from the field of finance that investors tend to hold stocks for longer than they should effectively do so, because they have committed to a given investment. In the case of market exits, managers may stay in the market for longer than they should, to avoid feeling like the initial decision was wrong. Re-entrants may be unwilling to change because they are forced to reconsider the value of their existing firm specific advantages. The international expansion trajectory of UK retailer Marks & Spencer reflects that commitment biases are often at play. In 2001, the company exited a number of European markets which it had entered a few years before in hopes to reduce their dependency on a declining home market. Despite their strategy proving unsuccessful early on, the manager at the time continued to grow the company; this was an attempt to deliver on its promise to shareholders and the public. Given the under-performance, M&S eventually divested all international operations in order to focus on home market operations. Under new management, in 2011, the firm re-entered most of the previously exited markets, with blame for previous failure being largely attributed to the former leader’s lack of international experience (BBC, 2011). Over time, this second venturing was also unsuccessful, following their second significant withdrawal from international operations. Similarly, British retailer, Tesco PLC, spent an unfruitful decade in the U.S. market. Resources which could have been invested to combat increased competition and a looming financial recession at home, were not. Commitment to an investment and the desire “to be seen as being right” leads to irrational and underperforming choices. These types of biases can lead managers to overlook information that is pivotal in making a decision and miss out on new opportunities as a result of these biases.

Future research may benefit by looking at how commitment biases are likely to influence both individuals and organizations to better understand the context of emotion and memory (Green & Haidt, 2002). Behavioral concepts have been developed primarily to study how individuals behave in certain contexts. So, who is biased? The manager or the firm? Desires can be expressed at the individual level but also within a group. For instance, managers may be biased towards a certain decision and wish to maintain the approval of their top management team, either for status or financial benefits. These social pressures may often lead to a culture of groupthink in organizations. Indeed, the success of the group and the sharing of beliefs can create coherence and thus, more efficient decision making. This, in turn, will also reduce the amount of time spent on debating choices made, or reassessing previous decisions, which explains instances of path dependent behavior sometimes observed with re-entrants (Bernini et al., 2016; Surdu et al., 2019).
Framing effects

I discussed earlier that that influence of emotion and memory on post-entry decisions such as re-entry is reflected in how managers frame experiences and allocate probabilities to certain events and outcomes. But how does framing exactly work?

Take a quick look at Figure 3 below. Now, which of these strategic options would a re-entry manager most likely choose: an “80% effective” joint venture or a “20% failed” joint venture? Most individuals are likely to choose the first option, even though, rationally, these choices are identical and thus, have the same probability. This goes against the standard economic rationale, whereby, individuals would always choose to maximize their expected utility when given the same outcomes. Tversky and Kahneman (1979) argued that humans make decisions depending on how the available choices are framed. This framing comes in the form of the expected gains (80% effective) versus the expected losses (20% failure). They go on to explain that these decisions are most likely unequal in their importance, namely a loss is perceived as more significant and thus, decision makers seek to avoid it (see Tversky et al., 1990). Individuals become risk seeking when a negative frame is presented to them.

In the case of re-entry speed, positive framing (early mover advantages) may result in firms focusing on the benefits associated with a strategic decision such as regaining access to the market and making use of the lessons learned. Negative framing (early mover risks) may result in firms focusing on making decisions which avoid taking high risks in the host market, such as re-entering after a “wait and see” period. Delayed re-entry may lower the perceived re-entry risk, when managers are fearful of a subsequent failure and less proactive in pursuing re-entry strategies.

In the case of re-entry mode, positive framing (high resource commitment - high benefits) may result in firms focusing on framing re-entry through the potential benefits associated with high commitment such as controlling operations in the host market to implement the lessons learned from the exit. In turn, negative framing (high resource commitment – high risk) may result in firms focusing on making decisions which avoid taking high risks in the host market such as opting for exporting or franchising re-entry modes. When negative framing is used, firms may therefore engage in low commitment modes, re-enter later or decide to avoid the market altogether. Further, loss-aversive behavior also makes scaling back painful. For instance, firms commit to foreign markets through joint ventures based on the idea that they could always downsize if the relationship is unsuccessful. However, scaling back is emotionally taxing because it is considered a significant loss. Exercising the option to de-escalate commitment may make firms and their managers disheartened with the host market.
There are a number of avenues for future research in order to understand the role of framing effects. First, MNE choices such as re-entry are likely to be ex-post justifications based on managerial and firm preferences. Most of the time framing may happen after the decision is made. My question is: are we more often than not capturing ex-post justifications of already made strategic choices?

Second, and relatedly, if decisions are made ex-post, what measurement challenges does this present international business strategy research?

Third, when considering the age of the firm, does framing induce greater breadth and depth of biases? When organizations become mature, many activities that have become legitimized have become deeply embedded routines. These routines are often not submitted to stringent tests of relevance when situational contexts change. Organisational actors such as re-entrants might, in fact, pursue those activities that create resistance to change.

**CONCLUDING REMARKS**

Why are international business strategies such as re-entry after initial entry and market exit so important to examine and understand? Our choices are largely influenced by the way in which we frame them. Past studies have had a significant “success bias”. The focus has been predominantly on how firms manage the liability of foreignness associated with being a new entrant into a foreign market, how firm specific resources and capabilities constituted a source of international competitive advantage and what factors drove some firms to become more successful than others. In many instances, performance is measured as the degree of international diversification, i.e. how many international markets the firm entered; or intensity of international diversification, i.e. amount of sales associated with international markets. Although we are familiar with the high rate of failures of international joint ventures and cross-border M&As and the intermittent nature of exporting behavior – failure is not something that is studied a lot international business research. This is despite the fact that failure can be more easily recalled by decision makers compared to past international successes. In the case of complex strategic decisions such as re-entry, if sufficient time has passed after the exit, recall may be influenced by emotions, memory and other subjective judgments. This, in turn, will affect the manner in which the lessons learned from the exit and embedded in organizational practices and routines. Firms without clear and objective processes to manage the formal planning of re-entry may - potentially - be influenced by the subjective and often outdated experience of managers. This leads to biases in decision-making which are enacted when complex, emotionally load decisions need to be made. International business strategy theory should focus more on the influence of managerial own emotions and memory in shaping managers’ perceptions of events.
This chapter aims to start a conversation around how concepts from the behavioral sciences can help international business strategy scholars to advance the MNE research agenda towards studies with greater practical relevance. These ideas may prove to be applicable beyond re-entry decisions, to any cognitively loaded managerial choices made in conditions of high uncertainty and fear of subsequent international market failure.
REFERENCES


Figure 1. Foreign market re-entry commitment strategic options (Surdu et al., 2019)

Foreign market re-entry mode

<table>
<thead>
<tr>
<th>Changes in commitment</th>
<th>Commitment increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.e. firms re-enter via a different mode of operation compared to the mode in which they were operating prior to exiting the market</td>
<td></td>
</tr>
<tr>
<td>Commitment decrease</td>
<td></td>
</tr>
<tr>
<td>i.e. re-entry mode involves less commitment than the mode of operation prior to exiting the market</td>
<td></td>
</tr>
<tr>
<td>No changes in commitment</td>
<td></td>
</tr>
<tr>
<td>i.e. firms re-enter via the same mode in which they were operating prior to exiting the market</td>
<td></td>
</tr>
</tbody>
</table>

Figure 2. Availability biases at re-entry

Q1
ONCE BITTEN, TWICE SHY

Q2
DRAGON SLAYERS

Q3
TRAUMATIZED

Q4
TABULA RASA

Managerial framing of the exit experience

Negative
Neutral/Positive

Learning from past experience in the market

Significant learning
Figure 3. Framing biases: Which re-entry option would you choose?
Author biography

Irina Surdu is Associate Professor of International Business Strategy at Warwick Business School, University of Warwick, UK. Her current research agenda focuses on the international growth and subsequent investment strategies of multinational enterprises, organisational learning and corporate irresponsible behavior across different country markets. Her research has appeared in journals such as Journal of International Business Studies, Journal of World Business, International Business Review and British Journal of Management. Over the last few years, her research has won multiple awards at International Business and Management conferences such as AIB UK-I, BAM and EIBA. She is an Associate Editor of Multinational Business Review and part of the Editorial Board of Journal of International Business Studies.