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DEPOSITED IN DRO:
26 MAY 2020

VERSION OF ATTACHED FILE:
Published Version

PEER-REVIEW STATUS OF ATTACHED FILE:
Peer-reviewed

CITATION FOR PUBLISHED ITEM:
Aguzzoli, Roberta and Lengler, Jorge and Sousa, Carlos and Benito, Gabriel (2020) 'Here we go again: a case study on re-entering a foreign market.', British journal of management.

FURTHER INFORMATION ON PUBLISHER'S WEBSITE:
https://doi.org/10.1111/1467-8551.12407

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Here We Go Again: A Case Study on Re-entering a Foreign Market

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Globalization has motivated firms to expand into foreign markets, but internationalization is inherently dynamic. Many firms have exited foreign markets for various reasons, but some later decide to re-enter those same markets. Based on a case study of a Brazilian multinational’s activities in Mexico, this study contributes to the literature on re-entry decisions of multinational enterprises and their outcomes, focusing on the roles of institutional voids and the experiences of decision-makers during such processes. The findings suggest that companies learn from their mistakes and reconsider how they approach re-entry and the resources that may need to be mobilized. However, the learning process is not straightforward as it is clouded by international knowledge myopia. This study highlights how multiple actors and considerations influence re-entry events.

Introduction

As competition in world markets has intensified, an increasing number of firms have faced exit and re-entry decisions. However, little systematic analysis has been done on the drivers and the outcomes of re-entry. The few studies that have examined re-entry decisions have mainly relied on secondary data (Bernini, Du and Love, 2016; Chen, Sousa and He, 2019; Javalgi et al., 2011; Surdu, Mellahi and Glaister, 2019). This has prompted calls for researchers to conduct ‘exploratory detailed case analyses with a longitudinal perspective’ (Welch and Welch, 2009, p. 575) to develop a better understanding of complex exit and re-entry processes.

Research on entry and exit modes acknowledges the importance of the institutional context and how it influences a firm’s strategic decisions (Meschi, Phanand and Wassmer, 2016; Peng, Wang and Jiang, 2008). However, studies tend to focus on how firms from developed countries enter/exit emerging markets or how firms from emerging markets enter/exit more developed markets (Getachew and Beamish, 2017; Wu and Chen, 2014). Little is known about what drives emerging market firms to enter, exit and re-enter another emerging market and the role played by institutional voids in the process.

Moreover, there are conflicting views on how the stock of knowledge from prior entries affects re-entry. Some studies suggest that firms learn from failures (Madsen and Desai, 2010; Tan and Sousa, 2019), while others suggest that firms may fail to learn from previous experiences (Cannon and Edmondson, 2005; He et al., 2018). The learning literature has identified failure as an important driver in the development of knowledge, skills and capabilities that are valuable in subsequent activities (Cope, 2011; McGrath, 1999). However, there is increasing recognition that failure may not lead to learning. Managers can be overconfident in their abilities and knowledge, developing hubris that prevents them from learning from failure.
Our detailed study examines re-entry decisions and the process, focusing on the case of a large multinational enterprise (MNE) headquartered in Brazil and its re-entry into Mexico. In this study, the re-entry process is considered to be a learning experience (Bernini, Du and Love, 2016; Javalgi et al., 2011) by focusing on a company that failed in its initial attempt and subsequently re-entered the previously abandoned market. Specifically, we consider how the initial failure influenced the company’s learning and its re-entry decision. We also investigate the drivers that affect the re-entry process and how they relate to learning. Finally, we explore the outcomes of the re-entry process and how accumulated experiences shape a company’s decisions through that process.

This study makes the following contributions. Firstly, focusing on an under-explored phenomenon and using a case study approach, it provides further understanding of the complex dynamics underpinning re-entry actions. Studying this complex event over time contributes to a better understanding of re-entry and should be of great interest to academics, managers and policy-makers alike. Secondly, by focusing on an emerging market firm entering another emerging market sharing similar institutional voids, the study sheds light on the role played by institutional voids in shaping the re-entry decision and its outcomes. Thirdly, the study clarifies the role of knowledge as it accrues after entry. Specifically, it demonstrates that the knowledge MNEs accumulate during their initial operations (i.e. after the first entry) in a market neither secures a successful re-entry nor necessarily enables them to operate alone in the foreign market. Instead, it may lead to international knowledge myopia that refers to individuals’ overconfidence in their knowledge and the underestimation of differences that exist across markets and circumstances, leading to a lack of motivation to search for and develop new knowledge and resulting in erroneous decisions and limited learning.

### Research on re-entry

Re-internationalization describes the process of a firm exiting from an international operation, remaining outside that particular market for some time and then subsequently re-entering the market (Welch and Welch, 2009). Although there are many judicious reasons for a firm’s exit (Belderbos and Zou, 2006; Benito, 1997, 2005; Berry, 2013; Sousa and Tan, 2020), permanent withdrawal from a foreign market is not always the best strategy (Javalgi et al., 2011), since the situation in the market and/or the situation within the firm may change. However, a firm’s re-entry decision is a complex and dynamic process that depends on a variety of factors, both internal and external.

Internal factors consist of the characteristics of firms, their owners and their managers, and play significant roles in decisions to re-enter a foreign market. A firm re-entering a foreign market is in a different position than in its first entry. It will have accumulated experiences across a range of business activities while operating in that market, as well as having developed various relationships with local partners (Chen, Sousa and He, 2019; Johanson and Vahlne, 2009). Such experiential knowledge and networks with customers and suppliers in the foreign market might well aid re-entry – even if firms withdraw from a foreign market, they could maintain these networks. Thus, the extent to which a firm successfully develops these networks can facilitate future re-entry by helping companies to better relate with local partners and customers (Yayla et al., 2018) and provide opportunities due to the institutional and cultural knowledge acquired by operating in a host country (Javalgi et al., 2011).

This is consistent with the view that when a firm exits a foreign market, it retains a stock of knowledge, or ‘heritage’, that facilitates subsequent re-entry (Welch and Welch, 2009). This stock of knowledge about the foreign market lessens uncertainty on the re-entry and helps firms reduce their sunk costs associated with re-entry (Bernini, Du and Love, 2016). Recognition of the potential usefulness of experiences and relationships previously formed in a foreign market might generate greater confidence and interest in re-entry. Having knowledge of the previously exited market, firms are more likely to return to that market with greater scope (Javalgi et al., 2011).

Even negative experiences can be useful, since they can help a firm avoid repeating mistakes during re-entry. Experiencing failure can thus be viewed as a form of ‘survival-enhancing learning’ (Baum and Ingram, 1998) and an essential prerequisite for adaptation and systemic resilience (Sitkin, 1992). Indeed, the re-entry process can be a way for a firm to learn from failure. Learning
from failures may be more valuable than learning from success, since costly lessons make managers more conscious of the factors inhibiting success. Failure can motivate the initiation of formal and informal learning processes, thereby helping managers identify and highlight mistakes made in strategic decisions (Tsinopoulos, Yan and Sousa, 2019). This helps firms avoid the same practices and experiment with alternative actions, routines and strategies that may increase the probability of subsequent success (Madsen and Desai, 2010). The re-entry decision, therefore, is shaped by experiences prior to and during the exit decision (Bernini, Du and Love, 2016; Surdu, Mellahi and Glaister, 2019) and can play a significant role in re-entry decisions and subsequent outcomes.

Managers’ perceptions are also important in the re-entry process (Vissak and Francioni, 2013). Emerging market firms’ strategies are not only influenced by actual firm experiences but also by managers’ perceptions of these experiences (Thomas et al., 2007). For instance, if managers have positive perceptions and believe they have accumulated enough knowledge, they may re-enter a market prematurely, which may force them out of the market for the second time. Similarly, scholars generally agree that business failure is an emotionally charged experience (Shepherd, 2003; Shepherd, Covin and Kuratko, 2009) and could result in strong negative emotions that leave little capacity for learning through collecting and processing of failure-related information (He et al., 2018).

Moreover, overconfident managers tend to focus on successes and overlook failures, thereby exaggerating the likelihood of success (Levinthal and March, 1993). According to the organizational learning literature, learning takes place if there is a perceived knowledge gap and motivation to acquire new knowledge (Duncan and Weiss, 1979; Fiol and Lyles, 1985). If managers are overconfident in their knowledge, they may ignore knowledge gaps and lack motivation to acquire new knowledge. Similarly, Levinthal and March (1993) pointed out that managers often underestimate differences across time and space, leading them to believe the similarities are greater than they actually are and resulting in erroneous decisions and limited learning. Such attitudes can trap their competencies, leading to myopia (Schulz, 2002) and an ensuing market exit. Knowledge myopia (i.e. overconfidence in capabilities and knowledge) is a learning dysfunction (Argyris and Schon, 1978; Levitt and March, 1988) that constrains the recognition of relevant alternatives and hinders the ability to learn from failures. However, despite its significance, there has been little systematic analysis of the influence of managerial attitudes and perceptions on re-entry decisions.

External factors, such as political, economic and cultural conditions, are factors also expected to influence the likelihood of re-entry. Their impacts on, inter alia, market demand and the competitive environment, and therefore the attractiveness of a market, are important in the decision to re-engage with the foreign market (Figueira-de-Lemos and Hadjikhani, 2014; Surdu, Mellahi and Glaister, 2019). Likewise, infrastructure and the capacity and organization of distribution have cost implications that a company must consider when re-entering a previously abandoned market. The lack of reliable financial intermediate agencies, deficient financial market disclosure and weak corporate governance are also external factors potentially affecting a firm’s re-entry decision. Additionally, the lack of regulations lowers trust in institutions and in their capacity to protect foreign investments (Hotho, 2014), which can have impacts on re-entry decisions. In the absence of clear regulations, companies need to learn how to conduct business in an environment where institutions fail to enforce regulations. This may affect the organizational decisions a firm makes to shield itself from the institutional environment (Carney and Farashahi, 2005) as well as re-entry outcomes. For instance, in countries characterized by high institutional risks, firms may opt to join local partners (Beamish and Lupton, 2009) through strategic alliances or joint ventures (JV). Such alliances provide foreign companies with local institutional knowledge and access to critical resources (Inkpen and Beamish, 1997), while learning to circumvent institutional voids.

The study

The research context

Brazil and Mexico are the largest economies in Latin America, have the largest numbers of indigenous MNEs (Global Fortune, 2017) and provide a pertinent research context as home and host countries due to their shared characteristics as emerging markets (Schneider, 2009). The countries’
emerging economy status is well suited to shed light on the main research phenomena of this study: the drivers and outcomes of a re-entry decision; the influence of institutional factors and the impact of learning in this context. Emerging economies are hampered by institutional dysfunctions such as lax regulatory systems, weak judicial systems, corruption and generally low levels of trust in public institutions (Khanna and Palepu, 1997) that add further complexity to the re-entry process.

Given the significant gap in the re-entry literature on specifically how companies from emerging economies re-enter other emerging markets, and the outcomes of re-entry, an exploratory case study is well justified. In this respect, Flyvbjerg (2004) argued that a case study is more constructive if it considers atypical cases. Examining an under-explored topic through a case study illustrates an unusual phenomenon and extends relationships that would be difficult to observe otherwise (Eisenhardt and Graebner, 2007). Our case has some distinct characteristics. First, market dynamics observed in emerging markets differ from those in developed countries mostly due to a lack of institutional dependability and transparency. Second, the selected case company stayed out of the market for less than 2 years, which is a relatively short period between exit and re-entry. Thus, our study covers a fairly continuous process, albeit one with various ‘twists and turns’ rather than discrete events that are only distantly associated through a common focal company and host market. Third, the company re-entered the Mexican market through a wholly owned brownfield establishment but chose later to change it to an international joint venture (IJV). This adds an additional dimension of not only re-entering a market, but also re-considering the way of operating there. Combined, these characteristics mean the case can provide valuable new insights on internationalization dynamics (Benito, Petersen and Welch, 2012).

Case companies and key participants

In this paper, we refer to the focal case company as Beta and the two other companies that also played roles as Alpha and Omega. Beta is a family-owned Brazilian coachbuilder established in 1949; the founder’s family controls two-thirds of its equity capital. Its primary competitive advantage lies in the customization of its products. The company refers to itself as a ‘builder of tailor-made buses’. Its customization is possible due to a highly vertically integrated production system that is uncommon among its competitors. Beta has grown in the last 10 years through a series of IJVs in various emerging markets, mostly initiated by customers. Since buses are a primary form of mass transportation in emerging economies, these countries represent significant market prospects.

The company began its internationalization process in the 1960s through exports to Uruguay and Paraguay. Beta first entered the relatively closed Mexican market through a licensing agreement with Alpha in the early 1990s. Figure 1 illustrates Beta’s internationalization history until its IJV with Omega in Mexico, highlighting key events for our study.

Alpha is a Mexican automobile company that produces buses (including chassis) and trucks. In 1992, Alpha entered a US$90 million strategic alliance to sell buses using Beta’s technology. The strategic alliance was designed to last 10 years and included transfers of technology, engineering and

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1 Nevertheless, most Brazilian companies lag behind their counterparts in developed countries in terms of assets and face restraints in capital access such as long-term credit. Brazilian managers’ lack of international experience has fostered an aversion to risk-taking and reluctance to operate in non-domestic environments (Rocha, Carneiro and Silva, 2007). Mexico is the second most important economy in Latin America. While attractive as a host country for many MNEs due to its size and cost level, it suffers from an underdeveloped business infrastructure such as availability of distribution and financial intermediaries. Its reputation for corruption and weak enforcement means trust in formal institutions is low (Hotho, 2014).

2 Beta, Alpha and Omega are pseudonyms.

3 Being family owned impacts how managers are selected to fill various company positions at headquarters.

4 Approximately 70% of the buses’ body parts are made by the company and the rest are supplied by outside contractors.

5 Overall, Beta is representative of many Brazilian MNEs. It is strongly embedded in its country-of-origin, especially in terms of its managerial mindset and composition of its board of directors. Core activities such as research and development are mostly done at headquarters and much of the production is still done in Brazil. Like the majority of Brazilian companies, it is family owned. Beta’s internationalization path aligns with that typically taken by Brazilian companies when they internationalize (Fleury and Fleury, 2006), starting with non-equity operations in neighbouring countries.
production expertise and quality support. Beta had no managerial involvement with Alpha and the agreement was purely for the Mexican market.

Omega is a German automobile MNE, one of the largest international companies in its industry. It has five divisions: cars, trucks, buses, vans and financial services. Omega entered Mexico in the 1980s through a greenfield arrangement in the truck segment (Miranda, 2007) and later expanded to cars and buses. Omega suffered during the Mexican economic crisis and in 1997 stopped producing buses in Mexico but continued with its chassis production. At the end of the 1990s, Omega was looking for local bus partners for its chassis division (Metro Magazine, 2002). Table 1 summarizes the case companies.

### Data collection and analysis

We collected data from three sources: in-depth, semi-structured interviews, documentary sources and direct observation. A total of 17 interviews were conducted with 10 managers and former managers in Brazil, and 7 at Beta’s subsidiary in Mexico between October 2015 and May 2016. Interviewees were selected based on their presumed information domains (Welch and Piekkari, 2017), as we were seeking participants with know-how about the company’s internationalization process and expertise in Mexico. Table 2 summarizes the interview information and provides the rationale for the selection of each interviewee.

A primary challenge when researching disinvestment and re-entry is the time frame of the phenomenon, since the process tends to occur over long periods. Interviews, therefore, had a retrospective characteristic. The semi-structured interview protocol included questions focused on Beta’s

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6One thing that has helped us deal with sensitive topics is that one of our first interviewees was a former director responsible for the internationalization of the company to Mexico. His status as a former director allowed him to be frank, equipping us with important information. The background gained during that interview allowed us to introduce and discuss sensitive issues with later interviewees.
**Table 2. Overview of interviews**

| Interviewee | Position                  | Duration (min) | Language | Reason                                                                                                                                 |
|-------------|---------------------------|----------------|----------|-----------------------------------------------------------------------------------------------------------------------------------------|
| 1*          | Shop floor worker         | 65             | Portuguese | In charge of training workers in foreign operations – limitations found in Mexican workers. He has been working for the company for over 20 years. |
| 2*          | Commercial manager        | 41             | Portuguese | Responsible for the commercial department and foreign operations. He has been working for the company for over 20 years. Explained the internationalization process. |
| 3**         | Former director           | 221            | Portuguese | In charge of setting up the agreement with Alpha, exiting the market and re-entering it. Found the new partner. No longer involved with the company, so less likely he would ‘portray a particular image’ of himself or the organization (Piekkari and Tietze, 2016, p. 219). More than 40 years at Beta. |
| 4*          | Operations director       | 61             | Portuguese | In charge of transferring policies and practices from headquarters to subsidiaries. Explained the internationalization process and managerial attitudes towards it. |
| 5*          | Operations manager        | 83             | Portuguese | One of the first expatriates in Mexico. In addition, he had a view on the company as a whole and the internationalization process. Working for Beta for over 20 years. |
| 6*          | Engineering director      | 59             | Portuguese | In charge of transferring policies and practices from headquarters to subsidiaries. He was an expatriate in Mexico. Working for Beta for over 20 years. |
| 7*          | Former director           | 146            | Portuguese | Internationalization director, who had worked for the company for more than 20 years. Previously an expatriate in Mexico, but no longer involved with the company, so less chance he would ‘portray a particular image’ of himself or the organization (Piekkari and Tietze, 2016, p. 219). |
| 8*          | HR director               | Not recorded   | Portuguese | He has been working for the company for over 20 years. Explained the formalization of policies and practices observed in headquarters and the internationalization process. |
| 9*          | HR senior manager         | Not recorded   | Portuguese | She has been working for the company for over 15 years. Explained the formalization of policies and practices observed in headquarters. |
| 10*         | Manufacturing director    | 63             | Portuguese | Involved in the internationalization process and one of those responsible for making the agreement between Beta and Omega. He has been working for the company for over 25 years. |
| 11****      | CEO Mexico                | 80             | Portuguese | Involved in the internationalization process and one of the first expatriate managers when Beta re-entered Mexico. He has been working for the company for over 25 years. |
| 12****      | Production director       | 59             | Portuguese | Explained the internationalization process, managerial attitude and impact previous experiences had on the IJV. He has been working for the company for over 20 years. |

(Continued)
Table 2. Continued

| Interviewee | Position               | Duration (min) | Language | Reason                                                                 |
|-------------|------------------------|----------------|----------|----------------------------------------------------------------------|
| Interviewee13**** | Mexican worker         | 43             | Spanish  | Working for the company since its agreement with Omega. He explained the agreement and the role of Mexican institutions on the IJV and the impact previous experiences had on the IJV. |
| Interviewee14**** | Logistics director     | 28             | Spanish  | He had been working for the company since its re-entry. Helped negotiate the agreement with Omega. |
| Interviewee15**** | Logistics coordinator  | 30             | Portuguese| He had been working for the company for over 20 years. Discussed the company’s internationalization process and managerial attitude. |
| Interviewee16**** | Finance director       | 81             | Spanish  | He had been working for the company since its re-entry. Helped negotiate the agreement with Omega and discussed the impact previous experiences had on the IJV. |
| Interviewee17**** | Engineering director   | 25             | Portuguese| He explained the internationalization process and relationship with Omega. |

Notes:
* Interview at headquarters.
** Interview conducted outside headquarters premises.
*** Interview conducted in the Mexican subsidiary.
**** Brazilian expatriates.

internationalization process: how it first entered Mexico; its alliance with Alpha; the decision to leave and re-enter Mexico; and the re-entry and its outcomes. Most interviews were audio-recorded, providing about 21 hours of recordings, and were transcribed in their original language. After data collection, three interviewees (two former directors and a director in Mexico) were re-interviewed for factual verification. These interviews lasted approximately 60 minutes each and helped verify our analyses.

Documentary sources included the analysis of more than 5,000 newspaper and business magazine articles, a book on the company’s history, internal communications and local websites. After little information on Beta and Alpha was found in the archives of Mexican newspapers from Aguascalientes, Monterrey and Mexico City, we used the FACTIVA research tool. Articles were found in English, Spanish and Portuguese. Table 3 summarizes the secondary data used in this research.

Secondary data was helpful in securing additional information, especially on Omega and Alpha. For example, on some occasions managers disagreed on the timing of a particular event. Using secondary data to triangulate the information was important in clarifying dates and contexts (Stake, 1994).

Interview proceedings were saved on a computer file for content analysis. Although there is already a body of literature on the drivers of re-entry, we opted to conduct a qualitative content analysis for three reasons. First, our study covers a lengthy period of time with several interactions and different factors (Krippendorff, 2019). Second, we wanted to focus on the latent meaning of the data (Schreier, 2012). Finally, we wanted not only to understand the drivers and outcomes of re-entry but also the learning outcomes from the process since they are still not clear in extant literature.

To link the re-entry process to learning, we analysed data in different stages. We first selected the
Table 4. Content analysis on re-entry process

| First-order categories                  | Second-order categories | Final categories |
|----------------------------------------|-------------------------|------------------|
| Licensing agreement                     | Internal factors        | Phase I - From the partnership with Alpha to leaving the Mexican market |
| Technology transfer                     | Internal factors        |                  |
| Internalization                        |                         |                  |
| Judicial system                         | External factors        | Phase II – Time-out and internal and external influences on Beta’s decision to re-enter Mexico |
| Political connections                   |                         |                  |
| Local partner                           | Internal factors        |                  |
| Mistrust                                |                         |                  |
| Institutional voids                     | External factors        |                  |
| Similar institutions                    |                         |                  |
| Local market                            |                         |                  |
| Local opportunity                       | Internal factors        | Phase III – Re-entering the Mexican market |
| Culture                                 |                         |                  |
| Ethnocentric mindset                    |                         |                  |
| Managers                                | Internal factors        |                  |
| Logistic                                |                         |                  |
| PKD                                     |                         |                  |
| Innovation                              |                         |                  |
| Local funding                           | External factors        |                  |
| Local workforce                         |                         |                  |
| Local distribution                      |                         |                  |
| Complementary resources: after sales, technology, distribution, product, internal funding | Internal factors | Phase IV – Internal and external influences and the change in the re-entry process |
| Due diligence                           |                         |                  |
| Lack of funding                         | External factors        |                  |
| Competitors                             |                         |                  |

material relevant to answer our research questions and reduced the amount of data (Schreier, 2012). Secondary data were then used to check the information on Omega and Alpha. Following Schreier’s (2012) advice, in the next stage we separated the data into two topics: (1) drivers and influences on the re-entry process and (2) learning from the re-entry process. Conducting a separate content analysis for each of those two topics allowed us to initially focus on the re-entry drivers and influences and then use the data on learning from the process.

In the analysis of the data on drivers and the influence of the re-entry process, we used the existing literature on re-entry as a starting point. We identified in the literature the following keywords: managerial decision-making, network, resources, technology and product as internal factors; politics, economy, culture, competitors, market, infrastructure, distributions, financial agencies, regulations and institutions as external factors. We focused on verbal answers to the keywords identified in the literature review and associated their meanings in clusters (Krippendorff, 2019). Using extant literature as guidance on internal and external influences while focusing on the latent meaning helped to include words we found relevant, such as ethnocentrism, political connections, governance and trust. Interestingly, different internal and external keywords were referred to different phases the company went through in Mexico, allowing us to identify four specific phases that Beta underwent in Mexico. Table 4 summarizes the content analysis on the drivers of re-entry.

After analysing the first topic and identifying Beta’s four Mexican phases, we then analysed what Beta had learned from its re-entry process. As noted by Schreier (2012, p. 87), data-driven coding is ‘rare’ as the research question plays a role in framing the coding. There is, however, some literature linking learning to its impact on the re-entry process. As suggested by Krippendorff (2019), we grouped the themes to conceptualize the learning process over time, focusing on the occurrences, what was learned and the outcomes to the company.

7Irrelevant material was classified as that referring to periods later than 2001 and to subsidiaries other than the ones we were analysing.
pany. We were then able to link what managers learned and their actions from the learning to each of Beta’s four phases.\(^8\) Figure 2 illustrates the grouping process.

Excerpts from the interviews were then translated into English and back-translation was conducted by two other researchers to verify translation consistency (Van de Vijver and Leung, 1997). The findings were presented to two managers in Brazil in April 2018, who provided feedback. Examples of phrases used in the analysis are shown in Table 5.

### Findings

In this section, we describe the four phases identified in our analysis and the main events as shown in Figure 3.

**Phase I: From the partnership with Alpha to leaving the Mexican market**

The first time Beta entered Mexico, it was initiated by a customer and no formal risk analysis was conducted. The idea was to export complete bus units (CBUs) from Brazil to Mexico. Beta agreed that Alpha would assemble its buses in Mexico and sell them in the local market. In the early 1990s, Beta had virtually no international experience with other entry modes other than exporting, and partnering with Alpha was its first licensing agreement. Three years after the start of the licensing agreement and after 6,000 buses had been sold, Beta discovered that Alpha was using Beta’s technology to produce bus bodies that it sold in markets outside of the agreement. Said a former Brazilian director:

> They thought they could build buses using our technology without our consent. They started selling our products behind the scenes. We had no idea they were doing that. You don’t do that in a partnership! [...] When something like this happens in a partnership, the only thing you can do is terminate the contract.

The Brazilian managers were concerned about the local owner, a public figure with important political connections. ‘The owner had a very strong relationship with the government. The guy was cheating. He claimed he ruled the roost’, claimed one interviewee. Beta had difficulty finding lawyers that could help them with the case. ‘In those countries, the law is very weak. Besides, it is difficult to find a lawyer that can give support to a foreigner’, said a Brazilian director. Thus, Beta decided to exit the Mexican market.

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\(^8\)Aiming for consistency and reliability, the same researcher coded the material twice (Krippendorff, 2019). No variation was found.
If you do not have laws to protect you, so you have to find ways to protect your product. In those countries, the law is very weak. Besides, it is difficult to find a lawyer that can give support to a foreigner.

You have to be innovative in your technology but you also need to fit it in internally to avoid companies copying your product.

We did not know how to do an agreement. We had this Mexican trauma: Should we go solo or trust a partnership? It is easier to go to developing countries. We share the same realities from a business point of view. It is a lack of infrastructure, populous cities, traffic jams, and poor public transportation.

We had to go to banks and ask for money since customers expect funding. It is extremely expensive to buy a bus.

We had this ethnocentric approach; we believed our mindset to be the best. We sent key people to replicate our operations.

The PKD logistic is difficult. The time you need for exporting and having the product in Mexico was too long.

Beta’s product is customized and therefore, the distribution channel, although key to the industry, was lacking in Mexico. If you do not have a proper distribution channel, you cannot meet the demand.

The entry of our competitor was a poke in the eye; they broke us. How to get out of this? And we had that factory purchase promised.

When you do the due diligence and analyze the local company, sometimes you find they issue receipts with half of the product’s value. They may evade taxes. We are a listed company, we do not do it.

Since Omega had a sales network, funding, and an industrial facility, there were many advantages for us to form a partnership with them.

Due to its lack of international experience, Beta had not foreseen the challenges linked to technology transfers. This disappointing experience made Beta’s managers aware of the potential pitfalls in technology transfers, and policy changes were introduced at head office. First, the company verticalized and internalized the production process in order to minimize the risk (and consequences) of being copied. ‘You have to be innovative in your technology but you also need to fit it in internally to avoid companies copying your product’, said a former director. Second, it decided not to transfer technology in future ventures to avoid poaching. Finally, it invested in patents to protect its intellectual property.

Phase II: Time out and internal/external influences on Beta’s decision to re-enter Mexico

The Mexican market had been receptive to Beta’s products. According to Alpha's reports, the buses produced by the alliance were the ‘kings of the road’. There was demand for buses in Mexico and a significant market for Beta’s products because of price, quality and performance. The Brazilian managers pointed out that the similarities (culture, religion, language, weak unions and lax labour laws) between Brazil and Mexico were appealing.

Although Spanish and Portuguese are distinct languages, managers referred to their similarities as a positive aspect.
to them. Said one director on the ease of transferring to another emerging economy:

It is easier to go to developing countries. We share the same realities from a business point of view. It is a lack of infrastructure, populous cities, traffic jams, and poor public transportation.

However, the managers mistrusted Mexican institutions and now also Mexican partners. One Brazilian director said, ‘We had this Mexican trauma: Should we go solo or trust a partnership?’ Beta decided then to re-enter Mexico solo as it believed in the local receptiveness to its product; the connections with customers (the company counted on three main clients already familiar with Beta from the alliance with Alpha); and the market knowledge they had accumulated over the years in partnership with Alpha. Said one:

We could re-enter the Mexican market because we had learned from our failed experience with our previous Mexican partner. When we first enter a market, we need someone. After a period of time, I learn more about the market, so we no longer need them.

The Beta managers were confident they could count on customers and managers’ understanding of the institutional environment and had time to learn more about Mexican institutions. ‘We felt confident that we could replicate the Brazilian model in Mexico (an operation verticalized with multiple chassis brands)’, said a director. Another director mentioned:

We went back to believing we had the management skills to replicate the Brazilian model. We went back to Mexico under the logic of ‘if we know how to produce buses, we can easily sell them.’ We were not concerned about the market itself.

Beta re-entered Mexico through a brownfield arrangement by acquiring a bankrupt automobile company, demonstrating that managers thought they had the know-how to re-enter solo. The automobile company owner offered two buildings to Beta, which decided to buy one and sign a letter of intent for the other, the plan being to have a factory up and running within 8 months.

**Phase III: Re-entering the Mexican market**

Shortly after re-entry, Beta’s managers faced internal and external challenges they had not foreseen. Internally, the company operated on an ethnocentric approach: ‘[W]e had this ethnocentric approach; we believed our mindset to be the best. We sent key people to replicate our operations’, said a director.

The internalization of production impacted logistics and lead-time, delays that Beta did not foresee. Beta then developed a new system called partial-knock-down (PKD). Under this system, almost-complete bus bodies were exported from Brazil to Mexico. The integration of the bus body with the chassis was done locally in Mexico and only minor final adjustments were needed. This innovation allowed Beta to provide vehicles to its customers within a tight timetable, since it could accelerate the assembly process: ‘The PKD logistic is difficult. The time you need for exporting and having the product in Mexico was too long’, said a former Brazilian director. Beta realized it also lacked a local distribution channel and after-sales assistance, yet after-sales service was perceived as being essential and it was difficult to sell buses in Mexico without it. ‘It is important to have a banner, someone the customer can count on’, said a director.

Externally, there was a lack of funding agencies in Mexico. Unlike Brazil, where the government funds mass transport, in Mexico neither the government nor the banks underwrite the industry. Customers had to pay for Beta’s products upfront because the company did not have a financial institution or partner to back it. ‘We had to go to banks and ask for money since customers expect funding. It is extremely expensive to buy a bus’, said a Brazilian director. Another director added:

The major problem in developing countries is that there is no credit [...] If companies or individuals don’t have lines of credit, they cannot buy a bus. If you do not have access to credit, you cannot operate in the market. We do not give credit. We are not a funding agency.

In addition, the local workforce did not have the necessary skills to work on Beta’s processes. Beta’s products involved a high level of customization and high labour intensity. In addition, Beta needed to have workers with skills to build the bus body in different chassis. The workforce in central Mexico, where Beta re-entered the country, is not
as highly skilled as that in northern Mexico. To build a competent pool of employees that adapted to the company’s practices, ‘production rhythm’ and quality standards took longer than expected. A director claimed:

In the beginning, you need time to align everybody in the same system. They knew how to do things but the reference they had for quality was not the same as ours.

Beta underestimated the institutional challenges in Mexico as their managers were confident that Brazilian and Mexican idiosyncrasies were very similar. Beta was not prepared to face the different institutional environment and did not possess the expertise and skills needed to go solo in a demanding context such as Mexico. Another director added:

We were a company from the countryside, a company that is embedded in the south of Brazil where nothing happens. I would say it is a Brazilian aspect; we were closed to FDI, and we lacked qualified managers or managers with an open mind about the adversities we could face when doing business abroad. We were used to Brazilian adversities but in a foreign country the problems are different.

They realized they had not learned the lessons from the failed experience.

The company had been struggling in Mexico for 18 months after re-entry when its primary competitor from Brazil followed suit in internationalization and bought the building for which Beta had signed a letter of intent. The competitor rapidly gained market share. Remark a former Brazilian director:

The entry of our competitor was a poke in the eye. They broke us. Now we needed to find out how to get out of this? And we had that factory purchase promised.

The entrance of Beta’s primary competitor was a severe blow to a company already struggling after re-entering Mexico and reinforced the lack of trust, since Beta had signed a letter of intent to purchase the building.

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10 For instance, whereas the daily minimum wage in northern Mexico is $Mex176.72, in the rest of the country it is $Mex102.68 (El Sol de México, 2019).

11 (EFE News, 2000).

12 (Dow Jones International News, 2000).
with them’. Added another: ‘We could use their selling structure and network. We did not need to increase our cost to develop a network ourselves and we optimized resources to be more competitive’. Omega’s other positive attributes included its reputation, a strong global presence and a focus on the car industry rather than buses. Omega also provided the IJV with compliance procedures such as quality systems and the SAP system, which helped to deal with local requirements such as fiscal and quality procedures. Those corporate governance procedures helped Beta develop control mechanisms and increase trust in the Mexican experience among managers and shareholders.

Omega bought 26% of Beta’s Mexican operation, creating an IJV that saved Beta from having to either incur the risks involved with investing heavily or exiting for the second time. Throughout the negotiating process, Omega demanded that Beta sign 13 separate contracts specifying the IJV terms as well as the after-sales assistance, distribution and funding terms. ‘They asked us to sign contracts for technical assistance. I had never experienced that. It seemed they didn’t trust us’, said a Brazilian manager who was on the IJV negotiating team. The alliance was established for a period of 7 years. The IJV board comprised seven directors, four of whom were Brazilian (Beta’s CEO and its director for global business and the IJV’s CEO and production director), two German (Omega’s CEO for buses and its director for buses in Mexico) and one Mexican (the IJV’s commercial director). The strategy proved successful. In subsequent years, Beta’s Brazilian competitor went bankrupt and Beta’s market share expanded and currently ranks second in Mexico, which now represents the company’s second largest market.

The unsuccessful solo experience led managers to reflect on the re-entry process. A director explained:

It took time for us to learn. In the beginning, we were haughty [...] We were overconfident we could go solo. We learned through the internationalization process and went backwards. We had to sit and reflect on what we did wrong.

Further, they learned the importance of risk analysis. Managers created a risk committee with the help of the big four accounting firms to help them deal with local legislation, prospect new markets and assess institutional factors (legislation, workforce, nationalization standards, local content, taxation and funding availability) and the business culture specific to the country (available resources, logistics, infrastructure, price, quality and product adaptation). A former director claimed:

We learned that we need to have a deep understanding of the market. It is not only picking up a folder and saying ‘I will analyze the market and do business there.’ It does not work that way.

The outcome led head office to change Beta’s internationalization strategy and enter other markets through IJVs with chassis companies, focusing on their internal capabilities. A former director said:

We had to change our concept. We have technology, production, and logistics. We do not have market, branding, funding, local distribution, and HR. Bus companies in most cases depend on government concessions; and they need local funding. Those are the reasons we need a local partner.

Consequently, Beta entered six other countries through IJVs. Table 6 summarizes the main drivers and outcomes of the four phases.

**Discussion and implications**

This study was motivated by the limited knowledge about companies’ re-entry into foreign markets. The case addressed several inter-related questions regarding the re-entry of a Brazilian company into a market characterized by institutional voids. As evidenced by this study, experience amassed through failure does not assure success upon re-entry.

Beta’s decision to exit Mexico was triggered by opportunistic technology appropriation by a local partner and the lack of support from local institutions on protection of their property rights, generating Brazilian managers’ mistrust of Mexican companies and institutions. The re-entry process was shaped by managers’ perceptions that they had a product that was appropriate for the Mexican market and had acquired

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13 An Omega bus body in Mexico would cost 2.5 times more than Beta’s. Omega knew it could not gain the bus body market due to its price. Therefore, the company did not transfer its bus body technology into Mexico.
Table 6. Main drivers and outcomes of the four phases

| Actions       | Drivers                                                                 | Outcomes                                                                 |
|---------------|--------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Entry         | Opportunity to expand into a new market; expertise in dealing with institutional voids; initiated by a third company. | Mexico was (initially) Beta’s most successful international market. However, the partnership suffered when Alpha produced other products under Beta’s technology. |
| Exit          | Breach of trust by the partner and local institutions; property rights issues. | Brazilian managers decided to internalize the production; no longer transfer their technology to other companies; and to develop patents. |
| Re-entry      | Opportunity to expand the market; similar market demands; part of NAFTA; skilled workforce; because Brazil and Mexico were perceived as displaying close cultural and institutional distances (institutional challenges were underestimated), there was (over)confidence about Brazilian managers’ local know-how and expertise about the Mexican market (myopic learning). | Managers realized they were not prepared to enter the Mexican market solo (also failed to do a proper risk analysis) after failing to get access to funding, distribution problems and lack of after-sales assistance. They also recognized they had not understood the local market as well as previously thought (reappraisal). |
| Change of mode on re-entry | Lack of established logistics system; lack of local funding sources; excess of confidence about managers’ know-how; lack of intermediaries; difficulties in finding local suppliers; institutional voids not protecting the company; entry of a direct competitor from Brazil (exploration of another alternative). | Beta decided to change its entry mode and ally with a company from a developed economy. The headquarters developed a risk analysis, decided to put in place a formal internationalization strategy and decided its internationalization process should occur through alliances in which the local partner had the knowledge needed to operate in the market. |

sufficient knowledge to be successful in their second attempt. Managers were confident they could replicate their Brazilian success and had learned from prior failure: that they were equipped to operate in a developing economy; that they knew the idiosyncrasies of the Mexican market, networks, suppliers and customers; and that they had amassed the necessary knowledge to re-enter the Mexican market solo. However, Beta did not have a clear internationalization strategy, lacked careful risk analysis and consequently had no structured market selection process. This reflected Beta’s ethnocentric approach that overlooked the impact of external factors such as the local skills, compliance regulations, access to funding and distribution intermediaries. The unfolding events demonstrated that managers did not possess the knowledge they believed they had.

The external factors encountered in Mexico, as well as the entry of its main Brazilian competitor into the market, forced Beta to admit its mistakes and change its re-entry mode to create an alliance with a partner. The overconfidence observed in the re-entry was the result of hasty conclusions. Its narrow focus on protecting property rights after the failure of the first entry may have prevented it from taking a broader outlook when developing a re-entry strategy.\(^\text{14}\) The solution eventually was to enter into an IJV with a foreign company with complementary resources and a global reputation, compliance and governance procedures, and an all-important credit financing division. Beta, therefore, benefitted from the partnership with Omega as the German company brought resources that Beta was lacking, plugging its institutional gaps. In addition, Beta benefitted from Omega’s reputation and legitimacy in the Mexican market. Local companies could not provide the internal resources Beta was lacking nor cover the institutional gaps.

Theoretical implications
This study adds to the growing business discussion on internationalization dynamics (Benito, Petersen and Welch, 2012; Surdu, Mellahi and Glaister, 2019; Vissak and Zhang, 2015). Specifically, it focuses on foreign market re-entry and proposes that the presence of trusted institutions and managerial perceptions on learning are important factors in shaping firm actions. As such, our first theoretical contribution is on the process of making and

\(^{14}\) We thank one of the anonymous reviewers for this insight.
implementing re-entry decisions. Given that this is a largely unexplored topic, it is important to establish whether decisions are effective and the extent to which learning may contribute to the success of re-entry efforts. While this study reveals that experiences do not readily translate to effective learning, it does nonetheless illustrate the iterative, learning-by-doing nature of such processes.

Our second contribution is the insights into institutional influences on MNEs' foreign-market decisions. Extant literature has typically highlighted the advantages of partnering with local companies for their local knowledge, connections (Shi, Sun and Peng, 2012) and access to critical resources (Welch, Benito and Petersen, 2018). Hence, it has repeatedly been noted that in countries with high institutional risk, companies should opt for local partners (Beamish and Lupton, 2009). This study, however, provides a counter-case in which two foreign companies – one Brazilian and one German – formed a successful IJV in a third country. Omega brought to the venture what Beta lacked (such as funding, after-sales service and logistics) and what the local market was not able to provide. Omega also had compliance and governance and could perform institutional roles for funding and infrastructure (Cumming et al., 2017; Ellis et al., 2017). In this industry, funding and distribution are key resources that Beta lacked and that did not exist in the marketplace. Beta, therefore, benefitted from Omega’s resources and was in a better position to deal with local institutional demands. In addition, Beta benefitted from the positive reputation Omega had in the market as a company from an advanced economy.15

Our results suggest that to overcome institutional voids such as inefficient regulations and lack of intermediaries and credit, companies should consider partnering with a well-established company from an advanced country that possesses resources lacking in an emerging economy, has compliance and governance procedures, and is well established in the global market. In Beta’s case, the required critical resources were clearly not reliably available from local companies. Extant literature suggests that, in emerging economies, partnering with a local company can help circumvent institutional voids (Inkpen and Beamish, 1997). While this may be true in sectors where connections with local authorities and networks might be prerequisites,16 in our case the local company’s (Alpha) government connections worked against Beta. As well, other local companies lacked the funding, distribution and after-sales service Beta needed and were perceived as demonstrating opportunistic behaviour facilitated by a lack of regulations. Partnering with a reputable company from a developed economy reduced the perceived risks of technology appropriation. Indeed, the partnering company itself had more sophisticated technology available in Europe and, being foreign, was not tempted to pursue short-term local gains. This finding is consistent with the argument that domestic firms in developing countries prefer operating in environments with loose intellectual property protection standards as that allows them to imitate the products and processes of competitors (Brandl, Darendeli and Mudambi, 2019). Omega’s assets and reputation created an atmosphere that inspired Beta’s trust and removed its fear of being trapped in a foreign market as it had been earlier by a local partner.

Our third contribution is a perspective on how the stock of knowledge accumulated from previous experiences may hamper re-entry. Extant literature has highlighted previous local knowledge as a factor that fosters re-entry by averting sunk costs and the loss of previously established networks. This argument is also linked to the learning-from-failure literature that discusses how companies progress from failure and use the knowledge gained to explore new alternatives that increase the probability of success (Madsen and Desai, 2010). Here, we propose that knowledge accumulated from experiences/failures and the way alternatives are explored based on learning-from-failure may spur a company’s re-entry, but also instil unwarranted confidence that it has the resources, stock of knowledge and expertise for successful re-entry. In discussing the success trap, Levinthal and March (1993) argue that confidence from past successes cannot be fully applied to future operations. Our study suggests that managers’ overconfidence can stem from a belief that they have learned from their previous failures/errors and are prepared to successfully re-enter the market.

15Of course, Omega also benefitted from the partnership as it was able to expand its market offerings and global presence.

16We thank one of the anonymous reviewers for this insight.
While much research supports the view that failure leads to learning (Madsen and Desai, 2010; Tan and Sousa, 2019), our study suggests that this is not always the case. This is in line with Meschi and Métais’s (2015) findings on acquisitions that failures do not always contribute positively to a learning process but may instead lead to misinterpretations of crucial aspects of a failure. The empirical evidence suggests that Beta’s managers overestimated the learning from its experiences and the stock of knowledge accumulated from the failure. In addition, Brazilian managers were confident about their success in the Mexican market. In so doing, Beta focused on the main reason for its entry failure and underestimated other aspects, resulting in erroneous decisions and limited learning. Tsang (2002) also identified the existence of learning myopia in IJVs by showing that firms focus on how important the JV is rather than how much a firm wants to learn from the overall IJV experience. This is illustrated in our study as managers ignored information about the local context and the possibility of competitors entering the market. Instead, the narrow focus and managerial confidence gained by addressing the failure had not prepared the company for a second attempt. Managers’ perceptions of their experiences served as competence traps, led to overconfidence (Levinthal and March, 1993) and prevented them from having a full grasp of the re-entry process. The failure to learn from previous experiences can also be linked to the often traumatic experience of these events that can provoke negative emotions and are likely to hamper learning (Shepherd, Covin and Kuratko, 2009; Yamakawa, Peng and Deeds, 2015). Referring to it as the ‘Mexican trauma’, managers may inadvertently have created obstacles for learning through the mere collection and processing of failure-related information, forcing managers to concentrate on the reason for failure rather than viewing the process holistically.

Managers displayed overconfidence in their knowledge and underestimated the differences they were facing in Mexico, leading to a lack of motivation to acquire new knowledge and resulting in erroneous decisions and limited learning. Even with a previous failure experience, managers were unable to sufficiently adjust the actions of the company due to a persistent overconfidence in the company and in its learning. In addition, managers may mislead the focus of their attention on what they perceived to be the main reasons for their failure (e.g. the intellectual property aspect) by redirecting their efforts on preventing themselves from making the same mistakes, instead of having an integrative vista in developing market re-entry strategies.\(^\text{17}\) We call this phenomenon international knowledge myopia.

Managerial implications

This study provides useful insights for managers. Firstly, managers need to be aware of the phenomenon of international knowledge myopia that we have described. Knowledge and internationalization experience influence the company’s re-entry process but may encourage unwarranted overconfidence that could ultimately lead to failure. Past experiences do not assure learning and knowledge and must not be overestimated.

Secondly, when a company re-enters a market with high institutional risk, local partners are not necessarily the best choice. Local companies may take advantage of the foreign company (e.g. intellectual property theft) because local institutions provide weak safeguards. This is consistent with findings in extant literature that indicate there is an increase in opportunistic behaviour (Luo, 2007a, 2007b) when the rule of law is weak. As such, the advantages of local knowledge, connections and access to critical resources become less important than the benefits of having a dependable partner.

Conclusion

This study examines the under-explored phenomenon of re-entry into foreign markets. It uses an in-depth case study to describe and analyse the re-entry process and thus creates a better understanding of the phenomenon and provides a platform for improved conceptualization of determinants and processes. We suggest that future research should assess re-entry processes in other countries and regions, preferably using case studies to further explore the dynamics of the re-entry decision. While longitudinal, our study is retrospective. Ideally, future work should also attempt to cover the whole duration of re-entry processes, examining them as they unfold. Although Beta is a multinational enterprise, it is

\(^{17}\) We thank one of the anonymous reviewers for this insight.
a family-owned business. Considering that past studies have linked learning, ownership and corporate governance (e.g. Aguilera and Crespi-Clerada, 2016; Filatotchev et al., 2003), further research is encouraged into the link between international knowledge myopia and ownership. Finally, future research may also explore other institutional influences on re-entry and the reasons why companies change re-entry strategies over time.

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