

# **What determines international divestment decisions?**

## **A systematic review of previous research**

### **ABSTRACT**

Previous research on internationalisation processes has mainly considered it a one-way street with companies consistently increasing their commitment in a specific foreign market. However, some studies have demonstrated that international divestment, i.e. the reduction of a company's engagement in a particular market, is a very common phenomenon. Thus, divestment should also be considered an integral part of internationalisation strategies.

The objective of our paper is to systematically summarise previous empirical findings on influence factors on international divestment decisions. We identified 32 independent studies on the issue and we investigate influences on the subsidiary-, the host country- and the firm-level. Some variables have been frequently investigated. Some of those are displaying rather consistent results, while findings on other variables are ambiguous. But most variables are only analysed by a small number of studies providing thus a yet inconclusive picture of international divestment decisions. Moreover, we demonstrate that studies investigating two (or more) sub-samples often detect different results. Finally, also a different measurement of one and the same independent variable may provide contradictory results.

#### **Authors**

Dirk Morschett,  
Chair for International Management – Liebherr / Rlichemont Endowed Chair, University of  
Fribourg/Switzerland, Boulevard de Pérolles 90, CH-1700 Fribourg,  
Tel. +41 / 26 / 300-8417, e-mail: dirk.morschett@unifr.ch

Annett Donath,  
Chair for International Management – Liebherr / Rlichemont Endowed Chair, University of  
Fribourg/Switzerland, Boulevard de Pérolles 90, CH-1700 Fribourg,  
Tel. +41 / 26 / 300-8414, e-mail: annett.donath@unifr.ch

Bernhard Swoboda,  
Chair for Marketing & Commerce, University of Trier, Germany, Universitaetsring 15,  
D-54286 Trier, Tel. +49 / 651 / 201-2647, e-mail: b.swoboda@uni-trier.de

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#### **INTRODUCTION**

An assumption that often is implicitly present in academic literature on international business is that internationalisation is or should be part of most long-term growth strategies of companies. However, when analysing the relationship between internationalisation and performance, it becomes obvious that internationalisation does not necessarily lead to higher company performance. Indeed, many companies incur most of their losses abroad (Jagersma and van Gorp, 2003). Thus, the internationalisation process cannot be seen as a one-way street but reverse processes (variously labeled as divestment, de-internationalisation, divestitures, divestures, de-investment) might also be a valuable contribution to company performance.

International divestment or de-internationalisation is simply defined as “any voluntary or forced action that reduces a company’s engagement in or exposure to current cross-border activities” (Benito and Welch, 1997: 9). In many cases international divestment will be connected to a complete withdrawal from a specific market. On the other hand, divestment may also occur only partially, e.g. when just reducing the level of commitment in the foreign market.

Recent studies show that foreign divestment is a very common phenomenon (e.g. Benito, 1997; Benito and Welch, 1997; Jagersma and van Gorp, 2003). Benito (1997) demonstrates that more than half of a sample of foreign subsidiaries of Norwegian companies in 1982 was divested within ten years. But it has to be noted that international divestment is not necessarily the consequence of subsidiary failure. Indeed, poor performance is only one of the identified factors of international divestment (Boddewyn, 1979). Delios and Beamish (2001) have revealed that profitability and divestment of a foreign subsidiary are influenced

by two different sets of factors, supporting the notion that divestment is not necessarily associated with failure. Thus, international divestment should be considered as a research topic that should be investigated separately from the analysis of success factors of internationalisation. In any case, international divestment should be seen as a “natural” aspect within the development of companies (van de Ven and Poole, 1995) that exerts a strong influence on company value. While this shows the necessity to investigate divestment as a part of a comprehensive internationalisation stages model, international divestment as research topic is still in its infancy (Jagersma and van Gorp, 2003).

Motivated by the fact that international divestment is a very common phenomenon of high relevance for MNCs, but the given results in this underresearched field are fragmentary and partially ambiguous. The objective of the present paper is to systematically summarise previous findings on influence factors on international divestments. While there is a vast amount of literature on the termination of international joint ventures (e.g. Makino, Chan, Isobe and Beamish, 2007; Lowen and Pope, 2008), we focus our research on the divestment of wholly-owned foreign subsidiaries, since the divestment of international joint ventures is likely to be influenced by different antecedents

## **INFLUENCE FACTORS ON THE INTERNATIONAL DIVESTMENT DECISION**

Influence factors on divestment decisions have been rather thoroughly investigated in a domestic context (see Brauer, 2006, with a comprehensive overview), but only rarely with regard to international divestment (e.g. Benito, 1997; Hennart, Kim and Zeng, 1997; Belderbos and Zou 2009). Reasons for international divestments are complex and might be grouped into three main categories of influence factors, namely subsidiary-level influence factors, host country-level influence factors and firm-level influence factors. However, it has to be noted that there may also exist interactions between the different influence factors. Indeed, in his study on international divestments of Australian MNCs, Loke (2008)

demonstrates that MNCs' divestment decisions are based on bundles of reasons instead of single determinants.

## **Research Focus and Method**

In the following, we will present influence factors on divestments that have been investigated in empirical studies of international divestment that tested the relevance of certain influence factors and displayed the results of significance tests. We identified 32 independent studies which displayed such results. Thereby, as already mentioned, we focus our review on international divestment of wholly-owned foreign subsidiaries.

Our method applied is based on Kulik, Kulik and Cohen (1980) and Kulik, Cohen and Ebeling (1980). These authors propose a 4-point scale for an advanced type of vote counting and demonstrate its validity. We adapt and refine their scale and apply an 8-point scale ranging from -3.5 (negative coefficient,  $p < 0.01$ ) to +3.5 (positive coefficient,  $p < 0.01$ ). Then, we reviewed extent empirical studies based on significant tests and coded all coefficients of investigated influence factors on this 8-point scale (see Tables 1, 2 and 3).

Moreover, when previous articles have displayed results for two (or more) distinct sub-samples, we treat these sub-samples as independent studies. In these cases, we present the sub-sample results of these studies in order to avoid interpreting skewed results of the total sample. A list containing all empirical studies including the sub-samples used in the following review is provided in the appendix.

### **Subsidiary-level influence factors**

The first set of influence factors on international divestment decisions covers factors that are directly related to certain characteristics of the foreign subsidiary. A summary on empirical results on influence factors on the subsidiary level is reported in Table 1.

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Tsetsekos and Gombola (1992) argue that international divestments are predominantly the result of problems on the subsidiary-level, while domestic divestments are rather the result of problems on the firm-level. The most common reason considered for international divestment is failure, or, more general, a *poor financial performance* of the foreign engagement (e.g. Boddewyn, 1979; Jagersma and van Gorp, 2003). However, only a single study could be identified that investigated the influence of poor subsidiary performance on its international divestment probability based on inferential statistics. This study indeed demonstrated that poorly performing subsidiaries are significantly ( $p < 0.05$ ) more prone to be divested than subsidiaries with a good financial performance. Financial problems of a subsidiary might be linked to a weak financial situation of the parent company (Boddewyn, 1983). This variable is investigated in a subsequent section and it reveals that often, subsidiary-level and firm-level antecedents are interrelated. However, Berry (2008) and Boddewyn (1979) argue that the relevance of financial factors should not be overemphasized because a thorough financial analysis in the case of a divestment is often superficial, and it seems that financial factors are sometimes rather used to rationally justify a divestment decision ex post that has been taken based on an array of other motives. The growth rate of the subsidiary, which can be considered an inverse indicator of its performance, has been investigated in one study and a highly significant negative influence on the divestment likelihood has been shown.

Considering the resource base of the subsidiary, Caves and Porter (1976) and Harrigan (1981) argue that the existence of intangible assets (e.g. brands, trademarks, or knowledge) reduces the likelihood of divestments as such assets have a positive impact on the ownership advantage of a business unit. With regard to international divestments, a significant negative relationship between a *high degree of human capital* and the divestment probability was

confirmed in three studies. Likewise, the *R&D intensity* of the subsidiary, leading to an accumulated stock of technological know-how, was demonstrated to significantly reduce the divestment likelihood. However, the latter result is only based on one study analysing this factor.

As another indicator of subsidiary resources, the *size of the foreign subsidiary* was analysed in 14 empirical studies being thus one of the most frequently investigated influence factors on the subsidiary level. The majority of these studies provide rather consistent evidence of a negative association with divestment probability, i.e. larger subsidiaries are less likely to be divested, even though in some studies this finding was not significant. Interestingly, while Mata and Portugal (2000) and Ogasavaga and Hoshino (2008) find a significant negative influence on the likelihood of foreign firm closures, i.e. liquidations (#11c; #16c), their results for subsidiaries exiting through capital divestment, i.e. through the sale to another company, are not significant (#11d; #16d). The differing results regarding these two divestment types might be explained by the fact that capital divestment leads to a cash inflow which might even result in a profit for the selling party while subsidiary closures are always leading to a loss based on the sunk costs. Obviously, subsidiary size influences the level of realised losses in the case of subsidiary closure.

Closely related to the previous variable, also the *relative size of the subsidiary to the parent company* and the *relative size of the subsidiary to the target industry in the host country* have been investigated. In both cases, one study identified a negative influence on the divestment probability of the foreign subsidiaries while one study shows a non-significant influence..

Considering the *age of the subsidiary* and its influence on the divestment probability, empirical findings are ambiguous. Subsidiaries operating for a long time in a foreign market are assumed to have learned from experience. This knowledge should lead to higher

productivity (Belderbos, 2003) and, consequently, to a lower divestment probability. However, only one out of nine studies displayed a significant negative relationship between the age of the foreign subsidiary and its probability to be divested, while most results found no significant relationship and three studies even detected a significant positive relationship. The ambiguous results lead other authors to investigate a non-monotonic relationship by considering the *square of the age of the subsidiary*. Two studies identified a negative coefficient ( $p < 0.01$  and  $p < 0.1$ ) which indicates an inverted U-shape between the age of the foreign subsidiary and its divestment probability. Two further studies (Chen and Wu, 1996; Hennart et al., 1998) identified the same non-monotonic relationship based on a visual inspection of the plotted results. It seems that very young subsidiaries are protected from divestment for a certain time period. Divestment probability first starts from low levels and increases with age up to a certain point and then starts to decrease again for elder and more experienced companies that seem to face a lower exit risk.

*International product diversification* refers to the degree to which the business of the foreign subsidiary is related to the business of the parent company (Pak and Park, 2004). Seven studies provide at least marginally significant evidence that unrelated foreign subsidiaries are more likely to be divested than subsidiaries operating in the same business area as the parent company, whereas four studies found a negative, but non-significant relationship. In sum, by the majority of studies, international product diversification is confirmed as an important influence factor on the divestment decision. Reasons for a higher probability of divestment of unrelated subsidiaries include the complexity of managing a subsidiary in an unrelated business field, low synergy effects as well as the lower degree of exploitation of given knowledge and ownership advantages (Benito, 1997; Hennart et al., 1998; Li, 1995). Furthermore, an unrelated subsidiary will be less integrated in business processes with its parent company, which makes the divestment process easier.

Related to the previous factor, the *subsidiary's internal diversification* is presumed to influence divestment decisions as “specialized firms experience a greater degree of commitment to their activity and management is less dispersed” (Mata and Portugal, 2000: 553). However, this factor was found to be not significantly related to divestment decisions.

A rather large number of studies have investigated the influence of different market entry modes on the divestment decision. Study results on market entry through *acquisition versus greenfield* investment are largely consistent and demonstrate that foreign subsidiaries that were established by acquisition are more likely to be divested than greenfield investments. Eighteen studies investigate this variable and in eleven out of 18 studies results are at least marginally significant positive. Thus, acquisitions seem to be a riskier market entry strategy compared to greenfield investments. However, Shaver (1998) emphasises that a company's MES choice (acquisition versus greenfield) depends on specific firm attributes and industry conditions which would have to be controlled for. Actually, he demonstrates that MNCs that have chosen to enter the foreign market via acquisition experienced a better performance than the same company had entered via greenfield (and vice versa).

Moreover, considering the influence of the MES and the influence of the product diversification separately, Yamawaki (1997) found these two factors not to significantly influence divestment decisions. However, he shows that the interaction between both variables does have an influence. In his study, acquisitions in unrelated business units are significantly more likely to be divested.

Several studies also analysed the divestment likelihood for companies who entered the foreign market in the form of a *wholly-owned subsidiary (WOS) versus international joint venture (IJV)*. Empirical results on this question are rather consistent. Ten out of 17 studies show at least on the 10% level, that the divestment probability of wholly-owned subsidiaries is lower than for IJVs. Only two studies display a positive coefficient but those are on a non-

significant level. Interestingly, Hennart et al. (1998) and Ogasavaga and Hoshino (2008) found different results for their two sub-samples. While they identified a lower divestment rate for WOS than for IJVs for both of their sub-samples, this relationship was only significant for subsidiaries exiting through capital divestment (#9d; #16d), but not for subsidiaries exiting through closure, i.e. liquidation (#9c; #16c). In sum, similar to a market entry through acquiring a local firm, also IJVs are confronted with a high divestment probability.

Looking more specifically into the activities of the subsidiary, the analysis of the influence of the *subsidiary's export share* on divestment decisions reports inconclusive results. While one study displayed a significant negative influence, a second study detected no significant influence, whereas a third study even found a significant positive relationship. Similarly, the relevance of the *subsidiary's import share* on the divestment likelihood is rather unclear as the results of the only two studies investigating this factor were non-significant.

Finally, subsidiaries operating in industries characterised through *high economies of scale* tend to show that these have a higher divestment rate. A possible explanation could be that a relocation and a concentration of activities in another location is more beneficial.

Further influence factors – investigated in less than three studies – on the subsidiary-level and their effects are listed in table 1.

### **Host country-level influence factors**

In addition to subsidiary-level influence factors, certain characteristics of the host country of the subsidiary have been considered in previous studies. Those empirical results that are based on inferential statistics are displayed in Table 2.

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One of the predominant variables in international management is cultural distance. One may assume that the divestment probability increases with increasing *cultural distance* between home and host country. While all three studies on the variable indeed show a positive coefficient for this variable, one of those is on a non-significant level and one only marginally significant. Thus, the results are inconclusive, and this factor needs to be further investigated by empirical studies. Furthermore, a single study found that a larger *geographical distance* between home and host country provokes a significantly higher divestment likelihood of foreign subsidiaries.

The divestment probability has consistently been shown to be significantly lower for subsidiaries operating in *large host countries* as well as in host countries characterised by strong *economic growth*. However, the *attractiveness of the host country* was only found to have a non-significant respectively only marginally significant negative influence on international divestment decisions. In all, not surprisingly, investing in host countries with favourable market conditions decreases the divestment probability. The contrary relationship has been assumed for host countries characterised by unfavourable general country conditions. However, results on most variables in this context are inconclusive. An unfavourable political climate in the host country, e.g. a negative position of the host government towards the activities of the foreign subsidiary, is frequently argued to push the company to divest its foreign operations which might result in forced divestment, e.g. by expropriation (Akhter and Choudhry, 1993; Kobrin, 1980), but also in an increased likelihood for deliberate divestment (Boddewyn, 1979). Indeed, two empirical studies investigating the relevance of *political risk* of the host country displayed a positive coefficient; however, only in one case it is significant. *Exchange rate fluctuations* were found in one study to significantly contribute to increased divestment likelihood, while the results of a second study were non-significant and negative. However, it has to be mentioned that the previously

discussed factors are only investigated in a very small number of studies and therefore need further research.

Furthermore, considering country characteristics, it is commonly argued that it is in particular a *change in external conditions*, e.g. a change in production costs or a change in the political situation, that influences the divestment decision (e.g. Benito and Welch, 1997; Jagersma and van Gorp, 2003). As minimization of production costs is frequently an argument for the establishment of a foreign subsidiary, obviously a change in the cost level (absolute or relative to other potential locations) might result in relocation due to (relative) location disadvantages (Jagersma and van Gorp, 2003). However, empirical results regarding this factor are highly ambiguous. While one study displayed a significantly positive relationship, a second study found a significantly negative relationship between *increasing labour costs* in the host country and international divestment decisions. A potential explanation for this may be that increasing labour costs in a country are usually linked to rising income. If the subsidiary mainly serves the host market, this effect may dominate; otherwise, the labour costs are mainly a negative factor.

As presented above, results of economic growth in the host country were consistently indicating a negative effect on the divestment likelihood of foreign subsidiaries. More specifically, one might also expect that growth of the industry in the host country might be negatively related to international divestment decisions. However, results on the influence of *industry growth* in the host country are not consistent. While eight studies display a negative coefficient, only three are at least marginally significant. Four studies even show a positive coefficient but mostly non-significant. Consequently, while the general economic growth in the host country reduces the divestment likelihood for foreign subsidiaries, a growing target industry in the host country generally seems to be only of lower relevance.

Another very frequently analysed influence factor, *industry concentration* in the host country, similarly provides no homogeneous results. While it can be assumed that subsidiaries operating in highly concentrated industries in the host country would have more difficulties to establish themselves successfully (e.g. Mitchell, Shaver and Yeung, 1994), thus facing a higher divestment probability, twelve studies provide no significant relationship of this factor, while two studies even found a significant negative relationship showing that a high industry concentration might lead to a decreasing divestment probability. In addition, analysing the *squared industry concentration* in the host country, one study detected a U-shaped relation indicating that an decreasing number of competitors in the host country first lowers the divestment likelihood of subsidiaries, however, once the number of competitors exceeds a certain point, the arising competitive intensity provokes higher exit rates.

Moreover, based on Organizational Ecology and Industrial Organization literature, subsidiaries operating in industries which show a high entry rate are assumed to be more likely to be divested as these industries likewise are regularly confronted with higher exit rates (Mata and Portugal, 2002). Indeed, a *high entry rate into the target industry* in the host country was conclusively shown to lead to significantly higher divestment rates.

In addition, all seven studies that analyse the relevance of the *percentage of subsidiaries of other foreign MNCs in the target industry in the host country* display a negative coefficient. While three of them are non-significant, the tendency still seems to be clear. Later entrants may profit from information spillovers including, e.g. knowledge of product-market segmentation, suppliers, distribution systems and regulatory practices, allowing later entrants to learn and to benefit from successful and unsuccessful experiences of other companies in order to avoid failure in the host market (Shaver et al., 1997). In addition, Mitchell et al. (1994) discovered a U-shaped relation regarding the foreign share in the host country indicating that industries with a low or high share of foreign subsidiaries in the host country

have a higher probability to be divested while industries with a moderated share of foreign subsidiaries have the lowest divestment likelihood.

Finally, a high *extent of international activities by host country firms operating in the same target industry* predominantly shows a negative, even though not always significant, association with the divestment rate of foreign subsidiaries in the host country. This finding indicates that industries showing a high degree of international activity are suitable for international operation. Thus, foreign subsidiaries expanding into those industries in the host country might have some survival advantages (Shaver et al., 1997).

Further influence factors – analysed in less than three studies – on the host country-level and their effects are listed in table 2.

**Firm-level influence factors**

Finally, divestment of foreign subsidiaries is also assumed to depend on characteristics of the parent company. An overview on empirical results is given in Table 3.

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A *poor financial performance* of the parent company is assumed to be influential on international divestment decisions. As one reason, financial problems in the parent company may also have a negative effect on the financial situation of the foreign subsidiary (Boddewyn, 1983). However, none of the three studies investigating the relationship between the financial performance of the parent company and their international divestment decisions show a significant relationship. Similarly, the *debt ratio* of the parent company was not found to be significantly related to international divestments. No further large-scale empirical results of the influence of the parent company’s financial situation on international divestment decisions could be identified from extant literature. Summarising, while at least one study showed that poor financial performance on the subsidiary-level increases the divestment

likelihood of the foreign engagement, the financial situation of the parent company seems less important for international divestment decisions.

Similarly to the resource base of subsidiaries, also a high level of company resources is found to be negatively related to divestment decisions. Intangible assets originating from *advertising spending of the company* were found to have a negative influence on the divestment likelihood of foreign subsidiaries. Similarly, two studies confirm that the *R&D intensity of the company* exerts a significant negative influence on the divestment whereas four results were non-significant, however, mostly, indicating the same direction. Contrarily, the *advertising spending of the industry* as well as the *R&D intensity of the industry* are expected to have the opposite direction of influence. Audretsch (1994) argues that R&D intensive industries are highly competitive environments with rapid changes, and thus, might experience a higher divestment rate (Benito, 1997; Yamawaki, 2004). Additionally, while a higher company spending in advertising and R&D leads to ownership advantages resulting in lower divestment rates, these advantages are not captured when the spending is measured with industry-level figures. In this case, it is rather indicators for a high competition intensity in an industry. While the three studies analysing the R&D intensity of the industry detected no significant influence, although the results slightly indicate a positive relation, advertising spending of the industry was not found to exercise any significant relation on divestment decisions.

Related to the resource-based arguments, extant literature also provides inconsistent results when investigating the influence of the *parent company's size*. First, four study results support a positive relationship between company size and the divestments probability of foreign subsidiaries. This association might be explained with the fact that larger firms tend to be more flexible in moving their foreign operations (Allen and Pantzalis, 1996). In this context, operational flexibility is characterized as “having operations in multiple geographic

locations, a multinational corporation can respond profitably to country-specific environmental shocks and fluctuations by shifting factors of production across national borders” (Tang and Tiiko, 1999: 749). However, twelve studies found no significant influence of this factor and three studies even found an at least marginally significant negative influence. A negative relationship may be justified, on the one hand, by the fact that bigger companies may prevent divestments thanks to a higher availability of financial and personnel resources, and on the other hand, bigger companies may be assumed to have better future prospects than smaller companies (Brauer, 2006). Thus, it is the opposite effects of higher flexibility of larger companies on the one side and of more resources on the other side that might explain the inconclusive empirical findings. An interesting explanation for the inconsistent results might be given by looking at the method of operationalisation of the variable. This reveals that different operationalisation methods found contradictory results. All studies demonstrating a significant positive influence measured size in terms of the number of employees in the firm, while all studies detecting an at least marginally significant negative influence measured size in terms of the company’s sales or assets.

The product diversification has already been mentioned as a specific characteristic of the foreign subsidiary. On the subsidiary-level it was found that unrelated foreign subsidiaries are more likely to be divested than subsidiaries operating in the same business area as the parent company. On the firm-level, a similar argument is brought forward with regard to the level of *product diversification of the MNC*. Jagersma and van Gorp (2003) note that many MNCs started to divest their business operations from foreign markets in the 1980s as they observed that risk spreading, as one motive for diversification, did not longer compensate problems resulting from increased coordination complexity. However, empirical studies regarding the influence of the MNC’s overall product diversification on international divestment decisions are rare and their findings inconclusive. While one study demonstrated

that the product diversification of the parent company exerts a highly significant positive influence on the divestment rate of foreign subsidiaries, the results of three other studies were not significant.

Two particularities of international diversification of MNCs have to be highlighted: First, the divestment of a specific foreign subsidiary could be caused primarily not by the intention to leave the host-country, but to leave a specific business sector, while this may just happen to result in exiting a specific country as well. Second, over-diversification could not only be given by too heterogeneous business sectors, but also by too heterogeneous countries. Indeed, when considering international geographic diversification, Vachani (1991) emphasises that two types of international geographic diversification should be distinguished; first, *related international geographical diversification*, i.e. international expansion into relatively homogeneous countries, and secondly, *unrelated international geographic diversification*, i.e. international expansion across rather heterogeneous countries.

No study has explicitly analysed the specific relationship between the extent of international geographic diversification into homogenous vs. heterogeneous countries and the international divestment activity of MNCs. However, some studies have investigated the number of subsidiaries worldwide or the number of countries in which the MNC is operating. This variable seems to be a good proxy for measuring the *international geographic diversification* of the MNC. Sometimes, however, this variable is also referred as the *international experience* of the company since it also enhances the firm's knowledge base. So on the one hand, geographic over-expansion is argued to bear additional coordination and control costs for the MNC (Berry, 2009), thus expecting a positive influence on the divestment probability. However, on the other hand, international experience refers to the knowledge of the company that is gained via previous internationalisation. Benefiting from that knowledge is likely to decrease the exit probability (Brauer, 2006; Berry, 2008).

Moreover, previous international experience of the parent company may be very valuable for MNCs in managing their foreign subsidiaries as it may reduce uncertainty for new foreign operations and consequently, may lower the divestment likelihood (e.g. Li, 1995). Indeed, four empirical studies confirm that subsidiaries whose parents are active in more host countries are at least marginally significantly less prone to be divested. The remaining four study results are non-significant, but mostly indicating a negative influence as well.

In addition to the influence of a company's international experience in general, further fields of experience are investigated. One study demonstrated that previous *international experience in the target industry* has a highly significant negative influence on the divestment rate of foreign subsidiaries, whereas previous *international experience in non-target industries* is not significantly related to divestment decisions.

Moreover, through previous experience in the same host country, a MNC is expected to gather market knowledge and to overcome disadvantages compared to local firms in a host country regarding local cultural, economic and political issues (Delios and Beamish, 2001). In fact, the parent company's previous *host country experience* has been analysed in 14 independent studies. It is rather consistently found to exert a negative influence on the divestment probability. Six studies yield a significant negative result; an additional five coefficients are negative but not on a significant level. More particular, while Shaver et al. (1997) found a significantly negative influence of this variable for subsidiaries whose parents possess previous host country experience in the target industry (#18c), the results for subsidiaries whose parents possess previous host country experience in a non-target industry (#18b) were not significant. This indicates that previous *host country experience in the target industry* is particularly important to decrease the divestment likelihood. Supporting this notion are two further studies investigating directly the influence of the *company's previous host*

*country experience in the target industry* (#17, #19). Both detected an at least marginally significant negative influence.

Other studies look into various facets of experience. Studies analysing the influence of the company's previous *experience in the same cultural block as the host country*, i.e. in countries culturally similar to the host country, predominantly found a negative, but non-significant respectively only marginally significant influence on the divestment decision. Similarly, the influence of previous *experience in cultural blocks close to the home country*, i.e. countries culturally similar to the home country, on divestment decisions was not significant.

One study found that the company's previous *experience with the chosen market entry strategy* has a significant negative influence on its divestment probability after a subsequent market entry with the same entry strategy. Considering *previous international divestment activities of the MNC*, the result of one study demonstrates that companies having recently divested at least one of their foreign subsidiaries tend to divest further subsidiaries.

Finally, the influence of the *number of plants of the MNC in the host country* on international divestment decisions is ambiguous. While two studies detected a significantly negative influence, two other studies found no significant influence.

Further influence factors – investigated in less than three studies each – on the firm-level and their effects are listed in table 3.

## **CONCLUSION AND IDENTIFIED RESEARCH GAPS**

International divestment has been shown to be a very common phenomenon for MNCs, but research on this topic is still in its infancy. While descriptive results are frequently found, we confirmed the notion that empirical research, based on significance tests, on influence factors on international divestment of wholly-owned foreign subsidiaries, is rather scarce. Moreover, almost all inferential studies are based on secondary data, while most primary

studies on this topic are purely descriptive. This finding may be explained by the fact that international divestment is often considered a failure, turning empirical studies on this issue difficult (Benito, 1997). While some variables are very frequently investigated, most variables are only analysed by a very small number of studies making it difficult to assess their robustness and to evaluate their actual relevance for international divestment decisions.

With regard to the *subsidiary-level*, the size of the foreign subsidiary has been demonstrated to have a negative influence on its divestment. Similarly, wholly-owned subsidiaries seem to be less prone to divestment than joint-ventures. Conversely, subsidiaries are more likely to be divested if they operate in a field that is rather unrelated to the parent company's business. Also, the likelihood of divestment is higher for subsidiaries that have been established by acquisition than for those that have been established as greenfield investment.

Considering the *host country-level*, the most frequently analysed factors, industry growth and industry concentration, are not found to play a crucial role in international divestment decisions. Cultural distance between home and host country tends to exert a positive influence on the divestment rate, while a high proportion of foreign companies in the target industry in the host country seems to reduce the divestment likelihood.

Finally, regarding the *firm-level*, the influence of the parent company's size has been frequently analysed, but results are highly ambiguous. The international experience of the parent company – of which different facets have been investigated – seems to reduce the likelihood of divestments. Also, resources, in particular intangible assets of the parent company have consistently been demonstrated to have a negative influence on the divestment probability. Furthermore, it has been shown that interaction effects between different influence factors exist.

However, the main conclusion of the present study is that many influence factors on international divestment have only been investigated in a few studies providing thus an inconclusive, and consequently, a non-generalisable picture of divestment decisions. This clearly indicates that a substantial research gap exists that future research should attempt to fill.

In addition to the previous argument, while most studies concentrate their empirical analysis on one specific home and/or host country, a specific industry and/or a certain time period, the question remains whether results found in one study are only industry, region or time period specific can be generalised. Potential moderating influences of country, industry, etc. should be investigated which is especially important for variables displaying rather heterogeneous results as well as for variables investigated only once or twice.

Moreover, our review has revealed that several studies analysing influence factors on international divestment decisions for different sub-samples, often detected different results. In particular, divestment via subsidiary closure or via capital divestment has been shown to be influenced by different determinants in some studies. This indicates that those studies that do not distinguish between both divestment types might be biased due to large intra-heterogeneity. Thus, future studies absolutely have to differentiate between the different divestment types.

Anyway, as international divestment is a very common phenomenon of high relevance in a MNCs internationalisation strategy, but not yet very broadly investigated, further (empirical) research in this topic is highly necessary in order to get a more conclusive and comprehensive picture of the motives for international divestment decisions.

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## APPENDIX

### List of studies used for VC-scale

- #1 Barkema et al., 1996 (total sample)
- #1a Barkema et al., 1996\_a (sub-sample for subsidiaries established via acquisition)
- #1s Barkema et al., 1996\_s (sub-sample for subsidiaries established via greenfield)
- #2 Belderbos, 2003
- #3 Belderbos and Zou, 2009
- #4 Benito, 1997
- #5 Berry, 2009
- #6 Chen and Wu, 1996
- #7 Delios and Beamish, 2001
- #8 Delios and Makino, 2002
- #9c Hennart et al., 1998\_c (sub-sample for subsidiaries' exit through firm closure (liquidation))
- #9d Hennart et al., 1998\_d (sub-sample for subsidiaries' exit through capital divestment (sale))
- #10 Mascarenhas, 1992
- #11c Mata and Portugal, 2000\_c (sub-sample for subsidiaries' exit through firm closure (liquidation))
- #11d Mata and Portugal, 2000\_d (sub-sample for subsidiaries' exit through capital divestment (sale))
- #12 Mata and Portugal, 2002
- #13 Mitchell et al., 1994
- #14c Li, 1995\_c (sub-sample for subsidiaries operating in the computer industry)
- #14p Li, 1995\_p (sub-sample for subsidiaries operating in the pharmaceutical industry)
- #15 Li and Guisinger, 1991
- #16c Ogasavaga and Hoshino, 2008\_c (sub-sample for subsidiaries' exit through firm closure (liquidation))
- #16d Ogasavaga and Hoshino, 2008\_d (sub-sample for subsidiaries' exit through capital divestment (sale))
- #17 Shaver, 1998
- #18a Shaver et al., 1997\_a (sub-sample of subsidiaries whose parent companies have no previous experience in host country)
- #18b Shaver et al., 1997\_b (sub-sample of subsidiaries whose parent companies possess previous experience in host country, but not in target industry)
- #18c Shaver et al., 1997\_c (sub-sample of subsidiaries whose parent companies possess previous experience in host country in target industry)
- #19 Shaver and Flyer, 2000
- #20e Yamawaki, 1997\_e (sub-sample for Japanese subsidiaries in Europe)
- #20u Yamawaki, 1997\_u (sub-sample for Japanese subsidiaries in the US)
- #21a Yamawaki 2004\_a (sub-sample for market entrants b/w 1973-1985)
- #21b Yamawaki 2004\_b (sub-sample for market entrants b/w 1986-1994)
- #22 Zaheer and Mosakowski, 1997

**TABLE 1:**  
**Empirically Investigated Subsidiary-Level Influence Factors on**  
**International Divestment Decisions (VC Scale)**

<b>Subsidiary-Level Influence Factors</b>	<b>-3.5</b> (neg., p<.01)	<b>-2.5</b> (neg., p<.05)	<b>-1.5</b> (neg., p<.1)	<b>-.5</b> (neg., n.s.)	<b>.5</b> (pos., n.s.)	<b>1.5</b> (pos., p<.1)	<b>2.5</b> (pos., p<.05)	<b>3.5</b> (pos., p<.01)	<b>n</b>
Poor performance (of subs.)								#5	1
Subsidiary growth	#12								1
High degree of human capital		#11c #11d #12							3
R&D intensity (of subs.)	#5								1
Size (of subs.)	#2 #7 #12 #16c #21a	#6 #11c		#3 #14c #14p #11d #21b	#16d #22				14
Relative size of subsidiary to parent company		#20e			#20u				3
Relative size of subsidiary to industry in host country		#20e		#20u					2
Age (of subs.)		#5		#2 #4 #20e #20u	#14c		#3 #8	#14p	9
(Age of subs.) squared	#14p		#3						2
Int'l product diversification				#8 #9c #13 #20e		#16c #20u	#4 #9d	#14c #14p #16d	11
Subsidiary's internal diversification				#11c #11d					2
Market entry mode: Acquisition (vs. greenfield)		#11c		#17	#2 #9c #13 #20e #20u	#1 #11d #18b	#8 #9d #14p #15	#4 #14c #18a #18c	18
Market entry mode: WOS (vs. IJV)	#8 #9d #16d #20u	#6 #14p #11c #11d #20e	#1	#2 #9c #16c #21a #21b	#4 #15				17
Subsidiary's export share		#21a		#21b			#6		3
Subsidiary's import share			#21b	#21a					2
Subsidiary's intra-firm sales				#5					1
Subsidiary serving as manufacturing country platform in host country			#3						1
Industry: manufacturing (vs. service)		#6						#13	2
Subs. in high EoS industries				#11d		#12	#11c		3
Level of control w/i subs.				#22					1
Capital intensity				#2	#6				2
Year of foreign market entry	#8				#13				2
Market entry in period of higher market deregulation					#22				1
First entrant into target industry in host country				#10					1
Early followers into target industry in host country							#10		1
Additional investment from parent company		#14c	#14p						2

**TABLE 2:**

**Empirically Investigated Host Country-Level Influence Factors on International Divestment Decisions (VC Scale)**

<b>Host Country-Level Influence Factors</b>	<b>-3.5</b> (neg., p<.01)	<b>-2.5</b> (neg., p<.05)	<b>-1.5</b> (neg., p<.1)	<b>-.5</b> (neg., n.s.)	<b>.5</b> (pos., n.s.)	<b>1.5</b> (pos., p<.1)	<b>2.5</b> (pos., p<.05)	<b>3.5</b> (pos., p<.01)	<b>n</b>
Cultural distance					#4	#1	#15		3
Geographical distance								#5	1
Host country size (GDP per capita)		#5							1
Economic growth (of host country)	#4 #5								2
Attractiveness of host country (FDI to GDP ratio)			#3	#5					2
Political risk (of host country)					#4			#5	2
Exchange rate fluctuations				#3			#5		2
Increasing labour costs (in host country)	#5							#3	2
Wage differences (b/w foreign owned & domestic owned firms in host country)				#21a	#21b				2
Corporate tax rate differences (b/w host and home country)				#5					1
Industry growth (in host country)	#9c #9d	#14c	#20u	#2 #14p #12 #19	#11c #11d #17	#20e			12
Industry concentration (in host country)	#22	#14c	#21b	#14p #18c #17	#11c #11d #12 #13 #19 #21a	#18a #18b			14
(Industry concentration in host country) squared							#22		1
Industry concentration by home country firms (in host country)	#3								1
Industry geographic concentration (within host country)				#19					1
High entry rate into target industry (in host country)							#11c #11d	#12	3
Percentage of foreign companies in target industry in host country	#18b #22	#11c #11d		#12 #18a #18c					7
Extent of int'l activities by host country firms operating in same industry	#18c #17	#18b	#19	#18a	#13				6

**TABLE 3:**  
**Empirically Investigated Firm-Level Influence Factors on**  
**International Divestment Decisions (VC Scale)**

<b>Firm-Level Influence Factors</b>	<b>-3.5</b> (neg., p<.01)	<b>-2.5</b> (neg., p<.05)	<b>-1.5</b> (neg., p<.1)	<b>-.5</b> (neg., n.s.)	<b>.5</b> (pos., n.s.)	<b>1.5</b> (pos., p<.1)	<b>2.5</b> (pos., p<.05)	<b>3.5</b> (pos., p<.01)	<b>n</b>
Financial performance of parent company					#1a #1s #5				3
Debt ratio (of parent comp.)					#5				1
Advertising spending (of parent company)	#7	#8							2
Advertising spending (of industry)					#21a #21b				2
Distribution spending (of parent company)				#8					1
R&D intensity (of parent company)	#7	#2		#3 #8 #17	#5				6
R&D intensity (of industry)				#21a	#4	#21b			3
Size (of parent company)	#3	#1a	#13	#1s #9c #14p #17	#4 #5 #8 #14c #16c #21a #21b #22	#2	#7 #9d #16d		19
Product diversification of MNC				#4	#20e #20u		#5		4
Int'l geographic diversification / int'l experience (in general)	#5 #8 #16c		#16d	#4 #20e #20u	#22				8
Int'l experience in target industry	#5								1
Int'l experience in non-target industry					#5				1
Host country experience	#1a #7 #14c #18c	#16c #16d		#2 #14p #9c #18b #17	#1s #8 #9d				14
Host country experience in target industry	#17		#19						2
Experience in same cultural block as host country			#1a	#16c #16d	#1s				4
Experience in cultural blocks close to home country				#1s	#1a				2
Experience with MES	#7								1
Previous int'l divestment activity							#5		1
Export intensity (of parent company)								#8	1
No. of plants of the MNC in host country		#11c #11d			#12 #19				4
No own manufacturing subsidiary in host country				#21a #21b					2