Ha Nguyen

Foreign Divestment Decision

A Multilevel Analysis of Institutional Differences and Top Managers

Vaasan yliopisto
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ACADEMIC DISSERTATION

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Tiivistelmä

Kansainvälinen liike-elämän kirjallisuus sisältää huomattavan määrän tutkimusta, joka keskittyy monikansallisten yritysten menestykseen vaikuttaviin tekijöihin. Sen sijaan monikansallisten yritysten tekemät suorat ulkomaiset divestoinnit eivät ole saaneet ansaitsemaansa huomiota. Tästä huolimatta aiemmissa tutkimuksissa väitetään, että ulkomaisten tytäryhtiöiden divestointi- tai ulkomaiset divestointipäätökset ovat tärkeitä monikansallisten yritysten menestykseen vaikuttavia tekijöitä. Ottaen huomioon kuinka viimeaikaiset raportit osoittavat ulkomaisten divestointien määrän lisääntyneen kansainvälisen toimintaympäristön tilanteen epävarmuudesta johtuen (esim. Venäjän ja Ukrainan välinen sota, COVID-19-pandemia, Brexit, USA:n ja Kiinan kauppasuhteiden kiristyminen ja muut geopoliittiset tapahtumat), olisi tärkeää edistää ymmärrystä, miksi ja miten monikansalliset yritykset luopuvat ulkomaisista sijoituksistaan. Siksi on kiireellistä tunnistaa tekijöitä, jotka saavat monikansalliset yritykset divestoimaan ulkomaisia investointejaan.

Tässä väitöskirjassa tutkitaan ulkomaisia divestointeja institutionaalisen teorian, positiivisen organisaation tutkimuksen (Positive Organizational Scholarship, POS) sekä dynaamisen johtamiskyvykkyyksien (Dynamic Managerial Capability, DMC) muodostaman integroidun viitekehyksen kautta. Tässä työssä tutkitaan erityisesti kulttuuristen, taloudellisten ja poliittisten erojen vaikutuksia ottaen huomioon erojen myönteiset ja kielteiset vaikutukset. Lisäksi työssä syvennytään monikansallisten pääkonttorien ylimpien johtajien vaikutukseen ulkomaisten divestointien todennäköisyyteen. Hyödyntäen aineistoa, joka perustuu suomalaisten monikansallisten yritysten tekemiin ulkomaisiin sijoituksiin vuosina 1970–2010, tutkimustulokset osoittavat, että kulttuuristen, taloudellisten ja poliittisten erojen vaikutukset divestointien todennäköisyyteen eivät aina ole lineaarisia. Toimintaympäristön erot voivat vaikuttaa joko negatiivisesti tai positiivisesti, riippuen kansallisen etäisyyden eri tasojen ja yrityksen yhteisvaikutuksesta etäisyyskontekstin kanssa. Merkittävää on, että tulosten perusteella havaittiin ”kitka”-käsitteen (friction) tarjoavan paremman mittarin arvioimaan erojen vaikutuksia. Ylimmän johdon globaalit dynaamiset johtamiskyvykkyydet sen sijaan vähentävät divestointien todennäköisyyttä. Vaikutussuhdetta moderoivat myös kulttuuriset, taloudelliset ja poliittiset erot. Väitöskirja sisältää neljä esseetä tutkimustavoitteineen ja tuloksineen. Opinnäytetyössä on käsitelty myös lupaavia väyliä tulevalle tutkimukselle.

Asiasanat: Ulkomaiset divestoinnit, deglobalisaatio, institutionaaliset erot, kulttuurilliset erot, taloudelliset erot, poliittiset erot, pääkonttorin ylin johto, dynaamiset johtamiskyvykkyydet, tytäryritykset.

Abstract

International business literature contains a significant amount of research focusing on antecedents which facilitate the success of Multinational Enterprises (MNEs). However, the reverse process, that is, MNEs divesting their previous Foreign Direct Investments (FDIs) has not received the attention it deserves. Prior scholars argue that foreign subsidiary divestment or foreign divestment, is also important in defining the success of MNEs in foreign markets. More importantly, recent reports show an increasing number of foreign divestments, due to the uncertainty of the global business, e.g., the Russia–Ukraine war, the COVID-19 pandemic, and other geopolitical events. Therefore, the bias domain in the literature should address the concept of providing knowledge relating to why and how MNEs divest their foreign investments. Accordingly, the current dissertation constitutes foreign divestment literature, by elaborating on an integrated framework of the Institutional Theory, the Positive Organizational Scholarship (POS) perspective and the Dynamic Managerial Capability (DMC) framework.

This work specifically explores the influences of cultural, economic, and political differences, focusing on both the positive and negative outcomes of the differences. In addition, the impact of senior headquarter managers on foreign divestment probability is also examined. Employing the empirical data of Finnish MNEs and their foreign investments during 1970 – 2010, I found that the impact of cultural, economic, and political differences on foreign divestment probability is not always linear. Instead, depending on different levels of national distance and of firm interaction with the distant context, the differences could bring positive or negative outcome. Importantly, the friction construct is confirmed to provide a better measurement to access the impact of differences, than the traditional distance construct. Interestingly, the thesis provides evidence that global dynamic managerial capabilities of senior headquarter executives significantly decrease the propensities of foreign divestment. This relationship is further moderated by the levels of cultural, economic, and political differences. Structured as a four essay-form, the thesis presents research objectives and findings in each essay, that generate the findings of the thesis. Promising avenues for future research have also been discussed in the thesis.

Keywords: foreign divestment, de-internationalization, institutional differences, cultural differences, economic differences, political differences, senior headquarter managers, Dynamic Managerial Capability, subsidiary characteristics.

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"Just Do It!"

*A Special Acknowledgement - **Jorma Larimo***

To Jorma,

People said that writing an acknowledgement should be easier than compiling a thesis. It is not true for me though, as whenever I try to finalize my thesis, I always end up here, where I am supposed to write something to thank you. During our last trip to EIBA Madrid 2021, you asked me to write something different as I would be possibly your last doctoral student. I was expecting this letter would be different, but circumstances, which followed, superseded any thoughts I may have had regarding this tribute.

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Thank you!
Ha Nguyen
Vaasa, Oct 17th, 2022

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Abbreviations

CD	Cultural Distance
CEOs	Chief Executive Officers
CF	Cultural Friction
DCV	Dynamic Capability View
DMC	Dynamic Managerial Capability
ED	Economic Distance
EF	Economic Friction
FDIs	Foreign Direct Investments
GDMC	Global Dynamic Managerial Capability
HQ	Headquarter
IB	International Business
IJV	International Joint Venture
MNEs	Multinational Enterprises
PD	Political Distance
PF	Political Friction
POS	Positive Organizational Scholarship
TCE	Transaction Cost Economics
WOS	Wholly Owned Subsidiary

Essays

Nguyen, H., Chabowski, B. & Larimo, J. A 40-year-retrospective of foreign divestment and its implications: Past Achievements and Future Direction. Earlier versions presented at Academy of Management Annual Meeting 2021 (virtually), Academy of International Business Annual Meeting, 2021 (virtually), and Academy of International Business, UK & Ireland Chapter, 2022, University of Reading, UK.

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Nguyen, H., Larimo, J. & Ghauri, P. (2022). Understanding foreign divestment: The influence of economic and political friction. Journal of Business Research, 139, 675 – 691.

Nguyen, H. Let's talk about senior manager. Investigating managerial roles in foreign divestment decisions. Earlier versions presented at Academy of Management Annual Meeting, 2022, Seattle, Washington, U.S. Academy of International Business Annual Meeting, Miami, 2022 and the Academy of International Business, UK & Ireland (AIB UKI) Chapter, 2022, University of Reading, UK. The paper is awarded the Michael Z Brooke Prize for the best doctoral paper at the AIB UKI 2022.

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1 INTRODUCTION

"...Divestment is seen as an admission of failure, a retreat...Human nature being what it is there is a tendency to suppress admission of failure..."

(Clarke and Gall, 1987, p.18)

International Business (IB) research has confirmed the importance of FDIs in facilitating national economies around the world (Luo & Witt, 2021; Witt et al., 2021). Accordingly, extant literature in the IB field is dominant by FDI-related research. However, there is a reverse process, whereby MNEs scale down their business portfolios, e.g., withdrawing their foreign units, closing their factories, selling their foreign subsidiaries, or cutting a business sector. These strategies, so-called de-internationalization, began receiving attention in the IB literature (Kafouros et al., 2021; Witt, 2019; Witt et al., 2021).

In this chapter, a general research background will be discussed to provide an overview on research into foreign divestment, the topic of the current work, followed by the goal setting and positioning of the research. Intended contributions will also be discussed in this chapter. Later, the structure of the thesis will be presented.

1.1 Background of the Research

IB scholars have paid significant attention to the strategies and performance of FDIs for several decades (Luo & Witt, 2021; Witt, 2021). Theories and empirical research relating to this research strand are still ongoing (Kafouros et al., 2021). Despite these research efforts, UNCTAD (2021) recently report that there is an increasing rate of foreign divestment, defined as a "deliberate and voluntary liquidation or sale of all or a major part of an active operation" (Boddewyn, 1979, p.21). For instance, BP (United Kingdom) sold its Alaska business to Hilcorp (United States) for $56 billion, while ExxonMobil (United States) divested $15 billion, mainly from foreign operations, and plan to continuously divest $25 billion of foreign assets by 2025 (UNCTAD, 2021). Divestment is increasing significantly due to the Russia–Ukraine war, the COVID-19 pandemic, Brexit, the US–China and other geopolitical tensions (UNCTAD, 2021).

Foreign divestment influences the internationalization process of MNEs' and the performance of subsequent FDIs and of parent firms. Divestments could also affect the design of FDI attraction and retention policies at home and host countries

(Borga, Ibarlucea-Flores & Sztajerowska, 2020a). Recent reports further emphasized the negative consequences of foreign divestment, not only in relation to the divested subsidiaries and their MNEs, but also regarding home and host communities, and economies (Borga, Ibarlucea-Flores & Sztajerowska, 2020a, b). The Russia–Ukraine war, COVID-19 and other global events and disasters are likely to intensify foreign divestments, leading to the pressing issue of exploring why MNEs divest their foreign subsidiaries.

While initial research on foreign divestment (Boddewyn, 1979, 1983a, 1985) consider foreign divestment as a reverse process of FDI, foreign divestment is far more complicated. In addition, foreign divestment is more advanced than other financial indicators in measuring MNEs' international performance, because foreign divestment provides both divestment probability as a long-term performance indicator and the dynamics of the population, e.g., the number of units of foreign firms in specific host countries, which are useful for policymakers (Dhanaraj & Beamish, 2009; Peng & Beamish, 2019). Consequently, this burgeoning literature is deserving of more attention from academic researchers (Arte & Larimo, 2019; Coudounaris et al., 2020; Peng & Beamish, 2019; Schmid & Morschett, 2020). This establishes the basic motivation of the research.

It is worth mentioning that foreign divestment is a sensitive decision that MNEs avoid making for several reasons. Firstly, foreign divestment influences MNEs' growth, performance, international portfolio, and shareholders' value (Arte & Larimo, 2019; Song & Lee, 2017; Tan & Sousa, 2019). Secondly, prior scholars have emphasized the problem-stemming issues, e.g., poor performance, and the fact that foreign divestment may harm managers' reputation (Boddewyn, 1983a; Ghertman, 1988; Resmini & Marzetti, 2020). As such, MNEs' managers may avoid or delay making foreign divestments to protect their reputations (Wan et al., 2015). Foreign divestments may also harm MNEs' reputations and their subsequent investments in local countries if local stakeholders, e.g., local governments and interest groups, assume that the divestments harm local economies (Fiss & Zajac, 2006). I acknowledge that there are studies discussing the influences of political risks, i.e., nationalization, economic boycotts and warfare, among others, on involuntary divestment, i.e., MNEs are forced to withdraw their foreign units (Brauer, 2009; Dai et al., 2013; Yayla et al., 2018). The forced divestments lead to profit lost and costs among MNEs (Yayla et al., 2018). Therefore, I propose that in general situations, MNEs and their managers will often avoid making foreign divestments.

1.2 Research Gap

Initial research on foreign divestment was developed more than forty years ago (Boddewyn, 1979, 1983b). Since then, various factors of foreign divestment have been explored and discussed. Despite these efforts, previous findings are inconsistent and several factors remain unexplored, leading to an incomplete understanding of foreign divestment (Coudounaris et al., 2020; Schmid & Morschett, 2020).

The influences of institutional differences between home and host countries are highlighted in extant foreign divestment literature (Beugelsdijk & Welzel, 2018; Kang et al., 2017; Wang & Larimo, 2020). However, previous research has failed to reach a consensus on the effect of the differences (Meschi et al., 2016; Park & Chung, 2019; Wang & Larimo, 2020). Worse yet, the missing role of the powerful actors, e.g., top management teams, senior headquarter executives, has been voiced (Cairns et al., 2010; Tan & Sousa, 2019). The inconsistent conclusions in previous findings, along with the scant research on management involvement, are significant, as they limit our ability to consult MNEs regarding the way in which they manage their foreign operations and decrease the divestment probability. Insufficient knowledge on divestment also influences the survival and performance of subsequent investments. Therefore, these pressing problems should be addressed to identify the factors leading MNEs to take foreign divestment decisions.

In this thesis, I particularly aim to address four critical issues that would develop our understanding of foreign divestment. Firstly, the impacts of cultural differences should be re-examined. Extant foreign divestment literature has been dominated by research on the impacts of cultural differences using the distance construct (Caprar et al., 2015; Stahl et al., 2016). Nonetheless, cultural distance have been reported to increase, decrease or not significantly influence the propensity of divestment (Kang et al., 2017; Peng & Beamish, 2014b; Sousa & Tan, 2015). Prior IB scholars have made an effort to uncover the reasons behind the cultural distance paradox and have provided some solutions to address these issues, e.g., considering the contingency effects or adopting qualitative measures to assess the differences (Beugelsdijk et al., 2018; Brouthers & Brouthers, 2001). Despite these efforts, paradoxes in research into cultural differences are still reported. In this regard, this first objective would entail an explanation of previous inconsistent findings. More particularly, I aim at applying an advanced measure to assess the impact of cultural differences, i.e., cultural friction, instead of cultural distance.

Secondly, the impacts of other institutional dimensions should be emphasized. Focusing specifically on the cultural differences prompts an oversimplification of institutional complexities, as well as their impacts on firm strategies (Aguilera & Grøgaard, 2019). In other words, focusing only on cultural differences would not assess the diversity and complexity of institutional differences. Similarly, Jackson & Deeg (2008) pinpoint that the impact of institutional differences is diverse, according to the dimensions or aspects in which MNEs are interacting. Nonetheless, there has been a lack of attention regarding the impact of other institutional dimensions, e.g., economic and political differences (Kang et al., 2017; Tsang & Yip, 2007). Economic and political institutions are important, as MNEs often search for economic- and political-based opportunities (Lee et al., 2019; Nguyen et al., 2022). Interestingly, the paradoxes existing in cultural differences are also reported in studies on economic and political differences. Accordingly, the second objective provides a more comprehensive understanding of the impact of institutional differences, focusing on other dimensions, e.g., economic, and political differences, rather than cultural differences alone.

Thirdly, the impact of a firm's specific factors should be highlighted. Specifically, prior scholars have raised an issue relating to the specific factors associated with a particular firm, e.g., entry mode, equity ownership structures, etc. in terms of assessing the influences of institutional differences (Shenkar, 2001, 2012; Shenkar et al., 2008). Depending on a firm's characteristics, the influences of institutional differences are different, because the characteristics modify a firm's ability to manage the influences of institutional differences (Luo & Shenkar, 2011; Orr & Scott, 2008). However, prior scholars focus a great deal on the direct effects of a firm's characteristics (Hennart et al., 2002; Lu & Hébert, 2005), while the contingency roles of the characteristics are not considered (Nguyen et al., 2022). Hence, a naïve investigation into the influences of institutional differences, without considering the moderation of a firm's characteristics, may not reflect the reason why MNEs divest foreign subsidiaries. Therefore, the third objective identifies how a firm's characteristics, of particular interest, entry mode and equity ownership structures, modify the effect of institutional differences on foreign divestment.

Fourthly, the role of a firm's powerful actors is not emphasized in extant literature. Prior scholars have highlighted how institutions socialize the diverse actors related to firms, in particular, managers, employees or owners (Cantwell et al., 2010; Jackson & Deeg, 2008). Prior scholars confirm that MNEs' managers are responsible for all organizational decisions, including foreign divestment, although the managers are located at the headquarters, which may be far away from the targeted subsidiaries (Benito, 1997a; Ghertman, 1988; Tan & Sousa, 2019; Wright & Thompson, 1987). Nevertheless, recent studies on foreign divestment specifically highlight the scant attention paid to the managerial role (Arte & Larimo, 2019; Tan & Sousa, 2019). In this regard, the fourth objective explores the way in which senior HQ managers, who are responsible for making organizational decisions, influence foreign divestment decisions.

1.3 Research Problems and Objectives

Aimed at developing our nuanced understanding of foreign divestment, the current thesis provides a multilevel analysis, i.e., country, parent, subsidiary, and managerial levels. I specifically explore the impact of institutional differences, the moderating effect of subsidiary characteristics, as well as the influence of senior HQ executives on foreign divestment. Accordingly, the thesis aims to provide answers for the general research question (RQ) **"What are the influences of institutional differences and senior HQ managers on foreign divestment, under pressure from subsidiary characteristics?"** The questions will then be disaggregated and examined in the four essays included in the current thesis.

(RQ1) How has the foreign divestment literature been developed and what are the research gaps in extant literature?

(RQ2) What is the influence of the cultural, economic, and political differences on foreign divestment propensities and how do subsidiaries' entry modes and equity ownership structure moderate the influence of the differences?

(RQ3) What is the managerial role regarding making foreign divestment decisions and how do institutional differences moderate the managerial role?

RQ1 reviews existing knowledge regarding foreign divestment (1) to synthesize current knowledge of foreign divestment, (2) to identify research clusters that are dominant and significant in the literature and (3) to generate a framework facilitating fruitful directions for future research. Hence, a systematic review is needed to qualify the objectives of RQ1. As such, the first essay is a review that synthesizes previous findings and proposes fruitful avenues for future research. In addition, a brief review provided in the second, third and fourth essays will further elaborate on current knowledge of foreign divestment in relation to specific aspects.

RQ2 strives to ameliorate our understanding of the impacts of institutional differences, in particular, cultural, economic and political differences. Cultural, economic and political differences are selected because of their significant impacts on FDI literature, particularly in foreign divestment research (Berry et al., 2010; Gaur & Lu, 2007; Kang et al., 2017; Nguyen et al., 2022). As elaborated above, there is a need to consider a firm's specific factors when assessing the influences of the institutional differences. RQ2 will be discussed in the second, third and fourth essays.

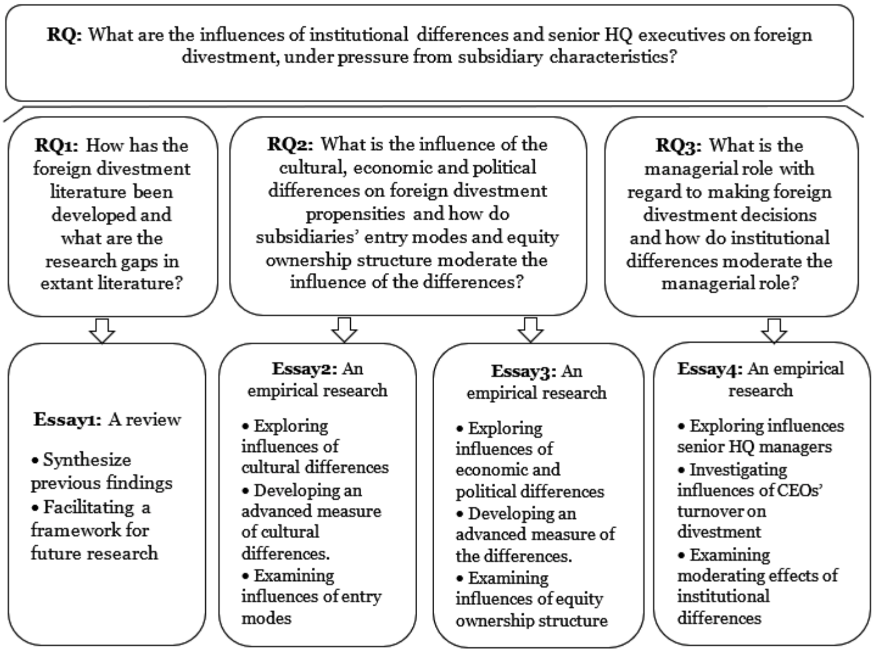

Figure 1. Research Questions and Related Essays

RQ3 switches the focus to a management perspective and discusses the impacts of senior HQ executives on the propensities of foreign divestment and examines the pressure of institutional differences. Furthermore, RQ3 discusses the replacement of Chief Executive Officers (CEOs) in terms of foreign divestment probabilities. RQ3 will be answered in the fourth essay.

Providing answers to the four questions in the four essays, I could explore the influence of institutional differences, i.e., cultural, economic, and political differences, and of senior HQ managers on foreign divestment propensities. I could also examine the moderating effect of subsidiary entry mode and equity ownership structure on the main relationship. It is worth mentioning that while the first essay does not relate directly to the general question, it provides a background for understanding about the topic of foreign divestment and the development of the literature. Figure 1 presents the full picture, reflecting the research framework and the linkage between the four essays, to answer the research questions.

1.4 Positioning of the Study and Intended Contributions

The main aim of this study is to explore the antecedents of foreign divestment, specifically focusing on the influences of institutional differences, a firm's specific characteristics and senior HQ managers. The extant literature has discussed this phenomenon through three different research streams: de-internationalization, corporate restructure and changes, and strategic management. Aiming to explain in depth the reasons why MNEs divest their foreign subsidiaries, the current work focuses on the intersection of the three aforementioned research streams. Figure 2 shows the positioning of the dissertation.

De-internationalization literature discusses the scaled-down activities by MNEs in the international markets (Benito & Welch, 1997; Kafouros et al., 2021; Luo & Witt, 2021; Witt, 2019). This research stream covers all types of IB operations, e.g., exporting, licensing, FDIs. In this regard, foreign divestment could be considered as one type of de-internationalization (Benito & Welch, 1997; Kafouros et al., 2021). This research stream generally highlights the influences of the external environment, e.g., institutional differences, risks and changes at home or in host countries and the impacts of firms' characteristics (Coudounaris et al., 2020; Kafouros et al., 2021).

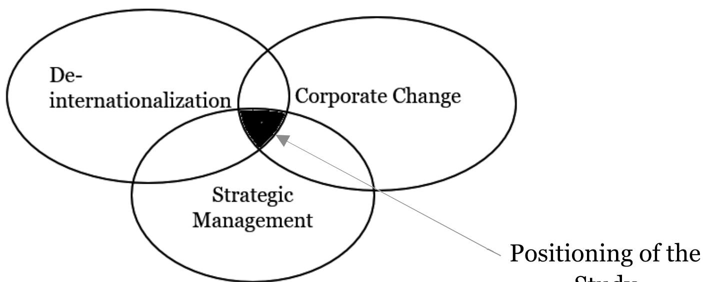

Figure 2. Positioning of the Study

Changes in corporate strategies or structures are also discussed in previous foreign divestment studies (Hoskisson et al., 1994; Kolev, 2016). This research stream argues that there are different types of changes in corporate structure, i.e., carve-outs, divestitures, management buyouts, restructuring (Brauer, 2006; Moschieri

& Mair, 2008), in which, foreign divestment could be one method (Brauer, 2009; Haynes et al., 2000). Prior scholars associated with this stream argue that foreign divestment aims at improving corporate performance, refocusing on corporate core businesses or reducing losses (Flickinger & Zschoche, 2018; Moschieri & Mair, 2008; Prezas & Simonyan, 2015; Zschoche, 2016). Accordingly, the specific characteristics of firms constitute the main drivers of the divestment.

The strategic management literature has discussed the roles of senior HQ executives on organizational performance and strategic decisions, e.g., entry mode choice, location, international performance and survival (Adner & Helfat, 2003; Nielsen & Nielsen, 2011, 2013; Tasheva & Nielsen, 2020). Studies in this stream argue that instead of always making rational decisions, top managers evaluate a firm's current situation and future prospects, based on their perception, which is shaped by their own outlook and background (Adner & Helfat, 2003; Carpenter et al., 2004; Hambrick & Mason, 1984). Consequently, there is a significant link between organizations' strategic choices and the traits of top managers. In contrast to previous research streams, the role of top managers in foreign divestment is neglected in the extant literature (Arte & Larimo, 2019; Tan & Sousa, 2019). Indeed, there are only certain studies, which explore the way in which top managers deal with foreign divestment propensities (Cantwell et al., 2010; Makino et al., 2007). In Table 1, I summarize the core arguments, key factors and representatives of each research stream.

As noted above, the current dissertation frames its positioning at the intersection of the three aforementioned research streams, so as to explain why MNEs divest their foreign subsidiaries. In other words, I explain foreign divestment decisions by investigating the impact of institutional differences, of particular interest, cultural, economic, and political differences, as key factors of the de-internationalization research strands. I also investigate the impact of parent and subsidiary characteristics, as key factors of the corporate change literature. I further delve into the managerial role, as the key factor discussed in strategic management literature, in terms of making foreign divestment decisions. Laying down my thesis in the intersection of the three research strands, the current work potentially develops literature in the three research strands.

Precisely, elaborating on the de-internationalization literature, I aim to address three pressing issues in the literature. Firstly, previous findings on the impact of institutional differences are equivocal, while the traditional measure of assessing the differences is criticized (Konara & Mohr, 2019; Schmid & Morschett, 2020). To overcome the criticism, this dissertation aims to adopt an advanced measure, i.e., friction, referring to the nature and levels of interaction between two entities

(Shenkar, 2001; Luo & Shenkar, 2011), to assess the impact of institutional differences.

Secondly, the dominance of cultural differences in divestment literature leads to an incomplete understanding of the impact of institutional differences, which include several diverse dimensions (Slangen & Beugelsdijk, 2010). Hence, in this dissertation, I focus on three different dimensions of institutional differences, i.e., cultural, economic, and political differences. The focus on the three dimensions could provide a more comprehensive understanding of the impact of institutional differences on IB literature, and particularly, on foreign divestment.

Table 1. Summary of Key Research Streams

Research Stream	**Core Arguments**	**Key Factors Included in the Thesis**	**Key Representatives**
De-internationalization	De-internationalization "refers to any voluntary or forced actions that reduce a company's engagement in or exposure to current cross-border activities" (Benito & Welch, 1997). MNEs tend to divest their foreign units under pressure from external environments or other problem-stemming issues.	• External environments: cultural, economic and political differences. • Parent characteristics: size, product diversification.	(Chung & Beamish, 2005; Demirbag et al., 2011; Gaur & Lu, 2007; Kang et al., 2017; Koch et al., 2016; Pattnaik & Lee, 2014).
Corporate Restructure and Change	Foreign divestment could be an instrument of corporate restructuring in terms of the transformation of firms, industries and the economy, which often involves divestment activities at home or in host countries, a major element of corporate business or the entire corporate business. In this regard, foreign divestment could be considered as a type of corporate divestment.	• External environments: cultural, economic and political differences. • Parent characteristics: size, product diversification, intangible assets. • Subsidiary characteristics: relatedness, age, entry mode, equity ownership.	(Berry, 2013; Shaver & Flyer, 2000; Tsang & Yip, 2007; Ushijima & Iriyama, 2015; Brauer & Wiersema, 2012).
Strategic Management	Foreign divestments are consequences of managers' risk perception and strategic responses to specific situations that MNEs and their overseas expansion are facing. In this regard, poor performance or other problem-stemming issues do not always lead to foreign divestment, rather top managers and their attitudes towards the situations of subsidiaries are crucial.	• Management involvement: top management team's perspectives and perception, CEO turnover, quality of managerial, strategic decisions. • External environments: influences of cultural, economic and political differences on firms' activities.	(Alexander et al., 2005; Benito, 1997; Cairns et al., 2010; Chung, Lee, & Lee, 2013; Coe et al., 2017; Dai et al., 2017; Etgar & Rachman-Moore, 2007; Iurkov & Benito, 2020; Sousa & Tan, 2015; Tan & Sousa, 2019).

The negative bias of the influences of institutional differences is another issue that I aim to address. The negative bias refers to the repeated findings relating to the negative outcomes of the differences (e.g., Stahl & Tung, 2016; Edman, 2016). Nevertheless, previous scholars confirm that being different could provide several advantages to MNEs and their internationalization (e.g., Edman, 2016; Nguyen et al., 2022). In this regard, the current work aims to provide a balanced treatment of the influences of cultural, economic, and political differences on foreign divestment. In other words, I will focus on both the positive and negative outcomes of being different.

Taken together, this dissertation contributes to the de-internationalization literature by (1) offering an advanced measure to assess the diverse impact of institutional differences, (2) providing a more comprehensive understanding of the impact of institutional differences and (3) challenging the negative bias in IB literature.

Elaborating further on the corporate restructure and change literature, I shall discuss the impacts of firms' specific characteristics at both parent and subsidiary levels. I will specifically focus on the parent company's characteristics, i.e., financial performance, diversification strategies, R&D intensity, and the subsidiary's characteristics, i.e., relatedness, age, entry and equity ownership structures. Integrating both levels in the analysis will potentially unveil a real mechanism leading to foreign divestment. In addition, I will address an issue voiced in previous studies relating to the endogeneity issue, i.e., a selection bias that MNEs pre-select their entry modes, when discussing the impact of a firm's specific characteristics and foreign divestment probabilities (Dhanaraj & Beamish, 2004; Mudambi & Zahra, 2007; Shaver, 1998). In this regard, the current work develops our nuanced knowledge of the way in which a parent's and a subsidiary's characteristics could influence foreign divestment, thus contributing to the corporate restructure and changing the literature. More importantly, in the current thesis, I explore a potential moderating effect of a subsidiary's characteristics on institutional differences – the foreign divestment relationship. The moderating effect could yield knowledge of the way in which contingency factors could modify the impact of institutional differences in foreign divestment literature.

As discussed above, the link between senior HQ managers and foreign divestment is neglected in strategic management literature. Accordingly, I will delve into the influences of top managerial characteristics, especially the managerial dynamic capability in relation to foreign divestment probability (Adner & Helfat, 2003; Tasheva & Nielsen, 2020). Furthermore, I will provide empirical evidence highlighting the influence of CEO turnover on foreign divestment probability. In this regard, the dissertation constitutes strategic management literature by showing how senior HQ managers are involved in divestment and more importantly, by investigating these senior HQ managers – foreign divestment linkage under pressure from institutional differences and firms' specific characteristics.

Taken together, by positioning its focus on the intersection of de-internationalization, corporate restructure and change, and strategic management literature, this thesis contributes to the three strands in the literature, by providing a multilevel analysis of institutional differences, subsidiary characteristics, and senior HQ managers regarding their impact on foreign divestment decisions.

1.5 Key Research Terms

Table 2. Definitions of Key Research Terms

Research Terms	Definition
Foreign divestment	"the deliberate and voluntary liquidation or sale or all or of a major part of an active operation" (Boddewyn, 1979). In this dissertation, I refer to foreign divestment as full divestment, and do not consider a minor reduction of equity ownership.
Organizational legitimacy	"the acceptance of the organization by its environment, which is vital for organizational survival and success" (Kostova & Zaheer, 1999).
Institutional differences	the differences between home and host institutions, that are fragmented and composed of different domains reflecting different types of institutions (Kostova & Zaheer, 1999).
Cultural differences	the differences in attitudes "toward authority, trust, individuality, and importance of work and family" (Berry et al., 2010).
Economic differences	"the differences in economic systems between home and host countries, i.e., economic development and macroeconomic characteristics" (Berry et al., 2010).
Political differences	"the differences in the political system between home and host countries", i.e., political stability, democracy and trade bloc membership (Berry et al., 2010).
Distance	a quantitative measure of differences, i.e., cultural, economic and political differences, using the deviations, which "are corrected for differences in the variances of each indicator of the specific dimensions, and then arithmetically averaged" (Kogut & Singh, 1988).
Friction	the extent to which different entities resist or rub up against each other in interactions in multilevel analysis (Shenkar, 2001; 2012)
DMC	the capabilities with which managers "build, integrate, and reconfigure organizational resources and competences" (Adner & Helfat, 2003; Helfat & Martin, 2015).
Entry mode	the forms of business operations that firms employ to enter into foreign markets (Brouthers & Hennart, 2007; Zhao et al., 2017). There are two forms discussed in this work: greenfield vs. acquisitions.
Equity ownership structure	the equity structure of business operations, which firms employ when operating in foreign markets (Dhanaraj & Beamish, 2004). There are two forms discussed in this work: wholly owned subsidiaries vs. international joint ventures.
Senior HQ managers	managers belong to "the very highest level of management – chairman, CEO, presidents and chief operating officer, and the next highest tiers – including executives in vice president positions, regardless of their potential different titles depending on their organizations" (Wiersema & Bantel, 1992).

This dissertation adopts different literature streams to provide an explanation for the foreign divestment phenomenon. In this regard, several research terms need to be defined to provide a consistent understanding. The key research terms are:

foreign divestment, legitimacy, institutional differences, cultural differences, economic differences, political differences, distance metrics, friction, DMC, senior HQ managers, entry mode, equity ownership structure. Table 2 presents a summary of definition of the aforementioned research terms.

1.6 Research Structure

This essay–based dissertation includes six chapters, while the main research questions and findings are examined and discussed in four essays separately. The first chapter presents a brief introduction of the topic, research problems, objectives, and research questions. The chapter also discusses the positioning of the study and its potential contribution, presents definitions of key research terms, and identifies the structure of the present study. The second chapter synthesizes key research literature in foreign divestment. The third chapter discusses in detail each theory adopted in the current work, i.e., the Institutional Theory, the POS lens, and the DMC framework. This chapter also presents an integrated theoretical framework that is applied to theorize empirical hypotheses in the dissertation. The fourth chapter provides the research methodology of the thesis, consisting of research philosophy, the data contextualization and collection process, and the quality of the research study. The fifth chapter summarizes each essay and discusses the findings of the dissertation. Finally, the sixth chapter summarizes the thesis, answers the research questions, and emphasizes the contribution of the thesis from a theoretical, methodological, managerial and political perspective. A promising avenue of future research is also discussed in this chapter.

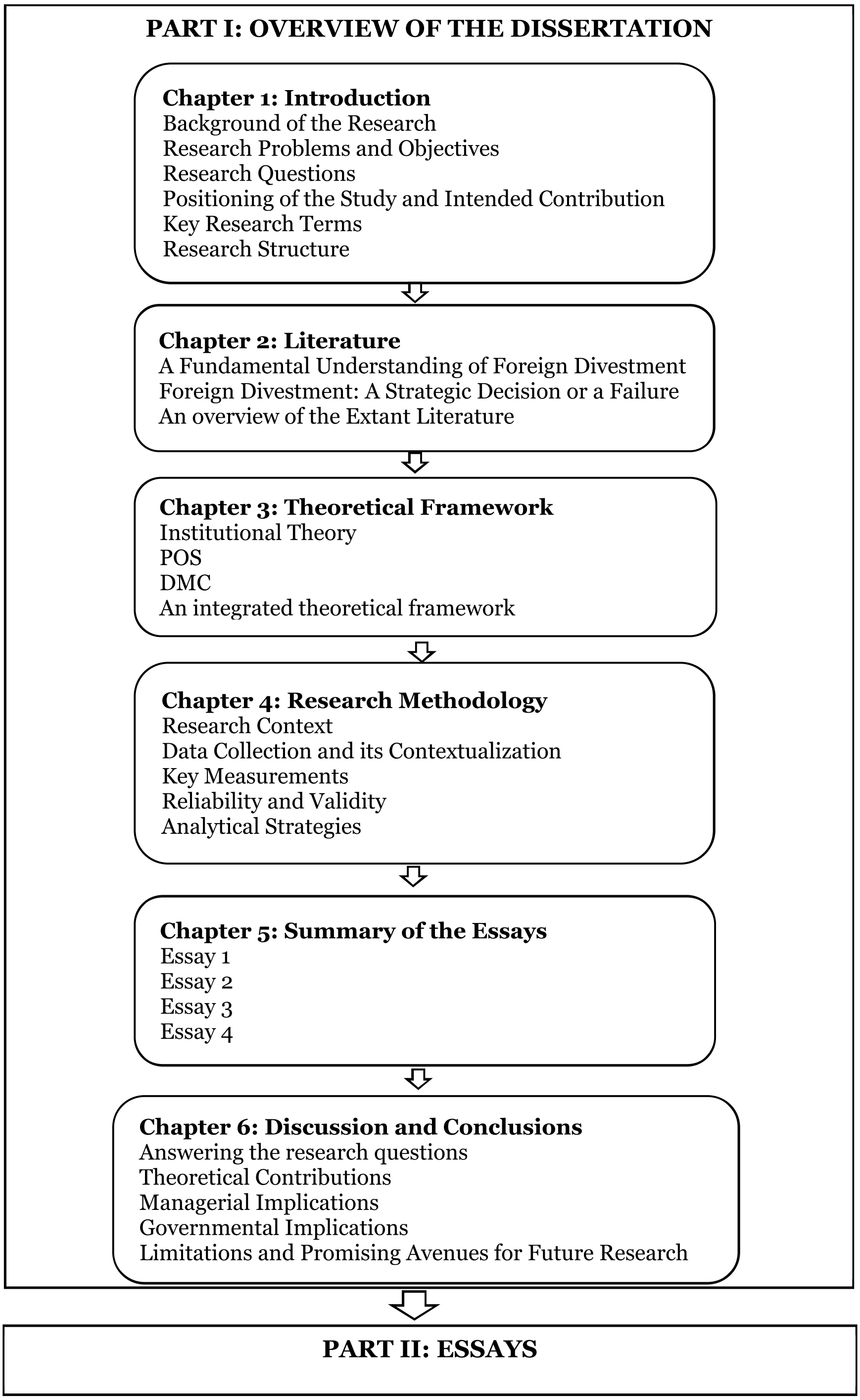

Figure 3. Outline of the Dissertation

2 LITERATURE REVIEW

"...Reviewing a body of work presents unique opportunities for making a theoretical contribution..."

(Post, Sarala, Gatrell & Prescott, 2020)

Foreign divestments have received significant attention over the past forty years. Previous scholars have discussed different aspects of foreign divestment and reported meaningful findings. Nevertheless, the previous findings are inconsistent. In addition, some factors examined thoroughly, e.g., cultural differences, while other aspects have received scant attention, e.g., managerial roles. This chapter discusses the extant literature relating to the topic, by providing a fundamental understanding of foreign divestment and summarizing key research strands. It is worth noting that the first essay of the dissertation is a review that synthesizes previous studies and analyses key research clusters. Therefore, this chapter will briefly discuss the extant literature to avoid an overlap and the compilation of a substantially lengthy essay.

2.1 A Fundamental Understanding of Foreign Divestment

Despite the long discussion on foreign divestment, i.e., since (Boddewyn, 1979), there is still a misconception regarding its definition. Boddewyn (1979) initially defined divestment as "the deliberate and voluntary liquidation or sale of all or of a major part of an active operation". Moschieri and Mair (2008) similarly consider foreign divestment as the disposal of the parent company and the sale of assets, facilities, product lines, subsidiaries, business units and divisions. Subsequently, Wan et al. (2015) defined various terms as foreign divestment, such as international divestiture, de-internationalization, exit and others. Recent studies simply refer to foreign divestment as the full divestment of a foreign subsidiary, as a result of a parent firm via sell-off or liquidation (Arte & Larimo, 2019; Hennart et al., 1998; Schmid & Morschett, 2020). The opposite term, "subsidiary survival", referring to subsidiaries that still exist in host countries, is also used in the extant literature (Kang et al., 2017; Peng & Beamish, 2019).

The current work considers foreign divestment as a full sell-off or liquidation of a foreign subsidiary in which MNEs have previously invested in a host country either in the form of a Wholly Owned Subsidiary (WOS) or an International Joint Venture (IJV) (so-called equity ownership structures) and an acquisition or greenfield (so-called entry modes). Moreover, partial divestment or a minor decrease in equity ownership will not be considered as foreign divestment to be consistent with a large amount of previous research.

2.2 Foreign Divestment: A Strategic Decision or a Failure

One of the key questions that need to be answered when discussing foreign divestment is whether the divestment is a strategic decision, e.g., involves changes in the corporate structure or strategies or a failure, e.g., withdrawal due to problem-stemming issues. Answering this question is important, as it establishes a solid theoretical boundary to unveil the mechanism leading to foreign divestment, either from a strategic perspective or from a failure perspective. For instance, if foreign divestment research considers divestments as a strategic action, the research would be more likely to adopt a strategy-related theory, e.g., agency theory, ecological perspective, real option perspective, resource-based view (Elfenbein & Knott, 2015; Makino et al., 2007; Sun et al., 2018). In contrast, if the research delves into the cost-benefit relationship, as motivation for the divestment decision, the research is likely to adopt Transaction Cost Economics (TCVs) or the Liability of Foreignness (LOF) perspective (Getachew & Beamish, 2017; Peng & Beamish, 2014b). Certainly, different perspectives will lead to different focuses on the analysis.

However, while previous studies tend to emphasize either the strategic aspect or the failure aspect of foreign divestment, this sole focus may lead to an incomplete understanding of why MNEs exit a host country. Foreign divestment may be motivated by a range of different factors, that reflect different aspects of the decision (i.e., Berry, 2013). Hence, the current dissertation considers both the strategic and failure perspectives to provide comprehensive knowledge of foreign divestment.

It is worth noting that although MNEs may actively divest their foreign subsidiaries (Sun et al., 2018), previous scholars often considered divestment as an extreme case, because foreign divestment decreases received benefits and harms profit-shifting channels (Farah et al., 2021; Song & Lee, 2017). Hawn (2021) further illustrates that divestment involves termination fees, increases upfront financial costs and credibility. Divestment also harms the reputations of MNEs and their managers' (Boddewyn, 1983a; Ghertman, 1988; Resmini & Marzetti, 2020). In addition, since local stakeholders usually have the expectation that foreign firms help develop local economies, divestment is not a favourable option, especially for local authorities or interest groups (Fiss & Zajac, 2006). Hence, foreign divestment may harm local legitimacy and the performance of subsequent investments. More recently, scholars argue that foreign divestment is "an ultimately irrational" option as it could stifle innovation, and close off profitable opportunities (Witt et al., 2021). Taken together, I argue that MNEs usually avoid divestment, which is consistent with previous studies (Benito, 2005; Dhanaraj & Beamish, 2009; Peng & Beamish, 2019; Tan & Sousa, 2019). This conclusion establishes a clear background for a proposal relating to the impact of senior HQ executives on foreign divestment.

2.3 An Overview of the Extant Literature

In this subsection, an overview of key literature will be discussed to highlight key research streams and findings relating to foreign divestment. In addition, a set of research gaps will be also emphasized, as these establish the motivation for this thesis. It is worth mentioning that there is a more detailed synthesis of the extant literature presented in the four essays. Table 3 summarizes key literatures and research gaps that the dissertation highlights, to contribute to the development of foreign divestment literature.

2.3.1 Institutional Differences

Previous scholars have argued that external environments accelerate foreign divestment probabilities, as MNEs could not fully manage the uncertainty of operating businesses overseas (Kang et al., 2017; Nguyen et al., 2022; Zeng et al., 2013). Institutional differences, referring to differences between home and host institutions, are confirmed as bringing the most challenges and uncertainty to foreign units (Kostova et al., 2020; Kostova & Zaheer, 1999). Accordingly, institutional differences, in particular, cultural, economic and political differences, have been the focus of significant attention in extant foreign divestment literature (Coudounaris et al., 2020; Schmid & Morschett, 2020).

Previous IB researchers have argued that institutional differences generate challenges and obstacles that MNEs and their foreign units cannot easily overcome, so as to survive and thus, institutional differences increase foreign divestment probability (Berry, 2013; Kang et al., 2017; Pattnaik & Lee, 2014). Notably, certain researchers have highlighted the advantages of operating businesses overseas (Gaur & Lu, 2007; Nguyen et al., 2022). As such, the impact of cultural, economic and political differences have been inconsistently reported in previous studies, i.e., positive, negative or non-significant (Coudounaris et al., 2020; Nguyen et al., 2022; Schmid & Morschett, 2020). In this regard, our understanding of the impact of institutional differences are incomplete.

My review of previous findings regarding the impact of institutional differences highlights several key issues that need to be considered. Firstly, a negative bias is reported among studies relating to institutional differences, with regard to IB performance and foreign divestment, that is institutional differences always bring about negative outcomes in relation to IB activities (Nguyen et al., 2022; Stahl et al., 2016). However, some scholars have reported several advantages of being different (Gaur & Lu, 2007; Nguyen et al., 2022). Therefore, it is important to widen our lens regarding the impact of institutional differences on IB performance, and particularly, on foreign divestment (Edman, 2016; Nguyen et al., 2022; Stahl et al., 2016).

Secondly, IB research focuses mainly on the influence of cultural differences and considers this effect as generalizing the effect of institutional differences (Tung & Stahl, 2018). I argue that the influence of cultural differences does not represent the multifaceted influences of institutional differences, which include various aspects of national institutions, e.g., economic, political, and geographic institutions. Previous scholars argue that depending on which institution or which context firms interact with, the impact of institutional differences in specific situations could be different (Jackson & Deeg, 2008; Orr & Scott, 2008). Consequently, generalizing the influence of institutional differences merely based on the influence of cultural differences will lead to an incomplete understanding of the way in which institutional differences influence foreign divestment probability.

Thirdly, previous studies have assumed a similar effect in the case of specific institutional environments, e.g., economic and political differences (Kang et al., 2017; Pattnaik & Lee, 2014). For instance, Gaur & Lu (2007) have combined economic and political differences and proposed a similar effect of these two dimensions. Nonetheless, these two institutions represent different aspects of the institutional environments and thus, findings yielded from combining these two institutions may be not comprehensive and accurate.

Fourthly, IB scholars are criticized for the quantitative measure of institutional differences, i.e., the traditional distance metric (Kogut & Singh, 1988), when assessing the impact of institutional differences (Gaur et al., 2019; Koch et al., 2016; Nguyen et al., 2022). Using distance to assess the impact of institutional differences, previous studies assume that firms from the same pairs of home-host countries are similarly influenced by institutional differences. However, this assumption is not always true, as different firms deal with the various contexts in the host countries differently (Gaur et al., 2019; Nguyen et al., 2022; Shenkar, 2001, 2012). As such, distance may not reflect the contextual variation in specific situations that generate the influences (Konara & Mohr, 2019; Shenkar, 2001). Consequently, there is an urge to apply a more advanced measure to assess these differences.

Among the various efforts to establish a better assessment of the impact of institutional differences, the use of the friction concept is highly recommended (Shenkar, 2001; Luo & Shenkar, 2011; Shenkar, 2012). In essence, friction is defined as a combined measure of national distance and a firm's specific interaction with the distance context. Hence, friction considers the levels of a firm's interaction with different contexts, rather than one different context in isolation (Li et al., 2019; Luo & Shenkar, 2011; Shenkar, 2012). In other words, levels of friction could be defined based on the levels of national distance and the levels of firms' interaction with the distance context (Luo & Shenkar, 2011). Accordingly, the levels of friction will not be similar across firms from the same pairs of home – host countries. Friction could be an advanced measure, as it reflects the diversity of a firm's specific interaction with the national distance context. Friction also reflects the fact that firms could take advantage of their previous experience, memory effect and learning process, to modify the influence of differences (Shenkar, 2001; Nadolska Barkema, 2007; Zeng et al., 2013).

Nevertheless, as a new construct developed in the IB field, friction still needs to be improved. Firstly, Shenkar (2001, 2012) theoretically proposed several advantages relating to the concept of friction and encouraged the use of friction over the distance metric. Later, Luo and Shenkar (2011) proposed an empirical formula to assess the levels of friction in IB research. However, this proposal is still lacking an empirical guideline to educate followers on the use of friction in assessing the influence of institutional differences. In recent studies, which use friction, i.e., Koch et al., (2016), Singh et al. (2019) and Li et al. (2020), the usage of cultural friction is still at a basic level and does not fully validate the proposal of Luo and Shenkar (2011).

Furthermore, the usage of friction in IB literature is still limited to cultural differences, although the mechanism leading to friction is also available in other institutional dimensions (Zaheer et al., 2012). Hence, there is a need for an extension of the friction metric to examine the validity, reliability, and generalizability regarding the usage of friction, when assessing the influence of institutional differences in specific situations. Collectively, I argue that using friction to investigate the influence of cultural, economic, and political differences on foreign divestment is fruitful in terms of developing our nuanced understanding as to why MNEs divest their foreign subsidiaries.

2.3.2 Effects of a Firm-Specific Strategy: Entry Mode and Equity Ownership Structures

Regarding the specific situations of MNEs and their foreign subsidiaries, entry modes (acquisition vs. greenfield) and equity ownership structures (WOSs vs. IJVs) have been the focus of significant attention, as the two strategies may lead firms to different levels of firm interaction in different situations, which significantly influence foreign divestment probability. However, these two strategies have been investigated as direct effects on foreign divestment probability and have yielded contradictory findings (Coudounaris et al., 2020; Schmid & Morschett, 2020).

Previous scholars have argued that compared to acquisition, greenfield may involve more difficulties at the establishing stage, while in the later stage, greenfield will be less likely to suffer from internal conflict, caused by different owners (Benito, 1997; Delios & Makino, 2003; Hennart et al., 1998; Shaver et al., 1997). In contrast, it is easier to establish businesses following an acquisition, as there are already physical units in existence with transitions in ownership. However, during the later stages, the acquisitions may involve a higher level of conflict among employers, e.g., former vs. recent employers. These higher levels of conflict may increase the foreign divestment probability among acquisitions. The contradictory findings lead to an ambiguity regarding the impact of entry modes on foreign divestment.

Previous researchers have further discussed the influence of equity ownership structures, referring to different equity ownership levels in foreign subsidiaries, in relation to foreign divestment probability. In general, researchers state that IJVs receive benefits in host countries, as the IJVs could be considered as a subsidiary of the local firm (Kim & Kim, 2018; Lu & Hébert, 2005; Meschi et al., 2016), while WOSs would suffer from the LOF. However, another research strand argues that IJVs are subject to greater conflict in terms of making strategic choices and organizational decisions, caused by different owners, while WOSs are able to provide quick decisions, as they are fully invested in by a parent firm (Hennart et al., 1998; Leung, 1997; Schmid & Morschett, 2020). Notably, certain researchers raised an endogeneity issue regarding research into the entry strategies to foreign divestment, as MNEs tend to select their entry strategies based on their corporate portfolios and strategies, which may not relate to divestment propensities (Dhanaraj & Beamish, 2004; Mudambi & Zahra, 2007; Nguyen et al., 2022; Shaver, 1998).

It is worth noting that these research streams have a direct effect on the entry and equity ownership structures regarding foreign divestment probability. I argue that entry modes and equity ownership structures would modify the level of a firm's interaction with host institutions. Nonetheless, the moderating effects, i.e., how entry strategies modify the impact of cultural, economic and political differences have received scant attention (Drogendijk & Slangen, 2006; Nguyen et al., 2022; Slangen & Hennart, 2007). It is a striking omission given that depending on different entry modes and equity ownership structure, MNEs and their foreign subsidiaries could be influenced differently by the external environment, leading to different propensities of foreign divestment. Hence, I argue that the moderating effects of entry and equity ownership structures on the cultural, economic, and political differences affecting foreign divestment relationships should be considered.

2.3.3 Senior HQ Managers

Recent studies on foreign divestment (i.e., Arte & Larimo, 2019; Tan & Sousa, 2019) urge future research to focus on the managerial roles in terms of making foreign divestment decisions. Senior headquarter (HQ) managers refer to the top-tier executives, i.e., CEOs and the second top-tier executives, i.e., vice presidents, irrespective of title and depending on the organizational structures (Wiersema & Bantel, 1992). Senior HQ managers, who may be located a considerable distance from targeted subsidiaries, are in charge of making any strategic choices and monitoring organizational performance, including decisions regarding keeping or divesting foreign units (Benito, 1997; Tan & Sousa, 2019; Wright & Thompson, 1987).

While managerial roles are widely discussed in the research relating to international entry strategies and performance, these roles are neglected in the foreign divestment literature (i.e., Arte & Larimo, 2019; Tan & Sousa, 2019) for two critical reasons. Firstly, foreign divestment is often avoided, as it harms managerial reputation (Boddewyn, 1983a; Ghertman, 1988; Resmini & Marzetti, 2020; Wan et al., 2015). Previous scholars have argued that while foreign subsidiaries perform badly, the MNEs tend to divest them. In this regard, managers may not wish to disclose their involvement with foreign divestment. Consequently, there is a lack of available data for the investigation. Secondly, previous scholars focus mainly on subjective factors, i.e., internal constraints and external environments, as their influences are more visible (Arte & Larimo, 2019; Schmid & Morschett, 2020). Hence, managerial involvement has not received the attention it deserves.

In this thesis, I focus on the impact of senior managers on foreign divestment for two reasons. Firstly, senior HQ managers are confirmed as making all organizational decisions, including foreign divestment, even though they may be located far away from the targeted subsidiaries (Benito, 1997; Tan & Sousa, 2019; Wright & Thompson, 1987). Secondly, senior managers do not always make rational decisions, rather their decisions are bounded by their demographic characteristics (Adner & Helfat, 2003; Carpenter et al., 2004; Hambrick & Mason, 1984). In other words, top managers with different characteristics could make different decisions, although the situations which involve firms and relate to the organizational decisions are similar. In this regard, unveiling the managerial influences on foreign divestment could significantly leverage our understanding as to why MNEs divest their foreign subsidiaries.

More precisely, I focus on dynamic managerial capabilities (DMC) which are generated by senior managers' previous education, experience and cognition and theorize how managers perceive current situations and predict the future prospects, leading to different propensities of foreign divestment (Adner & Helfat, 2003; Beck & Wiersema, 2013). I argue that managerial education and experience shape their perception and tolerance of subsidiary performance and prospects. In addition, previous education, experience, and cultural background establish a managerial network and cognition, that influence managers' abilities to manage the activities of MNEs and subsidiaries. Collectively, I argue that DMC may influence foreign divestment probability. Furthermore, since managers are always influenced and adjust their decisions based on current situations, I argue that their decisions relating to foreign divestment could be influenced by the external environment. In other words, I examine the how cultural, economic, and political differences modify the DMC – divestment relationship.

Table 3. Summary of Key Literature and Research Gaps

Key Factors	Key Findings	Key Representatives	Key Research Gaps	Dissertation's Proposals
Impact of cultural, economic and political differences.	Institutional differences bring challenges and uncertainty to IB performance and thus, increase foreign divestment probabilities.	(Barkema & Vermeulen, 1997; Chung, Lee, & Lee, 2013; Kang et al., 2017; Pattnaik & Lee, 2014).	There are some key issues relating to research on the impact of cultural, economic, and political differences: • negative biases of being different. • dominant research on cultural differences, compared to others. • an assumption of similar effects among different institutional dimensions. • criticism of using the distance metric to assess the impact of differences, while the use of friction concept is still limited.	In this thesis, these research gaps could be solved by: • focusing on the unique natures of cultural, economic, and political differences and developing different proposals relating to their influence on foreign divestment probabilities. • analyzing both positive and negative outcomes of the differences • applying the friction metric to assess the impact of differences, rather than the distance.
	Being different could provide some opportunities for arbitrage, sales growth, consumers, innovation and diversification.	(Gaur & Lu, 2007; Koch et al., 2016; Meschi et al., 2016; Nguyen et al., 2022; Peng & Beamish, 2014b; Xia, 2011).		
	Institutional differences may not influence foreign units.	(Mohr et al., 2018; Song, 2015; Sousa & Tan, 2015; Zeng et al., 2013; Zeng et al., 2013).		
Impact of firm-specific strategies: entry mode and equity ownership structure.	Entry modes, i.e., acquisition vs. greenfield, and equity ownership structures, i.e., WOSs vs. IJVs, generate different obstacles for firms in achieving internal and external legitimacy, leading to different propensities of foreign divestment.	(Benito, 1997; Delios & Makino, 2003; Hennart et al., 1998; Kim & Kim, 2018; Lu & Hébert, 2005; Meschi et al., 2016; Shaver et al., 1997).	There are some key issues relating to research on the impact of firm-specific strategies: • equivocal findings regarding the impact of entry modes and equity ownership structures. • the endogeneity issue has been raised in previous studies, yet recent studies have paid scant attention to it. • the moderating effects of entry strategies on institutional differences is seldom examined.	In this thesis, these research gaps could be solved by: • focusing on the moderating effects of entry strategies on the influence of cultural, economic, and political differences on foreign divestment probabilities. • considering endogeneity issues by examining the impact of entry strategies.
Impact of senior HQ managers, i.e., dynamic managerial tendencies, social and cognition capabilities.	Managerial capabilities, generated from previous education, experience and background shape managerial perceptions and predictions of current situations. These capabilities affect the prospects of foreign subsidiaries, as well as the ability of managers to manage the activities of MNEs and subsidiaries.	(Adner & Helfat, 2003; Beck & Wiersema, 2013; Nielsen & Nielsen, 2011; Nielsen, 2010; Tasheva & Nielsen, 2020).	There is a lack of research into the influence of managerial roles on foreign divestment decisions.	In this thesis, these research gaps could be solved by: • focusing on the influence of managerial roles on foreign divestment decisions • exploring how managers make foreign divestment decisions, influenced by cultural, economic, and political differences.

3 THEORETICAL FRAMEWORK

"If the only tool you have is a hammer, you tend to see every problem as a nail"

Abraham Maslow

Research into foreign divestment has been growing steadily (Arte & Larimo, 2019; Kafouros et al., 2021; Schmid & Morschett, 2020). Various theoretical lenses and perspectives have been adopted to explain why MNEs divest their foreign subsidiaries. In this thesis, I adopted three different theoretical perspectives to provide a multilevel analysis of foreign divestment. I specifically integrated Institutional Theory, the POS and the DMC framework to elaborate different aspects of foreign divestment. In general, the three specific theories were selected, due to their significant contributions in explaining a firm's international strategies, in providing a balance of the impact of institutional differences and in unveiling managerial involvement in terms of making foreign divestment decisions. Altogether, the three theories constitute the theoretical framework of this work.

3.1 Institutional Theory

Institutional Theory emphasizes the influence of institutions on organizational performance and survival under the mechanisms of legitimacy (Kostova et al., 2008; Kostova & Zaheer, 1999). There are three different elements constituting the tenets of the theory, including the characteristics of institutional environments, the organization's characteristics and actions, and the process of legitimation (Kostova & Zaheer, 1999). Institutions refer to systems, norms and rules that control business activities, while the legitimation process refers to the way in which environments perceive an organization's characteristics and actions. Due to its emphasis on how firms receive legitimacy and survive, Institutional Theory has been adopted widely in IB, and particularly, in foreign divestment research (Arte & Larimo, 2019; Kostova et al., 2020).

Institutional theorists argue that institutions are exogenous variables that influence economic behaviours. When firms enter a foreign country, they have difficulty adapting to and following the institutions, which are different from their home countries, especially when the firms have more interaction with the host institutions. Hence, a firm's ability to respond to the impact of the differences are limited. Consequently, institutional differences harm a firm's legitimacy and survival (Kostova et al., 2008, 2020; Kostova & Zaheer, 1999).

Foreign divestment researchers have developed the Institutional Theory hitherto to investigate how institutional differences influence foreign divestment probabilities (Gaur & Lu, 2007; Kang et al., 2017; Pattnaik & Lee, 2014). They argue that institutional differences create major challenges and obstacles that foreign units find difficult to overcome, to achieve legitimacy and to survive. However, Gaur and Lu (2007) predicted that low and medium levels of institutional differences may generate arbitrage opportunities that lead to low levels of foreign divestment. The equivocal findings on the impact of institutional differences highlight certain limitations of the Institutional Theory, especially when the theory is applied to an explanation of the impact of institutional differences.

As noted in previous section, adopting the Institutional Theory, previous scholars have reported some pressing issues relating to the impact of institutional differences, including the negative bias (Edman, 2016; Stahl et al., 2016); the dominance of cultural differences (Konara & Mohr, 2019; Nguyen et al., 2022); the use of distance metric to assess the impact of institutional differences (Shenkar, 2001, 2012; Luo & Shenkar, 2011; Konara & Mohr, 2019 for more details). The pressing issues encourage future research to delve into the nature of the institutional differences as well as the impact of the differences to improve our nuanced knowledge about how the institutional differences influence foreign divestment probabilities.

Adopting the Institutional Theory in the current work, I examine how the institutional differences, both the formal institution (i.e., economic, and political differences) and informal institution (i.e., cultural differences), influence foreign divestment probabilities. Importantly, I highlight the diverse effects of the institutional environments, depending on the characteristics of the institutions, as claimed in the Institutional Theory. Accordingly, I propose that the cultural, economic, and political differences may have different effects on the propensities of foreign divestment.

In addition, Institutional Theorists posit that there is a need to consider organizational characteristics and actions, which generate the specific impacts of institutional environments (Kostova et al., 2008; Kostova & Zaheer, 1999). Hence, I followed Shenkar and his colleagues (i.e., Shenkar, 2001; Shenkar et al., 2008; Luo & Shenkar, 2011) to adopt the friction construct to assess the impact of the institutional differences. As elaborated above, the friction reflects both the distance between the two institutional systems and the level of firm interaction with the distance context (Luo & Shenkar, 2011). Put simply, friction could be considered as a combination between distance and firm specific interaction.

Therefore, I argue that using the friction, instead of distance, would yield a more comprehensive findings about the impact of institutional differences.

Furthermore, although Institutional Theory discusses the significant roles of managers in managing firms to overcome the influence of institutional differences (Kostova et al., 2008), institutional theorists have paid scant attention to managerial involvement in organizational legitimacy and survival. Powerful actors who are fully in charge of making all organizational decisions and strategies are an important factor to examine foreign divestment (Benito, 1997; Tan & Sousa, 2019). Therefore, I propose that exploring how senior executives make foreign divestment decisions could develop the Institutional Theory. Accordingly, the current work would examine how senior executives involve foreign divestment decisions.

3.2 Positive Organizational Scholarship (POS)

Previous scholars confirm that the consequences of negative events are discussed more than those of positive events (Cameron, 2017; Cameron & Caza, 2004). Researchers also focus on the most influential factors explaining the most variance (Cameron, 2017). In particular, IB scholars often report on the negative outcomes of being different (Kostova, 1999; Stahl & Tung, 2015), yielding an unfair treatment of the positive outcomes.

In this thesis, I adopted the POS lens to highlight the multifaceted effects of being different in IB research, rather than a monotonous proposal. It is worth mentioning that POS is not a single theory per se, rather it represents a different view to consider a given phenomenon (e.g., Edman, 2016; Nguyen et al., 2022; Stahl & Tung, 2016), which is often perceived similarly due to its familiarity and popularity (Caza & Caza, 2008). In other words, the familiarity of a given phenomenon might bias our perceptions and "we tend to interpret the world in ways that conform to means available to us" (Caza & Caza, 2008, p. 21).

The POS lens emphasizes the positive perspectives of organizations and that broadens our perception toward definitions of a positive outcome. Therefore, the most important contribution of the POS perspective is not for pointing out surprising differences or proposing new construct, but for challenging the deficit model that shapes the design and conduct of organizational research, especially including the positive outcomes (Caza & Caza, 2008). Hence, it could be seen that the POS perspective is not explaining the why, instead it shows how we should provide a balance treatment of both positive and negatives outcomes of a given phenomenon, e.g., being culturally, economically, and politically different, and more importantly, broadening our understanding of what represents positive outcomes.

Although the POS has a psychological root, its application in organizational research especially in international business has been significant (Caza & Caza, 2008; Stahl et al, 2010). For instance, the POS lens has been developed in the international human resource management (e.g., Stahl et al., 2010). A key reason is the POS lens focuses on individual thinking and mindset about current situations of future prospective of organizations. Previous scholars applied POS to challenge the negative impact of being different and to encourage a fair consideration of the positive influences (Cameron & Caza, 2004; Cameron, 2017). The POS lens also focuses on a flexible mechanism, leading to the influence of the differences, which is contextual. Put simply, the POS perspective urges that attention be paid to both positive (e.g., arbitrage, complementarity and creativity) and negative impacts (e.g., the challenges and uncertainty of the institutional differences) (Stahl & Tung, 2015; Zaheer et al., 2012).

In the IB literature, the POS lens also starts receiving more academic attention (Edman, 2016; Nguyen et al., 2022; Stahl & Tung, 2016). More precisely, Stahl & Tung (2016) encourage international business researchers to widen our mindset about the impact of cultural differences, and to challenge the traditional negative bias among previous findings on the influences of cultural differences by adopting the POS perspective (Edman, 2016; Nguyen et al., 2022). Furthermore, Edman (2016) defines positive outcomes of cultural differences in terms of innovation and customer preferences, and he shows that operating in culturally distant countries increase firm ability to diversify their customer preferences. Similarly, delving into the creativity, prior scholars confirm that operating in culturally distant countries increase firm innovation and creativity (Wang & Schaan, 2008; Beugelsdijk et al., 2018). It could be seen that when researchers have defined different aspects of foreign performance, e.g., innovation, knowledge stock, customer preferences or other potential arbitrage opportunities, they often reported a positive outcome.

It is worth highlighting that while IB researchers encourage the use of the POS lens in explaining the impact of institutional differences, only the multifaceted effects of cultural differences are discussed (Edman, 2016; Stahl et al., 2016). Furthermore, the POS lens focuses on the flexible mechanism leading to the impact of institutional differences. Yet, practical measurements, i.e., distance, could not assess or reflect this flexibility. In this regard, applying the POS perspective also requires an advanced measure to reflect the mechanism leading to the impact of institutional differences. Taken together, I argue that it is important to adopt the POS lens to develop and assess a comprehensive understanding of the impact of institutional differences.

In the current work, I adopt the POS lens to provide a balance treatment of examining the impact of cultural, economic, and political differences. More precisely, I followed the POS lens to focus on potential outcomes of the differences, instead of focusing only on the negative outcomes. Importantly, elaborate on the POS lens, I delve into the mechanism leading to positive and negative outcomes of the differences. Simply stated, I emphasize on the firm specific situations that yield diverse impacts of the institutional differences. In this regard, I provide knowledge on the contextualization of the impact of the cultural, economic, and political differences.

3.3 Dynamic Managerial Capability (DMC) Framework

Adner & Helfat (2003) investigate the managerial influences on a firm's strategies and performance, and report that within a single industry where firms share similar external environments, managers still make different organizational decisions, leading to different corporate strategies and performance. Kostova et al. (2008) similarly highlight the role of the agency or management mechanism in managing continuous institutional change. This idea is shared by other scholars (i.e., Lawrence & Phillips, 2010) when they confirm that the influence of institutional entrepreneurs' actions is as important as the exogenous macro historical context.

Previous studies in foreign divestment have highlighted the need to focus on managerial involvement (Arte & Larimo, 2019; Benito, 1997; Tan & Sousa, 2019), especially when top managers are confirmed to be fully in charge of making all organizational decisions (Carpenter et al., 2004; Teece et al., 1997). Adner and Helfat (2003, p. 1012) stated that "strategic decisions at the top of an organization do not emerge from a disembodied decision- making process—managers make these decisions". Elaborating on the findings regarding corporate performance and the dynamic level of managers, Adner and Helfat (2003) introduce the concept of DMC to uncover the heterogeneity in managerial decisions and firm performance, influenced by external environments.

In essence, DMC refers to "capabilities with which managers build, integrate and reconfigure organizational resources and competences" (Adner & Helfat, 2003). The DMC could be considered a direct analogy of the Dynamic Capabilities View (DCV) that Teece et al. (1997) developed, such that the unit analysis of the DMC is at manager level, while that of the DCV is at firm level. Adner and Helfat (2003) further argue that answering the question of “what makes managers different” could provide an answer to the question of “what makes firms different”. Adner & Helfat (2003) define three underlying elements of the DMC, including managerial human capital, managerial social capital, and managerial cognition.

Managerial human capital relates to learned skills or previous experiences that the managers have developed during their general education, specific training or previous learning (Adner & Helfat, 2003; Helfat & Martin, 2015). Managerial social capital refers to social ties or relationships, established by regular interactions or contacts, conferring control, influence and power (Adner & Helfat, 2003; Helfat & Martin, 2015). In addition, managerial cognition relates to beliefs and mental systems (Adner & Helfat, 2003; Helfat & Martin, 2015). The three aspects establish DMC, which is argued to influence managerial perceptions toward organizational strategies and subsequent performance.

International management and business scholars have long discussed the influences of managerial capabilities on organizational performance and international strategies (e.g., Nielsen & Nielsen, 2011; Tasheva & Nielsen, 2020). Similarly, previous scholars confirm that senior headquarter managers, who are geographically and emotionally remote from divested subsidiaries, justify and make foreign divestment decisions (Benito, 1997; Ghertman, 1988; Tan & Sousa, 2019; Wright & Thompson, 1987). However, the impact of managerial capabilities on foreign divestment has received scant attention (Arte & Larimo, 2019; Tan & Sousa, 2019). Moreover, while external environments have an impact on foreign divestment probability, there is a lack of research into the way in which managers make foreign divestment decisions under the influence of external environments.

In this thesis, I initially adopt the DMC and propose that the managerial dynamic capabilities shape executive’s perceptions of current situations and the prospects of subsidiaries. In addition, the DMC establishes managerial ability to manage any uncertainty and challenges in foreign countries. To elaborate the divestment rate among foreign subsidiaries, I further apply the Global Dynamic Managerial Capability (GDMC), referring to the global aspect of the DMC (Tasheva & Nielsen, 2020), to explain foreign divestment propensities (Tasheva & Nielsen, 2020).

3.4 An Integrated Theoretical Framework

This thesis addresses each research gap reported in previous sections and establishes theoretical proposals, based on integrating the three aforementioned theoretical underpinnings. In general, I propose an integration of Institutional Theory and the POS lens to challenge the traditional negative bias of “being different" and to investigate the multifaceted and multidimensional effects of institutional differences. I further adopt the DMC to delve into the managerial impact on foreign divestment probabilities, influenced by institutional differences.

Elaborating on Institutional Theory, previous scholars argue that foreign operations experience the LOF, leading to higher propensities of failure. Institutional differences, proposed as a key component of Institutional Theory, accelerate the uncertainties and challenges when operating businesses abroad, leading to higher divestment probabilities (Kang et al., 2017; Kostova et al., 2020; Kostova & Zaheer, 1999). In other words, the theory emphasizes a positive linkage between institutional differences and foreign divestment probability.

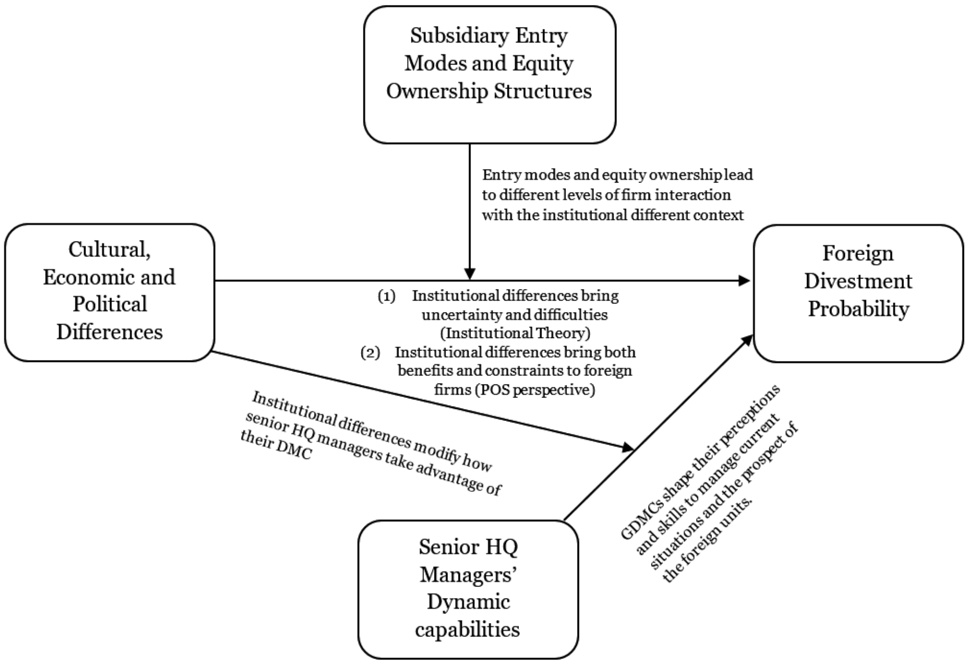

Figure 4. Conceptual Framework of Research

The POS lens challenges the negative bias of being different, generated by Institutional Theory. Adopting the POS lens, IB scholars are encouraged to focus on both the positive and negative outcomes of being different. This tenet is crucial because MNEs often have strong motivation when they entry a foreign market, e.g., global markets, scale of economies, local exploitation and exploration (Edman, 2016). The POS lens focuses on contextual variations or specific situations that lead to the positive or negative outcomes of the differences.

In this thesis, I argue that integrating the POS lens with Institutional Theory could provide a comprehensive explanation for the diverse effect of cultural, economic, and political differences. However, I acknowledge that integration requires an advanced measure that could assess the influence of institutional differences in various situations, especially when the traditional distance metric (Kogut & Singh, 1988) could not reflect the diverse and changeable impact of the institutional differences (Edman, 2016; Nguyen et al., 2022; Stahl et al., 2016). Therefore, I initially develop the cultural, economic, and political friction to quantitatively assess the multifaceted and multilevel effects of the institutional differences.

Aiming at unveiling the mechanism leading top managers to foreign divestment decisions, I further adopt the DMC perspective and investigate the way in which global managerial human capital, managerial social capital and managerial cognition influence foreign divestment decisions. Integrating Institutional Theory with the DMC perspective, I also examine how the relationship between DMC and foreign divestment is modified under pressure from cultural, economic, and political differences. Collectively, an integration of the three relevant perspectives will provide a theoretical background for the influences of institutional differences, i.e., cultural, economic, and political differences, a firm's specific factors, i.e., entry and equity ownership structures and top managerial characteristics relating to foreign divestment probability. Figure 4 presents my research framework, while Table 4 summarizes the key theoretical perspective of Institutional Theory, the POS lens, and the DMC perspective, as well as their applications in previous studies.

Table 4. Summary of Theoretical Perspectives

Theory	Theoretical Underpinnings	Key Representatives	Limitations	Integration Framework
Institutional Theory	Organizational survival and performance are influenced by the characteristics of institutional environments, an organization's characteristics and action and the process of legitimation. Institutional differences generate uncertainty and challenges that foreign firms may not overcome, leading to a higher probability of subsidiary divestment.	(Gaur & Lu, 2007; Kang et al., 2017; Pattnaik & Lee, 2014).	There are certain limitations regarding the use of Institutional Theory in previous foreign divestment literature. • negative biases of being different (Edman, 2016; Stahl et al., 2016, 2017; Stahl & Tung, 2015). • dominant research on cultural differences, compared to other institutional dimensions, leading to a naïve explanation of the impact of institutional differences. • the use of distance cannot access the contextual, specific impacts of institutional differences on specific subsidiaries (Koch et al., 2016; Nguyen et al., 2022). • scant attention paid to managerial roles in managing the impact of institutional differences on foreign subsidiaries' survival (Kostova et al., 2008; Kostova & Zaheer, 1999).	Institutional Theory is applied to: • explain the negative impact of institutional differences on foreign divestment probability (part of a curvilinear effect). • highlight the importance of focusing on specific, contextual situations that generate the impact of institutional differences on foreign divestment. • argue for an agency or management mechanism to manage continuous institutional change.
POS	Researchers should focus on both the positive and negative outcomes of a given phenomenon. Depending on different mechanisms, the impact of institutional differences could be different.	(Edman, 2016; Stahl et al., 2016, 2017).	There are two key issues that need to be solved to develop the POS lens. • the POS lens is adopted to challenge the curvilinear effect of cultural differences, while a negative bias also exists among other institutional dimensions. • the POS lens requests an advanced measure to assess the multifaceted and contextual effects that the traditional distance metric cannot.	The POS lens is applied to: • explain the curvilinear effects of cultural, economic and political differences • support the use of friction, which could reflect the contextual and multifaceted impact of institutional differences.
DMC	"Strategic decisions at the top of an organization do not emerge from a disembodied decision-making process—managers make these decisions". DMC refers to managerial capabilities to "build, integrate and reconfigure organizational" resources and competences, leading to differences between firms in terms of strategies and performance.	(Adner & Helfat, 2003; Tasheva & Nielsen, 2020).	There are two main aspects that may develop the DMC in foreign divestment literature. • the DMC could be developed to explain how top managers involve foreign divestment probability, as top managers are in charge of making all decisions, while their decisions are generally bounded by their managerial capabilities, rather than rational analysis. • the interaction of internal constraints and external uncertainty could elaborate on the survival rate of foreign units.	DMC is applied to • explain how senior HQ executive perceive current situations and the future prospects of foreign units, leading to different probabilities of foreign divestment. • investigate the impact of interaction between external and internal environments on foreign divestment probability. • focus on the global aspect and develop the GDMCs.

4 RESEARCH METHODOLOGY

"...The impact of management studies depends upon the appropriateness and rigor of the research methods chosen..."

(Scandura and Williams, 2000)

This chapter discusses the philosophical underpinnings of the study, the research context, data, key measurements, reliability, and validity of the research. The chapter also includes the analytical strategies applied in this thesis.

4.1 Philosophical underpinnings of the study

Aiming to discover the factors of foreign divestment, the current thesis adopts a post positivistic approach. The post positivism is appropriate to examine the cause-effect relationships with systematic tests of sample, to examine testable hypotheses and quantifying variables in testing models (Creswell & Creswell, 2017). I further follow a deductive approach (Robson, 2011) when I formulate research questions and hypotheses based on a theoretical discussion; test and modify or develop the theory based on the empirical results. Several databases are also applied to quantify the variables involved in the empirical studies.

4.2 Research Context

In this dissertation, Finnish MNEs are selected to perform an empirical context for several critical reasons. Firstly, the Finnish economy is competitive and dynamic in conducting FDI activities, despite its small size in the global arena (Global Competitiveness Report, 2018). Indeed, Finland and other Nordic countries contribute a significantly large number of FDIs. Notably, the impact of the COVID-19 pandemic and other geo-political tensions have resulted in the Finnish FDI flow lagging behind its neighbours in the Nordic and Baltic regions (OECD, 2022). It makes Finland a suitable sample for studies investigating how and why MNEs decrease FDI activities in specific host countries.

Secondly, Finnish national culture differs significantly from that of the United States, Japan and other non-Nordic countries (i.e., Hofstede's and GLOBE frameworks). The government of Finland and Business Finland are also offering supportive programmes to facilitate FDI flow. This establishes an ideal and stable political environment, compared to other countries (Business Finland, 2021). Accordingly, Finnish firms provide an excellent research context for examining the impact of cultural, economic and political differences, as well as senior HQ executives' perception of foreign divestment. Thirdly, the Finnish context could balance the dominance of U.S., Korean, Japanese or Chinese MNEs in foreign divestment literature (Koch et al., 2016). Hence, I argue that Finland, as a good representative of the Nordic region, helps challenge this dominance and develops nuanced knowledge relating to the way in which MNEs develop their IB strategies and make their decisions.

It is also worth noting that friction is a combined measure of national distance, which is similar for firms with the same pairs of home-host countries and firms' specific interaction, which is significantly different among firms. Furthermore, a firm's specific characteristics, i.e., entry mode, equity ownership structure and diverse levels of firm interaction, may lead to different levels of cultural, economic and political friction. Collectively, I argue that applying friction could be considered as compensation for single (home) country data.

4.3 Data Collection and its Contextualization

The current dissertation employs two sets of data for its empirical analysis. The first data set constitutes primary studies in foreign divestment literature, used for a review analysis. I retrieved a range of foreign divestment studies from 1979 to 2021. The long period covers the initial studies, while 2021 was selected as a cut-off year to capture the most recent research. The long time-period is also important in demonstrating the extent to which research into this topic is developed, and more importantly, in categorizing current trends, as well as proposing a fruitful direction for future research.

The second data set constitutes secondary information relating to Finnish MNEs and their FDIs in the manufacturing sectors over a certain period, which is defined precisely in each empirical essay. The main reasons explaining this long time-period relate to the investment – divestment relationship among Finnish foreign subsidiaries, causality as an interest of this dissertation, i.e., the influences of cultural, economic and political friction and senior HQ managers' GDMC on foreign divestment probability. I tracked the Thompson and ORBIS databases to collect Finnish MNEs' information. Data regarding foreign divestment also includes a systematic analysis of firms' annual reports and press releases, information gathered in FDI surveys and direct discussion with the firms.

Information on cultural differences has been collected from GLOBE (House et al., 2004), Hofstede (1980), Schwartz (1994) and psychic distance (Dow & Karunaratna, 2006). Economic and political differences have been collected from Berry et al. (2010). In addition, the information on senior HQ managers has been collected from firm annual reports and the Digital Institution Finland, while direct contact with the managers is also applied.

4.4 Key Measurements

The four-essay-based dissertation has foreign divestment probability as a dependent variable, while diverse sets of independent and control variables are employed in each essay. Independent variables are assigned to investigate their influences on foreign divestment, while the control variables include different levels, i.e., parent, subsidiary, home and host countries.

4.4.1 Dependent Variable: Foreign Divestment Probability

In the review (essay one), foreign divestment studies are collected if the foreign divestment is a dependent variable of primary studies or is an independent variable of studies on divestment mode, the implementation process and the performance of foreign divestment. The diverse collection aims to capture studies that discuss the development of foreign divestment, i.e., divestment probability, divestment mode choice, the divestment implementation process and divestment outcome.

In the three empirical essays, foreign divestment probability is a dependent variable. It is coded as a binary variable, 1 if the investment is divested and 0 otherwise. Furthermore, surviving subsidiaries at the end of the observation period are considered as right-censored cases (Getachew & Beamish, 2017; Kang et al., 2017; Peng & Beamish, 2019; Sartor & Beamish, 2020; Tan & Sousa, 2019).

4.4.2 Cultural, Economic and Political Friction

In this dissertation, friction is applied to assess the influences of cultural, economic and political differences, rather than the distance. As elaborated above, prior research has confirmed that the impact of cultural, economic and political differences may vary, depending on the way in which firms deal with the various contexts. Thus, the influences of the differences are probably not equal for all firms in a given pair of home–host countries (Slangen & Hennart, 2008; Singh et al., 2019). Accordingly, using friction is encouraged in IB studies to assess the influence of institutional differences (Luo & Shenkar, 2011; Shenkar, 2012).

While the measurement of cultural, economic and political friction will be presented specifically in essays two and three, this subsection summarizes the key elements required to calculate the levels of friction. In general, I followed the example of Luo and Shenkar (2011) when measuring the friction level. Accordingly, levels of cultural, economic and political friction are calculated as a combination of the national distance of cultural, economic and political institutions and the specific characteristics of three firms: the contact surface (N), the firms' internationalization speed (V) and the sequence of the investment (G).

- The contact surface, N, represents the extent of the overall interaction of the firm in that country. It is the sum of all firm units in a foreign country.
- The firm's internationalization speed, V, represents how firms applied their experiential knowledge to deal with host country risks and uncertainty. It is measured by changes in the number of a firm's foreign units in a host country in the corresponding year.
- The sequence of the investment, G, reflects the firm's prior experience in the local market at the time the investment is made. The first foreign investment is coded as 0, while subsequent investments in that country are coded as 1 – 1/k, while k is the order of the investment. Luo and Shenkar (2011) denote G to represent the sequence of international experience but given that a lower value for G (i.e., earlier entry) implies a higher level of friction, this variable is incorporated in Luo and Shenkar's (2011) index as (1-G).

Taken together, the cultural, economic and political friction, abbreviated as CF, EF and PF respectively, are measured as follows:

$$CF = e^{V(1-G)} \times \frac{CD}{100} \times N;\ EF = e^{V(1-G)} \times \frac{ED}{10} \times N;\ PF = e^{V(1-G)} \times \frac{PD}{10} \times N$$

in which, e is equal to 2.7183. Similar to the CD, ED and PD variables, the CF, EF and PF variables typically include a suffix, indicating the underlying cultural, economic and political framework involved (i.e., CF – GLOBE-Values, economic and political distance by Berry et al. (2010)). It is also worth noting that as MNEs may continue to expand or change their investment portfolios in local countries over the year, the values of cultural, economic and political friction of a foreign subsidiary in the local countries would also change, due to the changes of N, V and G.

4.4.3 DMC

I followed Tasheva and Nielsen (2020) to assess the senior HQ managers' dynamic capabilities. I focused specifically on the global scale of the DMC and developed the GDMC of the top managers, including three elements, global human capital, global social capital and global managerial cognition. I collected data on executive characteristics at an individual level and then computed to the team level using different measures. I follow Tasheva and Nielsen (2020) particularly and measure *global managerial human capital,* i.e., coded as 1 for executives with experience of working or schooling abroad, otherwise 0. *Global managerial social capital* is coded as 1 if executives have foreign membership abroad, otherwise 0. *Global managerial cognition* is coded based on an executive's national cluster diversity. I adopted a heterogeneous operationalization using the Blau index (i.e., Nielsen & Nielsen, 2011; Tasheva & Nielsen, 2020):

$$B = \left[1 - \sum (p_i)^2\right]$$

where p is the percentage of members in the ith group.

4.4.4 Control Variables

Previous scholars argue that MNEs establish their strategies, especially FDI-related strategies by reviewing different aspects of specific situations (Arregle et al., 2013; Marano et al., 2016; Nielsen & Nielsen, 2013). Consequently, there is a need to consider variables reflecting the different aspects of the decision-making process. This argument is especially true in the case of foreign divestment. Hence, in this dissertation, I control variables belonging to different levels, i.e., country, parent firm, subsidiary and top management levels. In each empirical essay, there are tables presenting lists of control variables employed in testing models.

4.5 Reliability and Validity

In order to check the validity of the analysis process, the validity of empirical measurements, as well as constructs need to be checked (Churchill, 1991). In general, as all measures applied in this dissertation are developed and examined in previous studies, there should be a strong argument for validity. The friction construct has not been fully tested in previous empirical studies, however, several studies have provided support for the use of this construct to assess the differences (Koch et al., 2016; Luo & Shenkar, 2011; Nguyen et al., 2022; Shenkar et al., 2008; Singh et al., 2019). Furthermore, my empirical essays two and three have also provided empirical evidence of the reliability and validity of the use of this advance friction, over distance.

In addition, the construct validity in the present dissertation was also obtained and considered, by conducting a systematic review of existing literature (Johnson, 1997). In a similar vein, the empirical analysis adopted in the present study has been selected based on an extensive review of previous empirical studies on foreign divestment and considering the unique nature of the variables applied in the current dissertation.

Reliability refers to the repeatability of the research findings (Bryman & Bell, 2015). In each essay, several post hoc tests and robustness checking are performed to test the reliability of the empirical findings. In addition, several tests, i.e., correlations, descriptive analysis and multicollinearity have been performed to assess the reliability of the collected data and the results of the study.

4.6 Analytical Strategies

This dissertation employs both qualitative and quantitative analysis assigned in each essay. Essay one specifically employs the bibliometric review technique and qualitative content analysis to synthesize previous findings on foreign divestment research. The three empirical essays apply quantitative analytical strategies to fulfil each assigned research objective and to provide answers for the research questions. The quantitative analysis is selected to analyse the impact of the independent factors on the dependent factors, as the quantitative analysis is useful in exploring causality and effects, as well as testing hypotheses and questions (Creswell, 2003). The quantitative method is applied in the current work, in particular, as it is able to identify the linkage between factors and outcomes, as well as the moderating effect (Creswell, 2003).

4.6.1 Frailty Survival Analysis

Essays two and three apply Frailty Survival Analysis to explore the influence of cultural, economic and political differences. Cox's proportional hazards model (Cox & Oakes, 1984) has been widely used in the existing foreign divestment literature (Pattnaik & Lee, 2014; Kang et al., 2017; Song & Lee, 2017). Cox's model is advanced due to its suitability for modelling different forms of event history data, as the model needs no assumption of any functional form for the underlying hazard function, relative to parametric models (Song, 2014b; Lee et al., 2019). The model also allows for various types of underlying survival functions, as the baseline function is not specified in the model (Berry, 2013). In this regard, the divestment propensity presents as log-linear functions of different firm- and subsidiary-level covariates (Kang et al., 2017). I adopted a frailty Cox proportional hazard model, instead of the basic Cox model, to deal with the unobserved heterogeneity or event dependence (Berry, 2013; Lee et al., 2019). The frailty models consider cluster-specific homogeneities, that is a subsidiary, nested in its MNE (Austin, 2017; Lee et al., 2019). The models also consider whether the same firm may suffer the hazard more than once, because of unmeasured causes (Berry, 2013).

Essay four of the current dissertation aims to explore the influence of GDMC on foreign divestment probability. In this regard, I also adopt the Frailty Survival Analysis to analyse the empirical hypotheses developed in the essay. As elaborated above, hierarchical analysis is applied to consider the hierarchical nature of variables belonging to different levels, i.e., parent firms, subsidiary units, home and host countries and individual levels. The method section in essay four will provide thorough information relating to this analytical strategy.

4.6.2 Endogeneity Issue

The current dissertation unveils the influences of entry mode, i.e., acquisition vs. greenfield, on foreign divestment. Previous scholars raise a potential endogeneity issue relating to entry mode decisions and the influences of the mode choice on subsequent strategies, i.e., foreign divestment. In essence, entry mode scholars raise the endogeneity issue, that MNEs may pre-select their specific modes of entry, based on their corporate strategies, instead of an evaluation of the external environment (Mudambi & Zahra, 2007; Peng & Beamish, 2014b; Shaver, 1998). Consequently, research relating to entry mode should control the endogeneity relating to this selection bias.

Essay two describes more specifically how my co-authors and I adopted different methods to address the endogeneity issues, when dealing with the impact of entry mode on foreign divestment probability. It is also worth noting that we checked and applied the two-step models, when assessing the influences of equity ownership structure in essay three, even though the published version does not mention that. The results have been similar.

5 SUMMARY OF THE ESSAYS

In this chapter, the summaries of four essays are presented. The first essay systematically reviews previous studies in the foreign divestment literature. The second and third essays investigate the effects of cultural (essay two), economic and political differences (essay three) on foreign divestment probability, using an advanced friction construct, other than distance. In essay four, the roles of top managers in making foreign divestment decisions would be discussed. A summary of each essay will also present the sample and specific research methods applied in the study.

5.1 Essay One: A 40-Year-Retrospective Summary of Foreign Divestment and its Implications: Past Achievements and Future Direction

Over the past 40 years, foreign divestment or survival has been the focus of significant attention in IB and management research. Not surprisingly, there are excellent previous reviews on the antecedents of foreign divestment decisions (Arte & Larimo, 2019; Coudounaris et al., 2020; Kafouros et al., 2021; Schmid & Morschett, 2020). However, these previous reviews have focused on different perspectives, i.e., theoretical foundation or empirical studies, e.g., due to the use of meta-analysis. Hence, a more extensive review is needed. In this essay, we aim to answer the questions ***"How has the foreign divestment literature been developed and what are research gaps in the extant literature?"***

Precisely, my co-authors and I aim to provide an understanding of foreign divestment and track the development of foreign divestment literature. We synthesize extant knowledge relating to foreign divestment and identify significant gaps. Elaborating on the synthesis, we aim at highlighting future avenues to stimulate new insights and novel studies on foreign divestment.

Accordingly, we adopt a bibliometric technique with qualitative content analysis to analyse primary studies published between 1979 and 2021 to capture the development of the topic, especially initial studies on divestment decisions (Boddewyn, 1979, 1985). There are 270 studies in the essay, a significant larger number than in previous studies, focusing on both the factors and implications of foreign divestment, i.e., divestment mode choices, implementation, and outcome. The 270 studies are grouped into six clusters, focusing on different research streams of the foreign divestment topic. The clusters are (1) the foreign divestment of specific entry modes, (2) the strategic perspective of foreign divestment, (3) evolutionary and learning experience, (4) the footloose perspective of foreign divestment, (5) subsidiary characteristics and (6) political institutions influencing foreign divestment. Elaborating on the cluster analysis, this review provides several future directions for developing our nuanced understanding of foreign divestment, focusing on three different stages of foreign divestment, i.e., factors of foreign divestment and divestment mode choices, factors of the divestment process and factors of the foreign divestment outcomes. The future direction is presented as a proposed framework to develop our nuanced understanding of the foreign divestment.

5.2 Essay Two: Why divest? Cultural Friction in Foreign Divestment Decisions

IB scholars have long discussed the influences of cultural differences on MNEs' internationalization, in particular, foreign divestment (Beugelsdijk & Welzel, 2018; Kang et al., 2017; Wang & Larimo, 2020). However, the empirical results are mixed, as cultural differences are reported to have positive, negative or non-significant effects. Aiming to explain the contradictory findings, my co-authors and I aim to answer the following question in the current essay, ***"What is the influence of cultural differences on foreign divestment probability?"***

Our review shows that there are three pressing issues in the literature relating to cultural differences – foreign divestment relationship. Firstly, there is the criticism of using the national cultural distance metric, a quantitative score computed to measure the differences between national cultures (Kogut & Singh, 1988) in IB studies. Previous researchers argue that cultural distance does not reflect the way in which firms perceive and respond to cultural differences, which is measured at national level (Konara & Mohr, 2019; Shenkar, 2012). Secondly, the negative bias of being different is reported in IB literature (Edman, 2016; Reus & Lamont, 2009; Stahl & Tung, 2015). For instance, Stahl and Tung (2015) have highlighted the negative outcome of cultural differences among existing IB literature and asserted that cultural differences do not always harm the outcomes of MNEs. Indeed, some research shows that cultural differences could bring several advantages under certain conditions (Singh et al., 2019). Thirdly, Luo and Shenkar (2011) argue that the impact of cultural differences may be contextual, that is, the impact could be modified by various factors. Entry mode, i.e., acquisition vs. greenfield, is one such issue (Beugelsdijk et al., 2018; Jiang et al., 2015; Luo & Shenkar, 2011; Shenkar et al., 2008). Nonetheless, the findings relating to the entry mode in foreign divestment research are inconsistent.

This essay addresses the three aforementioned issues, using a different theoretical lens and an advanced measure of cultural differences. Put simply, this essay elaborates on the POS lens (Cameron, 2017; Cameron & Caza, 2004; Stahl et al., 2016) to challenge the traditional negative bias of being different, as proposed by Institutional Theory (Kang et al., 2017; Kostova et al., 2020; Kostova & Zaheer, 1999). We argue that while higher levels of cultural differences bring difficulties for foreign units in terms of achieving local legitimacy and survival, lower levels of cultural differences may benefit foreign firms with local resources and innovation. Hence, we propose a curvilinear effect of cultural differences on foreign divestment.

Cultural friction, developed by Shenkar and his co-authors (Shenkar, 2001; Luo & Shenkar, 2011; Shenkar, 2012), is adopted to assess the impact of cultural differences, other than distance. This research also examines the “assumption of linearity” and the implicit belief that cultural differences always harm a firm’s survival. We further uncover the influences of entry mode, as a moderating factor affecting the cultural friction – foreign divestment relationship. The empirical analysis in this essay consists of 29,519 observations from 2,120 foreign investment cases, made by 269 Finnish firms in 40 countries, from 1970 to 2010, using the frailty Cox’s hazards proportional model.

Our empirical results confirm that the influence of cultural friction on foreign divestment probability is a U-shape. More precisely, at low levels of cultural friction, the benefits of cultural differences could offset the disadvantages, while firms could manage the low levels of cultural interaction using previous experience, memory effects and well-prepared strategies. Accordingly, low levels of cultural friction decrease the foreign divestment probability. Nevertheless, when the levels of cultural friction exceed a certain threshold, the benefits from cultural differences are less and may not outweigh the disadvantages caused by cultural differences. In addition, applying experiences that surface in inappropriate situations may result in the failure of firms. Consequently, higher levels of cultural friction increase foreign divestment probability.

Notably, we found that the moderating effect of entry mode was not supported after controlling for selection bias. Hence, there is a need to examine the endogeneity issue generated by entry mode choice in IB studies, and particularly in foreign divestment research. Several post hoc tests are included in this paper to assess the validity of the results, especially comparing the cultural distance and cultural friction in assessing the influence of cultural differences. Importantly, the post hoc tests uncover which parts of the cultural friction drive the influence of cultural differences.

Collectively, our results confirm a curvilinear effect of cultural friction on foreign divestment and an advancement of cultural friction over cultural distance in measuring the effects of cultural differences. The empirical findings also show that entry mode has an endogeneity issue that should be considered cautiously in future research

5.3 Essay Three: Understanding Foreign Divestment. Economic and Political Friction in Foreign Divestment Decisions

Previous research highlights the diverse effects of the institutional environment, both informal institutions and formal institutions (Farah et al., 2021; Kang et al., 2017; Pattnaik & Lee, 2014). Economic and political institutions, as key representatives of formal institutions were the focus of significant attention. Nevertheless, the previous findings are inconsistent. In this essay, my co-authors and I aim to answer the following question ***"What are the influences of economic and political differences on foreign divestment probability?"***

Our review shows that despite a large amount of IB research into the influences of economic and political differences, there are three striking issues. Firstly, IB researchers tend to assume a similar effect for all dimensions of institutional differences (Gaur & Lu, 2007; Kang et al., 2017; Pattnaik & Lee, 2014), that ignore the unique nature of each institution (Jackson & Deeg, 2008). The empirical findings of some research studies confirm this proposal (Tsang & Yip, 2007; Demirbag et al., 2011; Rittippant & Rashee, 2015; Song & Lee, 2017). Secondly, the negative bias discussed in cultural studies is also reported in studies relating to economic and political differences (Lorenz et al., 2018; Stahl et al., 2016). Thirdly, assessing the influences of institutional differences, and particularly economic and political differences, the traditional "distance" metric is also applied, thus criticism of the use of distance also exists among economic and political studies (Zaheer et al., 2012).

Elaborating on the three aforementioned, peculiar issues, we argue that the effects of economic and political differences on foreign divestment will be different, due to the unique characteristics bonded in the institutions. We will integrate the POS into the Institutional Theory and using the friction metric, we will argue that friction is also applicable in terms of assessing the differences of other institutional dimensions (Zaheer et al., 2012). We further discuss the moderating effect of equity ownership structure, i.e., WOSs vs. IJVs, on the main hypothesis. Equity ownership structure (i.e., IJVs) has been confirmed as increasing the levels of a firm's interaction with national institutions, due to operational and managerial blending, thus, increasing the levels of friction (Luo & Shenkar, 2011). Hence, we propose that equity ownership structure may moderate the effects of economic and political friction. We address the research question by using a data set of 310 Finnish MNEs from 1970-2010, operating 2400 foreign subsidiaries in 65 countries, with the Frailty Survival Analysis.

Our research confirms that economic and political differences have different influences on foreign divestment. Economic friction has a U-shaped effect on foreign divestment probability, that is, lower levels of economic friction decrease foreign divestment propensity, but this relationship is not stable. Nevertheless, beyond a certain threshold, higher levels of economic friction will increase the probability of foreign divestment.

We also found that political friction increases foreign divestment probability. We explain that the differences between political institutions bring the greatest challenges for MNEs, yet political advantages may be not available to foreign firms (Chao & Kumar, 2010; Lorenz et al., 2018). The finding also confirms (Dhanaraj & Beamish, 2009) proposal regarding an implied assumption of foreign divestment studies, that is, foreign subsidiaries have already incurred start-up costs in dealing with political hurdles, thus, any favourable change in those hurdles is less likely to generate new opportunities supporting their survival. In addition, due to the potential effects of external stakeholders, MNEs will manage their subsidiary managers' behaviour to avoid being illegal in host countries (Sartor & Beamish, 2020).

Furthermore, our findings show that WOSs tended to stay longer than IJVs or had a lower probability of foreign divestment. However, the equity ownership structure does not significantly moderate the effects of economic and political friction on foreign divestment. We propose two critical explanations for this result. Firstly, Gaur and Lu (2007) stated that regulative differences (e.g., economic, political) are more clearly stated and easier to overcome than normative differences (e.g., informal, cultural), regardless of ownership levels. Therefore, we propose that the equity ownership structure will not modify levels of firm interaction with economic and political differences. In addition, proposing the cultural friction construct, Luo and Shenkar (2011) emphasized how organizational culture modifies the levels of cultural friction. However, the organizational economics or politics are not available. Accordingly, equity ownership structure would not generate different levels of friction in economic and political institutions.

5.4 Essay Four: Let's Talk About Senior Executives. Explaining the Dynamic Managerial Capabilities in Foreign Divestment

IB scholars highlight the crucial role of top managers at headquarters with regard to strategic decision-making and organizational performance (Adner & Helfat, 2003; Hambrick & Mason, 1984; Helfat & Martin, 2015; Nielsen & Nielsen, 2011, 2013; Tasheva & Nielsen, 2020). While previous studies have discussed the managerial roles in IB research, the roles have received scant attention in foreign divestment literature. Nonetheless, top headquarter executives, who are geographically and emotionally remote from targeted subsidiaries, evaluate and are responsible for making foreign divestment decisions (Benito, 1997; Ghertman, 1988; Tan & Sousa, 2019; Wright & Thompson, 1987). Hence, I aim to address the research question: ***"What is the managerial role in making foreign divestment decision and how the institutional differences moderate the managerial role?"***

It is worth mentioning that foreign divestment is not considered as a favourable decision among senior executives (Boddewyn, 1983a; Ghertman, 1988; Resmini & Marzetti, 2020). Hence, in this essay, I propose that MNEs and their senior managers often avoid making divestment decisions (Benito, 2005; Dhanaraj & Beamish, 2009; Peng & Beamish, 2019; Tan & Sousa, 2019). Developing the DMC perspective on a global scale (Adner & Helfat, 2003; Tasheva & Nielsen, 2020), this study unveils the linkage between the GDMC and foreign divestment probability. I argue specifically that GDMC increases executives' ability to provide useful knowledge, information, networks, local resources and diversifying mindsets that may stimulate foreign divestment decisions. The extant literature argues that new CEOs may wish to change current business portfolios and show their distinctiveness from their predecessors, leading to a higher probability of foreign divestment. Hence, I examine how the replacement of CEOs influences the probability of divestment. Furthermore, this essay provides a contextual analysis by investigating the moderating effects of the external environment, in particular, cultural, economic and political differences and how these impact senior HQ executives in relation to divestment. The empirical analysis relates to 604 investment cases made by 157 MNE firms in 36 foreign countries, between 2011 and 2016, from of 102 (17%) are divested at the time of research. Due to the nested structure of data collected in this study, the frailty survival analysis is applied to test empirical hypotheses.

Our empirical findings constitute foreign divestment literature in three areas. Firstly, I develop the DMC perspective on a global scale and confirm that GDMC decreases foreign divestment probability. Secondly, I confirm that the replacement of CEOs does not relate significantly to foreign divestment probability. I explain that the replacement of CEOs may not always be a signal of corporate strategic change, rather a retirement or suddenly death (Makino et al., 2007). Hence, a relationship between CEO turnover and foreign divestment probability is less likely. Thirdly, we confirm the moderating effects of cultural, economic and political differences on the GDMC–foreign divestment relationship. Put simply, when the differences are greater, the influences of the GDMC on foreign divestment will be decreased. Furthermore, we consider the nested hierarchical nature of variables involved in FDI legitimacy. Non-multilevel methods are widely applied in the extant foreign survival literature for testing hypotheses (Berry, 2013; Kang et al., 2017; Tan & Sousa, 2019). Nonetheless, this essay provides evidence of the multilevel interactions of the variables and constitutes a novel example, encouraging future studies from a survival perspective, to employ a hierarchical method in their analysis strategy. Table 5 summarizes the four essays included in this thesis.

Table 5. Research Questions, Contributions and Four Essays of Thesis

Thesis Title	**Foreign Divestment Decision: A Multilevel Analysis of Institutional Differences and Top Managers**			
Thesis Research Objectives	(1) Synthesizing previous findings and developing a conceptual framework for investigating foreign divestment. (2) Examining the multifaceted and multilevel influences of the external environment on foreign divestment probability. (3) Investigating the effects of internal constraints on foreign divestment probability. (4) Developing knowledge regarding the roles of senior HQ managers in making foreign divestment decisions.			
Thesis Research Questions	***"What are the influences of institutional differences and senior HQ executives on foreign divestment, when subject to subsidiary characteristics?"***			
Research Context	Finnish MNEs Between 1970 and 2010			
Thesis' structure	Essay One	Essay Two	Essay Three	Essay Four
Essay's Title	*A forty-year retrospective study of foreign divestment research: past achievements and future direction*	*Why divest? Cultural friction in foreign divestment*	*Understanding foreign divestment: the impact of economic and political friction*	*Let's talk about senior managers. Dynamic managerial capabilities in foreign divestment*
Essay's Objective	(1)	(1,2,3)	(1,2,3)	(1,2,4)
Essay's Research Questions	How has the foreign divestment literature been developed and what are the research gaps in the extant literature?	What is the influence of the cultural differences on foreign divestment propensities and how do subsidiaries' entry modes moderate the influence of the differences?	What is the influence of the economic and political differences on foreign divestment propensities and how do subsidiaries' equity ownership structure moderate the influence of the differences	What is the managerial role with regard to making foreign divestment decisions and how do institutional differences moderate the managerial role?
Theoretical Framework	N/A	Institutional Theory and POS perspective	Institutional Theory and POS perspective	Institutional Theory and DMC framework
Research Methodology	Bibliometric and content analysis	Frailty Survival Analysis	Frailty Survival Analysis	Frailty Survival Analysis
Sample	270 primary studies in foreign divestments' antecedents and implications.	2,120 investments made by 269 Finnish MNEs in 40 different host countries	2400 foreign subsidiaries, 310 of which are Finnish MNEs between 1970 and 2010 in 65 foreign countries	604 investment cases made by 157 MNE firms in 36 foreign countries, from 2011 to 2016.
Findings	Synthesizing previous findings. Analysing six research clusters. Developing a conceptual framework with suggestions for future research.	Cultural friction is a more advanced measure in terms of assessing the influences of cultural differences than cultural distance. Cultural friction has a U-shaped effect on foreign divestment probability. Acquisition vs. greenfield does not modify the influences of cultural friction.	Friction is more advanced in measuring the effects of economic and political differences than distance. Economic friction has a U-shaped effect on foreign divestment probability. Political friction increases foreign divestment probability. The equity ownership structure does not moderate the effects of economic and political friction on divestment.	Dynamic managerial capabilities negatively influence foreign divestment probability. CEO turnover does not significantly relate to foreign divestment probability. Cultural, economic and political differences moderate the negative effects of DMC on foreign divestment probability.

6 DISCUSSION AND CONCLUSIONS

This chapter presents the key integrated findings of the four essays, which contribute to answering the research questions of this dissertation. The theoretical contribution, practical and governmental implications will also be discussed. The last part of this chapter discusses the limitations and future direction.

6.1 Answering Research Questions – Key Integrated Findings

As an attempt to synthesize previous knowledge and to address pressing issues relating to foreign divestment literature, I shed some light on the influence of cultural, economic and political differences, as well as that of senior HQ executives on foreign divestment probability. Firm specific factors, i.e., entry and equity ownership structures are also considered in the dissertation.

6.1.1 The Development of Foreign Divestment Literature

The first review synthesized the knowledge from 270 primary studies in foreign divestment research. The review shows that a significant six clusters emerged in the foreign divestment literature. The six clusters discussed different aspects of the topics: (1) foreign divestment of specific entry modes, (2) strategic perspective of foreign divestment, (3) evolutionary and learning experience, (4) footloose perspective of foreign divestment, (5) subsidiary characteristics and (6) influence of political institutions on foreign divestment. While the clusters showed a variety in the research perspectives explaining foreign divestment, the clusters pointed to a dominant area in the research relating to the factors influencing foreign divestment decisions. In addition, the review highlights the inconsistent findings of the extant literature regarding the factors influencing foreign divestment. The inconsistent findings outline the need for further research to extend our knowledge, e.g., to assess the impact of institutional differences, to challenge the negative bias in relation to "negative outcome" assumptions and to provide a comprehensive understanding of the diverse effects of various institutional dimensions, e.g., cultural, economic, and political differences. Hence, in this review, I suggested different proposals to develop our knowledge of foreign divestment research. The proposal is discussed in the empirical essays, while the key findings of these are also presented in the following subsections.

Importantly, while previous studies have delved into different factors of foreign divestment, our review shows a need to develop research on foreign divestment implementation, i.e., divestment mode choices, the divestment process and divestment outcome. A lack of attention to foreign divestment implementation leads to an incomplete understanding of the foreign divestment. Our review further proposes a connection between research on factors and implementation of foreign divestment, e.g., propensities of foreign divestment and divestment mode choices, divestment mode choices and implementing process, or divestment mode choices with the outcome of divestment. The connections would develop our nuanced studies about foreign divestment literature.

6.1.2 Friction: An Advanced Measure of Differences

The first empirical finding of the current dissertation relates to the confirmation of the advancement of the friction construct, over distance, to evaluate the influences of cultural, economic, and political differences. We acknowledge that Shenkar and his co-authors (Shenkar, 2001; Luo & Shenkar, 2011; Shenkar, 2012) initially develop the concept of "cultural friction" to capture the combined effect of national and firm-level factors, while subsequently, Zaheer et al. (2012) propose an extension of the use of friction to other dimensions of the institutions. However, there is a lack of research which examines the utilization of the friction measure, to assess the influence of the differences.

Specifically, in essay two, I examined the superiority of cultural friction and showed that once a cultural framework has a relevant effect on foreign divestment probability, cultural friction exhibits a consistent finding, namely, a U-shaped influence on foreign divestment probability. In contrast, cultural distance has shown inconsistent impacts on foreign divestment, depending on which cultural frameworks, e.g., GLOBE Practice, Hofstede's 4 and 6 dimensions, Psychic distance, Schwartz, are applied. This finding could explain partly the inconsistent findings among previous empirical research.

In essay three, the friction metric is developed to access the influences of economic and political differences on the propensity of foreign divestment. The empirical findings show that friction is more superior than distance, as it could show how the influences of economic differences change over time (a U-shaped effect) and how the influences of political differences (a positive effect) matter in terms of making foreign divestment decisions. In contrast, economic distance could not show the changeable impact of the economic differences depending on different levels of firm interaction. Similarly, political distance is failed to capture the influence of political differences on divestment probability. In addition, the findings confirm Zaheer et al. (2012)'s proposal regarding the mechanism leading to friction, which also has validity in relation to other institutional dimensions, such as economic and political differences.

6.1.3 Multilevel and Multifaceted Effects of Cultural, Economic and Political Friction

The second empirical finding relates to the multilevel and multifaceted effects of the three key institutions and highlights the cultural, economic, and political differences. In this dissertation, I integrate the POS perspective with Institutional Theory and examine the diverse impacts of cultural, economic, and political differences on foreign divestment. The empirical findings show that depending on specific situations and institutional contexts, the effects of cultural, economic, and political friction will be different.

I found that cultural friction has a U-shaped effect on foreign divestment probability. At low levels of cultural friction, foreign subsidiaries could receive several benefits, i.e., arbitrage opportunities, local exploitation and exploration or innovation, while the disadvantages may be offset by achieved benefits, well-prepared plans and memory effects. Consequently, lower levels of cultural friction decrease foreign divestment probability. However, the effect will not be stable, and at a certain threshold, the effect will be reversed, that is higher levels of cultural friction will increase foreign divestment probability. The main reasons for this reversal are due to the fact that it may not be efficient to apply previous experience and well-prepared plans, when operating in a significantly, culturally diverse context. Worse still, inappropriate use could result in the failure of firms (Nadolska & Barkema, 2007; Zeng et al., 2013). In addition, the arbitrage opportunities and local resources may be not available at higher levels of cultural differences (Gaur & Lu, 2007).

In addition, I found that economic friction has a U-shaped impact on foreign divestment probability. Foreign subsidiaries, at low levels of economic friction, could take advantage of local economic resources and economic arbitrage opportunities, leading to lower levels of foreign divestment probability. However, where incurred costs are higher than the achieved benefits, higher levels of economic friction increase foreign divestment propensities.

Interestingly, the impact of political friction on foreign divestment is unique, as findings show that political friction increases foreign divestment propensities. Put simply, when MNEs operate in host countries with higher levels of political friction, foreign subsidiaries have a higher rate of divestment. The result confirms three underpinning arguments that are voiced in political studies. Firstly, political friction creates more serious obstacles to foreign units than other institutions (Berry et al., 2010; Chao & Kumar, 2010; Dhanaraj & Beamish, 2009). Since host governments have greater powers than foreign units (Cordero & Miller, 2019; Sartor & Beamish, 2020), higher levels of political friction will increase higher levels of conflict and constraints, leading to higher propensities of foreign subsidiaries (Kang et al., 2017; Pattnaik & Lee, 2014). Secondly, MNEs and their foreign operations are often reluctant to take advantage of political benefits, especially when they have to negotiate with host governments to acquire such benefits (Sartor & Beamish, 2020; Witte et al., 2020). Thirdly, the findings further prove an important assumption in the foreign divestment literature, namely that political differences and change in this institution are less likely to bring new opportunities which increase the survival chances of foreign subsidiaries (Dhanaraj & Beamish, 2009).

6.1.4 Moderating Effects of Entry and Equity Ownership Structures

While the contingency effect of entry mode and equity ownership structure is raised by several scholars, the moderating effects of entry and equity ownership structures on the impact of cultural, economic and political differences on foreign divestment probability have seldom been examined. Importantly, to the best of our knowledge, there are no prior studies which investigate the moderating effects on the impact of friction.

Specifically, due to a potential endogeneity concern with respect to the entry mode choice (Shaver, 1998; Mudambi & Zahra, 2007; Peng & Beamish, 2014), an advanced two-step model is applied to explore the influence of entry modes on foreign divestment. The findings show that entry mode does not appear to have any significant effect either on foreign divestment or on modifying the impact of cultural friction on foreign divestment probability. Interestingly, results from a simple model, rather than a two-stage correction factor for acquisitions, indicate both a positive direct effect for acquisition and a moderating effect consistent with entry via acquisition 'flattening', i.e., the friction–divestment relationship. This interesting result highlights the need to control for endogeneity when examining the influence of entry mode in IB studies, in particularly, in foreign divestment research.

Furthermore, the empirical results indicated that WOSs decrease foreign divestment probability, as this mode could decrease levels of internal interaction, as well as levels of conflict which could occur during the decision-making process. Notably, we found that ownership structure does not modify the impact of economic and political friction on the propensities of foreign divestment. Although the finding is inconsistent with the proposed hypotheses, it is interesting. A plausible explanation for this result is the existence of a clear statement or the availability of secondary information regarding economic and political institutions that foreign units have at their disposal, when operating businesses in foreign countries (Gaur & Lu, 2007).

6.1.5 Influence of Senior HQ Executives

A lack of studies relating to the impact of senior HQ executives on foreign divestment probabilities have been raised in prior studies (Arte & Larimo, 2019; Tan & Sousa, 2019). In this dissertation, I adopted the DMC framework on a global scale and argue that GDMC, i.e., global managerial human capital, managerial social capital and managerial cognition enhances managerial capabilities, e.g., taking advantage of resource exploitation and exploration, processing information, and utilizing accumulated experience to manage foreign operations efficiently, thus, decreasing foreign divestment probabilities.

More precisely, global managerial human capital increases managerial abilities to search for local resources, support firms dealing with the LOF, overcome “psychic distance” and identify fundamental differences among prior experiences. Hence, managerial human capital could support managers in making appropriate decisions, yielding lower propensities of foreign divestment.

Global managerial social capital equips managers with social ties to internal and external stakeholders, which are important and useful for accessing accurate information, so as to provide a solid background for decision- making and to shorten the geographical distance between headquarters and subsidiaries, especially when managers need to make decisions on units located in different countries. Hence, managers with higher levels of social capital make better strategic decisions and enhance organizational performance, which leads to lower levels of foreign divestment.

The empirical findings further showed that global managerial cognition decreases foreign divestment probability. I argue that diversity in managerial cognition brings more innovative solutions, strategic alternatives and increase flexibility. Accordingly, managerial cognition enhances managers’ ability to make better strategic decisions and increases organizational performance. Hence, managerial cognition could decrease the propensity of foreign divestment.

6.1.6 Moderating Effect of Cultural, Economic and Political Differences

Integrating Institutional Theory and the DMC perspective, the moderating impacts of cultural, economic and political differences on the GDMC-foreign divestment probability relationship are also discussed. An empirical analysis provides support for the moderating effects of cultural, economic and political differences on the GDMC-foreign divestment relationship. I argue that MNEs cannot provide the required input in terms of time, while the foreign units cannot be considered as isolated units if the units do not receive attention from the headquarters. Furthermore, the differences bring challenges for MNE managers when trying to take advantage of their DMC to support their decision-making process, to access internal and external information sources and to overcome the LOF. Hence, I conclude that the differences reduce the negative impact of GDMC on foreign divestment propensities.

6.2 Theoretical Contributions

I integrate Institutional Theory, the POS lens, and the DMC framework to build on the theoretical foundation of this dissertation. Elaborating on the findings, this thesis presents the theories in several meaningful ways. Firstly, I extend the Institutional Theory by challenging the traditional assumption regarding the influences of cultural, economic, and political differences, i.e., similarity and linearity, in IB studies. The findings show that depending on the institutions and the levels of friction, the influences could be positive, negative, or U-shaped.

Secondly, the findings show that the POS lens could elaborate on the mechanisms leading to diverse effects, i.e., the negative, positive, or curvilinear aspects of the differences. Hence, this work provides empirical evidence for the novelty of the POS lens, by highlighting the multifaceted influences of cultural, economic, and political differences in IB studies, and in particularly, in foreign divestment literature.

Thirdly, I focus on foreign divestment decisions on an individual level to unveil the role of the senior HQ managers, so as to develop the DMC framework from a global perspective. Adopting the DMC framework, I confirm that the roles of senior HQ managers are vital, as the managers are fully in charge of making any organizational strategies and decisions, including foreign divestment decisions.

This research also sheds lights on the influences of a subsidiary's specific characteristics in relation to the probability of divestment. Assessing the influence of cultural, economic, and political differences using the friction metric, I confirm that not only national distance regarding cultural, economic and political institutions is important, but depending on the levels of firm interaction, i.e., sequence, speed of international expansion, or number of subsidiaries at the host countries, the influences could be different.

The effects of entry and equity ownership structures are also discussed in this dissertation. Applying a more advanced method, i.e., controlling the endogeneity issues, I confirm that entry mode does not have a significant influence on the cultural friction–foreign divestment relationship. This finding confirms that the influence of entry mode choice, either as a direct or a moderating effect, is complicated and requires a more advanced method to interpret its mechanism, leading to influences on IB studies.

Similarly, equity ownership structure does not modify the impacts of economic and political friction on the propensities of foreign divestment, although WOSs were found to be less likely to be divested than IJVs (a direct effect). The empirical findings show that foreign subsidiaries are less likely to be involved in different layers of economic and political friction, regardless of their equity ownership structures, as foreign subsidiaries generally do not have their own economic and political systems, by comparison with cultural institutions. Accordingly, the findings support foreign divestment literature, by showing that depending on institutional dimensions and firms' specific interaction, the influences of entry mode and equity ownership structures on foreign divestment probability could vary.

6.3 Managerial Implications

The managerial implications of this dissertation are straightforward. Investigating the way in which MNEs divest foreign subsidiaries, this study benefits MNEs and their managers in several ways. Firstly, the dissertation shows the benefit of using friction to assess the influences of cultural, economic, and political differences. Elaborating on this finding, I encourage MNEs and their managers to focus on what they can manage, i.e., levels of firm interaction in a nationally distant context, instead of what they cannot manage, i.e., the nationally distant context.

In addition, as the thesis shows the curvilinear effect of cultural and economic friction on foreign divestment, it encourages MNEs to manage their lower levels of interaction, to control the levels of cultural and economic friction, rather than expanding rapidly to a host country, which leads to higher levels of firm interaction. The gradual expansion could secure the probability of subsidiary survival. In contrast, the empirical findings encourage MNEs and their managers to control the levels of interaction with political agents and contexts in host countries at lower levels and to have low levels of political friction, which decreases the foreign divestment probability.

Another interesting finding is the significant impact of top executives on foreign divestment probabilities. The empirical results show that top managers, who have higher levels of global dynamic managerial human capital, social capital and managerial cognition could make better strategic decisions and be associated with lower probabilities of foreign divestment. Hence, I encourage MNEs to focus on their dynamic managerial capabilities to manage the probability of foreign divestment. In addition, as I found that cultural, economic, and political differences modify the GDMC–foreign divestment relationship, MNEs and their top executives should pay more attention to foreign subsidiaries located in countries a considerable distance away, to compensate for the negative moderating effects of the differences.

I further uncovered the moderating effects of firm-specific factors, i.e., entry and equity ownership structures, on the main hypotheses. In general, I found that entry modes and equity ownership structure do not modify the impact of friction on foreign divestment probabilities, and I encourage MNEs to focus on other "lubricant" effects, e.g., firm specific experience, language proximity and others, to moderate the negative outcomes of higher levels of cultural, economic and political friction.

6.4 Governmental Implications

Since the thesis focuses on the influences of external environments, especially the differences between home and host countries, it provides valuable insights that benefit both home and host governments. Firstly, I encourage home governments to provide practical support for MNEs and their foreign units, e.g., organizing national events or industrial workshops or establishing official guidelines when doing business abroad. Informal support provides MNEs with knowledge of international markets. In addition, home governments could strengthen their relationship with foreign governments, e.g., by establishing economic agreements and being active in world organizations like WTO, the EU and others, to boost business cooperation between countries.

Secondly, I encourage host governments, especially the emerging markets or circular economies which have low levels of institutional development (Khanna & Palepu, 1997), to generate specific national platforms to attract more FDIs and secure their foreign survival later. For instance, host governments could decrease economic and political risks by offering formal guidelines and decreasing hierarchical steps involving foreign units when doing business in host countries. The host governments should also publish their formal requirements and punish illegal behaviours, to minimize the negative outcomes of political uncertainty, e.g., political risks and corruption, which are widely discussed in extant IB studies (Liu & Li, 2020; Sartor & Beamish, 2020). In addition, I encourage foreign governments to provide favourable policies, e.g., decreasing corporate taxes or offering goodwill to foreign units, to attract more FDIs.

Thirdly, I encourage home and host governments to work together to provide a productive environment that accelerates business transactions and establishes a connection between headquarters and foreign units and between foreign units. The cooperation between home and host governments could also decrease levels of national differences, as local citizens will learn about foreign countries via various sources, e.g., education, tourists, cultural exchanges, etc. Consequently, MNEs have a good knowledge of international markets and create better strategies when operating businesses overseas.

6.5 Limitations and Promising Avenues for Future Research

There is no research without limitations. Exploring the reasons why MNEs divest their foreign subsidiaries, I acknowledge that there are limitations that should be addressed in future research. Among the various stages of foreign divestment decision-making, its antecedents receive most attention from previous scholars. Previous empirical studies have tackled why MNEs divest their foreign subsidiaries. Nonetheless, the factors of foreign divestment or exit motivations could influence a divestment's implication, i.e., divestment mode choices, the implementation process and divestment outcomes. This thesis explains how external and internal environments influence foreign divestment, yet the impact of divestments is not covered. Hence, I would encourage future research to explore the influence of this untouched field, so as to provide an extensive understanding of foreign divestment.

In addition, my studies confirm the benefit of using friction to assess the multifaceted effects of institutional differences. However, as friction is still a new concept, it needs more empirical application to leverage the utilization of the concept. For instance, future research could examine friction to assess the influences of other institutional dimensions, i.e., administrative or knowledge-based differences, or differences associated with global connectedness (Berry et al., 2010). Future studies could also develop friction by adding individual levels to the formula, e.g., top managers, CEOs or expatriates.

Similarly, I also encourage researchers to focus on the interaction of factors at different levels or cross-level interactions. Basically, firms may behave differently depending on different situations. Hence, understanding how a multilevel interaction of factors influences foreign divestment is important. Very few studies have identified this significant interaction and provided novel findings (Kang et al., 2017; Zeng, et al., 2013; Zeng et al., 2013). Recently, Graafland & Noorderhaven (2020) have pointed out the lack of studies dealing with the influences of both external and firm levels simultaneously. Therefore, I urge future researchers to investigate the impact of external and internal stakeholders on foreign divestment, to nurture their understanding of foreign divestment.

In this research, Finnish MNEs are used to provide empirical data. Although using a friction metric could compensate for a single country sample, I would encourage future research to replicate my framework using samples from multiple countries (Brouthers et al., 2016). In addition, I would encourage future research to diversify their sample to explore more regions, e.g., African markets (Getachew & Beamish, 2017), BRIC or Asian markets. Due to the unique nature of these markets, research on foreign divestment in those countries could constitute significant knowledge to develop nuanced understanding.

In addition, while previous review studies have already emphasized the need to cover more unique and different countries, it is important to vary our suggestions when highlighting the advantages of restructuring the sample. Stated differently, I encourage future research to examine foreign divestment on a regional level, instead of a national level (Arregle et al., 2013; Demirbag et al., 2020).

I would further encourage future research to develop methodological rigours in foreign divestment research. Firstly, the nested nature of data should not be ignored. As Arregle et al. (2006) highlight the benefit of nested methods in explaining IB decisions, I would also encourage future studies on foreign divestment to pay attention to this hierarchical nature of data.

I also encourage researchers to investigate foreign divestment using primary data, for instance, surveys on managerial perspectives, so as to explore the neglected aspects in the extant literature, despite the difficulty of collecting primary data (Tan & Sousa, 2019). Similarly, I encourage the adoption of qualitative methods to explore the divestment decision-making process more thoroughly. A mixed method may also be fruitful in overcoming the disadvantages of the dominance of the quantitative method or collecting primary data.

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ESSAY 1

A 40-Year-Retrospective Study of Foreign Divestment and its Implications: Past Achievements and Future Direction

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Abstract

Over the past forty years, foreign divestment has received a tremendous attention in international business and management research. While there are novel previous studies on antecedents of foreign divestment decisions, implications of the decisions such as divestment mode choices, process and outcome have received scant attention. It leads to a disconnection between antecedents and implications of foreign divestment. This paper traces the history of these research streams over the past four decades using bibliometric technique and qualitative content analysis to synthesize findings of previous research on antecedents and implications of the foreign divestments. Precisely, we reviewed 304 published and unpublished studies from 1979 to 2021. We highlight the evolution of interest in different contexts, phenomena, theories, and methodologies, along with the factors that have driven interest in these topics. We also offer a research agenda to stimulate new insights and novel work on divestment of foreign subsidiaries.

Key words: foreign divestment, bibliometric method, content analysis, divestment mode, divestment process, divestment outcome.

1. Introduction

During the past four decades, foreign divestment has been of great interest in the international business (IB) and management studies (Paul & Benito, 2018; Peng & Beamish, 2019; Tan & Sousa, 2019; Sartor & Beamish, 2020). Previous scholars have put admirable attempts to explain why multinational enterprises (MNEs) exit their subsidiaries from foreign countries. Yet, contradictory findings are repeatedly reported, while several antecedents remain untouched. Similarly, although implications of the divestment decisions, i.e., divestment modes, process and outcomes, are seldomly reported compared to research on antecedents of foreign divestment, the previous findings are inconsistent. Another striking omission is a lack of the linkage between antecedents and implications of the foreign divestments.

We provide a systematic review applying bibliometric technique with content analysis to nurture our knowledge on antecedents and implications of foreign divestments, and encourage new cooperative research along the directions suggested and inspired. Bibliometric is appropriate to conduct statistical and descriptive analyses of research themes published during the periods, while content analysis is important to identify research themes and sub-themes (i.e., Luo et al., 2019). Accordingly, we structure our review first by overviewing literature and visualizing research patterns in the field from January 1979 to December 2021.

Not surprising, there exist already a number of excellent reviews. Nonetheless, these reviews focus on specific issues that differ our study in several meaningful ways. First, our study focuses on foreign subsidiary divestments, discussing the likelihood of survival or divestment of foreign subsidiaries. Previous reviews have discussed corporate divestiture (Lee & Madhavan, 2010; Kolev, 2016), or de-internationalization generally (Benito & Welch, 1997; Trąpczyński, 2016; Turner, 2012). Second, while more recent reviews on foreign divestments aim to explore antecedents of foreign divestments (Arte & Larimo, 2019; Coudounaris, 2017; Coudounaris et al., 2020; Schmid & Morschett, 2020), our study focuses on both antecedents and implications of foreign divestments.

In addition, three out of four recent reviews on foreign divestments have applied meta-analysis technique, which reviewing only empirical studies (Coudounaris, 2017; Coudounaris et al., 2020; Schmid & Morschett, 2020). Arte & Larimo (2019), on the other hand, focus on theoretical underpinnings of previous empirical research. Hence, initial foreign divestment studies (Boddewyn, 1979, 1985) which do not report specific information needed for meta-analytical analysis or are qualitative research were excluded. Furthermore, as recent reviews have covered a short period, these studies do not review early research on the divestments. In contrast, our study covers a significant longer period as we aim to trace the development of foreign divestment research, from initial studies (i.e. Boddewyn, 1979a, b, 1985) to recent ones (i.e., Minefee & Bucheli, 2021; Farah et al., 2021).

2. An Encompassing Definition of Foreign Divestment

Although foreign divestment is emerging as a central topic in different fields of research, there are still misconceptions about foreign divestment and its implication that may affect the accuracy and reliability of previous findings. Boddewyn (1979a, b) is among the first scholars define foreign divestment as selling “part of the assets, product lines, subsidiaries, or divisions of a company for cash or securities or some combinations”. Later, scholars simply define de-internationalization, de-investment or divestment as any reduction of a firm’s engagement in or exposure to cross-border activities (Benito & Welch, 1997; Chang & Singh, 1999; Wan, Chen & Yiu, 2015). Moschieri & Mair (2008) consider foreign subsidiary divestment is a form of corporate divestment, which refers to the disposal of parent company and sales of assets, facilities, product lines, subsidiaries, business unit and divisions. Recently, researchers refer foreign divestment to the liquidation or sale of a foreign subsidiary by a parent MNE (Arte & Larimo, 2019; Schmid & Morschett, 2020; Song, 2021). This definition is popular among previous foreign divestment studies because of the simplicity for collecting divestment information.

Regarding different types of foreign divestment, a few researchers have categorized divestment into spin-off, equity carve-out, split up and sell-off (Brauer, 2006; Brauer & Wiersema, 2012; Chow & Hamilton, 1993; Prezas & Simonyan, 2015; Kolev, 2016; Damaraju, Barney & Makhija, 2015). Villalonga & Mcgahan (2005), however, distinguish divestment with alliances and acquisitions depending on different levels of integration of the continuum. In addition, Kolev (2016) and Flickinger & Zschoche (2018) refer restructuring and divestitures as two types of divestment when focusing on changes of financial situation. Cefis & Marsili (2012) divide divestment modes into three types, including closure, merge and acquisition (M&A) and radical restructuring. Irfan, Saha & Singh (2018) consider three types of divestment modes, including, voluntary liquidation, involuntary liquidation and, acquisition. A very few scholars divided full and partial divestment (Donald, 2001; Flickinger & Zschoche, 2018). Furthermore, Benito & Welch (1997), considering divestment as one of ways of de-internationalization, proposed more different types of de-internationalization, i.e., reduction of operations, switching to operation modes with lower levels of commitment, sell-off or closure of foreign subsidiaries, reduction of ownership stake and seizure by local authorities. However, IB scholars focus more on two types of divestment modes, including sell-off, referring to an outright sale of a subsidiary, and liquidation or closure, referring to a shutdown of a subsidiary (Konara & Ganotakis, 2020; Mata & Portugal, 2000), mainly because the two types are significantly different from each other and more importantly, there are significant changes in corporate portfolio and financial status of them.

In general, we define foreign divestment as a strategic decision that an MNE exits its subsidiaries from host countries via different ways, i.e., sell-off, referring to sell their full assets, stocks or, liquidation, referring to close targeted subsidiaries. By the definition, we exclude studies that discuss partial divestment or a minor change in ownership levels. In addition, for avoiding the repetition and shorten the sentences, all words “divestment” included in the present study always refer to foreign divestment, otherwise informed. In the table 1, the definitions of foreign divestment and divestment modes of previous studies.

*** Insert Table 1 about here ***

3. Method and Scope of Review

In this section, we describe our approach – beginning with how we assembled the sample and ranging through various methods and operationalization choices.

3.1. Literature Search

To achieve methodological rigor on collection of primary studies, we followed Denyer & Tranfield (2009) to provide a systematic literature search. Accordingly, we selected primary studies published from 1979-2021 as an attempt to extensively cover significant work via five steps. First, we carried out an electronic search in three databases, ISI Web of Science, ABI ProQuest and Scopus, to ensure that we included a broad range of scientific output. We created a group of key words using for search strategies, such as: divestment, divestiture, exit, sell-off, closure, de-diversification, longevity, survival, duration, termination. To compile the empirical studies, we employed keyword searches and defined a comprehensive search string, using terms such as MNE*, MNC* and divest*, longevity, duration, fail*, survi* or performance. We also specified to not include corporate divest*, corporate exit, industry exit, *new firm, *new venture, SMEs, export, corporate social responsibility, expropriation, entrepre* in our search.

Second, we manually searched for studies from Jan 1979 to Dec 2021 in 20 top-tier journals including (1) Academy of Management Journal, (2) Academy of Management Review, (3) Journal of Management Studies, (4) Journal of Management, (5) Organization Science, (6) Organization Studies, (7) Strategic Management Journal, (8) Global Strategy Journal, (9) Journal of International Business, (10) Management International Review, (11) International Business Review, (12) Journal of Business Research, (13) Journal of World Business, (14) Asia Pacific Journal of Management, and (15) British Journal of Management, (16) Management Science, (17) Administrative Science Quarterly, (18) Journal of International Marketing, (19) International Marketing Review and (20) European Business Review. Third, following the "ancestry" approach, we check backward-trace the references in the primary studies collected via the first two steps. Fourth, we check previous reviews (i.e., Arte & Larimo, 2019; Coudounaris, 2017; Coudounaris et al., 2020; Schmid & Morschett, 2020) in the existing literature to identify any missing articles. Next, we also discussed with well-known scholars in IB field to identify more studies that remained untouched by our search from previous steps.

3.2. Eligible Criteria

In reporting the systematic review, we adhere to the widely used framework PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses). All studies will be scanned and only be included in our research if the studies satisfy all following criteria.

First, we include studies discussing foreign divestment's antecedents, divestment modes, process or outcomes. We precisely included studies that discussed full divestment, rather than a minor decrease in ownership, to be consistent with our definition. Second, we retrieved studies published from Jan 1979 to May 2021. We also considered only studies written in English. As our key words include several words that are popular in medical studies, i.e. longevity, survival, we actively refined our search in economic, management and business fields. We further exclude business reports (i.e., Jones & Bostock, 1996), or studies in financial industry, i.e. banking, stock exchange, because of significant differences in divesting a subsidiary factory from divesting a trading room (i.e., Zaheer & Mosakowski, 1997). Research focusing on product relocation is also excluded if foreign divestment is not emphasized (Lampón, 2019), or research does not clarify foreign divestment (Ushijima & Iriyama, 2015).

Two groups of coders will code all papers satisfied these aforementioned criteria separately. In this regard, the 2-member groups code and discuss all retrieved papers before making conclusion a final list of primary studies included in this review. A formal template in excel for coding is created and used for analysis later. In total, there are 304 published and unpublished studies in leading journals, books and conference papers included in our review. Figure 1 represents literature search steps with number of articles retrieved.

Insert Figure 1 about here

4. Bibliometric Findings

Our bibliometric results show that foreign divestment has been attracting considerable attention over the years. Figure 2 shows a significant increase in the number of published articles relating to foreign divestment topics during the 1979 – 2021 period. In addition, our review shows that JIBS was the most popular journal which publishes related studies, with 29 articles, followed by SMJ, IBR, MIR, JWB and others (as reported in Table 2). Our review further highlights the top scholars and the high impact studies, based on the number of citations. We found that the most frequently cited studies were published in the first two decades (Barkema & Vermeulen, 1998; Buckley & Casson, 1998; Li, 1995; Shaver, 1998; Zaheer & Mosakowski, 1997). These studies provide a theoretical foundation (i.e., eclectic paradigm, divestment theory) or empirical template for investigating the antecedents of foreign divestment. (Gaur & Lu, 2007; Mata & Freitas, 2012; Nadolska & Barkema, 2007) are also popular works in this field. In terms of the contribution of scholars, Beamish remains in first position with the highest number of studies with citations (21 studies with 1106 citations to date, Scopus database). Makino (368 citations with 5 articles), Eden (227 citations with 5 articles), Benito (215 citations with 6 articles), Delios (206 citations with 6 articles) and Song (149 citations with 7 articles) follow as the most highly cited scholars for their contribution to foreign divestment literature.

Insert Figures 2 and Table 2 about here

5. Content Analysis: Literature Overview and Evolution

In this section, we investigated the key research streams that have emerged in previous foreign divestment literature. There are six major themes that bounded using cluster analysis, comprising 107 studies with more than 20 citations. The six major themes, shown in Figure 3, focus on the different aspects of the antecedents and implications of foreign divestment. Analysing those themes provide us with chances to track the evolution of the literature. In what follows, the main themes, findings and arguments of each cluster will be discussed and the lists of highly cited articles in each cluster will also be examined.

Insert Figure 3 about here

5.1. Divestment of IJVs and Other Types of Entry Modes

This cluster discusses foreign divestment of IJVs and other modes of entry, applying different theories, i.e. transaction cost economies, institutional theory, neo-institutional theory, resource dependence theory, social network theory and OLI paradigm (Chung & Beamish, 2005, 2012; Darendeli & Hill, 2016; Demirbag et al., 2011; Dhanaraj & Beamish, 2004; Gaur & Lu, 2007; Hennart et al., 1998; Makino et al., 2007; Xia, 2011). These research suggested that foreign divestment probability, divestment mode and outcomes are influenced by multilevel factors, i.e. country, MNEs, subsidiary and management.

Specifically, prior scholars reported that subsidiary characteristics, i.e. entry and establishment modes, equity ownership structure and changes, internal and external control management and business relatedness are confirmed to determine the likelihood of divestment (Chung & Beamish, 2005; Gaur & Lu, 2007; Leung, 1997; Li, 1995; Makino et al., 2007; Ogasavara & Hoshino, 2008). Nonetheless, previous findings are equivocal. For instance, scholars show that higher levels of management control and support, lower levels of conflict, lower costs and time relating decision-making process relating to WOSs lead to lower levels of foreign divestment, compared to IJVs. In contrast, a few researchers point out that an overwhelming of control in terms of WOS may trigger divestment decisions (Lu & Hébert, 2005); while IJVs could increase survival rate due to the local support, knowledge and expertise of local partners (Barkema et al., 1997; Chung & Beamish, 2005).

This cluster also discusses influences of external environments, i.e. cultural distance, economic distance, political distance, or changes in external environments (Barkema & Vermeulen, 1997; Chung & Beamish, 2005; Hennart et al., 1998; Makino et al., 2007; Peng & Beamish, 2014). In general, this research stream reports that differences between home and host countries accelerate uncertainties, especially changes in rules and political risks like the regime changes, increase instabilities, time and autonomy granted to foreign units; leading to higher probabilities of foreign divestment (Darendeli & Hill, 2016; Demirbag et al., 2011; Dhanaraj & Beamish, 2009; Hennart & Zeng, 2002; Meschi, 1997; Sartor & Beamish, 2018). Importantly, these studies explore how external environments moderate influences of subsidiary characteristics on foreign divestment (Barkema et al., 1997; Barkema & Vermeulen, 1997; Dhanaraj & Beamish, 2009; Gaur & Lu, 2007; Jiang et al., 2011; Lu & Hébert, 2005). A few studies in this cluster have also discussed different types of divestment or exit mode, focusing mainly on closure or capital divestiture (i.e. sell-off) (Hennart et al., 1998).

5.2. Strategic Perspectives of Foreign Divestment Decisions

Research belonging to this cluster focuses on the strategic flexibility of foreign divestment (Alexander et al., 2005; Benito, 1997; Cairns et al., 2010; Chung, Lee, & Lee, 2013; Coe et al., 2017; Dai et al., 2017; Iurkov & Benito, 2020; Sousa & Tan, 2015; Tan & Sousa, 2019). This cluster considers foreign divestment as consequences of managers' risk perception and strategic responses to specific situations that MNEs and their overseas expansion are facing. Real option theory, resource-based view, strategic perspective and operational flexibility are popular theories applied in this cluster (Benito, 1997; Blake & Moschieri, 2017; Chung, Lee, Beamish, et al., 2013; Dai et al., 2017; Richbell & Watts, 2000; Song, 2014b, 2015; Tan & Sousa, 2018, 2019).

Research in this cluster suggested that foreign divestment is a strategic option to gain benefits, to response to stimuli external, to change location, or to actively restructure business portfolios (Benito, 2005; Coe et al., 2017; Fisch & Zschoche, 2012). Put simply, MNEs will less likely provide any strategic response, i.e. foreign divestment, if the external environments or changes do not influence directly to the foreign units (Blake & Moschieri, 2017). Accordingly, foreign divestment is not a consequence of problems-stemming, i.e. poorly subsidiary performance, liability of foreignness, or leadership stability (Alexander et al., 2005; Benito, 1997; Cairns et al., 2010; Chung, Lee, & Lee, 2013; Hennart et al., 2002; Soule et al., 2014). Instead, foreign divestment could be considered as an adjustment or re-structuring of MNEs as a response to internal and external factors, i.e. increased performance through local responsiveness, accessibility to unique local resources and social ties, inferior (worldwide) corporate flexibility and transferability; and a (gradual) weakening of resource rents (Benito, 2005).

Research in this cluster also investigate impacts of exit barrier or exit flexibility on divestment decisions (Alexander et al., 2005; Fisch & Zschoche, 2012). When MNEs recognize potential benefits at home countries or at other locations of their business networks, MNEs having strategic flexibility are more likely to exit (Iurkov & Benito, 2020). Similarly, MNEs may divest their current units to refocus on their core business or to relocate their business portfolios when the constraints of exiting countries are high (Palmer & Quinn, 2007; Procher & Engel, 2018; Song, 2014a, 2015; Yayla et al., 2018). Research in this stream suggested that strategic flexibility or the ease of exit is stronger influences than financial performance of targeted units.

Furthermore, research in this cluster has examined managerial involvement in making foreign divestment and implementing the divestment process (Cairns et al., 2008, 2010; Mohr et al., 2018; Soule et al., 2014; Swoboda et al., 2011; Tan & Sousa, 2018, 2019). For instance, if top management teams have established long-term perspective or targeted learning opportunities for their foreign subsidiaries, the managers are less likely to divest poorly-performing units (Tan & Sousa, 2018, 2019). Also, a replacement of CEO positions or leadership instability may lead to foreign divestment decision (Cairns et al., 2010). Furthermore, foreign divestment may be consequences of the quality of managerial strategic decisions (Etgar & Rachman-Moore, 2007). Collectively, these studies conclude that poor performance does not always lead to foreign divestment, rather top managers and their attitudes toward subsidiary's position are important.

In addition, the role of managers is discussed in divestment process-related research (Burt et al., 2004; Cairns et al., 2008). For instance, Cairns et al. (2018) reported that managers involve significantly in all four different stages of implementing a divestment announcement, i.e. decision's announcement, implementing process, strategic orientation after processing, and response to related stakeholders.

5.3. Influences of Evolutionary and Learning Experience on Foreign Divestment

The third cluster discusses the impacts of evolutional and learning experiences on foreign divestment decisions (Delios & Beamish, 2001; Delios & Makino, 2003; Kang et al., 2017; Kim et al., 2010; Kim et al., 2012; Ma & Delios, 2007; Pattnaik & Lee, 2014; Surdu et al., 2018). In general, this research stream focuses on the evolutionary of MNEs and their foreign units at host countries (Kang et al., 2017; Thomas et al., 2007; Tsang & Yip, 2007; Zeng, Shenkar, Lee, et al., 2013; Zeng, Shenkar, Song, et al., 2013). This research cluster focuses on three significant perspectives of the firms' evolutionary at local countries, including influences of host country experiences and other types of experiences, i.e. mode experience, international experience, prior divestment experience; influences of entry timing or order of entry; and development of local ties. Organizational learning theory, evolutional perspective or learning perspective are widely applied in this extant literature.

The first theme focuses on how firms' prior experience develop their knowledge and ability to manage foreign units, which later affect divestment probability of the units (Delios & Beamish, 2001; Garg & Delios, 2007; Kim et al., 2010; Kim et al., 2012; Perkins, 2014; Thomas et al., 2007; Tsang & Yip, 2007; Zeng, Shenkar, Lee, et al., 2013; Zeng, Shenkar, Song, et al., 2013). Precisely, host country experience is found to gain firms' capabilities to deal with host country environments, i.e. cultural, economic, political institutions; provide actual learning among subsidiary networks, enrich local knowledge to overcome institutional distances; and have information advantages that make their entry attempts more likely to succeed (Delios & Beamish, 2001; Kang et al., 2017; Kim et al., 2012; Pattnaik & Lee, 2014; Shaver et al., 1997). Hence, prior experience is found to decrease foreign divestment probability. However, a few studies pointed out that the impacts of host country experience depends on different natures of experiences, i.e. similar vs. dissimilar subsidiary cohorts, depth and breadth of the experiences (Garg & Delios, 2007; Kim et al., 2012; Perkins, 2014). For instance, Kim et al. (2010) show that host country experience may increase divestment if the experience is accumulated from outside focal industry in a host country due to an inappropriate knowledge of these experiences.

Another theme emerged in this cluster focuses on the impact of entry timing on foreign divestment (Delios & Makino, 2003; Ma & Delios, 2007; Mascarenhas, 1992; Murray et al., 2012; Park et al., 2011). Basically, prior scholars argued that early entrants have economic advantages of technological leadership, preemption of assets, and the creation of buyer switching costs (Delios & Makino, 2003; Murray et al., 2012). These advantages are useful to establish their market positions better than later entrants. Nevertheless, early entrants suffer higher risks of foreign markets, leading to higher exit rates (Murray et al., 2012). Notably, these studies further showed that the impacts of entry timing on survival rate is conditioned on the assets-related type, i.e. technical vs. distribution advantages, or on the entry mode, i.e. WOS vs. IJV (Delios & Makino, 2003; Murray et al., 2012; Park et al., 2011).

Furthermore, this cluster includes studies emphasizing the impacts of specific entry modes on subsequent foreign divestment (Georgopoulos & Preusse, 2006; Jiang et al., 2015; Jiménez et al., 2019; Kang et al., 2017; Ma & Delios, 2007; Pattnaik & Lee, 2014; Shaver, 1998). These studies suggested that different entry modes involve firms to different specific contexts, of particular interest, interact with different degrees of external environments. For instance, Jiang et al. (2015) argue that acquisition involves more challenges than other types of entry modes, leading to higher exit rate. Later, Jiang et al. (2019) reported that greenfield is more likely to divest because this entry mode involves higher levels of liability of foreignness and lower legitimacy. It can be seen that these studies show a highly connection between entry mode and different interactions between the entry and the internal (parent firms) and external environment (host country environment), that leads to divestment rate (Kang et al., 2017; Kim et al., 2010; Pattnaik & Lee, 2014; Zeng, Shenkar, Lee, et al., 2013). Therefore, a naïve model, i.e. not controlling for endogeneity issues, may not explain appropriately how entry modes influence foreign divestment (Berry, 2013a; Peng & Beamish, 2014; Shaver, 1998).

5.4. Footloose Perspective in Foreign Divestment

This cluster includes studies investigate foreign divestment from a footloose perspective, i.e. foreign presence is significantly associated with foreign subsidiary probability (Alvarez & Görg, 2009; Andrews et al., 2012; Bandick, 2010; Belderbos, 2003; Belderbos & Zou, 2006, 2009; Mata & Portugal, 2015; Mudambi & Zahra, 2007; Sofka et al., 2014; Varum et al., 2014). Elaborating on the footloose perspective, prior scholars argue that foreign owned firms are more likely to exit than domestic plans, due to lacks of local knowledge and social ties in the markets or higher multinational flexibility (Alvarez & Görg, 2009; Bernard & Jensen, 2007; Ferragina et al., 2012; Geishecker et al., 2009; Mata & Portugal, 2002); or take advantage of their productivity, financial capability or technological spillover to perform better at local countries, compared to domestic peers, leading to lower divestment rate (Geishecker et al., 2009; Godart et al., 2012; Görg & Strobl, 2003b; Taymaz & Özler, 2007). These studies further show that foreign owned MNEs have less divestment propensities than foreign owned non-MNEs due to capabilities and international knowledge that MNEs own (Bandick, 2010; Ferragina et al., 2012; Kneller et al., 2012).

Research in this cluster has also suggested that the impacts of foreign ownership on foreign divestment is conditioned to variety of factors, i.e. nationality of the parent firms, skills of workers, exporting orientation, antidumping policy of the host countries, industrial context, etc. (Andrews et al., 2012; Bandick, 2010; Bandick & Görg, 2016; Belderbos, 2003; Bernard & Jensen, 2007; Ferragina et al., 2012; Görg & Strobl, 2003b, 2003a). For instance, Mata & Portugal (2002) and Beveren (2007) argued that after controlling for a relatively limited number of firm and industry characteristics, there is no differences between foreign owned firms and indigenous peers. Mata & Freitas (2012) further report that the impacts of footloose perspective on foreign divestment is changed as time goes by, that is MNEs are more likely to exit in their later stage of overseas expansion.

In addition, research in this cluster discusses different divestment modes based on firm', industry' and local market's characteristics (Mata & Portugal, 2000, 2002, 2004; Sofka et al., 2014). These studies present that depending on several contingency factors, i.e. entry mode, previous foreign ownership existence, subsidiary age, characteristics of partners, MNEs may involve different levels of divestment compared to local ones, and may select different divestment modes (Mata & Portugal, 2015). Furthermore, Sofka et al. (2014) and Bernard & Jensen (2007) have initially investigated influences of foreign divestment on employees, and concluded that the chance to receive higher wage-related jobs of employees from formed closure foreign plants is higher than from closured domestic firms, if the human capital is not multinational bounded and is valuable in the host country.

5.5. Subsidiary Characteristics and Foreign Divestment Outcomes

This cluster includes studies focusing on impacts of subsidiary characteristics on foreign divestment and divestment outcomes (Berry, 2013; Brown et al., 1989; Cao et al., 2008; Delios et al., 2008; Hébert et al., 2005; Meschi, 2009; Nadolska & Barkema, 2007). Subsidiary performance is found to significantly influence foreign divestment, although its effect is equivocal (Berry, 2013). On the one hand, subsidiary's poor performance increase its divestment probability because MNEs keep only efficient units. On the other hand, MNEs and their top managers are willing to invest more in poorly performing units, to preserve market shares, especially when they are less familiar with the product lines or when managers believe that staying at the local countries promote corporate's images or have positive future's prospects (Duhaime & Grant, 1984; Hadjikhani & Johanson, 1996). Subsidiaries' relatedness, experiences, number of expatriates, local market shares and asset specifics are also found to influence foreign divestment (Berry, 2013; Hébert et al., 2005; Mitchell et al., 1994). For instance, Hebert et al. (2005) suggested that presence of expatriates may support the transfer of 'best practices' and enable the attainment of synergy objectives, leading to lower rate of divestment.

In addition, this cluster shows an important effect of high interaction between poor performance of subsidiaries and country characteristics on foreign divestment because country's context could offset the influence of subsidiary characteristics on divestment (Berry, 2013; Brown et al., 1989; Delios et al., 2008; Hébert et al., 2005; Meschi et al., 2016). Entry to local countries characterized with legitimacy asymmetry, i.e. transitional economies like Vietnam or China, may also modify the impacts of subsidiary characteristics and foreign divestment because MNEs already established higher tolerance for poor performance (Meschi et al., 2016).

Divestment outcome is also discussed in this cluster when researchers show that divestment announcements influence shareholders' wealth, depending on subsidiary characteristics, i.e. subsidiary size, location, entry mode, or business relatedness (Cao et al., 2008; Meschi, 2005; Shepherd et al., 2014; Wright & Ferris, 1997). The subsidiary characteristics influence exit motivation, which later interfere divestment outcomes (Meschi, 2005). In addition, subsidiary characteristics, i.e. managerial involvement, R&D intensity, influence speed of divestment implementation process, which later influence divestment outcomes (Shepherd et al., 2014).

5.6. Host Political Institutions and Foreign Divestment

This cluster includes studies emphasizing influences of host political environment on foreign divestment probability because political institution imposes restraints that influence foreign operations or bring barriers for exit (Choudhury & Khanna, 2014; Dai et al., 2013; Getachew & Beamish, 2017; Lee et al., 2019; Park & Chung, 2019; Sartor & Beamish, 2020). For instance, elaborated on the dynamic trajectory frameworks, Choudhury & Khanna (2014) proposed that MNEs may divest their foreign subsidiaries to deal with hostile policy makers in negative policy environment. Given the clandestine nature of corruption, Sartor & Beamish (2020) report that MNEs often lack of knowledge required to minimize firm's exposure to the adverse consequences of corruption, leading to higher levels of foreign divestment. Political instability and risks also involve subsidiary divestment because subsidiaries are not easy to create value due to lack of understanding local markets and higher political restrictions and uncertainties (Park & Chung, 2019).

6. Promising Directions for Future Research

In this study, we review antecedents of the divestments, as well as implications of divestments, including divestment modes, process and outcomes. Elaborating on these discussions, we highlight several promising directions that are expectedly helpful for developing our knowledge about foreign divestment and its implication in IB literature. We have further proposed theoretical and methodological approaches for future research.

6.1. Research on antecedents of foreign divestments

Prior discussion shows inconsistent findings potentially caused by empirical measure. Hence, we first encourage future studies to diversify empirical measures to assess their interested variables. For instance, distance is considered as the most popular way to access institutional differences between countries (Konara & Mohr, 2019). The distance also remains as the most controversial measure in IB studies and, particularly, in foreign divestment literature (Shenkar, 2012; Beugelsdijk, Ambos & Nell, 2018). Elaborated on this criticism, there is a call for switching to more advanced concept, i.e., friction (Shenkar, 2001; 2012) or distance ladder (Shirodkar & Konara, 2017). Criticisms about measurement are also existing in other antecedents. For instance, previous studies tend to focus only on MNEs' international and host country experience, while other types of experience are confirmed to provide significant differences on foreign divestment probability (Kolev, 2016; Villar et al., 2018).

Second, acknowledging the underdevelopment of managerial involvement, we encourage future studies to focus on individual levels of foreign divestment, i.e., managerial roles in making divestment decisions. Previous scholars emphasize that although external uncertainty or internal constraints may influence a foreign divestment decision, foreign divestment is actually justified and made by top executives, who are geographically and emotionally remote from targeted subsidiaries (Benito, 1997; Ghertman, 1988; Tan & Sousa, 2019; Wright & Thompson, 1987). Management scholars further confirm that individuals tend to respond differently to objectively identical decision problems depending on whether the issue is framed in terms of gains or losses (Witt & Lewin, 2007). Hence, investigating mechanisms leading managers to different divestment decisions is significantly fruitful.

Third, we ask for more attention to industrial and regional factors. While there are a few studies show how industrial environments influence foreign divestments, there are several potential factors need to be explored, i.e., industry growths, divestment positions in specific industries, changes in industry environments. Similarly, influences of regional level are important because MNEs tend to invest and review their international expansion at regional scope, instead of national level (Arregle et al., 2009; Demirbag et al., 2020). Given an example, regional experience, regional density, regional growth or changes in regional institutions may drive foreign divestment decisions.

We further urge to explore combined effects of factors within and cross levels. For instance, a combination of factors belonging to MNE-level and subsidiary-level, i.e., poor performance of MNEs and of subsidiary, may generate interesting findings (Graafland & Noorderhaven, 2020). Similarly, future research could examine a specific mix of relevant institutional forces and the interaction among the institutional dimensions that influence foreign divestment (Zimmerman & Zeitz, 2002; Jackson & Deeg, 2008).

6.2. Research in foreign divestment modes

Elaborating on our discussion about divestment modes, we encourage future research to provide a consistent definition of divestment modes, depending on research objectives. For instance, future research could define divestment modes as voluntary vs. involuntary divestment to highlight if a divestment decision is forced by outside-yet-powerful stakeholders, i.e. governments or local states. By contrast, researchers may want to define divestment modes as sell-off vs. liquidation if they want to emphasize financial changes after divesting a foreign subsidiary. Similarly, if researchers focus on organizational structure perspective of a divestment decision, they may define divestment modes as restructuring, M&A or dissolution.

We also encourage future research to explore exit motivations associated with divestment mode choices. Precisely, we propose that, future research should explore exit motivations, which potentially pre-decide divestment mode choice. For instance, when MNEs decide to exit local countries because of subsidiary's poor performance, MNEs may decide to sell the subsidiaries, rather to liquidate, to increase financial income. In contrast, because of corporate restructuring, MNEs may decide to liquidate their subsidiaries, which involve R&D activities, rather to sell the units to other partners.

Furthermore, we encourage future research to establish the linkage between divestment modes and process. More precisely, we argue that different modes require certain efforts to implement. For instance, announcing a divestment decision as a liquidation is likely different from announcing a sell-off. In the first case, top managers may need to deal with criticism among their employments and local legal requirements as liquidations involve losing jobs. Therefore, the announcement and the implementation of a foreign liquidation may be more sensitive and involve legal issues. By contrast, when MNEs inform their local staffs about selling off foreign subsidiaries, criticisms may not be harsh because losing jobs is not necessary, except for top executives. This mode, however, requires the MNEs to cautiously announce shareholders or investors to not influence negatively on firms' or stock value.

In addition, discussing the relationship between divestment modes and outcomes is important, especially from financial perspective, because it highlights a strategy for MNEs to improve their performance. For instance, liquidations may not be chosen over sell-off decisions if MNEs aim to increase their financial outcomes. In contrast, MNEs may prefer close their foreign subsidiaries to cut loss if their subsidiaries perform poorly.

6.3. Research in foreign divestment implementation and outcome

Challenges from local staffs and host governments should be considered to explore how the challenges interfere the divestment implementation. Host governments may provide certain benefits or bring constraints to MNEs when they operate at the local countries (Ai & Tan, 2020; Malhotra et al., 2011). Hence, we urge future research to focus on involvement of related partners in investigating foreign divestment process.

As MNEs may have several subsidiaries operating in a same local country (Kim, Lu & Rhee, 2012), they may not divest all the subsidiaries at the same time, except for corporate divestment, which is not belonging to this review's scale. Hence, it is fruitful to explore how other sister subsidiaries operate and perform after a subsidiary is divested. We further propose that IB researchers may want to discuss about market performance at both home, host and relevant countries in the same economic, geographic or cultural regions after a divestment is announced (Hoskisson et al, 1994).

IB scholars may also delve into time perspective of the divestment decisions. Precisely, researchers could investigate how long from divestment announcements until new operations are operated or a fully liquidiation is made. Re-entry after initial exit, when exit motivations are no longer existed, is also important to discuss (Surdu et al., 2018, 2019; Vissak et al., 2020). Furthermore, researchers may also want to discuss about local employment satisfaction, i.e., how their future careers are secured after their subsidiaries are divested. When a subsidiary is closed or transferred to other owners, staffs may quick their job, otherwise they have to deal with new owners about their works. When middle managers needs to change their works or their positions, their job satisfaction may be lower and they decide to quit their jobs. Future studies may also choose to focus on other untouched fields to explore the effectiveness of the divestment, i.e. labor cost developments, employee protection regulations. These changes may provide rich knowledge about the impacts of divestment on future prospect of MNEs, sister subsidiaries, or rival companies (Zschoche, 2016; Flickinger & Zschoche, 2018). Furthermore, focusing on how moderators modify the effect of divestment decisions on MNEs' performance is important to elucidate our understanding about motivations behind foreign divestment decisions (Lee & Madhavan, 2010).

6.4. Implication of theoretical background

Previous scholars have discussed different theoretical perspectives in extant literature. We further throw some lights to enrich our theoretical viewpoints about antecedents and implications of foreign divestment. First, there are relevant theoretical lenses that could nurture our understanding about influences of untouched factors. For instance, evolutional theory is useful to explain multilevel influences of subsidiary age on foreign divestment probability, considering also impacts of learning experiences (Peng & Beamish, 2019; Schmid & Morschett, 2019).

In addition, we propose IB researchers to enrich management theories to investigate mechanisms leading top managers to foreign divestment decisions. Dynamic capability view, upper echelons perspective, information processing theory or dynamic managerial capability view are among the relevant lenses that future research could apply. The most common viewpoint of the theories is the role of top executives in accessing rapid changes of external environment and making appropriate strategic decisions. In the same fashion, agency theory may be relevant as it discusses the relationship between board of directors and top executives in making and implementing divestment decisions.

We further encourage future research to combine several theoretical lenses to delve into practical mechanisms leading to foreign divestment. For instance, multilevel influences of subsidiary age could be explained by integrating evolutional theory and organizational learning theory. Similarly, multifaceted effects of cross-national differences could be investigated using institutional theory, transaction economics and positive organizational scholarship perspective. Future research could also combine knowledge-based view and agency theory to theorize different influences, i.e., of R&D intensity on divestment modes.

6.5. Implication of research methodology

Enriching research methodology is another way to develop rigor in foreign divestment research. First, we propose that future research should extend their empirical data to other parts of the world, i.e. emerging markets or less developed markets, where a divestment is more severe to local economies (UNCTAD, 2018). In addition, these special markets may uncover knowledge about other untouched factors in both antecedents and implications of foreign divestments (Malhotra et al., 2011; Getachew & Beamish, 2017).

Second, we urge future research to focus on other specific characteristics of the business environments, i.e., political and religious aspects. More precisely, IB researchers may delve into the involvement of host governments in case of communist countries, i.e. Vietnam, China, Cuba, or North Korea, especially when investigating voluntary and involuntary divestments (Makino et al. 2007). Furthermore, IB researchers could develop knowledge about how local consumers and staffs involve the effectiveness of the divestment implementation, especially in religious countries, i.e. Indonesia, Myanmar and Afghanistan. The countries are unique compare to others because informal institutions are characterized differently, while roles of other agents, i.e. local and national pressures, and hostile groups are more important.

Third, we encourage future research to diversify data types to analyze foreign divestment. Previous studies used secondary data because of its advantages, i.e., available, objective, transparency. However, the lack of situational information of secondary data leads to underestimation of practical mechanisms of divestment decisions and outcomes. Primary data or cases may compensate this disadvantage because they reflect executives' perceptions, that influence how managers make and implement divestment decisions. Furthermore, case studies, process analysis or other qualitative methods, i.e., ethnography and discourse analysis could be useful to analyze the primary data. A main advantage of these methods is the richness and diverse aspects that the methods could provide. Moreover, we encourage to apply mixed method to unveil new aspects of antecedents and implications of divestment decisions.

7. Conclusion

When embarking on the present research, we aim at constituting the extant literature in two ways. Firstly, using the bibliometric method, we sought to provide a systematic review of foreign divestment, focusing on both the antecedents and the implications of the decision for more than four decades. Secondly, applying quality content analysis, we sought to propose some interesting and untouched aspects derived from mechanisms of foreign divestment, mode choices, process and outcomes. Our review showed that foreign divestment is a striking business phenomenon and requires more academic efforts to develop our nuanced knowledge as to why and how an MNE exits host countries. While making the initial steps along a long and novel journey, we hope that our research will inspire and motivate future research to bring greater cumulativeness and sophisticated efforts, both in terms of theoretical and methodological aspects, to foreign divestment literature.

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Table 1: Definitions of Foreign Divestment and Divestment Modes

Author(s)	Definitions
Foreign Divestment	
(Boddewyn, 1979)	"The deliberate and voluntary liquidation or sale of all or of a major part of an active operation"
Bane & Neubauer (1981)	"Failure of an activity in a business context is often not a matter of black and white, it is a question of degree, and furthermore, it can only be judged in relation to management's original aims for the activities...the act of liquidation as given by the data as a surrogate for failure"
Tsetsekos & Gombola (1992)	Plant closing refer to close foreign plant and not reopen it during research period
Benito (1997)	"Forced divestments refer to the seizure of foreign-owned property, i.e., actions referred to as nationalization, expropriation and confiscation, in which change of ownership is forced upon the investor". "Deliberate divestment is based on strategic considerations leading to the voluntary liquidation or sale of all or of a major part of an active operation"
Luo (1998)	'IJV success' is generally defined as the accomplishment of the parent firm's strategic goals from the venture. Otherwise, is IJV failure.
Bergh (1998)	"Acquisition success was defined in terms of whether the acquisition was divested (unsuccessful) or retained (successful)"
Benito (2005)	Foreign divestment can be seen as an adjustment, a failure or as a result of re-structuring.
(Palmer & Quinn, 2007)	Foreign "divestment is not always a reactive measure or a sign of market failure, but rather it is quite often an emerging strategic action".
Moschieri & Mair (2008)	Corporate divestment refers to the disposal of parent company and sales of assets, facilities, product lines, subsidiaries, business unit and divisions. Hence, foreign subsidiary divestment is a form of corporate divestment.
Wan, Chen & Yiu (2015)	International divestment, or de-internationalization, which is generally understood as the reduction of a firm's international operations
Our review	*Foreign divestment refers to the fully exit of an active foreign subsidiary of a multinational enterprise (MNE) from a host country. Two elements different foreign divestment from others, i.e. corporate divestment, domestic divestment, are the foreign aspect (compared to domestic) and the subsidiary level (compared to small reduction of ownership, market exit, or*

	corporate divestment). The subsidiary exit may or may not relate to market exit, depending on how many subsidiaries that the MNEs operate at the host country. Foreign divestment could be a form of corporate divestment, especially when the MNEs want to refocus on their core products or strategies. Foreign divestment is not always caused by problem-stemming issues, i.e. poorly performing units, but might be a strategic reaction.
Foreign Divestment Modes	
Benito & Welch (1997)	MNEs could follow their de-internationalization strategies via several approaches including reduction of operations, switching to operation modes with lower levels of commitment, sell-off or closure of foreign subsidiaries, reduction of ownership stake and seizure by local authorities, and foreign divestment.
(Mata & Portugal, 2000)	There are two types of divestments, including sell-off, referring to an outright sale of a subsidiary, and liquidation or closure, referring to a shutdown of a subsidiary.
(Alexander et al., 2005)	Divestment belongs to corporate restructuring and has different forms, i.e. financial restructuring, portfolio restructuring, organizational restructuring and multinational and spatial dimensions of restructuring.
Villalonga & Mcgahan (2005)	There are three types of divestments, including divestment, alliances and acquisitions, differing each other based on levels of integration of the continuum.
(Palmer & Quinn, 2007)	There are different forms of foreign divestment. Depending on operational and non-operation dimensions to navigate the differences among them.
Cefis & Marsili (2012)	There are three types of divestments, including closure, merge and acquisition (M&A) and radical restructuring.
(Coe et al., 2017)	There are different forms of foreign divestment, including "closure of a number of stores or channels; financial restructuring in terms of the ownership and/or profit expectations of a subsidiary; organizational restructuring with respect to retail processes or formats; and/or total exit from a particular territory".
Irfan, Saha & Singh (2018)	There are three types of divestment modes, including, voluntary liquidation, involuntary liquidation and acquisition.
Flickinger & Zschoche (2018)	Depending on changes of financial situation, there are two divestment modes, including restructuring and divestitures.
Our review	*There are several approaches that MNEs pursuit to divest their foreign subsidiaries. Depending on changes in financial status, levels of integration of the continuum, or levels of divestment,*

	foreign divestment modes would be considered as sell-off vs. liquidation in this review.

Table 2: List of articles based on journals

Journal	Number of articles	Searching period*
Journal of International Business Studies	29	1979 - present
Strategic Management Journal	23	1980 - present
International Business Review	22	1995– present
Management International Review	14	1979 – present
Journal of World Business	13	1979 – present
Asia Pacific Journal of Management	8	1983 – present
Journal of International Management	7	1979 – present
Academy of Management Journal	6	1979 – present
Organization Science	6	1990 – present
Journal of International Marketing	6	1990 – present
Others	136	
Total	270	

*Due to differences in established period, searching time of each journal are different.

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Figure 1: Literature search – articles in each step

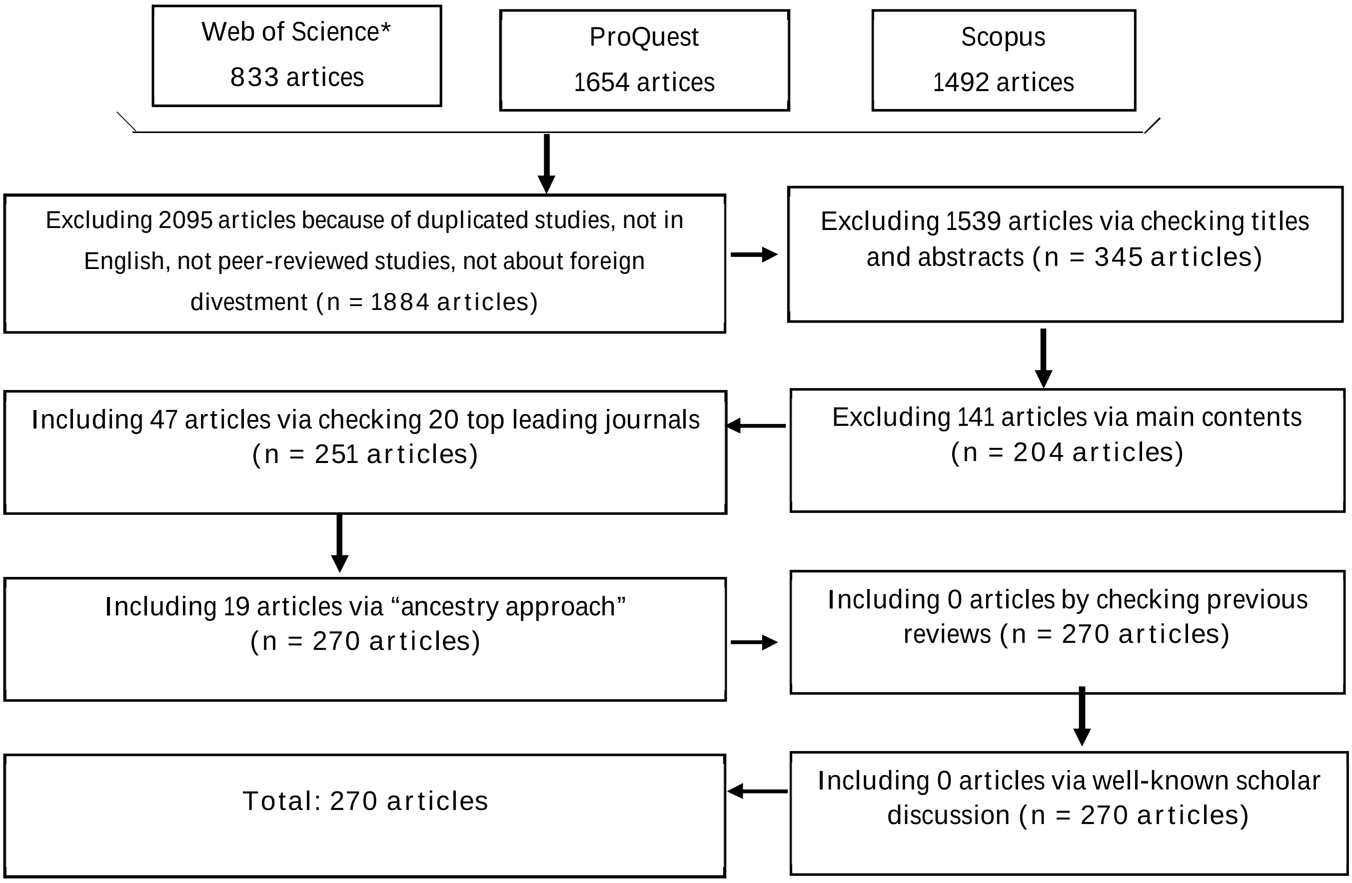


Figure 2: Number of articles published from 1979 to 2021 in foreign divestment topic

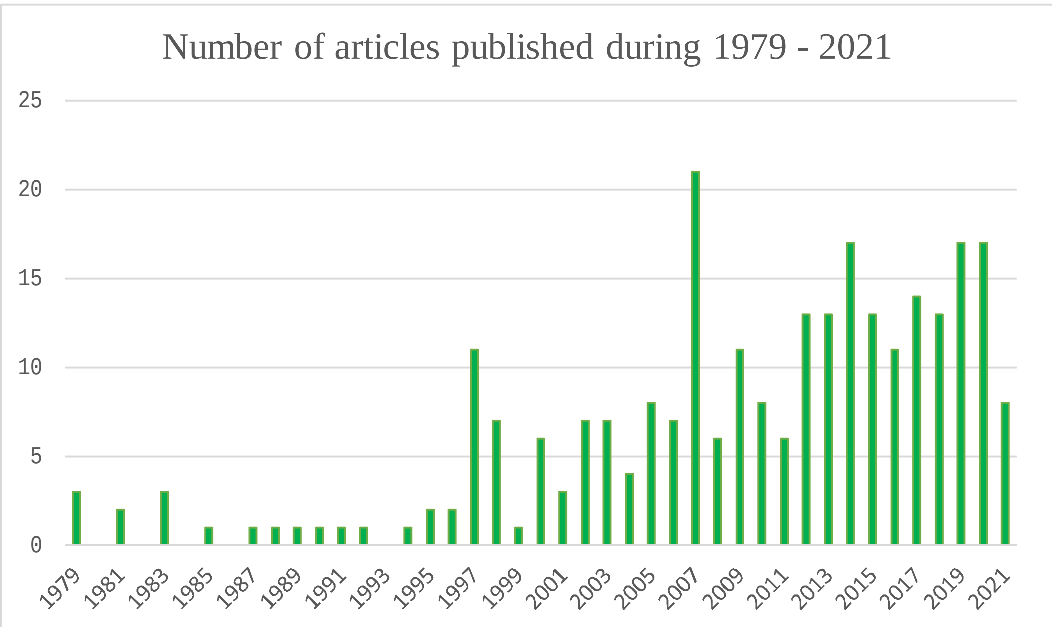
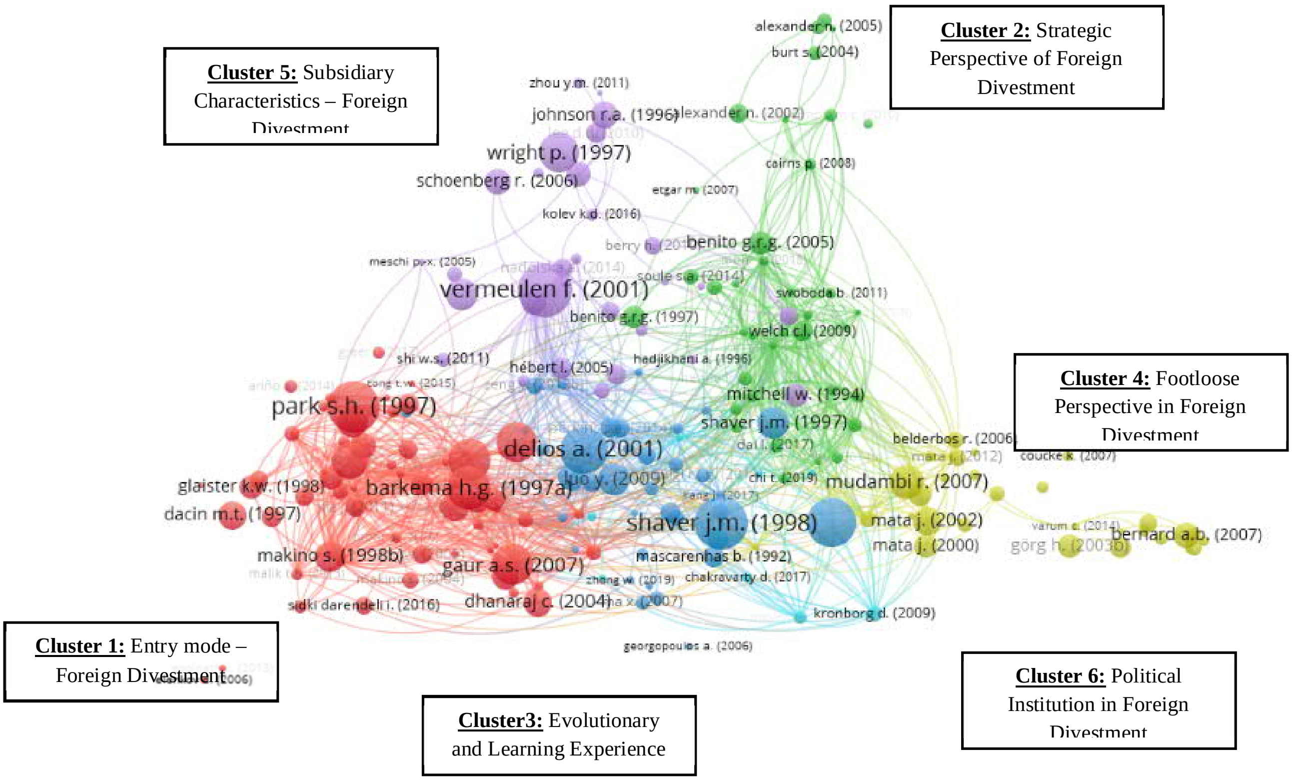


Figure 3: Six clusters in previous foreign divestment literature



ESSAY 2

Why divest? Cultural friction in foreign divestment

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Understanding foreign divestment: The impacts of economic and political friction

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ABSTRACT

Past research on foreign divestment has recognized the impact of economic and political differences[1]. However, the prior findings remain equivocal. We adopt the Positive Organizational Scholarship perspective to provide more contextualized insights into the effects of economic and political differences on foreign divestment. Specifically, we consider the juxtaposition of national differences and levels of firm interaction with the different contexts. Thus, we develop the concept of friction to assess levels of economic and political differences. We further argue that economic friction will have a curvilinear (U-shaped) effect on foreign divestment, whereas political friction will produce a monotonic (positive) effect. Moreover, we introduce ownership level as a moderator into the main hypotheses. Drawing on data from 2400 foreign subsidiaries of 310 Finnish multinational enterprises, from 1970–2010, we provide support for our main hypotheses, although the moderating effect of ownership levels is not supported. We further compare the effects of differences measured by friction with those measured by distance. Accordingly, our research highlights the importance of detecting specific conditions for the investigation of the impact of economic and political differences in the foreign divestment literature.

1. Introduction

Stora Enso, a Finnish MNE and leading global provider of renewable solutions, planned to sell its Sachsen Mill, located in Eilenburg, Germany, to Model Group, a Swiss company. Later, Stora Enso announced it was to close its paper factory in Sweden (Stora Enso, 2021). These two cases are among hundreds of instances of foreign divestment (FD) over the past few years, referring to the exit of an active foreign subsidiary of a multinational enterprise (MNE) from the host country (Boddewyn, 1979, 1983), via sell-off (first case) or closure (second case) (Konara & Ganotakis, 2020; Sartor & Beamish, 2020). Nevertheless, this striking business phenomenon has received scant scholarly attention (Arte & Larimo, 2019; Coudounaris, Orero-Blat & Rodríguez-García, 2020; Schmid & Morschett, 2020).

Economic and political differences have profound effects on the performance and survival rate of MNEs, that is, providing institutional arbitrage and conveying an important source of uncertainty for MNEs (Kostova & Zaheer, 1999; Gaur & Lu, 2007; Berry, Guillen & Zhou, 2010; Sartor & Beamish, 2020). Economic and political differences, which may be grouped as formal differences or regulatory differences (Scott, 1995; Gaur & Lu, 2007), refer to those between countries (Berry et al., 2010). The prior research has paid considerable attention to the influences of economic and political differences to provide knowledge on how MNEs should deal with the differences (Kostova & Zaheer, 1999; Kostova, Roth & Dacin, 2008; Kostova, Beugelsdijk, Scott, Kunst, Chua & Essen, 2020). Despite this, three striking issues have been raised.

First, when attempting to unveil the impacts of institutional differences, international business (IB) researchers fall short on one particular count, that is, they often assume similar effects for all dimensions of institutional difference, especially economic and political differences, on MNE internationalization (Gaur & Lu, 2007; Meschi & Riccio, 2008; Pattnaik & Lee, 2014; Kang, Lee & Ghauri, 2017). However, Jackson & Deeg (2008) explain that due to the unique nature of each institution, institutional differences influence MNEs differently. Indeed, a few scholars report dissimilar effects of economic and political institutions (Tsang & Yip, 2007; Demirbag, Apaydin & Tatoglu, 2011; Rittippant & Rashee, 2015; Song & Lee, 2017).

Second, institutional theorists tend to overestimate the negative outcome of "being foreign" on MNE internationalization (Stahl, Tung, Kostova & Zellmer-Bruhn, 2016; Lorenz, Clampit & Ramsey, 2018).

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[1] Please note that in this paper we use the term 'differences' as a broader-based term that encompasses the literature on distance and on friction.

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Institutional differences, while making it hard for MNEs to compromise (Kostova & Zaheer, 1999; Kostova et al., 2008), could deliver several advantages that encourage MNEs to “stay abroad”, including unique resources, arbitrage opportunities, and innovation capacity (Gaur & Lu, 2007; Edman, 2016). Hence, an inbuilt assumption that differences are detrimental can lead to erroneous conclusions (Clampit, Kedia, Fabian & Gaffney, 2015). Accordingly, it is important to broaden our mindset and provide a balanced treatment of the effect of differences (Stahl et al., 2016). The Positive Organizational Scholarship (POS) perspective reflects this idea in the IB literature, emphasizing the advantages of differences. However, this lens has received scant attention in the extant literature (Edman, 2016; Stahl et al., 2016).

Third, the prior research tends to focus only on national differences, excluding firms' specific interaction with the different context. This leads to oversimplification of the fact that the embeddedness of MNEs in national differences is not the same for all firms (Witt & Lewin, 2007; Graafland & Noorderhaven, 2020). For instance, it is likely that a Finnish MNE investing in China for the first time will be influenced differently by economic and political differences than a Finnish peer that already has ten subsidiaries in China. In this case, national differences refer to the differences between China and Finland, i.e., economic and political systems, while firms' interactions refer to specific situations where Finnish firms interact with these different contexts. Accordingly, although the national economic and political differences between China and Finland are similar in both firms, the levels of firm interaction in the first case are likely different from those in the second, due to different levels of involvement, that is, first-time entry vs. several previous entries, and sole subsidiary vs. ten subsidiaries. In other words, when a Finnish MNE has more interaction with China, it will be more deeply influenced by the host country environment than its home-country peers that have less interaction in the host country.

By the same logic, scholars argue that depending on the levels of equity ownership, that is, international joint ventures (IJVs) and wholly owned subsidiaries (WOSs), foreign firms may be involved and influenced dissimilarly by the different national context (Gaur & Lu, 2007; Dhanaraj & Beamish, 2009; Pattnaik & Lee, 2014). Nevertheless, Meyer, Li & Schotter (2020) recently reported scant interest in IB research exploring multi-level interaction to external influences; for instance, in home-host conditions, and inter-firm reaction, where parent firms and subsidiary units work together to respond to changes in their external environment. This has motivated our research interest to delve into the influences of firm-level interaction.

Motivated by these ideas, we examine the influences of economic and political differences on foreign divestments, and augment the extant literature in three ways. First, we apply the POS perspective, and reveal the multifaceted effects of economic and political differences, in order to understand whether or not differences could be benefits rather than always being disadvantageous (Clampit et al., 2015; Edman, 2016; Stahl et al., 2016). Accordingly, we eschew the conventional assumption regarding the negative influence of differences. Our tenet is that, at low levels of economic difference, foreign subsidiaries may enjoy several local resources and take advantage of economic arbitrage (Gaur & Lu, 2007; Jackson & Deeg, 2008; Mallon & Fainshmidt, 2017). However, these benefits are not always available, while adaptation costs associated with searching for the advantages increase significantly when economic differences are higher (Gaur & Lu, 2007; Shirodkar & Konara, 2017). Consequently, we propose that economic differences have both positive and negative effects that might emerge from cross-economic interactions. Thus, the effect on divestment probability is curvilinear.

In contrast, political differences are less likely to provide such arbitrage opportunities, including favorable political changes and unique support from local governments, due to the dominant powers of local political agencies, higher adaptation costs, and potential criticisms from external stakeholders (Dhanaraj & Beamish, 2009; Giambona et al., 2017; Lorenz et al., 2018; Cannizzaro, 2019; Cordero & Miller, 2019). Hence, we propose that political differences produce constraints and increase divestment propensity.

Second, we switch to an advanced approach, *friction,* proposed by Shenkar (2001, 2012), instead of the common measure, “distance”, to assess the differences. While previous studies theoretically proposed that friction may be a more useful lens than distance (Clampit et al., 2015; Lorenz et al., 2018), we are not merely invoking a friction lens when testing these differences, but actually measuring friction. Essentially, friction refers to the extent to which different entities resist or rub up against each other in interactions in multilevel analysis (Shenkar, 2001, 2012; Koch, Koch & Shenkar, 2016; Singh, Pattnaik, Lee & Gaur, 2019). In other words, friction reflects the combined differences perceived at different levels, that is, national and firm levels. We argue that, depending on how firms encounter the different contexts, levels of friction defined in different situations are different. In addition, while Shenkar and his colleagues (Shenkar, 2001; Luo & Shenkar, 2011; Li, Liu & Qian, 2019; Singh et al., 2019) focus solely on cultural friction, we focus on economic and political frictions. We further compare findings on the effect of differences measured by distance and by friction, in order to assess the advancement and validity of the friction metric.

Third, we contribute to the extant literature by uncovering the moderating effect of subsidiary ownership levels (WOSs vs. IJVs) on the economic and political friction - FD relationship. Past research reports that depending on different ownership levels, foreign subsidiaries will encounter different levels of interaction, leading to different propensity of divestments (Hennart, Kim & Zeng, 1998; Delios & Ensign, 2009). Luo & Shenkar (2011) echo this idea by theoretically proposing that foreign subsidiaries with different ownership levels encounter different levels of friction. Therefore, it is promising to empirically examine this proposal.

2. Theory and hypotheses development

Institutional theory discusses the influence of institutional differences on organizational survival and success (Kostova & Zaheer, 1999; Xu & Shenkar, 2002; Kostova et al., 2008). Since MNEs always experience institutional differences when operating abroad, institutional theory has become ubiquitous in the IB literature (Kostova et al., 2020). In Table 1, we review 16 novel studies on the effects of economic and political differences on FD, of which nine studies also include ownership levels in testing models. The table shows that while economic and political differences are measured using various indicators, the applied distance approach is similar in those studies. As noted above, IB researchers tend to assume economic and political differences have a positive effect on divestment (Pattnaik & Lee, 2014; Kang et al., 2017). However, these effects are also found to be negative (Tsang & Yip, 2007; Xia, 2011) or non-significant (Meschi & Riccio, 2008; Meschi, Phan & Wassmer, 2016). Notably, focusing on arbitrage opportunities and costs, Gaur & Lu (2007) reported a curvilinear effect of regulative differences. The equivocal findings have led to an inevitable debate: What is the influence of economic and political differences on foreign divestments?

2.1. POS perspective in IB studies

Cameron (2017) explains that because individuals often remember the consequences of negative events rather than those of positive events, negative bias exists, especially among studies on organizational outcomes and survival. Furthermore, researchers focus mainly on the strongest factors explaining the greatest variance, leading to unfair treatment of the positive effects (Cameron, 2017). Aiming to resolve the unbalanced treatment in the extant literature, we apply the POS perspective to highlight the multifaceted effects of economic and political differences on foreign divestment. POS is not a single theory *per se*, but represents a different view that focuses on both the positive and negative outcomes of a given phenomenon, and discusses the mechanisms of the outcomes (Cameron & Caza, 2004; Stahl & Tung, 2015; Edman, 2016; Stahl et al., 2016).

One primary objective of POS is to challenge the traditional bias

Table 1
Previous studies on the relationship between economic & political differences and foreign divestment (or subsidiary survival) *

Author(s)	Sample	Measurement of institutional differences	Type of variable	Dependent variable	Measures	Findings** (adjusted)
Gaur & Lu (2007)	20,177 Japanese foreign subsidiaries from 1986 to 2001 in 52 countries	Regulative pillars Normative pillars	Main independent	Subsidiary survival	Scott's (1995) concept – Euclidean distance	U-shaped
Tsang & Yip (2007)	1,373 Singapore FDIs in 42 countries from 1980 to 2000	Economic distance	Main independent	FDI survival	The difference, in U.S. dollars, in the real per capita gross domestic product (GDP) between Singapore and a host country in the first year of an FDI.	Negative
Meschi & Riccio (2008)	234 IJVs that were formed in Brazil between 1973 and 2004	Economic risk	Main independent	IJV survival	A weighted average of government default on payments, the level of debt, inflation and the GNP figures per capita.	Non-significant
		Political risk			A weighted average of government and institutional stability, the socio-economic situation, the level of corruption and the government's attitude towards foreign direct investment	
		Variation in economic risk			Annual variations in economic risk	
		Variation in political risk			Annual variations in political risk	
Dhanaraj & Beamish (2009)	12,000 + Japanese MNEs from 1986 to 1997 in 25 countries	Political Openness Social Openness	Main independent	Subsidiary mortality	Multiple interview responses reported in the World Competitiveness Survey from 1989 to 1998	Negative
(Colantone & Sleuwaegen, 2010)	Industry entry and exit rates for eight European countries – Belgium, Denmark, Finland, Italy, the Netherlands, Spain, Sweden and the UK – over the period 1997–2003	Technological improvement	Control variable	International trade exit	Total factor productivity	Positive
		Capital/labor intensity			The (%) growth in the physical capital services per hour worked (K/L Growth)	Negative
Xia (2011)	587 alliances were formed in 49 host countries by 525 multi- national corporations based in 41 home countries from 1990 to 2007	Institutional distance (Dow & Larimo, 2009)	Control variable	Alliance terminated	Factor analysis for the absolute value of the difference between each pair of dimensions	Negative
		Economic distance (Tsang & Yip, 2007)			Absolute logarithmic difference in the GDP per capita	
Demirbag et al. (2011)	265 Japanese subsidiaries in MENA countries from 1956 to 2003	Economic distance	Main independent	Subsidiary survival	Absolute logarithmic difference in the GDP per capita	Negative
		Economic freedom distance			Difference between economic freedom indices of two countries	Positive
(Bai, Jin, & Qi, 2013)	489 Chinese FDIs in 39 countries and districts from 1996 to 2004	Economic distance (Ghemawat, 2001)	Main independent	Subsidiary survival	MOFTEC score	Negative
Pattnaik & Lee (2014)	2435 foreign affiliates of 1697 Korean manufacturing MNCs in 67 different host countries from 2000 to 2010	Economic & Political distance	Main independent	Foreign divestment	Berry et al. (2010) concept - Euclidean distance	Positive
Rittippant & Rasheed (2015)	281 initial-international-investment announcements (mostly within Asia) of 46 Thai MNEs from 1995 to 2005	Political risks	Main independent	FDI growth (vs. exit)	Not specified	Non-significant
		Economic growth rate				Positive
		Economic freedom				Positive
Meschi et al. (2016)	3835 foreign entries into Vietnam from 1987 to 2008	Economic growth	Control variable	Subsidiary survival	Host country's GDP growth	Non-significant
Song & Lee (2017)	5306 observations of foreign production subsidiaries of 439 Korean MNEs from 1990 to 2012	Hostile market condition	Main independent	Foreign divestment	The negative value of the annual percentage change in consumer spending multiply number of years	Positive
		Political openness	Control variable		Multiple interview responses reported in the World Competitiveness Survey from 1989 to 1998	Non-significant
Kang et al. (2017)	3574 foreign manufacturing subsidiary observations of 2439 Korean manufacturing MNCs located in 67 countries from 1990 to 2012	Economic & Political distance	Main independent	Subsidiary survival	Berry et al. (2010) concept - Mahalanobis distance	Positive
(Liu & Li, 2020)	8698 foreign subsidiaries of 93 Fortune US companies from 2005 to 2015	Host country terrorist attacks	Main independent	MNE's divestment	Total fatalities caused by business-related terrorist attacks in a host country where a given MNE's subsidiaries are located in a given year	Non-significant
Sartor & Beamish (2020)	29,014 observations pertaining to 5093 foreign subsidiary investments established in 18 emerging markets by 1455 Japanese MNEs during the period 1998–2015	Host market corruption	Main independent	Foreign subsidiary exit	Transparency International's Corruption Perception Index (CPI) with reversed code	Mixed results
		Policy stability	Control variable		Henisz's (2002) political constraints index data in host country	Negative
		Regulatory efficiency			The average of the Heritage Foundation's business and monetary freedom indexes in home country	
					Dummy variable (OECD vs. non.OECD)	

(continued on next page)

Table 1 (*continued*)

Author(s)	Sample	Measurement of institutional differences	Type of variable	Dependent variable	Measures	Findings** (adjusted)
Wang & Larimo (2020)	1345 acquisitions made by 174 Finnish firms in 59 countries from 1980 to 2005	Host country economic development	Independent variable	Subsidiary survival		Mixed results
		Host country risk			Differences in ECR country scores between the year of divestments and investment	Negative

*Criteria of choosing previous studies for this table based on: (1) foreign divestment studies related to institutional differences, focusing more on economic and political differences or relevant indicators; (2) key studies by leading scholars in the field; (3) studies that show continuous research stream of foreign divestment, more up-to-date papers.

**For clarity, the conclusions presented in the 'Findings (adjusted)' column represent the effect of economic and political distance on foreign subsidiary divestment. For papers where the dependent variable was subsidiary survival, the original results have been adjusted accordingly. For example, if the relationship between economic distance and subsidiary survival in an article is reported as negative and significant, we report the relationship in this table as positive and significant.

regarding the negative impact of differences, and emphasize the need to pay fair attention to positive influences (Cameron & Caza, 2004; Cameron, 2017). The POS perspective encourages researchers not to consider institutional differences not only as challenges, but also opportunities for arbitrage, complementarity, or creative diversity (Stahl & Tung, 2015; Zaheer, Schomaker & Nachum, 2012). For instance, elaborating on the POS lens, Edman (2016) admitted that while the liability of foreignness still mattered, being different could improve firm innovation, provide unique human capital, develop new market segments, and consumer preference. Accordingly, Stahl at el. (2016) encouraged researchers to allow for the multifaceted effects of institutional differences, rather than adhere to a monotonous hypothesis, when theorizing their proposal. On other words, researchers should study the mechanisms generating benefits or challenges stemming from the differences in specific situations.

Applying the POS lens, we investigate the specific nature of each institutional environment, that is, economic and political institutions, and its influences on the chances of subsidiary survival. In so doing, we emphasize the benefits and disadvantages of the differences, and theorize that "being different" is not always disadvantageous. Instead, depending on the institution and situation, differences may create advantages and benefits that increase the probability of survival, or accelerate difficulties and increase hazards among foreign subsidiaries.

2.2. *Measuring the differences: from distance to friction*

Institutional theorists have coined the term institutional distance to measure institutional differences quantitatively, which is a convenient method to apply (Konara & Mohr, 2019). Distance is also applied to measure the differences pertaining to each dimensional institution, that is, economic and political institutions (Berry et al., 2010; Pattnaik & Lee, 2014; Kang et al., 2017). Nevertheless, given that previous findings on the influence of institutional distance are contradictory, researchers have questioned the reliability and validity of the distant concept (Shenkar, 2001; 2012; Luo & Shenkar, 2011; Konara & Mohr, 2019).

One of the main criticisms of the distance concept is that distance reflects only national differences, even though firms may interact with the different context at different levels (see Shenkar, 2001, 2012; Popli, Akbar, Kumar & Gaur, 2016; Konara & Mohr, 2019, for more details). Simply put, the distance concept assumes that all firms within the same pair of home-host countries are influenced equally by institutional differences, regardless of the different levels of the firms' interaction with the differences. However, IB scholars have emphasized the importance of considering contextual variations in examining the influence of institutional differences (Orr & Scott, 2008; Slangen & Hennart, 2008b; Singh et al., 2019). For instance, Orr & Scott (2008) highlighted that impacts of institutional differences vary in different situations firms encounter. Similarly, Singh et al. (2019) stated that in specific circumstances, foreign subsidiaries are influenced diversely by institutional differences, while Lorenz et al. (2018) found that institutional differences bring positive outcomes to innovation, due to the diversity. Moreover, Mondejar & Zhao (2013) encouraged researchers to determine levels of institutional differences based on the perceived entities, because the linkage between firms and the specific institutional environment remains underexplored. Schmid & Morschett (2020) added that a macro measure of institutional risk cannot assess the levels of risk that influence foreign divestments.

In addition, distance assumes a linear effect of institutional differences, since the concept does not consider the reverse impact, although foreign subsidiaries may gain experience over time or through changes during their operations (Luo & Shenkar, 2011; Zeng et al., 2013; Popli et al., 2016). Accordingly, distance could not reflect potentially changeable mechanisms that generate the influences of institutional differences. Overall, we conclude that distance may not be an appropriate measure by which to examine the influence of institutional differences, since the concept fails to reflect the multifaceted, multilevel, and contextual variation of institutional differences, resulting from the diverse industries from which the studies are often drawn. Therefore, in line with the POS lens that emphasizes the multifaceted effect of institutional differences, we employ friction, a metric proposed by Shenkar and his colleagues (Shenkar, 2001; 2012; Luo & Shenkar, 2011), to evaluate the influences of economic and political differences.

Friction has garnered considerable attention as it considers not only the differences at the national level, but also the variation in organizational contexts when defining the differences (Koch et al., 2016; Li et al., 2019; Singh et al., 2019). In other words, levels of friction that foreign subsidiaries encounter will be specified depending on the national differences, and on the weighted domains of interaction points (Shenkar, 2011; 2012; Luo & Shenkar, 2011).

IB scholars have employed friction through the cognitive-cultural aspect or language dimension (Orr & Scott, 2008; Luo & Shenkar, 2011; Joshi & Lahiri, 2015; Li et al., 2019; Singh et al., 2019). Yet, Zaheer et al. (2012) proposed that Shenkar's criticisms are applicable to other dimensions of institutional differences. In a similar vein, scholars have argued that the process of interaction and resistance leading to friction is equally validated in the context of other institutional dimensions (Orr & Scott, 2008; Popli et al., 2016). Hence, we expect friction may be more appropriate than distance to assess the differences in economic and political differences.

Luo & Shenkar (2011) proposed several factors, that is, speed (V), sequence (G) of foreign expansion, and number of contact points or contact surfaces (N) to define levels of firm interaction. They argued that those factors reflect how foreign firms develop their operations in host countries, considering accumulated experiences and changes in expansion space, sequence or number of interaction points (Luo & Shenkar, 2011; Li et al., 2019). More precisely, N represents the degree of interaction that firms have in foreign countries. When N is higher, firm dependence on local resources is higher. Similarly, the level of friction is also higher as a result of heterogeneous institutional requirements across locations. In addition, when MNEs adopt a lower speed of foreign expansion (V), they will better align their experiential knowledge with host-country risks and uncertainty. Consequently, the MNEs encounter lower levels of friction. Luo & Shenkar (2011) further argued that foreign subsidiaries face greater liabilities of foreignness at the initial stage of foreign expansion (G), and, thus, escalating levels of friction. Moreover, at this initial stage, it is difficult and costly for foreign subsidiaries to collect, analyze and interpret relevant information pertaining to host markets, given their lack of local experience. Collectively, the three factors reflect levels of firms' interaction with different contexts, playing a crucial role in defining levels of friction. It is also worth noting that economic and political friction values, as combinations of distance and firm interaction, are changeable, because levels of firm interaction (i.e., N, V, G) are changeable.

Elaborating further on the concept, we explain that a simple combination of low levels of economic or political distance with low levels of firm interaction will generate low levels of economic and political friction, respectively. By contrast, high levels of economic and political distance combined with high levels of firm's interaction will generate high levels of economic and political friction. We further propose that while previous findings on effects of economic and political differences are essentially based on the distance metric, as opposed to the friction metric, mechanisms leading to economic or political distance' effects should broadly apply to friction. In arguing that the friction approach is superior to the distance approach, the former explicitly builds upon the latter. As elaborated above, the key distinctions between distance and friction are three firm-level factors: the speed, sequence and overall amount of international expansion.

2.3. Economic friction and foreign divestment decisions

Prior studies have confirmed the significant influence of economic differences on foreign divestments (Tsang & Yip, 2007; Pattnaik & Lee, 2014; Kang et al., 2017). Considering both the benefits and disadvantages of economic difference (i.e., Gaur & Lu, 2007; Malhotra et al., 2011; Mallon & Fainshmidt, 2017), we propose that economic friction is not always disruptive, and that friction may offer several benefits. Precisely, we theorize that economic friction influences FD probability as a U-shape for two critical reasons.

First, integrating insights from the institution-based view, resource-based theory, and transaction cost economics, previous studies show that when operating in economically different countries, foreign subsidiaries gain various advantages, namely economic arbitrage (Gaur & Lu, 2007), and get access to new and more similar markets (Evans & Mavondo, 2002; Demirbag et al., 2011; Hutzschenreuter, Kleindienst & Lange, 2014; Liou & Rao-Nicholson, 2019). Further benefits may arise from ownership advantages (Dunning, 1988), and assets of foreignness, that is, unique resources, capabilities or opportunities only available to foreign firms (Edman, 2016; Mallon & Fainshmidt, 2017). We argue that, importantly, these advantages strengthen as level of economic friction increases. The advantages increase the benefits that foreign subsidiaries receive, and supply a motive for staying longer in distant countries. Those benefits accruing to MNEs for pursuing internationalization strategies or exploiting local resources would otherwise be lost (Song & Lee, 2017). It is worth noting that foreign subsidiaries always incur extra costs and take more risks to explore and exploit added benefits, while the advantages are not always available (Gaur & Lu, 2007; Popli et al., 2016). Accordingly, there would be a point at which increased costs were higher than achieved benefits, leading to a reverse net impact of economic differences (Gaur & Lu, 2007).

Second, as noted above, foreign subsidiaries may not gain benefits without committing to initial costs. Past research has highlighted that foreign subsidiaries incur organizational and transaction costs to set up business in a foreign country, and start exploiting or exploring local resources (Meschi et al., 2016; Song & Lee, 2017; Wang & Larimo, 2020). Similarly, Kang et al. (2017) argued that since MNEs have less information about host markets, there will be start-up costs to acquire such information. Furthermore, when foreign subsidiaries want to exploit more resources, they are likely to have more interaction with the local context. Hence, they would incur higher *ex-ante* and *ex-post* costs and risks that create more difficulties (Malhotra et al., 2011; Popli et al., 2016). In sum, we propose a curvilinear relationship between economic friction and FD.

Precisely, at low levels of economic friction, foreign subsidiaries have to make an initial financial investment to set up their operation, as they encounter degrees of uncertainty in the host institutional environment. However, there will be several benefits to offset these costs and risks, and well-prepared strategic plans will further ameliorate the situation (Gaur & Lu, 2007; Mallon & Fainshmidt, 2017). But this relationship is not stable, and once level of economic friction rises above a certain threshold, which the achieved benefits do not offset the increased costs, the cost-benefit relationship is reversed.

Hence, once above that threshold, higher levels of economic friction create more difficulties for foreign subsidiaries to overcome, and they face more challenges to identify and satisfy customers' needs and preference (Berry et al., 2010; Kang et al., 2017). On encountering high levels of economic friction, subsidiaries also find it harder to apply accumulated experience from previous investments, due to greater contextual variation among previous experiences (Zeng et al., 2013; Popli et al., 2016). Furthermore, subsidiaries have to incur extra costs to leverage local resources, although the resources are narrower and not always available (Gaur & Lu, 2007). Hence, higher levels of economic friction escalate FD probability.

We integrate the aforementioned discussion in Fig. 1, following Haans, Pieters & He (2016), and contend that the combination of the benefits and costs that foreign subsidiaries are subject to in economically different countries will result in a U-shaped effect on foreign divestments. Precisely, at lower levels of economic friction, the benefits of exploiting and exploring local opportunities will increase, albeit at a decreasing rate, leading to a negative effect on foreign divestment. However, when levels of friction increase beyond a certain threshold, the relevant costs for foreign subsidiaries to access and diffuse the benefits grow at an increasing rate, thus, yielding a positive effect on divestment. Taken together, we propose the following:

Hypothesis 1: Ceteris paribus, the relationship between economic friction and the likelihood of foreign divestment is a U-shape.

2.4. Political friction and foreign divestment decisions

Past research has highlighted the significant effect of political differences, as the most impeding factor, on MNEs' IB strategies, and particularly on foreign divestments (Kang et al., 2017; Sartor & Beamish, 2020). We apply political friction as a combined measure of political distance and firm interaction with national political differences, in order to examine influence of political differences on foreign divestment.

Elaborating on the nature of political differences, we argue that political friction increases the likelihood of foreign divestments. Gaur & Lu (2007) stated that foreign subsidiaries threaten their own existence, due to the risks of governmental appropriation and local hostile pressure in host countries. Dhanaraj & Beamish (2009) also argued that political differences place foreign subsidiaries in a disadvantageous position, due to the complexity and lack of transparency of business regulations, or constraints relating to repatriating profits, obtaining local financing, and transfer pricing. Similarly, Pattnaik & Lee (2014) found that differences in political regimes and uncertainty in regulation adversely hampered the efficiency of MNEs' operations. The differences magnify agency costs exponentially, due to the opportunistic behavior of managers and other local collaborators, and outweigh the benefits that MNEs derive from internationalization (Chao & Kumar, 2010; Kang et al., 2017). Meschi & Riccio (2008) further showed that when political uncertainty increases,

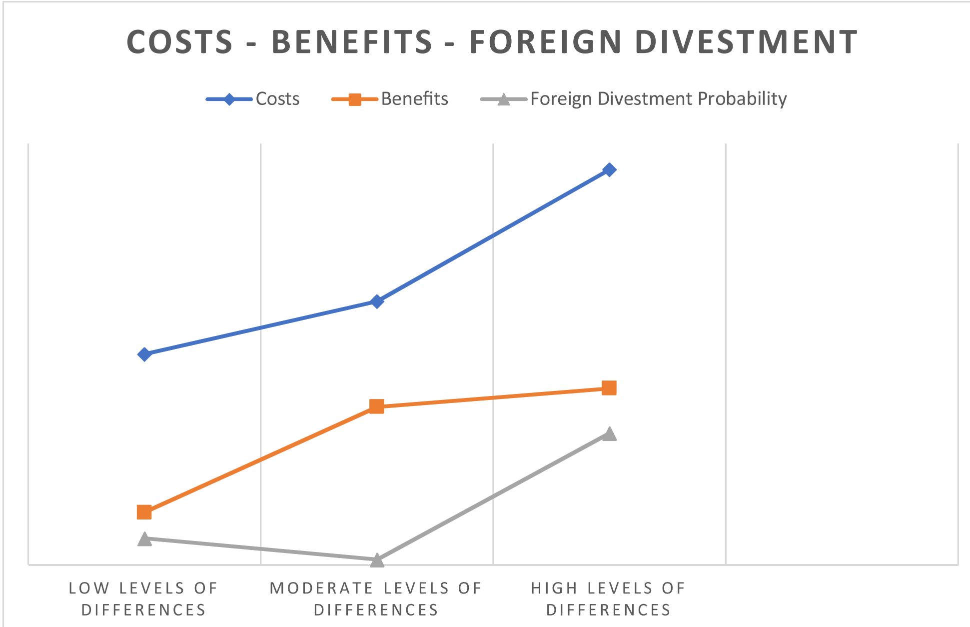

Fig. 1. Costs, benefits and foreign divestment probability at different levels of economic differences.

foreign subsidiaries are less likely to access local benefits to achieve initial entry objectives, since they have lower bargaining power.

Elaborating on the friction concept, we argue that if foreign subsidiaries have more political interaction with the host country, they are influenced more strongly as they need to comply with more political requirements for their operations, leading them to be more prone to divestment (Gaur & Lu, 2007). Similarly, if subsidiaries are first entrants, they need to deal with higher degrees of liabilities of foreignness and face greater pressure from local groups, yielding higher levels of political friction (Slangen & Hennart, 2008a). By contrast, subsidiaries receiving support from sister companies already present in the host country, may not be subject to high levels of friction (Kim, Lu & Rhee, 2012).

We further emphasize that, the effect of political friction on divestment is linear rather than curved, for three critical reasons. First, political differences constitute the greatest challenges for MNEs, while political advantages may be not available to foreign entrants (Chao & Kumar, 2010; Giambona, Graham & Harvey, 2017; Lorenz et al., 2018; Graafland & Noorderhaven, 2020). For instance, prior studies show that political differences may not produce arbitrage opportunities, due to the dominant powers of host political agents, and higher adaptation costs (Cannizzaro, 2019; Sartor & Beamish, 2020; Witte, Burger & Pennings, 2020). Similarly, Giambona et al. (2017) proposed that MNE managers tend to avoid, not simply reduce investments, and exit host countries with high political risks, since political risk is more severe than other forms of risk. Second, Dhanaraj & Beamish (2009) proposed that among the FD studies there is an implied assumption that when subsidiaries exist in foreign countries, they have already incurred start-up costs to overcome political hurdles, and any favorable change in those hurdles is unlikely to create new opportunities that will facilitate their survival.

Third, we propose that external stakeholders, i.e., customers, local interest groups and rivals, would criticize the MNEs and local government, were there to be negotiations between them relating to unique support or political changes available only to foreign firms, that is, lower local taxes, favored support for transfer pricing, and other favors. Hence, MNEs will be less likely to allow their foreign units to involve themselves in such negotiations. For instance, Sartor & Beamish (2020) showed that if MNEs have to deal with higher levels of political corruption, they will find it harder to manage and regulate subsidiaries' behaviors, leading to a higher probability of divestment. In sum, we argue that political friction creates difficulties and constraints for firms, leading to a higher propensity for divestment. Accordingly, we propose the following:

Hypothesis 2: Ceteris paribus, the relationship between political friction and foreign divestment is positive.

2.5. Moderating effect of subsidiary ownership levels

The FD literature proposes that depending on different ownership levels, that is, IJVs or WOSs, foreign subsidiaries may encounter different levels of institutional differences, which may in turn bring additional uncertainty and complexity, leading to different propensities for foreign divestment (Makino & Beamish, 1998; Dhanaraj & Beamish, 2004; Lu & Hébert, 2005; Gaur & Lu, 2007; Meschi et al., 2016; Kim & Kim, 2018). Proposing the friction concept, Luo & Shenkar (2011) echoed the call to pay attention to the moderating effect of several factors that modify levels of friction. Ownership is one such moderator. However, this proposal lacks empirical evidence. In this respect, our study provides an ideal research setting to investigate the moderating effect of ownership levels on the economic and political friction – foreign divestment relationship.

The extant literature has examined the direct impact of ownership levels on divestment, yet the findings are equivocal. For instance, Lu & Hébert (2005) proposed that IJVs could take advantage of local partners, to alleviate differences in host countries, gain a better understanding of the external environment, and make better strategic decisions, leading to lower rates of divestment. Similarly, researchers argue that IJVs have higher chances of survival than WOSs, because IJVs can combine the strength of each partner, broaden product diversification, achieve economies of scale, enhance capacity to adapt to external uncertainty, and, reduce legitimacy asymmetry (Lu & Hébert, 2005; Meschi et al., 2016; Kim & Kim, 2018).

Contrariwise, Schmid & Morschett (2020) argued that with higher levels of ownership (i.e., WOSs), MNEs could promote their own executives to key positions in foreign subsidiaries to support the decision-making process. In the same fashion, WOSs have been confirmed to have lower rates of divestment, due to the avoidance of complications in the decision-making process, of declining efficiency, or of technological knowledge leaking to other firms (Leung, 1997; Hennart et al., 1998). Furthermore, because of higher equity ownership levels in WOSs, MNEs may input more attention and resources, thus decreasing the propensity of divestment (Gaur & Lu, 2007). Notably, a few researchers have highlighted that the fate of divestment is not likely related to ownership levels *per se,* but relate to entry motivations (Makino & Beamish, 1998; Lu & Hébert, 2005; Makino, Chan, Isobe & Beamish, 2007; Papyrina, 2007; Meschi et al., 2016). As noted, these previous findings pertain to a direct impact, rather than emphasizing the moderating impact of ownership levels on economic and political differences.

In their discourse on friction, Luo & Shenkar (2011) argued that IJVs involve higher levels of friction due to the greater scope for operational and managerial blending. When the relationship between IJVs' partners is complex, the interactions between entities become more frequent, multifaceted, and complicated. In line with this, we theorize that IJVs encounter higher levels of interaction with different contexts as there are two layers of interaction involved, that is, national and firm levels, while WOSs interact at only the national level. In other words, while IJVs need to handle home-host differences as a business system and with differences between partners, WOSs have to address only the differences between countries (Gaur & Lu, 2007; Hennart & Larimo, 1998; Makino & Neupert, 2000).

We acknowledge that with support from local partners, IJVs may involve lower levels of external interaction, while WOSs may incur initial costs in order to compromise on economic and political requirements in host countries. However, elaborating on the friction perspective, we argue that WOSs may manage their levels of friction at an acceptable rate, by gradually increasing levels of interaction with the external environment and accumulated experience (Zeng et al., 2013). In addition, they could maintain sustainable growth based on their own accumulated experience, and developed local networks with an external environment (Gaur & Lu, 2007). Further, in IJVs this interaction would likely increase when foreign entrants want more local business transactions, or at later stages of their development (Makino & Neupert, 2000; Gaur & Lu, 2007). In addition, WOSs may avoid social conflicts between partners due to their sole ownership structure or dominant powers over local partners (if any) (Dhanaraj & Beamish, 2004; Gaur & Lu, 2007; Schmid & Morschett, 2020). In contrast, IJVs may accelerate the negative outcome of "being different" due to higher levels of conflict in management teams, and complicated decision-making processes (Li, 1995; Hennart et al., 1998; Luo & Shenkar, 2011). We summarize the key differences in interaction levels of IJVs and WOSs in Table 2. In sum, we argue that the curved effect of economic friction on divestment will be flatter, and the positive effect of political friction on divestment will be weaker among WOSs than among IJVs. Accordingly, we propose the following:

Hypothesis 3: The U-shape relationship between economic friction and foreign divestment probability will become flatter in the case of WOSs compared to IJVs.

Hypothesis 4: The positive relationship between political friction and foreign divestment probability will be weaker in the case of WOSs compared to IJVs.

3. Research methodology

3.1. Sample

The empirical data for the study are based on Finnish MNEs' foreign direct investments (FDIs) in the manufacturing sector from 1970 to 2010, the status of which were checked at the end of 2016, itself used as the cut-off year to avoid the two-year honeymoon bias effects (Gaur & Lu, 2007; Wang & Larimo, 2020). We collected the Finnish MNEs' information from the Thompson and ORBIS databases, and performed a systematic analysis of the investing firms' annual reports, press releases, data gathered in FDI surveys, and direct contact, to identify divestment of foreign units.

Finnish MNEs constituted a particularly good research context for three critical reasons. First, Finland is among the most competitive of 140 ranked countries, despite its small size in the global arena (Global

Table 2
Differences in interaction levels between WOS and IJV.

Definition and characteristics	WOS	IJV
Definitions	Major equity (i.e. more than 95%) of firms are belonging to a parent from a home country.	A joint equity (<95%) shared between a foreign parent firm (or many) with a local parent firm (or many).
Managing legitimacy	Involving mainly external legitimacy because the WOS is invested by only a parent firm (do not involve internal legitimacy between partners) (Kim & Kim, 2018).	Involving in both external and internal legitimacy because the IJV needs to respond to external environment (at host country) and to local parents, as a part of the local institution (Hennart et al., 1998; (Lu & Xu, 2006)). IJV needs to secure internal legitimacy by conforming to isomorphic pressures of both foreign and local parents.
Interacting with national economic and political institutions	WOS needs to deal with uncertainty in economic and political differences without support from local partners, whereas the amount of accessed resources at initial stage could be limited due to liability of foreignness. Consequently, WOS tends to involve higher levels of interaction with external environment, i.e. host political and economic institutions. However, WOS may manage their levels of friction at an acceptable rate by gradually increasing levels of interaction with the external environment and with accumulated experience (Zeng et al., 2013). Hence, at later stage of operation, WOS could enjoy higher levels of benefits, while uncertainty of being foreign at initial stage could be offset by accumulated experiences. In addition, WOS could minimize transaction costs arising from coordination problems (Gaur & Lu, 2007).	IJV may reduce levels of foreignness, increase levels of local legitimacy, enjoy structural legitimacy and enhance the external legitimacy because of its status as partly a child organization of a local firm and of a legitimacy process ((Li, 1995); (Lu and Hébert, 2005)). IJV also shortens the time and decreases costs needed to establish legitimacy in the local environment, easily obtains financial and human resources in local markets, develops networks with local suppliers and buyers; and accesses local partners' distinctive and network-based resources and capabilities (Lu & Xu, 2006; Papyrina, 2007). However, IJV involves higher transaction costs to ensure that collaboration produces maximum synergies (Papyrina, 2007). Furthermore, local partners may not help much if IJV has higher levels of interaction with local environment, that is, exploring more local resources and dealing with local customers, suppliers, etc. Accordingly, IJV needs to depend more on local support, leading to lower levels of bargaining power in decision-making process (Luo & Shenkar, 2011).
Interacting with internal environment (local partners)	WOS may have faster and more efficient decision making processes and less scope of conflict because higher levels of equity ownership provide a parent firm with a greater degree of control over the systems, methods and decisions of its subsidiary (Dhanaraj & Beamish, 2004; Gaur &	There are more conflict in making organizational decisions as both foreign and local partners may fight for their preferences (Hennart et al., 1998). Furthermore, managerial blending also leads to complicated decision-making processes (Gaur & Lu, 2007; Luo & Shenkar, 2011). IJV may also be

(*continued on next page*)

Table 2 (*continued*)

Definition and characteristics	WOS	IJV
	Lu, 2007; Schmid & Morschett, 2020).	troubled not only by cultural differences between partners, but also by difficulties in sharing proprietary assets (Li, 1995).

Competitiveness Report, 2018). Also, along with other Nordic countries, it accounts for a significant amount of outward FDI. Second, although our paper is not about culture, it is still important to consider cultural differences, as they reflect how people think, believe and behave, which later influences their strategic decisions (Hofstede, 1980; Koch et al., 2016). As Finnish national culture, based on the Hofstede and GLOBE frameworks, differs from those of the United States, Japan, and other non-Nordic countries, it makes our sample an excellent venue for investigating the influences of institutional differences on FD decisions. Third, the extant studies on foreign divestment focus mainly on US, Japanese, Korean or Chinese MNEs, while Western firms have received scant attention (Koch et al., 2016). Hence, as a good representative of the Nordic region, Finland could help fill this gap, and provide good knowledge on how firms in the region develop IB strategies.

In assessing the influences of economic and political friction, we attempt to compensate for the use of single-country data by including FDIs with diverse levels of firm interaction, that is, sequence and speed of internationalization, and number of subsidiaries. In addition, our data include subsidiaries with different ownership levels, in different industries, and with various years of international experiences. In sum, the diverse levels of interaction lead to different levels of friction, although Finland constitutes the only home country.

In total, we identified 2548 investments, with 1190 cases divested during the period. However, 75 divested cases were excluded because they were the consequence of corporate divestment, referring to closure or sell-off of whole MNEs. We further excluded 73 cases due to missing information concerning parent firm size or divestment years. Thus, our final sample comprises 2400 investments made by 310 MNEs in 65 different host countries, with 1042 cases divested during the period.

3.2. Dependent variable

The dependent variable in this study is the probability of foreign divestment, and is operationalized as a binary variable, coded as 1 if the investment is divested, and 0 otherwise. In addition, a subsidiary surviving at the end of the observation period would be treated as a right-censored case (Getachew & Beamish, 2017; Kang et al., 2017; Peng & Beamish, 2019; Tan & Sousa, 2019; Sartor & Beamish, 2020).

3.3. Independent variables

The key predictors in our study are economic and political friction. Following Luo & Shenkar (2011), we construct economic friction (EF) and political friction (PF) at national and firm levels. Accordingly, we first follow Berry et al. (2010) and apply Mahalanobis distance to compute economic distance (ED) and political distance (PD) between countries (national level). Berry et al.'s (2010) scale is applied in this study because it measures ED and PD as a set of multi-dimensional indicators, which are confirmed to significantly influence MNE operations. Hence, the scale could reflect multifaceted aspects of different contexts. IB researchers have applied this scale in subsidiary divestment analysis and yielded significant findings (Kang et al., 2017; Pattnaik & Lee, 2014). Essentially, Berry et al. (2010) construct ED to reflect the differences in economic development and macroeconomic characteristics, including national income, inflation, export and import, while PD measures the differences in political stability, democracy, and trade bloc membership, measured by policy-making uncertainty, democratic character, size of the state, WTO membership, and regional trade agreements.

Then, at firm level, we evaluate firms' internationalization speed (V), sequence (G), and contact surface (N). Precisely, V is measured as the increase in the number of active foreign investments held by the parent firm in the corresponding year. G = [0;1] represents the sequence of internationalization of MNEs. G is computed such that the first investment a parent firm makes in a specific country is coded as 0. Subsequent investments in that country are coded as the ratio between the order of the investment and the maximum number of entries by any Finnish firm into that specific country, yielding a maximum value of 1. We also computed N as the sum of all the active foreign investments held by the parent firm in the corresponding year. Hence, friction is calculated as follows:

$$EF = e^{V(1-G)} \times \frac{ED}{10} \times N; PF = e^{V(1-G)} \times \frac{PD}{10} \times N$$

where, e is constant and equal to 2.7183. To test our Hypotheses 3 and 4, we coded the subsidiary ownership levels (WOS) as a dummy variable, 1 for foreign subsidiaries with over 95 percent of equity, 0 otherwise (Hennart et al., 1998; Delios & Ensign, 2009).

3.4. Control variables

Our study controls for several variables pertaining to multilevel analysis, which have been confirmed in previous studies to significantly influence FD probability. More precisely, we control for several factors at host country levels, including: population, birth rate, literacy rate, corporate income tax rate, EU membership, and cultural friction. Those variables are popularly controlled in the previous IB studies to reflect MNEs' entry and exit decisions. At the parent level, we control for size, product diversification, research and development (R&D) intensity, number of foreign countries, and years of international experiences. At the subsidiary level, we control for the age and relatedness of the unit. Table 3 describes the definitions, measurements, and references of all the variables included in our models.

3.5. Analytical strategies

The Cox proportional hazards model (Cox & Oakes, 1984) is ubiquitous in the FD literature, as the model offers several advantages for analyzing hazard rate (Pattnaik & Lee, 2014; Kang et al., 2017; Song & Lee, 2017). One of the advantages is suitability for modeling different forms of event history data, since the model does not need an assumption of any functional form for the underlying hazard function, relative to parametric models (Song, 2014). As such, the hazard rate can be presented as log-linear functions of the various firm- and subsidiary-level covariates (Kang et al., 2017). However, instead of using the basic Cox model, which assumes no unobserved heterogeneity or event dependence, we apply a frailty Cox proportional hazard model to test the likelihood of foreign divestment (Berry, 2013; Lee, Chung & Beamish, 2019). This frailty model accounts for cluster-specific homogeneities, the inherent nature that the subsidiary is nested in its parent companies (Austin, 2017; Lee et al., 2019). The frailty models also consider whether the same firm may suffer the hazard more than once as a result of unmeasured causes (Berry, 2013).

4. Results

The descriptive Pearson correlation in Table 4 displays a few high correlations among the variables, so the variance inflation factor (VIF) test was conducted to diagnose multicollinearity among the variables. The result shows that multicollinearity is not a problem among our variables (because the highest was 1.63 for MNEs' size).

Table 3
Definitions and measurements of variables used in the study.

Variables	*Definitions and measures*	References
1. Subsidiary divestment	Instant hazard ratio based on event dummy (1: divested, 0: not divested)	Pattnaik & Lee (2014); Kang et al. (2017); Wang & Larimo (2020)
2. Subsidiaries' age	The years the foreign affiliate is present in the foreign market	Kang et al. (2017); Tan & Sousa (2019)
3. Firm size	Natural logarithm of worldwide annual sales of the parent company (in mil euros) in the year preceding the investment	Kang et al. (2017); Wang & Larimo (2020); (Liu & Li, 2020)
4. Unrelatedness	A dummy variable which has a value of 1 (0 otherwise) when the investment is not in the same industry as one of the parent firm's existing businesses. This is based on the 4-digit SIC codes	Tsang & Yip (2007); Berry (2013); Song (2014)
5. R&D Intensity	A count of the number of 4-digit SIC codes in which the parent company was operating in the year of investment	(Hennart & Park, 1993; Dow & Larimo, 2011)
6. Product Diversification	A four-category classification of industry level research and development intensity based on 4-digit SIC codes using their associated value-added figures (High technology = 4; Medium-High technology = 3; Medium-Low technology = 2; Low technology = 1)	(Hennart & Park, 1993; Dow & Larimo, 2011)
7. Number of foreign countries	Number of foreign countries that MNEs have their subsidiaries during the years	Slangen & Hennart (2008)
8. Years of international experience	Number of years that MNEs have operated their activities abroad	Tan & Sousa (2019)
9. Cultural Friction	Luo & Shenkar' (2011) friction concept with Hofsted's 6-dimension framework	Luo & Shenkar (2011); Li et al. (2019); Singh et al. (2019)
10. Population of host country	Log of population at entry time	(Oetzel & Oh, 2014; Lu, Liu, Wright, & Filatotchev, 2014)
11. Birth rate of host country	Birth rate of host country at entry time	Berry et al. (2010); Pattnaik & Lee (2014);
12. Literacy rate of host country	The percent adult literacy rate of host country	(Oetzel & Oh, 2014; Oh & Oetzel, 2011)
13. EU membership	A dummy for membership in the European Union of host country	(Oetzel & Oh, 2014; Sun, Wang, & Luo, 2018)
14. Host Country Corporate Income Tax Rate	TaxFoundation.org, OECD, Ernst and Young (EY), and Trading Economics	(Farah, Elias, Chakravarty, & Beamish, 2021)
15. WOS	1 for foreign subsidiaries with over 95 percent of equity, otherwise 0	Hennart, Kim & Zeng, (1998); Delios & Ensign (2009)
16. Economic distance	Differences in income, inflation, export and import turnover between countries	Berry et al. (2010); Pattnaik & Lee (2014); Kang et al. (2017)
17. Political distance	Differences in policy-making uncertainty, democratic character, size of the state, member of WTO and regional trade agreement between countries	Berry et al. (2010); Pattnaik & Lee (2014); Kang et al. (2017)
18. Friction measure	Luo and Shenkar (2011) formula with economic and political distance	Luo & Shenkar (2011); Li et al. (2019); Singh et al. (2019)
10. Economic friction	Accessing the differences in income, inflation, export and import turnover between countries by applying friction (Luo & Shenkar, 2011)	(Östermark, 1998; Dharmapala, 2014)
20. Political friction	Accessing the differences in policy-making uncertainty, democratic character, size of the state, member of WTO and regional trade agreement between countries by applying friction (Luo & Shenkar, 2011).	(Walgrave & Nuytemans, 2009; Xu, Xu, & Yuan, 2013)

We report the survival analysis results for the hypotheses testing in Table 5, including 12 models. Model 1 includes only control variables, Models 2–5 test the linear and non-linear effects of EF and PF on FD probability. Models 6–12 test the moderating effects of subsidiary ownership levels on the friction–divestment probability relationship. In general, our models are significant at high levels, and adding the moderating variables increases the significant value (p-value < 0.001).

Among the control variables, our results show that parent and subsidiary levels – factors are significantly associated with foreign divestment rate, except for R&D intensity and number of foreign countries in which MNEs are operating. We also found that cultural friction, birth rate, literacy rate, and corporate income tax rate significantly influence FD probability, while population and EU membership are not relevant to divestment decisions.

In Hypothesis 1, we predicted that EF influences FD probability following a U-shape, such that low levels of friction decrease FD probability until a turning point, after which, adding friction increases the probability. As noted above, we follow Haans et al.'s (2016) proposal to examine the U-shaped relationship. Accordingly, we first checked the direction of linear and square-coefficients. Second, we examined whether the slopes on both sides are significant, and, third, we examined whether the turning point is within the data range. Our analysis in Model 3 shows that the EF coefficient is negative ($\beta = -2.097$, p-value < 0.001), while the squared term is positive ($\beta = 1.334$, p-value < 0.01). Next, we checked the significance of the negative and positive slopes of the U shape, using the following formula:

$$\beta_1 + 2*\beta_2*X_L \text{ and } \beta_1 + 2*\beta_2*X_H$$

where β_1 and β_2 are the estimated coefficients of EF and its squared term, respectively, while X_L and X_H represent the lowest and highest EF values in the data range, respectively. In the current data, the minimum value of EF is 0, while the maximum value is 1.49. We found that at the low end, the slope is negative and significant (−2.097, p-value < 0.05), and at the high end, the slope is positive and significant (1.878, p-value < 0.05). We then estimated the turning point of the EF impact (as - $\beta_1/2*\beta_2$), and confirmed that the turning point (0.786) is well within the data range. Hence, we can reasonably confirm the existence of the U-shaped relationship between EF and foreign divestment probability, supporting Hypothesis 1.

To test the relationship between PF and FD probability (Hypothesis 2), we included PF in Model 4. Our result shows that the PF coefficient is significantly positive ($\beta = 1.043$, p-value < 0.001). We further added the PF squared term in Model 5 to test a potential U-shaped relationship between PF and FD probability. The empirical results do not support the curved shape. Hence, Hypothesis 2 is supported, meaning that PF is positively associated with FD probability. We further plotted the relationships of EF and PF on foreign divestment probability in Figs. 2 and 3. In Fig. 2, we show that EF influences the divestment probability, following the U-shaped form, while Fig. 3 indicates that PF increases FD probability.

We proposed in Hypothesis 3 that WOSs flatten the U-shaped relationship between EF and divestment probability. Therefore, we continued incrementally adding variables (WOS and the interacting measure of WOS with EF, linear and squared values) in Models 6–8. The likelihood value was significant at p < 0.001, showing that the model was a good fit. Precisely, our results show that WOS is negative and significant. Hence, we confirmed that WOSs are less likely to be divested

Table 4
Descriptive and Pearson correlation.

Variables	Mean	S.D	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1. Subsidiary divestment	0.43	0.18	1.00																
2. Subsidiaries' age	19.51	8.84	−0.26	1.00															
3. Firm size	6.06	2.03	0.03	−0.38	1.00														
4. Unrelatedness	0.04	0.20	0.02	0.07	−0.09	1.00													
5. R&D Intensity	2.27	0.96	−0.01	0.02	−0.06	0.07	1.00												
6. Product Diversification	10.70	7.21	0.05	−0.01	0.60	−0.03	0.01	1.00											
7. Number of foreign countries	12.54	10.00	0.00	−0.02	0.59	−0.06	0.14	0.57	1.00										
8. Years of international experience	22.48	11.23	−0.04	0.13	0.41	−0.05	−0.09	0.37	0.46	1.00									
9. Cultural Friction	1.86	4.65	−0.00	−0.02	0.05	−0.00	−0.02	0.04	0.05	0.02	1.00								
10. Population of host country	1.517	3.086	−0.02	−0.13	0.02	−0.05	0.15	−0.08	−0.00	0.00	0.01	1.00							
11. Birth rate of host country	12.65	3.93	0.02	0.01	−0.01	−0.01	0.14	0.01	0.04	−0.06	−0.01	0.23	1.00						
12. Literacy rate of host country	97.28	6.08	0.00	0.01	−0.01	0.06	−0.10	0.01	−0.06	0.03	0.02	−0.43	−0.70	1.00					
13. EU membership	0.58	0.49	0.01	0.10	−0.03	−0.01	−0.18	0.05	−0.03	−0.03	−0.00	−0.47	−0.48	0.31	1.00				
14. Host Country Corporate Income Tax Rate	31.35	8.59	0.06	0.08	−0.00	0.07	0.11	0.11	0.03	−0.17	0.04	0.10	0.14	−0.10	−0.15	1.00			
15. WOS	0.72	0.45	−0.02	−0.05	0.04	0.01	0.04	0.02	0.04	0.04	0.02	−0.10	−0.14	0.19	0.08	0.06	1.00		
16. Economic Friction	3.02	2.81	−0.01	−0.19	0.20	−0.07	−0.00	0.06	0.19	0.13	0.22	0.36	0.15	−0.13	−0.46	−0.19	−0.07	1.00	
17. Political Friction	9.31	0.24	0.02	0.10	−0.22	0.04	−0.01	−0.13	−0.24	−0.19	−0.42	−0.33	0.03	0.01	0.22	−0.10	−0.02	−0.59	1.00

*Firm size is calculated by divided firm revenue for 1,000.
Correlation is significant at the 0.01 level (2-tailed).

than IJVs. This finding is consistent with previous studies in the FD literature (Gaur & Lu, 2007; Tsang & Yip, 2007; Demirbag et al., 2011; Song & Lee, 2017). Nevertheless, interacting effects between EF and IJV are not significant in Models 7 and 8. Hence, Hypothesis 3 is not supported. We followed the same path to examine Hypothesis 4, adding the interaction terms between WOS and PF in Models 9–12. The terms remain statistically non-significant in those models. Therefore, Hypothesis 4 is not supported. In sum, our results show that while WOS decreases foreign divestment probability, it does not moderate the influence of EF and PF on foreign divestment propensity.

We propose two critical explanations for the non-significant effect of ownership levels on the friction–foreign divestment relationship. First, Gaur & Lu (2007) confirmed that compared with normative differences (i.e., informal, cultural), regulative differences (i.e., economic, political) are more clearly stated and easier to comprehend, regardless of ownership levels. Hence, we suggest that MNEs do not need to set a specific mode to enter countries with larger differences in regulative institutions. Second, Luo & Shenkar (2011) proposed that levels of cultural friction may be different with or without considering organizational culture, which differs for WOSs and IJVs. Nevertheless, this is less likely to involve EF and PF, since organizations seem not to have their own organizational economic or political institutions. Accordingly, it is less likely that WOSs and IJVs involve different levels of EF and PF.

4.1. Post-hoc test

We conducted several robustness tests to consolidate our findings. First, looking to compare the distance and friction concepts when measuring ED and PD levels, we replicated our main models using the Mahalanobis distance concept in place of friction. As such, in each instance, we used the standard ED and PD metrics in place of the EF and PF metrics. The results are presented in Models 13–16 shown in Table 6. We found that ED has a significant negative effect on foreign divestment (Model 13), while the squared term of this variable is not statistically significant (Model 14). Hence, in line with Tsang & Yip (2007), and Demirbag et al. (2011), we confirm that ED decreases divestment probability. Further, we plotted the relationship between ED and divestment probability in Fig. 4. Similarly, we replaced PF with PD in Models 15–16. Notably, PD is non-significant in both models. This interesting result shows that when operating in countries with higher levels of national political difference (i.e., PD) without engaging in any political interaction, foreign firms are less likely influenced by political differences. While this finding is consistent with Meschi & Riccio (2008), and (Liu & Li, 2020), we highlight that friction is superior to distance in evaluating ED and PD effects, because it reflects the influence of firm interaction even when national differences (i.e., PD) are not relevant.

Moreover, we plotted the relationship between EF and the hazard ratio of divestment with the baseline of the survival model (h0), to describe in Fig. 5 the effect of EF on divestment probability, accounting for time perspective. As such, Fig. 5 includes three dimensions – economic friction, subsidiary hazard ratio, subsidiary age – and depicts a relationship that is initially negative, then positive as EF increases. The U-curve is consistent with differing levels of divestment probability over time.

Next, we applied discrete time logit models which are used in the FD literature (Delios & Beamish, 2004). We find that the results, reported in Table 7, are largely consistent. Furthermore, as WOS is categorized at 95% level in the main tests, we followed Dhanaraj & Beamish (2004), and Papyrina (2007), and recategorized ownership levels at 80%. Precisely, we recoded the WOS variable to show any investment that has ownership levels higher than or equal to 80% as 1, and 0 otherwise. Then, we re-ran Models 6–12 to test Hypotheses 3 and 4. The results, reported in Table 8, are still robust, meaning that WOS, while it decreases the likelihood of divestment, does not moderate the effect of EF and PF on foreign divestment probability. Finally, we examined the divestment rate between subsamples with different economic

Table 5
Survival analysis of the foreign divestment probability for main hypotheses.

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
1. Subsidiaries' age	−0.341*** (0.010)	−0.343*** (0.010)	−0.345*** (0.010)	−0.343*** (0.010)	−0.343*** (0.010)	−0.345*** (0.010)	−0.345*** (0.010)	−0.345*** (0.010)	−0.342*** (0.010)	−0.342*** (0.010)	−0.342*** (0.010)	−0.342*** (0.010)
2. Firm size	−1.418*** (0.060)	−1.407*** (0.060)	−1.414*** (0.060)	−1.433*** (0.060)	−1.433*** (0.060)	−1.418*** (0.060)	−1.421*** (0.060)	−1.423*** (0.059)	−1.439*** (0.060)	−1.437*** (0.060)	−1.437*** (0.060)	−1.437*** (0.060)
3. Unrelatedness	0.088+ (0.057)	0.106* (0.058)	0.111* (0.058)	0.103+ (0.058)	0.103+ (0.058)	0.108+ (0.058)	0.110+ (0.058)	0.112+ (0.058)	0.101+ (0.058)	0.099+ (0.058)	0.099+ (0.058)	0.098+ (0.058)
4. R&D Intensity	0.248 (0.168)	0.217 (0.169)	0.216 (0.169)	0.235 (0.169)	0.235 (0.169)	0.200 (0.169)	0.200 (0.169)	0.199 (0.170)	0.220 (0.169)	0.221 (0.169)	0.221 (0.169)	0.221 (0.169)
5. Product Diversification	0.072*** (0.012)	0.073*** (0.012)	0.073*** (0.012)	0.072*** (0.012)	0.072*** (0.012)	0.074*** (0.012)	0.074*** (0.012)	0.075*** (0.012)	0.073*** (0.012)	0.073*** (0.012)	0.073*** (0.012)	0.073*** (0.012)
6. Number of foreign countries	0.018 (0.015)	0.020 (0.015)	0.018 (0.015)	0.024 (0.015)	0.024 (0.015)	0.020 (0.015)	0.019 (0.015)	0.019 (0.015)	0.026 (0.015)	0.026 (0.015)	0.026 (0.016)	0.026 (0.015)
7. Years of international experience	0.177*** (0.019)	0.176*** (0.019)	0.177*** (0.019)	0.179*** (0.019)	0.179*** (0.019)	0.176*** (0.019)	0.177*** (0.019)	0.177*** (0.019)	0.178*** (0.019)	0.178*** (0.019)	0.178*** (0.019)	0.178*** (0.019)
8. Cultural Friction	−0.337* (0.177)	−0.091 (0.142)	−0.163 (0.158)	−0.001 (0.126)	−0.043 (0.157)	−0.156 (0.157)	−0.165 (0.160)	−0.161 (0.157)	−0.023 (0.148)	−0.004 (0.131)	−0.001 (0.137)	−0.024 (0.098)
9. Population of host country	−0.235 (0.264)	−0.081 (0.267)	−0.273 (0.265)	−0.048 (0.276)	−0.044 (0.276)	−0.083 (0.263)	−0.075 (0.264)	−0.077 (0.265)	−0.046 (0.274)	−0.023 (0.274)	−0.022 (0.274)	−0.021 (0.274)
10. Birth rate of host country	0.546** (0.191)	0.499** (0.191)	0.508** (0.190)	0.555** (0.194)	0.559** (0.194)	0.535** (0.188)	0.539** (0.188)	0.539** (0.188)	0.590** (0.192)	0.582** (0.192)	0.582** (0.192)	0.580** (0.192)
11. Literacy rate of host country	0.307** (0.106)	0.304** (0.106)	0.305** (0.106)	0.308** (0.106)	0.310** (0.106)	0.346** (0.108)	0.345** (0.108)	0.342** (0.108)	0.353** (0.108)	0.355** (0.108)	0.355** (0.108)	0.354** (0.108)
12. EU membership	0.025 (0.174)	0.198 (0.184)	0.236 (0.185)	0.022 (0.175)	0.023 (0.175)	0.181 (0.186)	0.179 (0.186)	0.185 (0.186)	0.089 (0.177)	0.067 (0.177)	0.067 (0.177)	0.065 (0.177)
13. Host Country Corporate Income Tax Rate	0.024*** (0.005)	0.019*** (0.006)	0.018*** (0.006)	0.027*** (0.005)	0.027*** (0.005)	0.019*** (0.006)	0.019*** (0.005)	0.018*** (0.006)	0.028*** (0.005)	0.028*** (0.005)	0.028*** (0.005)	0.028*** (0.005)
14. Economic Friction		−1.079*** (0.308)	−2.097*** (0.472)			−2.141*** (0.473)	−2.342*** (0.549)	−2.749*** (0.780)				
15. Economic Friction Square			1.334** (0.440)			1.350** (0.440)	1.35*** (0.432)	1.823** (0.742)				
16. Political Friction				1.043*** (0.285)	−1.299 (2.937)				−0.989 (2.894)	−0.646 (2.642)	−0.586 (2.911)	0.688** (0.370)
17. Political Friction Square					0.127 (0.156)				0.112 (0.154)	0.073 (0.146)	0.070 (0.161)	
18. WOS						−0.214* (0.085)	−0.281+ (0.129)	−0.345* (0.157)	−0.219* (0.085)	−0.608 (0.402	−0.340 (1.948)	−0.637 (0.399)
19. Economic Friction × WOS							0.304 (0.437)	0.826 (0.852)				
20. Economic Friction Square × WOS								−0.621 (0.852)				
21. Political Friction × WOS										0.629 (0.432)	0.035 (4.290)	0.660 (0.429)
22. Political Friction Square × WOS											0.033 (0.238)	
Log-likelihood	−4297.106	−4231.335	−4227.327	−4232.66	−4232.211	−4223.842	−4223.33	−4222.942	−4228.47	−4227.522	−4227.497	−4227.683
AIC	2551.44	2532.02	2536.13	2534.79	2531.17	2540.05	2538.54	2537.04	2357.44	2537.60	2535.61	2539.45
Number of observations	31,352	30,985	30,985	30,881	30,881	30,985	30,985	30,985	30,881	30,881	30,881	30,881
Number of divestments	1042	1029	1029	1030	1030	1029	1029	1029	1030	1030	1030	1030

Robust standard errors shown in parentheses, *** p-value < 0.001; ** p-value < 0.01; * p-value < 0.05; + p-value < 0.1, fixed-effect for parent firms, years and industry.

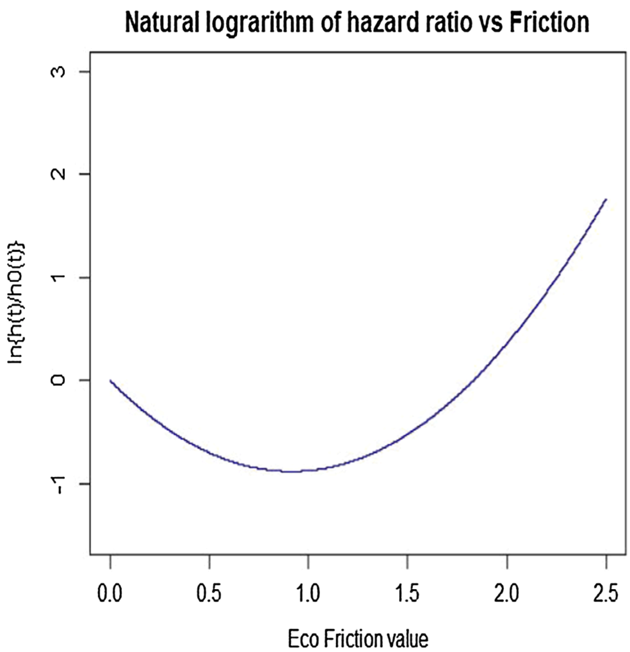

Fig. 2. The relationship between economic friction vs. economic distance and the log-likelihood of divestment probability.

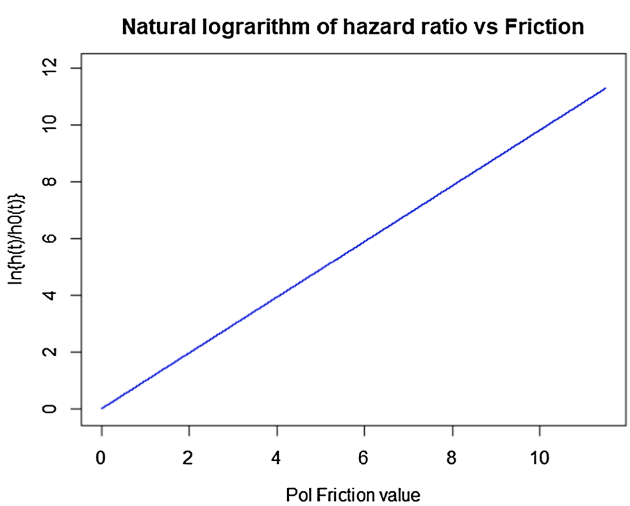

Fig. 3. The relationship between political friction and the log-likelihood of divestment probability.

development levels based on the Organization for Economic Cooperation and Development (OECD) categories. The results are robust in the subsamples. For brevity, we do not report these results.

5. Discussion and conclusion

IB scholars recognize the influence of economic and political differences on FD probability. Nevertheless, the extensive discussion on the negative effects of the differences, combined with the oversimplification of distance-based measurement, has led to insufficient knowledge on the multifaceted effects of economic and political differences (Gaur & Lu, 2007; Jackson and Deeg, 2008) Aguilera & Grøgaard, 2019; Graafland & Noorderhaven, 2020). This research broadens our mindset regarding the effect of EF and PF, by elaborating on the POS lens. We further examine the role of ownership levels in modifying the friction–divestment relationship. Based on previous reviews on foreign divestment (Arte & Larimo, 2019; Coudounaris et al., 2020; Schmid & Morschett, 2020), our

Table 6
Replicating the results using distance approach in place of friction.

Variables	Model 13	Model 14	Model 15	Model 16
1. Subsidiaries' age	-0.343^{***}	-0.343^{***}	-0.340^{***}	-0.340^{***}
	(0.010)	(0.010)	(0.010)	(0.010)
2. Firm size	-1.419^{***}	-1.413^{***}	-1.417^{***}	-1.418^{***}
	(0.060)	(0.060)	(0.060)	(0.060)
3. Unrelatedness	0.102^{+}	0.102^{+}	0.087^{+}	0.087^{+}
	(0.058)	(0.058)	(0.057)	(0.057)
4. R&D Intensity	0.202	0.209	0.257	0.257
	(0.169)	(0.169)	(0.168)	(0.168)
5. Product Diversification	0.072^{***}	0.072^{***}	0.072^{***}	0.072^{***}
	(0.012)	(0.012)	(0.012)	(0.012)
6. Number of foreign countries	0.017	0.017	0.018	0.018
	(0.015)	(0.015)	(0.015)	(0.015)
7. Years of international experience	0.178^{***}	0.175^{***}	0.177^{***}	0.177^{***}
	(0.019)	(0.019)	(0.019)	(0.019)
8. Cultural Friction	-0.395^{+}	-0.401^{+}	-0.331^{+}	-0.331^{+}
	(0.187)	(0.187)	(0.175)	(0.176)
9. Population of host country	−0.127	−0.101	−0.231	−0.227
	(0.270)	(0.270)	(0.263)	(0.264)
10. Birth rate of host country	0.473^{**}	0.513^{**}	0.570^{**}	0.574^{**}
	(0.195)	(0.196)	(0.192)	(0.194)
11. Literacy rate of host country	0.267^{**}	0.278^{**}	0.314^{**}	0.316^{**}
	(0.106)	(0.107)	(0.106)	(0.107)
12. EU membership	0.222	0.239	0.015	0.019
	(0.195)	(0.196)	(0.175)	(0.176)
13. Host Country Corporate Income Tax Rate	0.016^{***}	0.017^{***}	0.026^{***}	0.026^{***}
	(0.006)	(0.006)	(0.006)	(0.006)
14. Economic Distance	-0.758^{**}	-1.460^{**}		
	(0.274)	(0.600)		
15. Economic Distance Square		0.832		
		(0.622)		
16. Political Distance			−0.026	−0.039
			(0.026)	(0.095)
17. Political Distance Square				−0.002
				(0.016)
Log-likelihood	−4232.349	−4232.493	−4296.431	−4296.391
AIC	2528.68	2528.41	2550.48	2548.50
Number of observations	31,002	31,002	31,352	31,352
Number of divestments	1029	1029	1042	1042

Robust standard errors shown in parentheses, *** p-value < 0.001; ** p-value < 0.01; * p-value < 0.05; + p-value < 0.1, fixed-effect for parent firms, years and industry.

model also controlled for other known effects regularly included in FDIs and FD analysis.

5.1. *Theoretical contributions*

Exploring the influence of economic and political differences on foreign divestment, our study contributes to the extant literature in several ways. First, using the POS lens, our study reshapes the traditional perspective of institutional theory concerning the negative outcomes of institutional differences on MNE internationalization and foreign divestment. Our tenet is that each institution imposes different constraints on foreign subsidiaries and provides them with different resources, depending on the unique nature of the specific institutional environment, and the interaction levels that the subsidiaries encounter with the different context. Precisely, our study found that economic and political friction have different impacts on FD probability.

On the one hand, we confirmed that economic friction has a curvilinear effect on foreign divestment probability. This finding is consistent with the previous studies on the impacts of economic differences (Gaur & Lu, 2007; Wu, 2013; Fortwengel, 2017). More precisely, we find that at lower levels, economic friction is negatively associated with divestment probability. Economic arbitrage is a benefit that outweighs initial costs (Evans & Mavondo, 2002; Demirbag et al., 2011). Foreign

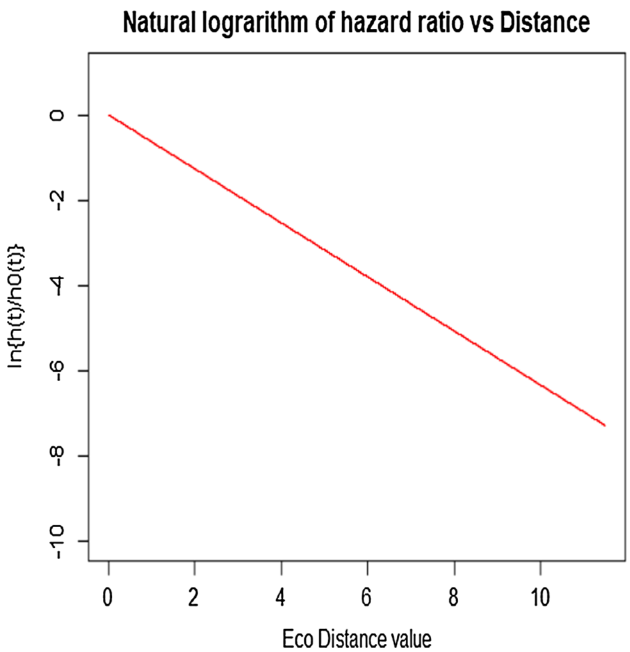

Fig. 4. The relationship between economic friction vs. economic distance and the log-likelihood of divestment probability.

subsidiaries could also overcome low levels of economic friction by generating well-prepared strategic plans, learning from accumulated experience, and exploiting local economic resources (Gaur & Lu, 2007). However, the positive outcome of economic friction is not stable, and once a certain threshold has been reached, the relationship is reversed.

We argue that at higher levels of friction, economic arbitrage is narrower (Gaur & Lu, 2007). In addition, prepared plans may not be efficient, due to the lack of suitability and sufficiency of practical experience and knowledge about similar situations, while using stereotypes could lead foreign subsidiaries to failures in compromising on local legitimacy requirements (Zeng et al., 2013; Popli et al., 2016). Higher levels of economic interaction could also trigger more conflicts, and increase *ex-ante* and *ex-post* costs and risks (Malhotra et al., 2011). Hence, once a certain threshold has been reached, higher EF levels increase the divestment probability.

On the other hand, our empirical results confirmed the positive relationship between political friction and FD probability. In contrast to other institutions, political friction introduces serious impediments to foreign subsidiaries to comprehend and compromise (Dhanaraj & Beamish, 2009; Berry et al., 2010; Chao & Kumar, 2010). Political friction also increases conflict, leading foreign subsidiaries to fail in achieving legitimacy (Pattnaik & Lee, 2014; Kang et al., 2017). In addition, political friction results in more constraints on foreign subsidiaries, since host governments often hold greater powers (Cordero & Miller, 2019; Sartor & Beamish, 2020). Furthermore, MNEs and their foreign subsidiaries are more cautious about political benefits, especially when they need to deal with local governments to gain such benefits (Sartor & Beamish, 2020; Witte et al., 2020). Importantly, our findings confirm an implied assumption in the FD literature that for extant foreign subsidiaries, political differences and any favorable change in the political system are unlikely to create new opportunities to enhance their survival (Dhanaraj & Beamish, 2009).

Second, our study extends friction's application, and proves the validity of the concept in assessing the effect of economic and political differences. Elaborating on criticisms of the distance concept in terms of measuring differences (Shenkar, 2001; Luo & Shenkar, 2011), we apply friction to measure the economic and political differences. Our post hoc results further confirm that compared to the friction metric, using distance to measure the differences delivers less meaningful findings. Hence, we highlight the importance of considering firms' specific conditions in evaluating the influence of economic and political differences.

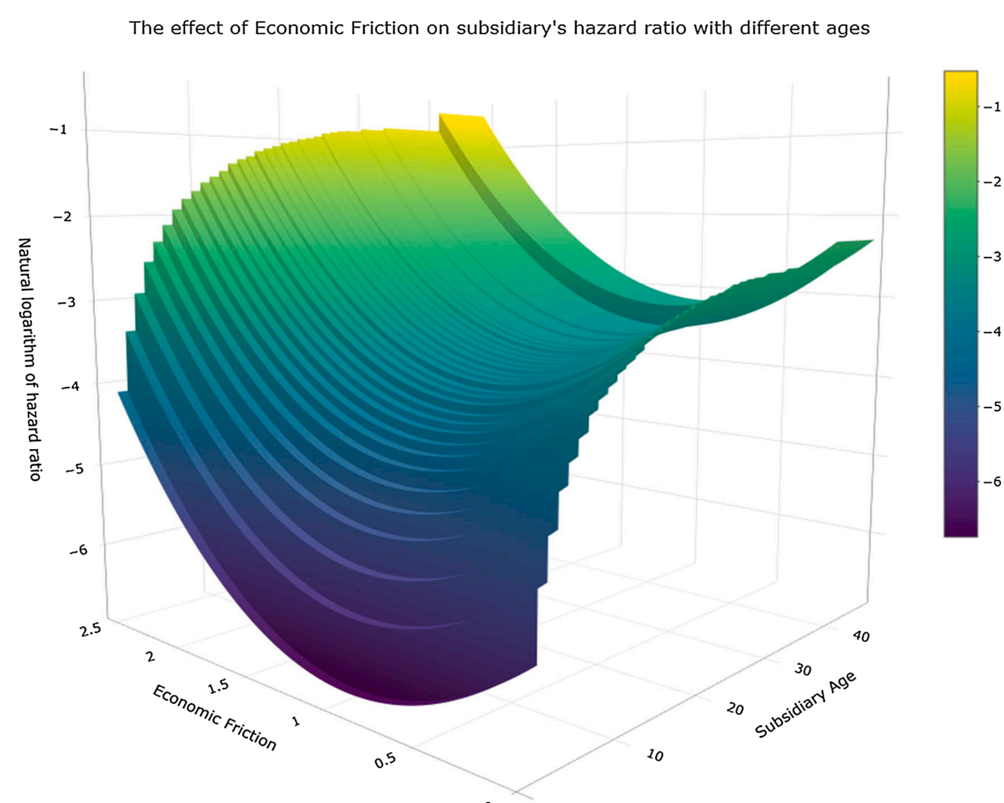

Fig. 5. The relationship between economic friction and the log-likelihood of divestment probability with different subsidiary age.

Table 7
Discrete analysis of the foreign divestment probability for main hypotheses.

Variables	Model 17	Model 18	Model 19	Model 20	Model 21	Model 22	Model 23	Model 24	Model 25
1. Subsidiaries' age	−0.341***	−0.343***	−0.345***	−0.343***	−0.343***	−0.345***	−0.345***	−0.342***	−0.342***
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
2. Firm size	−1.418***	−1.407***	−1.414***	−1.433***	−1.433***	−1.418***	−1.423***	−1.439***	−1.437***
	(0.060)	(0.060)	(0.060)	(0.060)	(0.060)	(0.060)	(0.059)	(0.060)	(0.060)
3. Unrelatedness	0.088+	0.106*	0.111*	0.103+	0.103+	0.108+	0.112+	0.101+	0.098+
	(0.057)	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)	(0.058)
4. R&D Intensity	0.248	0.217	0.216	0.235	0.235	0.200	0.199	0.220	0.221
	(0.168)	(0.169)	(0.169)	(0.169)	(0.169)	(0.169)	(0.170)	(0.169)	(0.169)
5. Product Diversification	0.072***	0.073***	0.073***	0.072***	0.072***	0.074***	0.075***	0.073***	0.073***
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
6. Number of foreign countries	0.018	0.020	0.018	0.024	0.024	0.020	0.019	0.026	0.026
	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)	(0.015)
7. Years of international experience	0.177***	0.176***	0.177***	0.179***	0.179***	0.176***	0.177***	0.178***	0.178***
	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)	(0.019)
8. Cultural Friction	−0.337*	−0.091	−0.163	−0.001	−0.043	−0.156	−0.161	−0.023	−0.024
	(0.177)	(0.142)	(0.158)	(0.126)	(0.157)	(0.157)	(0.157)	(0.148)	(0.098)
9. Population of host country	−0.235	−0.081	−0.273	−0.048	−0.044	−0.083	−0.077	−0.046	−0.021
	(0.264)	(0.267)	(0.265)	(0.276)	(0.276)	(0.263)	(0.265)	(0.274)	(0.274)
10. Birth rate of host country	0.546**	0.499**	0.508**	0.555**	0.559**	0.535**	0.539**	0.590**	0.580**
	(0.191)	(0.191)	(0.190)	(0.194)	(0.194)	(0.188)	(0.188)	(0.192)	(0.192)
11. Literacy rate of host country	0.307**	0.304**	0.305**	0.308**	0.310**	0.346**	0.342**	0.353**	0.354**
	(0.106)	(0.106)	(0.106)	(0.106)	(0.106)	(0.108)	(0.108)	(0.108)	(0.108)
12. EU membership	0.025	0.198	0.236	0.022	0.023	0.181	0.185	0.089	0.065
	(0.174)	(0.184)	(0.185)	(0.175)	(0.175)	(0.186)	(0.186)	(0.177)	(0.177)
13. Host Country Corporate Income Tax Rate	0.024***	0.019***	0.018***	0.027***	0.027***	0.019***	0.018***	0.028***	0.028***
	(0.005)	(0.006)	(0.006)	(0.005)	(0.005)	(0.006)	(0.006)	(0.005)	(0.005)
14. Economic Friction		−1.079***	−2.097***			−2.141***	−2.749***		
		(0.308)	(0.472)			(0.473)	(0.780)		
15. Economic Friction Square			1.334**			1.350**	1.823**		
			(0.440)			(0.440)	(0.742)		
16. Political Friction				1.043***	−1.299			−0.989	0.688**
				(0.285)	(2.937)			(2.894)	(0.370)
17. Political Friction Square					0.127			0.112	
					(0.156)			(0.154)	
18. WOS						−0.214*	−0.345*	−0.219*	−0.637
						(0.085)	(0.157)	(0.085)	(0.399)
19. Economic Friction × WOS							0.826		
							(0.852)		
20. Economic Friction Square × WOS							−0.621		
							(0.852)		
21. Political Friction × WOS									0.660
									(0.429)
22. Political Friction Square × WOS									
Log-likelihood	−4297.106	−4231.335	−4227.327	−4232.66	−4232.211	−4223.842	−4222.942	−4228.47	−4227.683
AIC	2551.44	2532.02	2536.13	2534.79	2531.17	2540.05	2537.04	2357.44	2539.45
Number of observations	31,352	30,985	30,985	30,881	30,881	30,985	30,985	30,881	30,881
Number of divestments	1042	1029	1029	1030	1030	1029	1029	1030	1030

Robust standard errors shown in parentheses, *** p-value < 0.001; ** p-value < 0.01; * p-value < 0.05; + p-value < 0.1, fixed-effect for parent firms, years and industry.

Third, we explore the role of ownership levels, and show that higher levels (WOS) decrease FD probability. Notably, we found that ownership levels do not significantly change the effects of economic and political friction on foreign divestment. This finding is interesting, albeit inconsistent with our expectations. We argue that compared to normative and cognitive (i.e., informal, cultural) differences, regulative (i.e., economic and political) differences are stated more clearly and, thus, foreign subsidiaries find them easier to overcome due to the availability of secondary information (Gaur & Lu, 2007). We therefore encourage IB scholars to delve deeper into the effect of ownership levels.

5.2. Managerial implications

The managerial implications of our findings are straightforward. First, by elaborating on the different natures of economic and political differences, we stress that MNE managers should be aware of the differences between institutional environments. This awareness would help MNEs generate better strategies to deal with specific institutional differences. Second, we encourage managers to carefully consider the combined effect of national differences and specific firms' interactions, that is, friction rather than distance. Furthermore, we urge MNE managers to nurture moderate levels of economic friction, since our findings indicate this friction has a U-shaped effect on FD probability. We also encourage managers to maintain low political friction, because it is positively associated with divestment probability.

Since we find that ownership levels do not moderate the friction-divestment relationship, we encourage MNEs to build on other strategies focused on organizational prescription. That is, hiring experienced expatriates, managing levels of communication between headquarters and subsidiaries, and among subsidiaries, as well as educating personnel about local knowledge and social norms, in order to modify the effects of economic and political friction (Luo & Shenkar, 2011). These strategies may provide sufficient tools to alleviate friction (Luo & Shenkar, 2011; Sartor & Beamish, 2020).

Table 8
Checking moderating effect of WOS, replacing 95% by 80%.

Variables	Model 26	Model 27	Model 28	Model 29	Model 30	Model 31	Model 32
1. Subsidiaries' age	−0.345*** (0.010)	−0.345*** (0.010)	−0.345*** (0.010)	−0.342*** (0.010)	−0.342*** (0.010)	−0.342*** (0.010)	−0.342*** (0.010)
2. Firm size	−1.417*** (0.060)	−1.422*** (0.060)	−1.424*** (0.059)	−1.438*** (0.060)	−1.436*** (0.060)	−1.436*** (0.060)	−1.436*** (0.060)
3. Unrelatedness	0.103^{+} (0.058)	0.106^{+} (0.058)	0.107^{+} (0.058)	0.095^{+} (0.058)	0.094^{+} (0.058)	0.094^{+} (0.058)	0.094^{+} (0.058)
4. R&D Intensity	0.211 (0.169)	0.215 (0.169)	0.216 (0.169)	0.230 (0.169)	0.226 (0.169)	0.226 (0.169)	0.226 (0.169)
5. Product Diversification	0.073*** (0.012)	0.074*** (0.012)	0.074*** (0.012)	0.073*** (0.012)	0.073*** (0.012)	0.073*** (0.012)	0.073*** (0.012)
6. Number of foreign countries	0.020 (0.015)	0.020 (0.015)	0.020 (0.015)	0.027 (0.015)	0.026 (0.015)	0.026 (0.015)	0.026 (0.015)
7. Years of international experience	0.176*** (0.019)	0.177*** (0.019)	0.177*** (0.019)	0.178*** (0.019)	0.178*** (0.019)	0.178*** (0.019)	0.178*** (0.019)
8. Cultural Friction	−0.159 (0.157)	−0.171 (0.161)	−0.166 (0.159)	−0.024 (0.149)	−0.007 (0.141)	−0.011 (0.148)	−0.020 (0.113)
9. Population of host country	−0.072 (0.264)	−0.068 (0.265)	−0.070 (0.265)	−0.057 (0.274)	−0.052 (0.274)	−0.050 (0.274)	−0.052 (0.274)
10. Birth rate of host country	0.531** (0.188)	0.539** (0.188)	0.540** (0.188)	0.586** (0.192)	0.580** (0.192)	0.580** (0.192)	0.578** (0.192)
11. Literacy rate of host country	0.345** (0.108)	0.344** (0.108)	0.341** (0.108)	0.351** (0.108)	0.352** (0.108)	0.352** (0.108)	0.351** (0.108)
12. EU membership	0.181 (0.186)	0.178 (0.186)	0.183 (0.186)	0.089 (0.177)	0.072 (0.177)	0.072 (0.178)	0.070 (0.178)
13. Host Country Corporate Income Tax Rate	0.019*** (0.006)	0.018*** (0.006)	0.018*** (0.006)	0.028*** (0.006)	0.028*** (0.006)	0.028*** (0.005)	0.028*** (0.005)
14. Economic Friction	−2.141*** (0.473)	−2.474*** (0.567)	−2.849*** (0.849)				
15. Economic Friction Square	1.357** (0.439)	1.362** (0.427)	1.799** (0.819)				
16. Political Friction				−1.030 (2.881)	−0.913 (2.615)	−0.788 (3.192)	0.792 (0.393)
17. Political Friction Square				0.115 (0.154)	0.094 (0.144)	0.086 (0.177)	
18. WOS	−0.205* (0.089)	−0.312* (0.136)	−0.369* (0.168)	−0.212* (0.089)	−0.419 (0.406)	−0.218 (1.680)	−4.511 (4.118)
19. Economic Friction × WOS		0.467 (0.462)	0.921 (0.905)				
20. Economic Friction Square × WOS			−0.538 (0.902)				0.462 (0.442)
21. Political Friction × WOS					0.427 (0.436)	−0.026 (3.719)	
22. Political Friction Square × WOS						0.026 (0.208)	
Log-likelihood	−4224.722	−4223.696	−4223.303	−5059.158	−5058.968	−4228.944	−4229.175
AIC	2539.20	2538.27	2536.60	2926.59	2924.89	2533.60	2537.35
Number of observations	30,985	30,985	30,985	30,881	30,881	30,881	30,881
Number of divestments	1029	1029	1029	1030	1030	1030	1030

Robust standard errors shown in parentheses, *** p-value < 0.001; ** p-value < 0.01; * p-value < 0.05; + p-value < 0.1, fixed-effect for parent firms, years and industry.

5.3. Limitations and future research

Our study is not without its limitations. First, it focuses solely on the effects of economic and political friction. This limited range of dimensions could be addressed by examining the effects of other dimensions, namely, knowledge, financial, administrative, or demonstrative institutions, since MNEs communicate different aspects of the institutional environments in host countries (i.e., Pattnaik & Lee, 2014; Kang et al., 2017). Considering these factors is also important because our study confirms that different institutional environments have different effects on foreign divestments. Furthermore, with respect to institutional friction, we encourage future research to examine its influences on escape-based FDI (Witt & Lewin, 2007). This could develop our nuanced understanding of why firms decide to exit their home country.

Second, in line with Zimmerman & Zeitz (2002), and Jackson & Deeg (2008), we encourage future researchers to examine a specific mix of relevant institutional forces, as well as the interactions among institutional dimensions. For instance, future studies could examine the combined effect of cultural, economic and political friction, among others, on firms' internationalization, and particularly on foreign divestments. This could be extremely fruitful, as foreign subsidiaries often encounter friction with several institutions at divergent degrees simultaneously (Graafland & Noorderhaven, 2020).

Third, Luo & Shenkar (2011) proposed using friction to measure the influence of institutional differences in multilevel analysis, that is, at national, firm and individual levels. Our study examines the effect of economic and political friction defined at the national and firm levels. We acknowledge that with different levels of interaction at the individual level, that is, chief executives, top management, and expatriates (Sartor & Beamish, 2020), foreign subsidiaries may perceive and be influenced differently by institutional differences. As such, we encourage future research to focus on the effect of institutional differences at the individual level. IB researchers have further confirmed that MNEs follow regional expansion, rather than national borders, that is, economic cluster, cultural cluster, and geographic cluster (Arregle, Beamish & Hébert, 2009; Arregle, Miller, Hitt & Beamish, 2013; Demirbag, Glaister & Sengupta, 2020). Hence, we urge researchers to develop the friction concept at cluster levels, thus constituting the generalization of this concept in the IB literature. Furthermore, as there are several ways to access levels of firm interactions (i.e., Shenkar, Tallman, Wang & Wu, 2020), we encourage future studies to widely examine new measures of firm interaction, as an interesting way to further develop the friction metrics.

Our findings may also have limited generalizability, since they are based on a sample of Finnish MNEs and their foreign subsidiaries. While we claim that our friction concept, combining both national distance and firm interaction, could compensate for the single-country related issue, we urge future research to draw on diverse settings, including multiple home and host countries (Brouthers et al., 2016), when investigating the influences of economic and political friction. Furthermore, although our research does not provide support for the moderating effect of equity ownership levels, we acknowledge the significant effect of ownership strategies on different levels of communication, power structures, and staff assignments (Luo & Shenkar, 2011). This organizational prescription, a so-called "black box", has seldom been examined (Koch et al., 2016; Singh et al., 2019). However, due to the unavailability of data on staff or managerial communication, we could not examine the effects. In closing, due to a lack of information on subsidiary profitability or performance, and exit barriers, among others (Arte & Larimo, 2019; Schmid & Morschett, 2020), we could not control for these variables in our models. Therefore, we propose that future research should.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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ESSAY 4

Let’s talk about senior managers.
Dynamic managerial capabilities in foreign divestment

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