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## **Divestment on International Markets**

An Analysis of Reasons and Strategies of Divestments on International  
Markets

Faculty of Business studies  
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**Abstract:**

Coronaviruksen aiheuttamien toimitusketjujen ongelmien ja viivästyksien, sekä Venäjän 2022 aloittama laajamittainen hyökkäyssota Ukrainaa vastaan on nostanut divestoinnin uutisiin viimevuosina. Divestointi on strategisen yritysjohtamisen yksi työkalu, jolla voidaan uudelleen sijoittaa yrityksen resursseja, lopettaa kannattamattomia yksiköjä tai esimerkiksi supistaa yrityksen toimintaa pienemmälle yrityksen ydinosaamiselle. Divestointi on kuitenkin usein vielä ajateltu epäonnistuneen liiketoiminnan tuloksena, eikä osana tarkoituksen mukaista strategiaa. Tämän analyysiin tarkoitetaan tutkia divestointia osana strategista yrityskehittämistä.

Divestoinnissa voidaan tunnistaa viisi eri koulukuntaa joiden perusteella divestointi-päätöksiä voidaan analysoida, selittää ja tutkia. Tieteellisissä tutkimuksissa ei kuitenkaan olla vielä yhdistetty teoreettista ja käytännöllistä divestointia ja pysyy laajalti tutkimattomana strategisena työkaluna. Tässä analyysissä tutkitaan yhdistäviä syitä ja strategioita divestoinneille kansainvälisillä markkinoilla.

Analyysin tuloksena voidaan todeta, että yksittäisiä syitä divestoinneille ei voida tunnistaa, vaan ovat kokoelma monesta eri syystä joita tässä analyysissä tunnistettiin. Strategiat divestoinneille tunnistettiin asteittaiseksi tai välittömiksi. Yhdistäviä tekijöitä ei pienen otannan takia pystytä tunnistamaan, mutta välittömissä strategioissa on tunnistettavissa taloudellista painetta päätöksen taustalla.

Analyysissä käytettiin systemaattista kirjallisuuskatsausta divestoinnin tieteellisestä tutkimuksesta. Tämän analyysin päätelmä korostaa teoreettisen ja käytännöllisen tutkimuksen puutetta divestoinnin alalla ja ehdottaa tulevien tutkimusten keskittyvän teorian ja käytännön yhdistämiseen, ja tutkimaan eri divestointi-päätöksiä ja niiden strategioita ja lopputuloksia yritysten toiminnan kannalta.

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**Keywords: Divest, Divestment, Corporate strategy, Exit, International Business**

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## 1 INTRODUCTION

The world is evermore connected today than before and international markets have become an essential part of the global economy. With new technologies businesses can now more easily expand their operations beyond their domestic markets and into new markets around the world. International markets provide businesses with new opportunities for growth and expansion as they allow businesses to access new customers and increase their revenue streams. International markets also provide businesses the opportunity to diversify their operations, which can help mitigate risks and provide a competitive advantage. However, entering international markets may be challenging. According to Luo and Tung (2007) acquiring companies on foreign markets also improve understanding of those markets. Thus, the market entry-mode is also an important factor when considering international markets as market knowledge is important.

However, expanding into international markets also presents a unique set of challenges and businesses must navigate new regulatory frameworks, market entries, cultural differences, different market environments, and language barriers. They must also be aware of geopolitical risks and economic fluctuations that can impact their overseas operations.

International markets are, however, constantly changing and new competitors and ideas enter markets regularly. This forces existing market players to adapt to these new ideas and products. With new competition, some companies will inevitably cease operations on certain markets.

Companies that look to expand from their domestic markets to international markets ever more often look to implement international operation strategy to effectively address these issues (Hechnova, Beehr & Christiansen, 2003). There are multiple entry-modes to foreign markets from joint-ventures to exporting to franchising. It is essential that the companies' entry-mode choice is correct in accordance with their business

strategy (Brouthers & Hennart, 2007). In this analysis, the focus is on wholly owned foreign subsidiaries of home country headquarters.

While divestment is not that widely researched or have not been point of interest in academic research - like remote work - in recent years, it is ever more interesting subject when taking account deglobalization that has happened with supply issues caused by coronavirus or western countries trying to reduce their dependence on China and other authoritarian countries due to geopolitical issues (Ghiretti & Maull, 2023). In this analysis, the focus is on the reasons why and how the headquarter unit might choose to divest on foreign markets, especially focusing on the strategy aspect.

## **1.1 Research questions**

The research question for this analysis is: Why and how headquarters' unit decide to divest in wholly owned foreign subsidiaries?

In support of this research question, I have three secondary questions:

1. How do the strategic objectives of the company affect the divestment decisions?
2. What are the connecting factors of divestment decisions?
3. How do the company's other operations affect divestment decision making progress?

## **1.2 Scope and Limitations**

This paper is limited to material that is published before 2025. Scope of this analysis is divestment and specifically on international markets. I acknowledge that due to the limited amount of research on international divestments, scope is also extended to divestments in general. There is no conflict of interest.

### **1.3 Structure of the Analysis**

The first part of this analysis is introduction. In the main part of this analysis, I will take a broader view on disinvestments, focusing on strategic business development. Using my research questions as a guide to find reasons why multinational corporations divest on foreign markets. The main part is divided into two, the theoretical framework, where I study different identified frameworks for divestments, and the second part, where reasons and strategies for divestment are analyzed. Finally, I end my analysis in the conclusion.

## 2 Framework and Definitions

### 2.1 Understanding International Divestment

The Cambridge Dictionary (n.d.) defines divestment as “the process of selling an asset, a business, or part of a business”. In international business setting, this refers to the process by which the headquarters unit reduces its operations, assets, or stakes in foreign subsidiaries and markets. Contrary to domestic strategies such as downsizing or streamlining, divestment is a deliberate withdrawal from specific international market(s). This withdrawal can be made in a multitude of ways, including but not limited to complete sale of subsidiary, setting up spin-offs, and equity carve-out. Divestment withdrawal helps companies realign their resources to execute the corporate strategy. Companies can also be forced to rethink the corporate strategy after an unsuccessful entry to foreign markets and subsequent forced divestment.

Divestment is not merely a reactionary response to a negative action, but according to Kolev, K. (2015) divestment have been identified as strategic action with positive results for companies. It, for example, allows companies to refocus their resources to higher-priority markets. Companies may choose to exit foreign markets for various reasons. From underperforming subsidiaries to changes in corporate strategy, or from regulatory changes to geopolitical instability. Divestments are complex strategic decisions with major implications to companies’ competitive strategy and performance (Brauer, 2006). Companies can divest in subsidiaries to gain a competitive edge on other markets, protect brand image or to comply with regulatory demands. Companies also have to divest in financially invalid subsidiaries to cut financial losses.

Thus divestment is a critical part of corporate strategy that helps companies to adapt to changing environments or to maintain global competitiveness.

## **2.2 Theoretical Approaches to Divestment**

The decision to divest in foreign subsidiaries can often be explained by theoretical frameworks that explain why and how corporations divest in foreign markets. These theoretical frameworks help to understand the influencing strategic, economic, and organizational factors. Some prominent theories according to Silva et al. (2019) are Transaction Cost Economics, Resource-Based View, Internationalization theory, and Portfolio theory, but also behavioral perspectives play a part in strategic decision making. Each theory and behavioral perspectives provide an insight into the processes behind divestments.

### **2.2.1 Transaction cost theory.**

Transaction cost theory (TCT) by Williamson (1981) explains divestment as a result of high cost of operating in foreign markets. TCT claims that companies try to minimize the costs accumulated from transactions, such as operational inefficiencies, market barriers, and contract enforcements. According to TCT, when the cost of operating in a foreign market outweighs the benefits, divestment is a rational choice.

Based on Geert Hofstede's cultural dimensions and Pankaj Ghemawat's CAGE distance framework, in international markets, transaction costs can arise from cultural differences, language barriers and other difficulties that cause inefficiencies in foreign subsidiaries. For example, companies can face regulatory changes such as tariffs that increase operating costs. When such costs exceed expected profits in the long run, divestment allows the optimization of the company's resources to more profitable markets. TCT emphasizes that divestment is not necessarily a failure on the international market, but a strategic action aimed at optimizing resources.

### **2.2.2 Resource-based view.**

The resource-based view (RBV) Barney (1991) focuses on the internal resources and capabilities of the companies to achieve the competitive edge. According to RBV,

companies perform best when the operations and actions are aligned with the companies' core capabilities and competencies. If international operations do not coincide well with the company's core competencies, divestment would help companies to refocus their resources to areas where the company has an advantage and can utilize the available resources better.

RBV suggests that companies should divest from markets where their resources cannot be utilized effectively. For example, if a premium mobile phone manufacturer has entered a developing foreign market in a hopes of catching big market share, but due to local political instability the local broadband infrastructure and mobile phone coverage are lacking, remaining in that market would weaken the company's overall competitive position by investing it's resources in an inefficient market. Divesting from such market would allow this mobile phone manufacturer to redirect their resources to a better performing market, so the company's resources would be aligned better with their core competencies.

### **2.2.3 Internationalization theory**

Internationalization theory or more specifically the Uppsala model, envisioned in 1977 by Vahlne and Johanson (2017) provides a view in companies' internationalization lifecycle. The Uppsala model that when companies internationalize as time goes on, they gain market knowledge. Even though the model focuses on expansion, the model can also explain company's divestment. When the foreign markets fail to provide the expected returns on investment, divestment becomes a rational and logical step and a part in the company's internationalization.

The internationalization theory and Uppsala method both highlight the importance of market research and knowledge. The Uppsala model highlights that when the company operates in the foreign markets, their knowledge of that market increases. For example, companies may divest when their accumulated knowledge reveals previously unseen risks or when the market potential cannot justify the needed investments.

#### **2.2.4 Portfolio theory**

According to portfolio theory, companies view their international subsidiaries as part of their company portfolio. Companies attempt to diversify their holdings and operations to balance the risks and returns across their portfolio of subsidiaries. When a foreign subsidiary or market fails to deliver return for investment or is deemed too risky for the expected return, divestment will act as a mechanism to balance the company's portfolio.

According to Silva et al. (2019) an inefficient foreign subsidiary with increasing uncertainty reduces the company's ability to manage its diverse portfolio efficiently, thus leading to divestment to restore hierarchical control. In-line with portfolio theory, the effects of one foreign subsidiary can be felt in other subsidiaries by governance issues from the headquarters. Thus, divestment in portfolio theory is seen as a strategic mechanism to maintain the financial health and operational efficiency of the company.

#### **2.2.5 Behavioral perspectives**

However, the decisions are made by humans and behavioral theories add a psychological perspective to divestment. Theories claim that managers' decisions are influenced by cognitive biases, such as overconfidence, and thus are biased. Understanding these theories helps companies to understand why managers might make irrational decisions.

Prospect theory's (Kahneman and Tversky, 1979) key idea that managers make decisions based on potential returns or losses in relative to the opposite rather than the actual outcome. According to this theory, managers might delay the rational divestment choice in order to avoid realizing losses.

Escalation of commitment described by Staw (1976) claims that managers may continue to invest company resources into non-profitable actions due to previous investments, even if the rational choice would be to divest. This psychological need to continue

investing to justify earlier investments and avoid failure, might explain why companies avoid divestment.

There are also other psychological factors that influence managerial decisions. The overconfidence of managers own's skills, organizational learning theory that suggest that decisions are influenced by managers own emotions (Karki, Bhatia & Sharma, 2024), or institutional theory (DiMaggio and Powell, 1983) that claims that companies are influenced by outside factors, such as creditors (Hirshleifer, 1993) or regulators, and could lead to irrational divestment choices. Other factors such as pressure from media or news of takeover may also pressure managers to make decisions to divest (Durand and Vergne, 2015).

While theoretical approaches to divestment explain and provide insight to the process of divestment, decisions are still made mostly by human managers and the behavioral perspective has a large role. Together these theories provide a framework for analyzing the strategies and motivations behind divestments, highlighting divestment importance as a strategic action for companies.

### **2.3 Importance of Divestment: Why divestment is a critical aspect of international business strategies.**

Divestment is an important part of corporate strategy (Nyiwyl & Iqbal, 2022), enabling companies to adapt to changing markets, optimize their resource utilization, focus on core competencies and maintain long-term competitiveness. By exiting non-profitable, inefficient, or underperforming markets, companies can re-direct their resources to more profitable markets. Divestment also serves as strategic tool to mitigate risks in international markets. Geopolitical and regulatory changes, or economical factors may cause the continued operations to be unsustainable. Withdrawal from these regions reduces exposure to these volatile markets and reduces global operational risk.

## **3 Reasons for Divestment**

### **3.1 Economic Factors**

When economic factors such as market downturns, declining profitability or economic crises happen, decreasing the attractiveness of the investment, international companies rarely survive without any actions.

The rising standards of living and subsequent increasing labor costs drives companies to search more profitable conditions elsewhere (Berry, 2010) and drives companies to relocate production to other markets when host-country become less appealing as an investment (Fisch and Zschoche, 2012), as happed in Costa Rica when Intel closed their semiconductor plant (OECD, 2010).

Companies also divest due to declining profitability due to reduction in price competitiveness (Song, 2014). The economic environment and pressure from competitors is a major reason for divestments. Silva and Moreira (2019) highlighted that competition increases the likelihood of divestment. But it is also the economic environment that affects everyone in the market that influences divestments. According to Hamilton and Chow (1993) rising unemployment and economic downturn influences the degree to which divestments are considered by managers. And up until the 1980s, 95% of companies that have restructured or divested blamed economic factors (John et al., 1992). Thus the overall economic health of the market plays a big part in divestment decisions (Berry, 2013) both in good and bad economic situations.

While economic factors such as market downturn drive divestments, strategic factors play an important role in companies divestment decisions as tool to realign their resources.

### 3.2 Strategic Factors

Corporate strategies have been found to have a important influence on divestment decisions (Silva and Moreira, 2019). While every corporate strategy is unique to that corporation, strategies have common characteristics.

While companies operate on multiple markets and sectors companies may divest to redirect their resources to finance other options (Duhaime and Baird, 1987). Companies can also redirect their strategy to focus on more on local markets as happened with Fortum (Ylä-Anttila, 2023) although the strategic change came after massive financial loss on overseas market (Bruegel and Flora, 2023). The loss and change in corporate strategy can be attributed to the lack of research. As tan and Sousa (2019) highlighted lack of market analysis can lead to divestment when expected returns do not realize. Or in some cases loses instead of gains.

Schmid et al. (2021) identified key elements for retail sector divestments in international markets as low subsidiary performance, strategic refocus of headquarters and low parent company performance. Thus highlighting the importance of performance output of subsidiary and the headquarters unit but new strategic alignments of the company being a major factor too. An entry mode has also been identified as a factor for divestments in retail space (Burt et al., 2009).

Divestment is also viewed as a strategic tool for companies operating in international markets with declining demand to maintain profitability (Koponen and Arbelius, 2009).

While strategic factors for international divestment are sector specific, common trends as the importance of performance and strategic changes by the headquarters have been identified. Reason for divestment can also be the result of entering the market the wrong way.

### 3.3 Political and Regulatory Factors

When operating on international markets the companies play by the host countries rules. Host countries have a huge influence on these companies and every host-country is politically different. Companies have to navigate host-country regulatory changes, political stability and other trade barriers carefully to succeed.

The environment changes and uncertainty are important factor for divestment. Silva et al. (2019) highlighted that host-country market uncertainty, risk and political characteristics are major factors of the environment. Host-country's uncertainty also reduces the ability to which extent can headquarters manage its subsidiaries (Song, 2014) and in diverse portfolios it can lead to divestments to increased costs.

As political stability has been identified to positively affect economic growth and thus investments (Shabbir et al., 2016), political instability also affects divestments (Schmid et al., 2021). But it is not just the political stability that factors in, governmental institutions also. Berry (2013) found a positive link between police stability and divestments decisions.

The changed in political trends create new environments for companies without the instability. Rise in nationalistic policies affect the way companies operate in foreign markets (Edman et al., 2024) or complete stop international operations like what happened with Suez Canal Company (Olmstead, 1957).

The world have also seen have major geopolitical events that affect the environment, such as the Russo-Ukraine war that caused western countries to place sanctions on Russia (BBC, 2024) or USA-China trade war with increases in tariffs that have increased costs on many sectors (Fan et al., 2022).

### 3.4 Operational and Cultural Factors

Operational inefficiencies, cultural misfit, failure to adapt to local markets

Operations on foreign markets without clear understanding of local markets can lead to operational inefficiencies along with cultural challenges with subsidiary's host-country personnel and can lead to challenges in adapting to local markets.

Managerial constraints such as thinly stretched managerial resources may reduce operational efficiencies (Haynes et al., 2002) and divestment helps companies to refocus resources. Operational issues in over-diversified companies also cause pressure on companies to divest and focus on core competencies (Haynes et al., 2002; Haynes et al., 2003).

Companies operations and history also create a corporate culture. When expanding internationally this culture is exported to these countries. High cultural distance can create operational inefficiencies, which may lead to divestments (Nguyen et al., 2022). Nguyen et al. (2024) also found a positive link between cultural friction and the probability of divestments.

Cultural factors can also lead to divestment not just from operational inefficiencies but due to wrong operational framework. Misalignment with local markets and the lack of knowledge also contribute to failures and subsequent divestments (Sayed and Gherissi Labben, 2024).

The connection of operational and cultural factors to divestment is significant. As the section has highlighted, markets research is important not just in the field of economic but also in cultural field where companies have to understand the culture and the values of the host-country.

### 3.5 Environmental and Ethical Considerations

The values drive business more than ever in today's world. With climate change and ESG-issues (Environmental, Social and Governance) companies have changed their operations to accommodate different issues and adhered to external and internal pressure.

With changing world and more and more focus on ESG-issues globally, companies have changed their strategies. Norwegian Statoil changed its name to Equinor to reflect the values of equality and balance (Equinor, n.d.) but to also to hint at a desire to shape future. This is just one example of companies caring about the public opinion. With ESG issues more and more pressure are set on companies to adhere to these issues. Durand and Vergne (2015) claimed that companies are more likely to divest in stigmatized industries due to media.

But it is not just institutional pressure from media or from other institutions like creditors (Hirshleifer, 1993) public opinion matters too. Protests in headquarters unit's home-country have led companies to divest in foreign markets (Soule et al., 2014). There are another kind of a pressure to. From investors. Gehricke et al. (2023) found that divestment from ESG focused exchange traded funds led to decreased profitability, building pressure on companies to divest from non-ESG practices. The paper also found that after this investment, divested companies' ESG-scores rose after two years. There is also activism investing. Edmans et al. (2022) claims that holding these less sustainable stocks but incentivize them to reform can also lead to divestment.

The reasons for divestment are multiple and there is no clear consensus on why companies divest (Berry, 2013). As this paper has explored economic themes on divestment are common among companies, but not a conclusive reason.

## **4 Strategies for Divestments**

### **4.1 Overview of Divestment Strategies**

After the decision has been made by these companies that some kind of a divestment is necessary, companies have to decide on what kind of actions and strategies they need implement to divest. According to Benito (2005) the companies divestment actions and strategies are dependent on the company strategy that they are trying to execute.

Based on the reasons and motives behind the divestment, companies have to decide on how to exit these markets. The exit can be divided to gradual and immediate exit strategies (Kher & griffin, 2023). Gradual exits are characterized by slow exits such as mergers, spin-offs, gradual sell-offs. With these slower methods the subsidiary value can be optimized, and it is smoother transition for stakeholders. Meanwhile fast exit strategies such as sell-offs and liquidations prioritize quick results and immediate cash flow.

The exit-strategy choices are influenced by different factors. Companies have to decide what is the best exit-strategy based on such factors as company's and subsidiary's financial health, foreign market conditions and the strategic goals of the company and the desired outcome of the divestment. Companies also have consider the stakeholders and legal obligations that they have on this foreign market. The final choice and execution is influenced by the combination of these different factors.

### **4.2 Gradual Divestment Strategies**

In the following part I provide a more detailed view of gradual divestment strategies and exit choices that companies might choose.

#### **4.2.1 Spin-offs**

Spin-offs are characterized by the separation of company's assets into a separate entity. The ownership of the subsidiary might stay the same as in the same investors gain a separate company for their portfolio, but management becomes independent, and the subsidiary and the headquarters are no longer considered to be part of the same company.

Chemmanur et al. (2014) has identified spin-offs to have better productivity after the headquarters divestment from markets. Thus, providing a better investment for investors as the long-term stock returns are positive (Chemmanur and Yan, 2004). Pearce and Patel (2022) explain this by the parent and new entity being able to focus on their core operations. Spin-offs are also more flexible and can adapt quicker to market conditions (Poehlmann et al., 2021)

But spin-offs have also challenges for both parent company and new entity. New entity may face resource constraints (Poehlmann et al., 2021) and creating a new market presence separate from parent company can be challenging. The parent company can also face challenges and spin-off can affect operational efficiency by losing potential established symbiosis between parent company and new entity (Mckendrick et al., 2009).

Spin-offs have the potential to be beneficiary if executed correctly and potentially unsuccessful if possible difficulties are not considered.

#### **4.2.2 Gradual Sell-Offs**

Gradual sell-offs are characterized by assets or business units being sold over long time. by parent company.

Sell-offs are characterized by improvement on company performance by allowing companies to focus on core competencies (Brauer et al., 2017) and underperforming assets being sold of increase the financial returns (Prezas and Simonyan, 2015).

How ever the existing academic research is focused on sell-offs and has a research gap in gradual sell-off that would provide companies the benefit or disadvantage of longer time for the sell-off.

#### **4.2.3 Mergers**

Mergers are characterized by existing companies being merged with other companies to create a new entity. Divestment factor being parent company's reduces ownership of this new entity and less control. The level of control is determined by the end result of merger and the final ownership parting.

Sousa and Tan (2021) identify merger as possible smooth exit for parent company from less profitable markets. Parent company can still maintain presence in the region with less obligations and resources allocated.

While results of mergers are researched (DeYoung et al., 2009), the use of mergers as divestment strategy is largely un-researched as divestment has been seen as a mirror to merger (Brauer, 2006). This presents a unique research opportunity.

#### **4.3 Immediate Divestment Strategies**

in contrast to gradual divestment strategies, immediate strategies are characterized by quick cash flow and rapid exit of the markets. In the following part this paper provides a more detailed view of sell-offs and liquidations as divestment strategies.

### **4.3.1 Sell-Offs**

Sell-offs are characterized by sell of company assets, typically for liquid assets or stocks. Sell-offs can provide a quick exit from foreign markets for parent company and release of company resources.

Pearce and Patel (2022) have highlighted the possibility of companies being able to convert assets into cash. Companies can also possibly focus on core business and can improve operational efficiency (Chang, 2023). Sell-offs are also viewed positively by investors by inspecting stock growth (Nkongho and Makina, 2020). Linn and Rozeff (1984) explain this by underlining sold assets being worth more to someone else than to the original parent company.

Challenges for corporate sell-off are not clear. The possibility of not being able sell the subsidiary may force companies to liquidate the assets (Linn and Rozeff, 1984). Feldman and McGrath (2016) have highlighted the challenges of sell-offs. Valuation of assets may cause difficulties with possible unknown synergies between headquarters and subsidiary, and operational inefficiencies may rise within parent company management as a result of sale.

Sale-off provides parent company with a quick cash flow and improve operational efficiency. However to address the possible challenges with sell-offs companies have to conduct research that assets do not end up liquidized. However in the long run the sale of foreign markets subsidiaries can help companies to align their operations strategically and better utilize resources.

### **4.3.2 Liquidations**

Characteristics of liquidation involves the complete halt of operation, dissolution of company and sale of its assets.

Maksimovic and Phillips (2002) have identified liquidation as a strategic action to exit markets and allocating resources for other profitable ventures. Liquidation provides a quick cash flow for parent company, but Gatzert (2015) found sale of assets causing reputational damage. This can affect parent company's operational cost by increasing cost of equity (Cao et al. 2015).

Thus liquidation is a quick cash flow divestment option, but its effects on international companies are limitedly researched.

#### **4.4 Summary of Strategies**

The strategies discussed in this paper provide companies different kinds of a strategies for divestment and foreign market exit possibilities. Depending of the parent company's strategy, economic situation, and the needs and motives for divestment, different divestment options need to be compared by companies to utilize the right choice for divestment.

All options of gradual and immediate exit strategies provide companies to better focus on core competencies or to re-allocate resources to more profitable markets. Strategies results in cash flow or in some cases as sell-off and spin-offs as positive stock performance.

All strategies face challenges such as parent company losing key synergies with spin-offs or liquidation possibly causing reputational damage.

However, there are differences between these strategies. For example, it was identified that in sell-off parent company fairs better than In spin-offs (Prezas & Simonyan, 2015) however (Nkongho and Makina, 2020) found long-term results to be conflicting.

## 5 Discussion

### 5.1 Key Findings

There are as many reasons for divestments as there are divesting companies. Key drivers for divestment range from economic to strategic reasons. Market downturns, labor costs and declining profitability are influencing divestment at a significant margin (Berry, 2010; Fisch and Zschoche, 2012). However companies strategical redirection is also major reason for divestment and results in better performance (Schmid et al. 2021). Thus there are no conclusive reason for divestments, as was highlighted by Sousa and Tan (2019, p.338). They also confirmed that the consequences of foreign divestments are yet to be researched and are relatively unknown. Other key drivers for divestment have also been political (Silva et al., 2019), operational (Nguyen et al., 2022; Haynes et al., 2003), and environmental as were identified by Durand and Verge (2015). Different stakeholders also influenced divestments such as activist investors (Edmans et al. 2022). Stakeholders can be key drivers in divestments and strategy realignments such as ESG funds (Gehricke et al., 2023)

This paper has identified that mentioned drivers have commonalities in resource optimization, external influences and market performance. While specific reasons triggering divestment differ, the major underlying reasons can be identified as economic. Companies try and achieve the best return of investment as possible. However, this is not always the case as was identified by Soule et al. (2014) as human values also drive divestments. Although the underlying driver for divestment can also be economical as the possible decrease in company reputation by media (Durand and Vergne, 2015) and other groups can lead to increased operational costs as was identified by Gatzert (2015).

Although this paper was unable to provide common alignments between reasons for divestment and the used strategies for eventual divestment, we can identify Immediate strategies being a result of need for quick cash flow (Pearce and Patel, 2022) or from political reasons as was highlighted by Suez Company example. Consequently

divestment can act as a risk management tool to reduce exposure to volatile or challenging markets. Commonalities among gradual strategies were strategic in nature as the divestment was not driven by cash flow. However, both gradual and immediate strategies had commonalities in resource optimization and in positive long-term economic outcome. Although no common theme was identified the influence of external pressure (political, institutional, and ESG) was a commonality in all divestment strategies. However, as this is true for everything, this should not be highlighted.

As the identified reason for divestment was economic or more accurately financial as was identified by Chemmanur and Yan (2004) and Brauer et al. (2017) we can assume that result of divestments are positive. However, findings by Silva et al. (2019) dispute this assumption as results have not been conclusive as to whether performance improves after divestment. Companies also divest to cut underperforming assets (Prezas and Simonyan, 2015) to achieve better return on investment but as possible synergies are lost with divestments, possible inefficiencies may rise after divestment (Feldman and McGrath, 2016). Thus, challenging the financial outcome.

## **5.2 Implications**

### **5.2.1 Theoretical Implications**

In this paper I identified five different frameworks for divestments. However, understanding of these frameworks and the used material in this analysis lacks a clear connection. Different strategies and reasons can be identified and understood with these frameworks but divestment as strategic study does not explore this opportunity. Thus, divestment still lacks theoretical and practical connection in academic studies.

### **5.2.2 Practical Implications**

This paper has identified the importance of market research and strategy alignment for companies that are divesting or considering it. The reasons for divestment and

subsequent research of markets are identified to be important to efficiently execute divestments as strategy choice.

Companies should also explore the short- and long-term impacts that stakeholders - such as institutions and investors - have on divestment decisions. Companies should also explore the possible reputational change that possible divestment might have and the reasons for the change.

### **5.3 Gaps and Limitations**

International divestment literature has a clear lack of comprehensive research. Research gaps were identified with different strategies for divestment, with for example mergers and gradual sell-offs. As different strategies for divestments remain under researched the actual divestment research does not provide comprehensive results. As Feldman and McGrath (2016) highlighted divestiture is not understood as strategic tool and this limiting case studies and academic literature. Although divestment was identified as strategic action in this paper, the understanding of international divestment remains lacking.

## **6 Conclusion**

### **6.1 Summary of Findings**

In this paper explore different theories for divestments, reasons and strategies. Reason for divestment was identified as mostly financial, but findings were not comprehensive as literature does not provide consensus. Other factors were identified as strategic, environmental, and political.

This paper analyzed gradual and immediate exit strategies as divestment tools. Strategies were found to provide resource optimization, strategic alignments, and quick cash flow for companies. However, the effect that used strategies might have on companies remain contested without consensus.

Divestment also serves as proactive tool for optimizing operations and not just reactive tolls for economic and market changes. Divestment was also identified as risk management tool to reduce exposure on volatile markets and to enhance operations.

As divestment is complex tool with limited research the full understanding of divestment remains lacking. As divestment act as re- and proactive tool and every divestment situation is different, this paper provides and insight to an interesting strategic tool.

### **6.2 Recommendations**

This paper recommends managers to conduct markets research on foreign markets for reasons to divest and to execute divestment efficiently as possible. Managers should also analyze the stakeholder influence on divestment and the subsequent influence on the company to better understand divestment as a strategic tool.

### **6.3 Future Research**

This paper suggests comprehensive research on international divestments using case studies to understand divestment as tool for international companies.

Future research could also focus on cases of divestment being considered but ultimately being decided against off and the financial performance of those subsidiaries and parent companies.

In addition, future research could focus on the different frameworks for divestment and their theoretical and practical connections.

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