Arshed Iqbal

Foreign divestment outcomes and risk mitigation

A Nordic perspective

ACTA WASAENSIA 590

University of Vaasa
VAASAN YLIOPISTO

ISBN 978-952-395-280-5 (print)
978-952-395-281-2 (online)

ISSN 0355-2667 (Acta Wasaensia 590, print)
2323-9123 (Acta Wasaensia 590, online)

URN https://urn.fi/URN:ISBN:978-952-395-281-2

PunaMusta Oy, Joensuu, 2026.

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ACADEMIC DISSERTATION

To be presented, with the permission of the Board of the School of Marketing and Communication of the University of Vaasa, for public examination on the 18th of September 2026, at noon.

Article based dissertation, School of Marketing and Communication, International Business

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Tiivistelmä

Tämä väitöskirja tarkastelee ulkomaisista tytäryhtiöistä luopumisen (foreign divestment, FD) strategisia ja taloudellisia vaikutuksia pohjoismaisissa monikansallisissa yrityksissä (MNE). Erityistä huomiota kiinnitetään siihen, kuinka ylimmät johtajat voivat hallita luopumiseen liittyviä riskejä. Vaikka luopumista on perinteisesti pidetty reaktiona heikkoon suorituskykyyn tai strategiseen yhteensopimattomuuteen, sen laajempia vaikutuksia emoyhtiön maksukykyyn, osakkeenomistajien arvoon ja johdon päätöksentekoon on tutkittu vain vähän kansainvälisen liiketoiminnan kontekstissa. Väitöskirja perustuu resurssipohjaiseen näkökulmaan (RBV) ja ulkomaisesta luopumisesta tehtyihin teorioihin, ja se hyödyntää monimenetelmällistä ja artikkelimuotoista lähestymistapaa tutkimusaukkojen täyttämiseksi.

Tutkimus koostuu kolmesta tieteellisestä artikkelista. Ensimmäisessä analysoidaan luopumisen vaikutusta emoyhtiöiden maksukyvyttömyysriskiin markkinapohjaisten riskimittareiden, kuten Distance to Default -indikaattorin ja luottoriskijohdannaisten (CDS-spreadien), avulla. Toisessa artikkelissa tutkitaan FD:n ja osakkeenomistaja-arvon välistä suhdetta tapahtumatutkimuksen ja pitkittäisanalyysin avulla. Näissä tutkimuksissa huomioidaan myös ehdolliset tekijät, kuten tytäryhtiön ikä ja yrityksen ennen luopumista tekemät yhteiskuntavastuulliset (CSR) investoinnit. Aineistona käytetään paneelidataa pohjoismaisista monikansallisista yrityksistä vuosilta 1992–2019 sekä lisäotoksia ja alaryhmäanalyyseja moderointivaikutusten testaamiseksi. Kolmas artikkeli perustuu laadulliseen haastattelututkimukseen, jossa selvitetään ylimmän johdon osaamisten merkitystä luopumisriskien hallinnassa ja onnistuneiden luopumispäätösten toteuttamisessa.

Tulokset osoittavat, että vaikka luopuminen voi lievittää lyhyen aikavälin paineita, se voi myös lisätä taloudellista epävakautta, jos strategisia resursseja menetetään. Lisäksi CSR-investoinnit ja tytäryhtiön ikä eivät aina suojaa negatiivisilta vaikutuksilta, mikä korostaa luopumisen kontekstisidonnaisuutta. Väitöskirja edistää kansainvälisen liiketoiminnan, strategisen johtamisen ja yritysrahoituksen tutkimusta yhdistämällä riskin, arvon ja johdon toimijuuden näkökulmat FD-keskusteluun. Tutkimus tarjoaa käytännön suosituksia johtajille, jotka navigoivat luopumispäätöksiä epävakaassa kansainvälisessä liiketoimintaympäristössä.

Avainsanat: Ulkomaisesta luopuminen, maksukyvyttömyysriski, osakkeenomistaja-arvo, yhteiskuntavastuu, tytäryhtiön ikä, johdon osaamiset, kansainvälinen liiketoiminta.

Abstract

This dissertation investigates the strategic and financial outcomes of foreign divestment (FD) decisions by Nordic multinational enterprises (MNEs), with a focus on how senior executives can mitigate divestment-related risks. Although divestment has traditionally been seen as a corrective response to underperformance or strategic misfit, its broader implications for firm solvency, shareholder value, and managerial decision-making remain underexplored, particularly in the international business context. Anchored in the resource-based view (RBV) and foreign divestment theory, this dissertation adopts a multi-method, multi-paper design to address these gaps.

The research comprises three scientific studies. The first examines the impact of foreign divestment on the insolvency risk of parent firms, using market-based risk indicators such as Distance to Default and Credit Default Swap (CDS) spreads. The second paper explores the relationship between FD and shareholder value creation, using event study methodology and longitudinal analysis. These studies also highlight how contingent factors such as subsidiary age and pre-divestment corporate social responsibility (CSR) investments moderate divestment outcomes. The research is based on a panel dataset of Nordic multinational enterprises from 1992 to 2019, supplemented by additional samples and sub-sample analyses to test moderating effects. The third paper employs a qualitative approach based on interviews with senior executives to uncover the role of managerial capabilities in mitigating divestment risks to ensure divestment success.

Collectively, the findings reveal that while FD may alleviate short-term pressures, it can also increase financial instability if strategic assets are lost. Moreover, CSR investments and subsidiary age do not always safeguard against negative outcomes, underscoring the importance of underlying divestment contingencies. The study contributes to international business, strategic management, and corporate finance literature by integrating risk, value, and managerial agency perspectives into the FD debate. This dissertation offers actionable implications for managers navigating divestment in volatile international business environments.

Keywords: Foreign divestment, insolvency risk, shareholder value, corporate social responsibility, subsidiary age, managerial capabilities, international business, Nordic MNEs

ACKNOWLEDGEMENT

The journey toward completing my PhD has been a remarkable one marked by moments of determination, uncertainty, joy, and deep reflection. I have been immensely fortunate to be surrounded by kind, supportive, and inspiring individuals whose encouragement, companionship, and belief in me made this milestone possible. To each of you, I extend my deepest gratitude.

First and foremost, I want to express my heartfelt thanks to the late Professor Jorma Larimo. His belief in my potential and his decision to bring me onto the PhD path were foundational. It saddens me that he will not be present at my defence, but his guidance, and faith in me continue to resonate in this work.

I am especially grateful to Professor Arto Ojala, who stepped in as my supervisor after Professor Larimo's passing. His unwavering support, thoughtful guidance, and encouragement helped me find my direction again when I needed it most. I shall always be deeply grateful to you, as this journey would not have been possible without your support and guidance. I am also thankful to my assistant supervisor, Dr. Minnie Kontkanen for her kindness and support during the doctoral process.

My sincere appreciation goes to my co-authors, Professor Carlos Sousa (Molde University College) and Senior Lecturer Jamshed Iqbal (Jyväskylä University), for their invaluable collaboration, mentorship, and encouragement during the development of the dissertation articles.

I am honored to have had two distinguished scholars, Professor Ulf Andersson (Mälardalen University, Sweden) and Professor Pervez N. Ghauri (University of Birmingham, UK), serve as pre-examiners of my dissertation. I sincerely thank you both for your time, constructive feedback, and generous contributions to improving this work. I am equally grateful to Professor Ulf Andersson for accepting the role of opponent at my public defence.

Many thanks are due to the participants of internal seminars and my pre-defence opponents, whose insights and suggestions greatly strengthened my work. I particularly wish to thank Dr. Tahir Ali for his early guidance and encouragement during the early stages of my PhD research.

I would also like to express my appreciation to the entire faculty and staff at the School of Marketing and Communication. To the professors, senior and junior colleagues, thank you for your support, stimulating conversations, and friendship throughout these years. Special thanks to Professor Merja Koskela, our Dean, for providing the support needed to carry out my research. I am also grateful to everyone in the International Business and Marketing Strategies research group for the constructive and engaging discussions during our research seminars. My thanks also go to the university's administrative staff for their essential help with practical matters.

This work would not have been possible without the financial support I received. I am truly grateful to The Graduate School of the University of Vaasa, The Foundation for Economic Education (Liikesivistysrahasto), and the Nissi Foundation for supporting my doctoral studies, and participation in academic conferences. Also, I am grateful to the companies and individuals who contributed to my research by participating in interviews and data collection, thank you for your time and help.

To all my friends in Vaasa and back home, thank you for your friendship, encouragement, and for helping me stay grounded and positive throughout every stage of this journey. Whether through religious and social gatherings, celebrations, or shared moments in sports like cricket, cue sports, and table tennis, your presence has meant a great deal to me. While I cannot mention everyone by name, both because the list would be too long and for fear of unintentionally leaving someone out, please know that I am truly grateful to each and every one of you.

Above all, I dedicate this work to my beloved family, my parents, my wife, my brother, my sisters, and my wife's family. Your unconditional love, patience, prayers, and unwavering support have been the foundation of my life and achievements. I love you all deeply, and I could never have reached this milestone without your encouragement, motivation, and constant presence by my side. Words are not enough to express my gratitude; I truly can't thank you all enough.

Shukr Alhamdulillah, all praise and thanks are due to Allah (God) almighty for granting me the strength, health, and opportunities to reach this important milestone.

Thank you all.

Arshed Iqbal

Vaasa, April 2026

Contents

Figures

Tables

Abbreviations

FD	Foreign divestment
FDI	Foreign direct investment
MNE	Multinational Enterprise
CSR	Corporate Social Responsibility
RBV	Resource-Based View
FD Theory	Foreign Divestment Theory

IB	International Business
ESG	Environmental, Social, and Governance
CDS	Credit Default Swap
DD	Distance to Default
LER	Logarithmic Excess Return
LIVA	Long-term Investor Value Appropriation
SMOPECs	Small, Open Economies
CEO	Chief Executive Officer
CFO	Chief Financial Officer
VRIN	Valuable, Rare, Inimitable, Non-substitutable
OLI	Ownership, Location, Internationalization
CR	Critical Realism

Publications

[1] Iqbal, A., Iqbal, J., Ojala, A. (2026). Foreign Divestment and the Insolvency Risk: Evidence from Nordic MNEs. [Published]. *Multinational Business Review,* 34(3), 460-485. https://doi.org/10.1108/MBR-12-2024-0254. © Arshed Iqbal, Jamshed Iqbal and Arto Ojala. Published by Emerald Publishing Limited under the Creative Commons Attribution (CC BY 4.0) licence. Reproduced under the terms of the CC BY 4.0 licence.

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1 INTRODUCTION

This chapter introduces the dissertation by outlining the relevance of foreign divestment (FD) as a strategic and financial decision in international business. It begins with an overview of the research background to highlight the importance of studying divestment within the context of Nordic multinational enterprises (MNEs). It then presents the research gaps that this study seeks to address, leading to the rationale behind the research objectives and questions. The chapter also discusses the positioning and contributions of the dissertation, emphasizing its novelty in connecting financial risk, shareholder value, and managerial strategy in divestment decisions. Finally, it outlines key definitions and presents the structure of the dissertation.

1.1 Background of Study

In the dynamic and often volatile landscape of international business, MNEs are increasingly required to reassess and adapt their global strategies (Chung et al., 2010). Among the strategic responses available, foreign divestment, defined as “any voluntary or forced actions that reduce a company’s engagement in or exposure to current cross-border activities” (Benito & Welch, 1997), has gained prominence as a critical tool for managing operational complexity, reallocating resources, and mitigating risk (Benito, 2005; Chung et al., 2010; Iurkov & Benito, 2020; Yoo & Moon, 2024). Despite its growing relevance, FD remains significantly less explored in international business (IB) literature compared to foreign direct investment (FDI) (McDermott, 2010; Tan & Sousa, 2019; Schmid & Morschett, 2020), with most research traditionally emphasizing expansion over exit strategies.

Since the rise of international markets, firms continuously strive to become more creative and dynamic to succeed in the global business markets (Liu et al., 2015). It is generally accepted that firms from small, open economies (SMOPECs) demonstrate a higher tendency to internationalize than those from larger economies, due to the heavy reliance on foreign product and capital markets (Benito et al., 2009; Oxelheim et al., 2013). As a result, FD can play a particularly strategic role in the life cycles of MNEs originating from SMOPECs, such as the Nordic countries (Denmark, Finland, Sweden, and Norway). Nordic firms have become increasingly internationalized, as reflected in various indicators beyond sales and production footprints (Oxelheim et al., 2013). The limited size of their domestic markets and the thinness of their national capital markets necessitate early and extensive internationalization. Consequently, the divestment of foreign subsidiaries by these firms can have substantial implications for their financial and strategic stability. Moreover, the Nordic countries offer a compelling and coherent setting for studying FD due to their geographical proximity, cultural commonalities (Ronen & Shenkar, 1985), and shared institutional traditions (Benito et al., 2002). This unique combination of market constraints and institutional similarities shapes distinctive patterns of FDI behavior, characterized by deep foreign market engagement and risks associated with FD.

In 2024, Finland and Sweden for instance recorded the highest number of bankruptcies in the 21st century, driven by a combination of economic and geopolitical challenges (Enento, 2024). In Finland, more companies closed their operations in the past 12 months than during any comparable period in the last 25 years, even surpassing the peak of the 2009 global financial crisis (Statistics Finland, 2023; Kauppalehti, 2025). A significant factor contributing to this rise in insolvency proceedings among parent firms is the loss of international operations due to the lingering effects of the COVID-19 pandemic, the energy crisis due to Russia's war, and persistently high inflation rates (Helsinki Times, 2024; Kauppalehti, 2025). Various industries in the Nordic region are witnessing increased levels of divestiture activity, both in domestic and foreign markets (Deloitte, 2024). However, MNEs face higher volatility in foreign operations than in domestic markets (Boddewyn, 1979), which often influences parent firms to divest foreign operations in quest of operational efficiency if needed (Iurkov & Benito, 2020).

Key drivers of these divestment decisions include economic uncertainty, the need for strategic realignment, cost and growth management, and a desire to optimize corporate portfolios. Nordic firms are increasingly using divestment as a strategic option to optimize their business portfolios, navigate economic challenges, and to pursue parent firms' long-term business objectives (Deloitte, 2024). On a global scale, FDI flows stagnated at $1.3 trillion in 2023, reflecting economic slowdowns and rising geopolitical tensions. FD has become integral to the strategic decision-making processes of multinational firms, with the top 100 MNEs undertaking significant divestments between 2022 and 2023 (UNCTAD, 2024).

Figure 1 illustrates the key motivations that parent firms cite for pursuing divestments in the future, based on the 2024 Deloitte Global Corporate Divestiture Survey. The figure highlights several strategic drivers, including the need to focus on core operations, respond to changing market dynamics, improve capital allocation, and enhance shareholder value. However, the implications of FD are multifaceted and may not always result in what initially motivated parent firms. On the one hand, it can endanger the solvency of parent firms, particularly when divestments result in the loss of strategic assets. As insolvency risk is a major concern for key stakeholders, including shareholders, debtholders, and customers (Rego et al., 2009; Campbell et al., 2008). However, literature on the FD and a parent firm's insolvency risk remains limited (Rashid Shamim, 2019). Moreover, such divestments may disrupt firms' ability to maintain competitive advantage if core resources are lost or reallocated inefficiently, in the context of resource-based view (RBV) (Barney, 1991; Wernerfelt, 1984). On the other hand, divestments can positively contribute to shareholder value creation by shedding underperforming or non-core subsidiaries, improving strategic focus, and enabling reinvestment into more profitable areas (Kaplan & Weisbach, 1992; Lang et al., 1995; Deloitte, 2024).

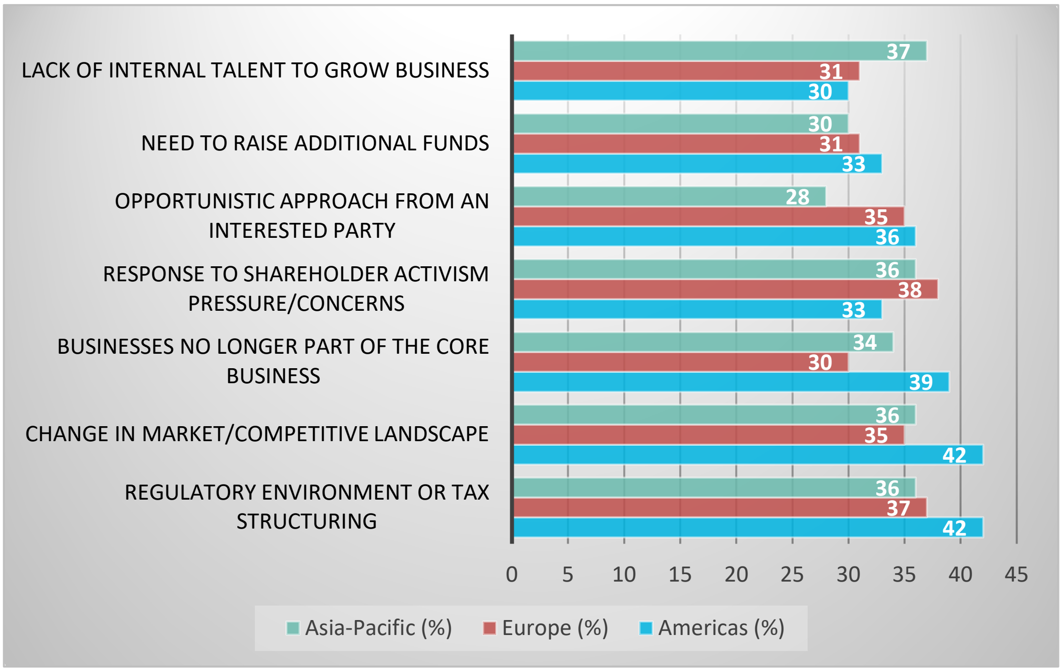

Figure 1. Future divestment motivations (Source: Deloitte Global Corporate Divestiture Survey, 2024).

FD can lead to different possible outcomes, although these outcomes may vary depending on factors such as subsidiary age, parent firm maturity, and market conditions (Chang & Singh, 1999; Cao & Alon, 2021). Existing literature on FD presents mixed findings regarding its effects on value creation. Several studies have examined stock market reactions to divestment events, particularly sell-offs, and report both positive and negative post-divestment outcomes (Kumar, 2005; Kaprielyan, 2016; Markides, 1995; Lee & Madhavan, 2010). Some researchers highlight a negative association between FD and firm performance, suggesting that divestments may signal strategic failure or loss of competitive assets (e.g. Bergh, 1995; Montgomery & Thomas, 1988; Wright & Ferris, 1997). Others, however, find no statistically significant performance impact (Woo, Willard, & Daellenbach, 1992). In contrast, studies conducted in the U.S. and U.K. often report positive effects on shareholder wealth following divestiture, particularly when divestments are part of strategic portfolio optimization (Alexander et al., 1984; Jain, 1985; Mulherin & Boone, 2000; Gadad & Thomas, 2005). These mixed findings highlight the need for further exploration of FD phenomenon and how it influences solvency and value creation of parent firms.

Importantly, FD is not merely a financial or structural adjustment by parent firms. It is also a managerial process that requires strategic planning, risk mitigation skills and strategies, and effective execution. However, much of the existing literature tends to overlook the role of senior executives and top managers in shaping divestment outcomes, focusing instead on macro level antecedents or quantitative firm level variables. This raises a critical question i.e. could variation in divestment outcomes be partially explained by differences in managerial strategies, experience, decision making capabilities, and control mechanisms? As managerial capabilities and skills are critical in successfully navigating through complex divestment processes and safeguarding firm value (Yoo & Moon, 2024; Kolev, 2016). This aspect is particularly compelling in the Nordic context, where a shared cultural foundation of egalitarianism, collaboration, and transparency contributes to a distinctive and cohesive business environment (Chen, 2014). Exploring how managerial competencies influence divestment execution within such settings offers a valuable opportunity to deepen our understanding of the human factors underlying strategic divestment decisions.

Taken together, these perspectives emphasize the growing strategic importance of FD for MNEs operating in uncertain environments. As firms seek to realign operations, enhance value, and manage financial risks, foreign divestment has emerged as a central but still under researched component of international business strategy.

1.2 Research Gaps

Generally, in IB literature, foreign divestment has received considerably less attention compared to the extensively studied phenomenon of FDI (Tan & Sousa, 2019; Schmid & Morschett, 2020). This is surprising given the fact that one, out of every two foreign subsidiaries, is eventually divested (Boddewyn, 1979; Chung et al., 2013). Such figures highlight divestment not merely as an occasional response, but as a strategic norm within MNEs, especially under conditions of global uncertainty and market volatility (Harrigan, 1981; Khan et al., 2023). Although a growing body of research has begun to examine the antecedents and outcomes of FD, the topic remains conceptually fragmented and under-theorized (Tan & Sousa, 2018; Borga et al., 2020; Schmid & Morschett, 2020).

First, the majority of existing studies focus either on the drivers of divestment or on general measures of financial performance (Schmid & Morschett, 2020; Meng et al., 2025), yet there is no clear consensus on the nature or direction of these outcomes. Additionally, and more critically, the insolvency risk which is a central concern for stakeholders has been largely overlooked. While some research has examined stock market reactions or firm profitability post divestment (e.g. Park & Russo, 1996; Lee & Roh, 2020; Brahmana et al., 2021; Kafouros et al., 2022), little attention has been paid to the potential destabilizing consequences for parent firms, particularly when divestments involve the loss of critical resources. Given the recent rise in corporate insolvencies in the Nordic region (Statistics Finland, 2024; Enento, 2024), this gap represents a crucial limitation in understanding the financial risk profile of MNEs engaged in strategic restructuring through divestment.

Secondly, significant attention has been devoted to the antecedents of FD (Coudounaris et al., 2020; Larimo et al., 2022). The performance-related outcomes of FD recently got some attention but remain inconsistent and under debate (Batsakis et al., 2023). As a result, scholars have increasingly turned to identifying and examining contingent factors that may influence these outcomes (Meng et al., 2025). Despite this shift, the relationship between FD and shareholder value creation remains ambiguous and underexplored. While firm performance typically refers to a company's operational and financial outcomes including revenue growth, profitability, and efficiency, shareholder value creation emphasize on the firm's ability to enhance its market valuation and generate returns for investors, often captured through metrics like stock price appreciation, dividends, and market value added (Nieuwoudt & Hall, 2022; Hall, 2023). Assessing shareholder value is particularly important in divestment contexts, as it reveals whether such decisions align with investors' short-term and long-term interests or not.

Most of the existing research in this area relies on short-term market-based indicators and heavily focuses on U.S. and U.K. settings (e.g. Jain, 1985; Mulherin & Boone, 2000; Gadad & Thomas, 2005). There remains a notable lack of research incorporating long-term shareholder value measures, which can provide more strategic insights. Moreover, important contextual and organizational contingencies like the age of the parent firm or the divested subsidiary have received limited attention. This gap is particularly relevant in the Nordic region, where early and intensive internationalization may interact differently with divestment decisions and their shareholder implications.

Thirdly, as previously noted, the limited stream of research on FD and firm performance presents mixed findings with no clear consensus. One potential, yet underexplored, contingency influencing divestment outcomes may lie in the role of managers themselves. As divestment contingencies play important role in influencing its effects (Meng et al., 2025), top executives and managers related to divestments are a critical organizational resource, particularly in mitigating risks associated with FDs, as they significantly shape strategic decisions and guide firms through uncertainty and risks (Kim & Vonortas, 2014). Despite this, the managerial dimension of divestment strategy has been largely overlooked in literature. This gap is particularly significant given that divestment decisions are often perceived by managers as admissions of failure, which may increase their reluctance to act (Vissak et al., 2020), while also making data collection in this area more difficult due to the sensitivity of the topic.

Nevertheless, the internal mechanisms through which divestments are planned and executed deserve greater scholarly attention. The strategic capabilities and leadership skills of senior executives, such as their ability to assess risks, manage stakeholder relationships, and implement exit strategies, play critical role in determining the success of divestment outcomes. For example, the recent case of Swedish Handelsbanken's divestment of its Finnish private and life insurance operations, valued at EUR 2.5 billion and involving the transfer of 23 branches and over 200 employees (Handelsbanken, 2024), illustrates the complexity of such transactions. In such situations, the role of divestment managers and other involved top executives becomes critical, not only to ensure a smooth operational transition but also to manage stakeholder expectations, mitigate and reduce reputational risks, and mitigate long-term competitive threats, such as former employees joining rival firms. Yet, existing divestiture literature have paid limited attention to managerial capabilities as strategic resources highlighting a need for further investigation into this important contingency as well.

This dissertation addresses these gaps by incorporating moderators grounded in theory and strategic relevance. For instance, corporate social responsibility (CSR) is chosen as a moderator in Paper 1 due to its dual nature as both a reputational asset and a potential financial liability during crises, making it theoretically relevant in the context of insolvency risk (Ioannou & Serafeim, 2015). In Paper 2, subsidiary age is examined in light of foreign divestment theory (FD theory) (Boddewyn, 1983), which suggests that older subsidiaries may have exhausted their original OLI advantages, influencing whether divestment adds value. Finally, managerial capabilities are included in Paper 3 as a dynamic mechanism through which risks are actively mitigated, in line with the dynamic capabilities view (Teece, 2007; Helfat & Martin, 2015). While other moderators such as host country governance or ownership structures are undoubtedly important, this dissertation prioritizes internal strategic factors that are under the control of the parent firm.

Collectively, these research gaps highlight the importance and need for a more integrated and contextually grounded approach to study FD, an approach that accounts for its financial implications and outcomes, its impact on shareholder value, and the critical role of managerial capabilities in successfully executing divestment strategies by mitigating associated risks.

1.3 Research Questions and Objectives

To address the research gaps identified in the previous section, and to respond to the theoretical and empirical need for a deeper understanding of FD as a strategic process in MNEs, this dissertation aims to provide a more integrated view of the financial, strategic, and managerial consequences of FD. In doing so, it seeks to contribute to the literature on IB, corporate restructuring, and strategic management, particularly in the context of Nordic multinational firms originating from small, open economies (SMOPECs).

More specifically, this dissertation investigates how FD affects the financial stability and shareholder value of MNEs, and how managerial capabilities steer the successful execution and outcomes of these strategic decisions. It integrates firm-level financial perspectives with behavioural and organizational insights to provide a richer understanding of divestment phenomenon and outcomes. Accordingly, this dissertation addresses the following fundamental research question:

How does foreign divestment shape firm-level financial and value outcomes, and how do managerial capabilities influence the execution and risk outcomes of divestment decisions?

This main question is explored through three interrelated sub-questions, each addressed in a separate research paper:

1. *How does foreign divestment affect the insolvency risk of parent firms, and how is this relationship moderated by CSR activities?*

- This sub-question investigates the relationship between FD and financial vulnerability, focusing on whether the reallocation or loss of strategic assets through divestment increases insolvency risk. The study also examines how CSR moderates this relationship being the costly and risky investments.
- This question is addressed in Paper 1, which employs a panel dataset of Nordic MNEs (1992-2019) and incorporates market-based insolvency measures.

2. *How does foreign divestment influence shareholder value creation, and what role does subsidiary age play in shaping short- and long-term value outcomes?*

- This sub-question focuses on whether and how FD affects shareholder value creation post divestment. It introduces the Long-Term Investor Value Appropriation (LIVA) metric alongside traditional Logarithmic Excess Return (LER) measures. Additionally, the study examines the moderating role of subsidiary age in this relationship over both the short and long term.

- The analysis is based on a panel dataset of Nordic multinational firms covering the period from 1999 to 2019. This sub-question is addressed in Paper 2.

3. What managerial capabilities are critical in mitigating risks and ensuring successful foreign divestment execution?

- This sub-question explores the often-overlooked managerial dimension of foreign divestment. It identifies specific strategic and leadership skills of senior executives crucial to manage the divestment process, safeguard firm value, and protect stakeholder interests.

- This sub-question is addressed in Paper 3, based on in-depth interviews conducted in 2024–2025 with senior Nordic executives involved in divestment decisions.

Together, these three studies offer a multi-dimensional perspective on FD, integrating financial risk, value creation, and managerial decision-making, to build a more comprehensive understanding of this underexplored yet strategically critical phenomenon called foreign divestment. The research framework and the link between the three papers is summarized table 1 below.

Table 1. Sub-questions and research papers

Research Question	Key Focus	Paper	Methodology	Outcomes
RQ1: How does foreign divestment influence the insolvency risk	Financial risk and CSR as moderator	Paper 1	Quantitative (panel data, 1992-2019)	Links divestment to insolvency risk; highlights CSR's role in moderating this relationship

of parent firms?				
RQ2: How does foreign divestment affect shareholder value cration?	Shareholder value creation, moderated by subsidiary age	Paper 2	Quantitative (panel data, 1999-2019)	Explores value impact; introduces LIVA; highlights role of subsidiary age
RQ3: What managerial capabilities are critical for successful divestment and its risk mitigation?	Strategic capabilities and risk mitigation	Paper 3	Qualitative (executive interviews)	Identifies key executive competencies; explains how they shape outcomes and mitigate divestment risks

1.4 Positioning of the Study and Intended Contributions

This dissertation is positioned within the fields of international business, strategic management, and corporate finance, with specific emphasis on the evolving phenomenon of FD in the context of IB. It builds on and extends several theoretical traditions, including the RBV, the FD theory (Reverse Eclectic Paradigm), and perspectives on strategic risk and value creation. It also aligns with recent calls in FD literature for research that integrates these dimensions in analysing divestment outcomes (e.g., Arte & Larimo, 2019; Schmid & Morschett, 2020; Yoo & Moon, 2024).

Regarding its theoretical and conceptual positioning, this dissertation responds to imbalances in IB literature, which has traditionally emphasized foreign market entry and FDI expansion, and relatively neglecting exit strategies and divestment processes (Kotabe & Ketkar 2009; Tan & Sousa, 2019). In particular, it addresses the need to better understand how FD affects financial outcomes (e.g., insolvency risk and shareholder value) of the multinational firms and how senior executive and divestment managers mitigate the risks and negative effects through their skills and capabilities.

Drawing on the RBV (Barney, 1991; Wernerfelt, 1984), and FD theory (Boddewyn, 1983) the study conceptualizes divestment not merely as a reactive or performance-driven withdrawal, but as a strategic decision involving the reallocation of critical resources that may either destabilize the firm or create new pathways to value, depending on how well the process is managed. Additionally, the study incorporates a perspective on managerial skills, complementing firm-level quantitative research with qualitative (Cairns et al., 2010; Kolev, 2016) study. FD decisions are influenced by complex financial, economic, and geopolitical factors, which qualitative case studies can effectively capture (Schmid & Morschett, 2020; Larimo et al., 2022; Baker et al., 2023; Yoo & Moon, 2024).

Empirically and contextually, this dissertation focuses on publicly listed Nordic MNEs, a regionally specific but globally active group of firms. The Nordic context, consisting of SMOPECs, is particularly relevant given these firms' early and deep internationalization (Benito et al., 2009; Oxelheim et al., 2013). The combination of institutional homogeneity, geographic proximity, and high dependence on foreign markets makes this region a compelling case for studying the implications of FD (Benito et al., 2009). Especially, at a time when Nordic countries are experiencing record-breaking business closures (Statistics Finland, 2023; Enento, 2024), and when strategic restructuring is reshaping the portfolios of many MNEs, the need to understand divestment as a forward-looking capability is empirically urgent and theoretically rich.

The overall theoretical and disciplinary positioning of this dissertation is illustrated below in Figure 2.

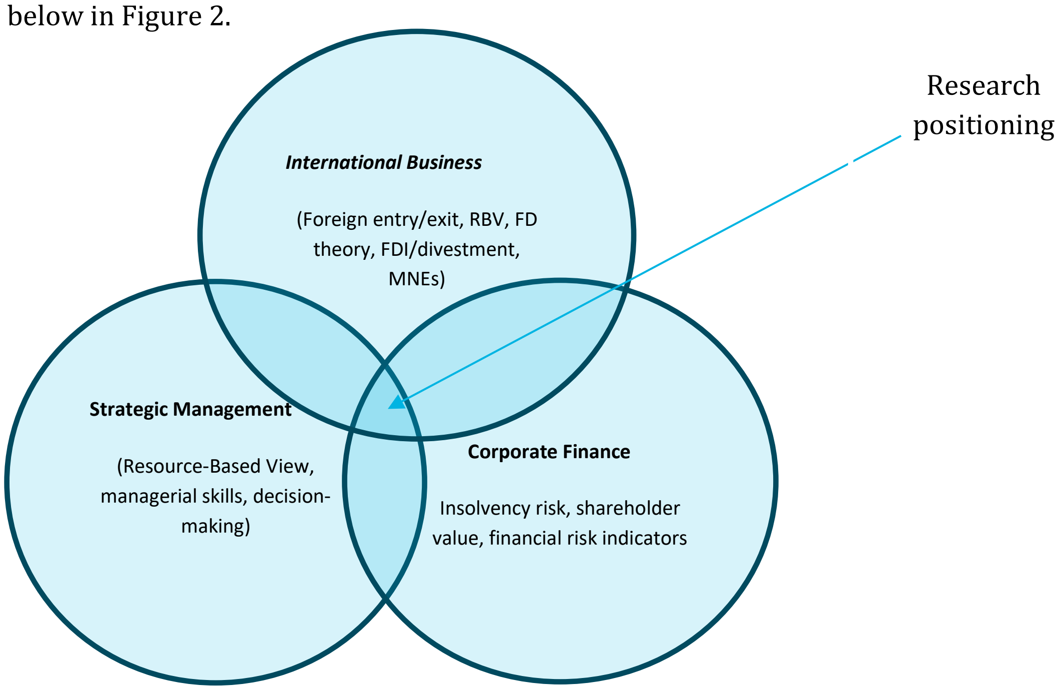

Figure 2. Research positioning of the dissertation

This dissertation makes several important contributions to theory, methodology, and practice within the given fields, particularly in the underexplored area of FD. From a theoretical standpoint, the study advances the RBV by highlighting how the reallocation or loss of strategic international resources through FD can influence insolvency risk, a dimension rarely considered in RBV-focused business literature (e.g., Wernerfelt, 1984; Barney, 1991; Peteraf, 1993; Rugman & Verbeke, 2002; Greer & Theuri, 2012). While RBV has traditionally been employed to understand competitive advantage and value creation through resource acquisition and deployment. This study applies the framework to situations of resource withdrawal or loss, showing that how divestment may weaken critical firm capabilities, and harm organizational resilience and thus destabilize firm solvency (Paper 1). Furthermore, this dissertation contributes to the literature on shareholder value creation and FD theory (reverse eclectic paradigm) by exploring the performance effects of divestment using both traditional market-based measures like LER and more recent metrics such as LIVA (Wibbens & Siggelkow, 2020). By incorporating the age of the divested subsidiary as a moderating variable, the study adds depth to the understanding of when and how divestment contributes to value creation (Paper 2). Additionally, this research integrates managerial skills and capabilities lens into the study of divestment outcomes. Through qualitative analysis, it identifies how senior executives' strategic, communicative, and other risk-management skills like experience shape the success or failure of divestment execution, thereby connecting managerial level decision-making with firm-level performance outcomes (Paper 3).

Methodologically, this dissertation introduces a multi-method research design that combines large-scale quantitative data with in-depth qualitative insights. Papers 1 and 2 use panel data of Nordic MNEs between 1992-2019 and 1999-2019 respectively, offering a robust empirical basis for measuring firm-level insolvency risk and shareholder value. These studies contribute to empirical rigor by integrating advanced financial risk metrics such as Merton's Distance to Default (DD) and Credit Default Swaps (CDS), which reflect credit market perceptions and add depth to the traditionally accounting-focused approaches in divestment research. Paper 3 complements these quantitative analyses by employing a qualitative approach based on semi-structured interviews with senior executives. This methodological combination addresses a recognized limitation in divestment research, which often relies on secondary datasets due to its sensitive nature and hurdles in data collection (e.g. McDermott, 2010; Paul & Benito, 2018; Schmid & Morschett, 2020) and lacks insight into the lived experiences and strategic reasoning of decision-makers. In doing so, this dissertation expands methodological diversity in the field of IB and strategic management.

Practically, the findings offer valuable guidance for managers, board members, and policy stakeholders. In an increasingly volatile global environment, which is characterized by economic downturns, geopolitical conflicts, wars, and post-pandemic restructurings, this dissertation provides tools for evaluating the financial stability risks associated with FD decisions. Managers are encouraged to align divestment choices not only with short-term cost considerations but also with long-term value creation goals and organizational objectives. The dissertation also presents strategic insights on optimal timing, stakeholder communication, and risk mitigation during divestment execution and these are the areas that are especially relevant in SMOPEC contexts like the Nordic countries, where international exposure is high and firm survival often relies on cross-border operations (Oxelheim et al., 2013; Benito et al., 2009). Furthermore, the research highlights the importance of aligning CSR practices with strategic divestments, showing how strongly CSR performance can either protect against reputational risks or increase resource strain, depending on the firm's financial position and stakeholder expectations (Makni et al., 2009; Lee & Min, 2015; Padilla-Lozano & Collazzo, 2022). Lastly, by demonstrating the importance of internal organizational variables such as subsidiary age and managerial competence, the dissertation highlights that divestment outcomes are not purely market-driven but are also shaped by the firm's internal strategic and human capital foundations.

To summarize the relevance and positioning of this dissertation, Figure 3 visually presents the research gaps, primary objective, sub-research questions, expected outputs, and intended theoretical, methodological, and practical contributions. This structured overview highlights how the dissertation addresses underexplored areas in the foreign divestment literature and situates the study within key academic debates in IB, strategic management, and corporate finance.

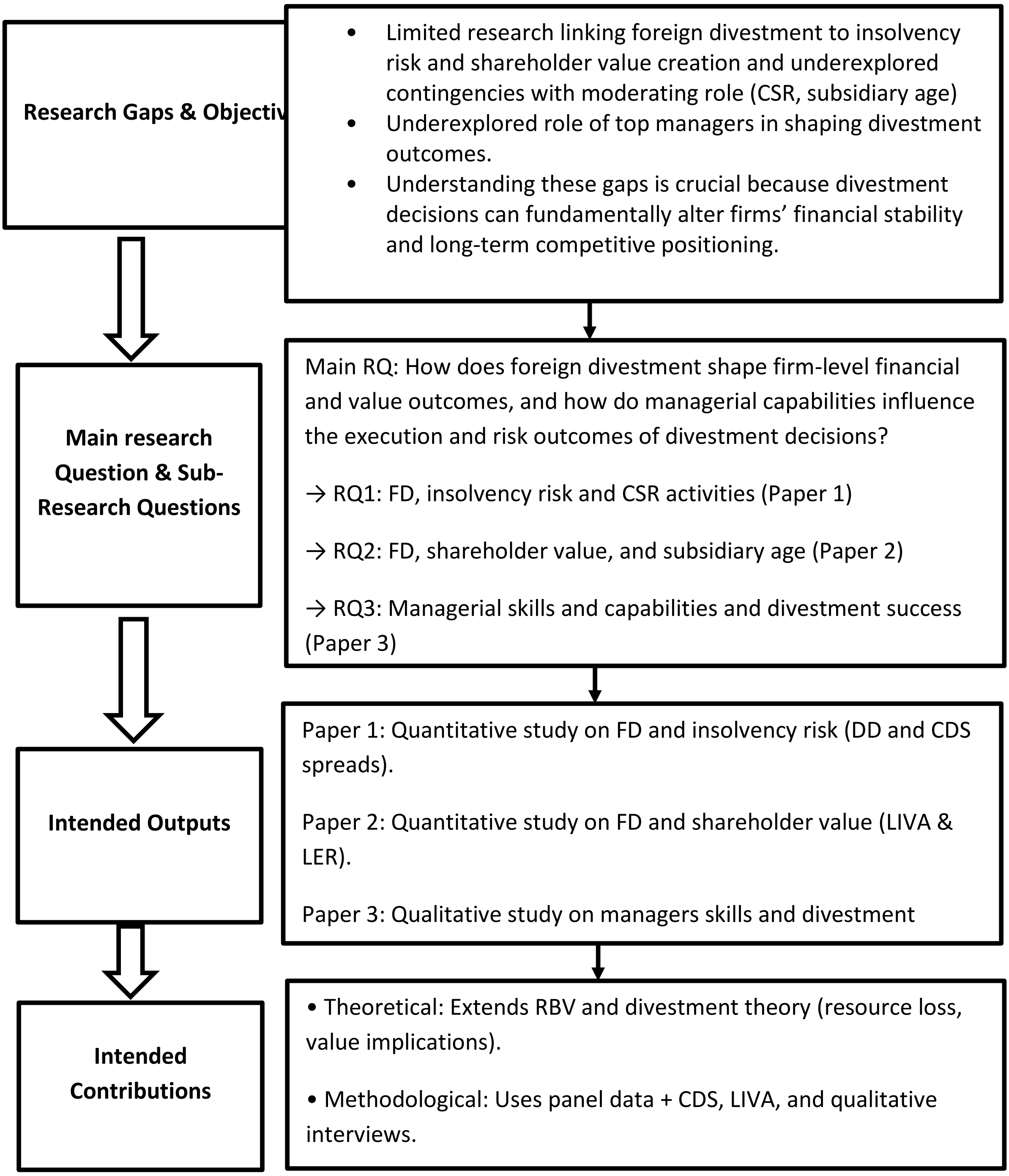

Figure 3. Overview of research gaps, objectives, questions, and contributions

1.5 Definition of key concepts

To ensure conceptual clarity and consistency throughout this dissertation, it is important to define the key constructs underpinning the study. These core concepts serve as the foundation for both theoretical framing and empirical analysis. The key concepts addressed in this research include FD, insolvency risk, shareholder value creation, LIVA, CSR, managerial capabilities, and subsidiary age. A summary of their definitions is presented in Table 2 below.

Table 2. Definitions of key concepts

Key Concept	Definition
Foreign Divestment	Any voluntary or forced actions that reduce a company's engagement in or exposure to current cross-border activities (Benito & Welch, 1997; Schmid & Morschett, 2020).
Insolvency Risk	The likelihood of a firm failing to meet its financial obligations, measured using credit risk indicators such as DD and CDS (Bharath & Shumway, 2008; Campbell et al., 2008).
Shareholder Value Creation	The enhancement of firm value from the perspective of shareholders, typically measured by stock performance, dividends, and market-based ratios (Nieuwoudt & Hall, 2022; Hall, 2023).
Long-Term Investor Value Appropriation	LIVA measures the net present value of firm performance over time, capturing long-term value creation for investors (Wibbens & Siggelkow, 2020).
Corporate Social Responsibility	CSR score represents the level of corporate responsibility based on environmental, social, and governance performance, usually rated on a scale from 0 to 100 (Freeman et al., 2007; Lee & Min, 2015).
Managerial Capabilities	Strategic, cognitive, and relational abilities of executives to assess, plan, and implement key decisions to create, extend, and modify the firm's resource

	base (Helfat & Peteraf, 2015), impacting firm strategy and performance (Teece, 2012) but underexplored in the field of IB (Tasheva & Nielsen, 2022).
Subsidiary Age	The number of years a foreign subsidiary has been operational in the host market, used as a proxy for local embeddedness and experiential knowledge (Zaheer, 1995).

1.6 Structure of the Dissertation

This dissertation is organized into two parts. Part I provides the introductory framework and theoretical grounding of the study, while Part II includes the three research articles that collectively form the core foundation of the dissertation.

Part I provides the integrative framework of the dissertation and comprises six chapters. Part II consists of the three standalone research papers. Chapter 1 (Introduction) presents the motivation and background of the study, emphasizing the growing strategic importance of FD, particularly for multinational firms operating in small, open Nordic economies. This chapter identifies the key research gaps in the literature, articulates the overarching research objective and sub-questions, and outlines the intended theoretical, methodological, and practical contributions. It also defines key concepts used throughout the dissertation and concludes with a summary of the dissertation's structure.

Chapter 2 (Literature Review) provides a comprehensive overview of the scholarly discourse surrounding FD. It begins with a foundational discussion of FD as a phenomenon and then critically reviews three key thematic areas: (1) FD and insolvency risk, (2) FD and shareholder value creation, and (3) the role of managerial capabilities in divestment risk mitigation. The chapter positions these streams of literature as conceptually interrelated and essential to a deeper understanding of foreign divestment's strategic and financial consequences.

Chapter 3 (Theoretical Framework) introduces and integrates the key theoretical perspectives guiding the dissertation. The RBV is presented as the central framework for understanding the implications of resource loss through divestment. The FD theory, an extension of the eclectic paradigm, is used to explore strategic motivations and long-term value effects. Additionally, managerial capabilities and dynamic resource orchestration are discussed to explain firm-level variation in divestment outcomes. The chapter concludes with a conceptual overview summarizing how these perspectives reinforce the dissertation's three papers.

Chapter 4 (Methodology) outlines the ontological and epistemological assumptions underpinning the study, grounded in a critical realist perspective. The chapter justifies the use of an abductive, multi-method approach that combines quantitative and qualitative strategies. It details the Nordic context and dataset construction, elaborates on the analytical techniques used in each paper including market-based credit risk metrics, long-term value measurement, and qualitative coding and further discusses how research quality was ensured through credibility, dependability, and triangulation. The chapter also explains how methodological integration contributes to a more robust understanding of the research problem.

Chapter 5 (Summary of Dissertation Papers) presents a structured summary of the three research papers comprising Part II of the dissertation. For each paper, the chapter outlines research motivation, theoretical framing, methodological design, key findings, and specific contributions to literature. It also highlights how the papers interrelate and contribute to answering the overarching research questions.

Chapter 6 (Conclusion and Discussion) synthesizes the main findings across the three papers and reflects on their collective contributions to theory, methodology, and practice. It also acknowledges limitations of the study and offers several directions for future research on FD, strategic restructuring, and risk mitigation in international business.

Part II of the dissertation includes the three peer-reviewed research papers:

- Paper 1 examines the relationship between FD and parent firm insolvency risk, with a particular focus on the moderating effect of CSR.

- Paper 2 analyses how FD affects shareholder value creation, introducing subsidiary age as a moderating factor and using novel value measurement metrics.

- Paper 3 explores how managerial capabilities shape the execution and outcomes of FD strategies, based on interviews with senior executives in Nordic MNEs.

The author is the main contributor to all three articles. Detailed author contribution statements and co-author approvals are also provided in a separate appendix submitted for preliminary examination.

2 LITERATURE REVIEW

This chapter reviews the academic literature of the dissertation and provides a structured understanding of the FD phenomenon and explores how FD has been theorized, measured, and interpreted in international business research. Despite its growing prevalence in multinational strategy, FD remains underexplored compared to FDI, particularly regarding its financial consequences, long-term performance implications, and managerial execution.

To establish a clear foundation for the three research papers included in this dissertation, the chapter is organized into four thematic sections. Section 2.1 introduces the evolution of FD research, its core definitions, and the strategic and operational contexts in which divestment occurs. Sections 2.2, 2.3, and 2.4 focus respectively on the relationships between FD and insolvency risk, shareholder value creation, and the strategic role of senior managers in mitigating divestment-related risks. These sections reflect the core themes of the dissertation and build toward a theoretical framework, which is presented in the following chapter.

2.1 The Foreign Divestment Phenomenon

"Not a week goes by, it seems, without some announcement of a major plant closing or worker layoff around the world… even in good times there are bankruptcies, product failures, company 'restructurings,' and the like."

(Boddewyn, 1979).

These words, written more than four decades ago, remain strikingly relevant in today's global economy. FD, the full or partial withdrawal from international operations, has become an increasingly important strategic tool for MNEs navigating uncertainty, competitive pressure, and the need for strategic realignment. Despite this, FD remains underexplored in IB literature, especially when compared to its counterpart FDI (McDermott, 2010; Iurkov and Benito, 2018; Tan & Sousa, 2019; Schmid & Morschett, 2020).

Scholars have used various terms to describe the phenomenon of exiting foreign markets, including foreign divestment, de-internationalization, subsidiary failure, business withdrawal, closure, disengagement, sell-off, liquidation, dissolution, and total sales, among others (Ameyaw et al., 2023; Ozkan, 2020; Burt et al., 2003). While these terms reflect slightly different emphases, ranging from voluntary strategy to reactive retreat, they all point to a reduction or termination of international operations. In this dissertation, these related concepts are encompassed under the broader framework of "foreign divestment" which is defined as a strategic action that reduces a firm's engagement in foreign markets by selling all or a major part of an active operation (Boddewyn, 1979; Benito & Welch, 1997).

Historically, FD was viewed predominantly as a response to poor subsidiary performance or host country failure (Benito, 1997a, 1997b) and was associated with the concept of "liability of foreignness" (Zaheer, 1995; Zaheer & Mosakowski, 1997). However, more recent work reframes divestment as a strategic decision that may reflect resource reallocation, focus on core operations, or broader organizational restructuring (Benito, 2005; Batsakis et al., 2023). In this light, FD is not simply a failure, but a potential opportunity for firms to enhance competitiveness, efficiency, or shareholder value.

The phenomenon is far from rare. Empirical studies have shown that approximately one out of every two foreign subsidiaries is eventually divested (Chung et al., 2013), signalling its growing strategic relevance in MNEs lifecycle management. This occurrence has only intensified in the wake of global events such as the increased inflation, and ongoing geopolitical tensions (UNCTAD, 2024; Deloitte, 2024). For Nordic firms in particular, operating within SMOPECs, divestments can have significant implications for strategic positioning and financial stability, given their early and often deep international exposure (Oxelheim et al., 2013).

Existing literature has examined FD from multiple angles, with a dominant focus on its antecedents and performance outcomes. However, the role of managerial capabilities, despite being critical intangible resources, remains underexplored in FD literature. These skills, while often unobservable, are widely recognized in the RBV as sources of sustained competitive advantage when they meet the valuable, rare, inimitable, non-substitutable (VRIN) criteria (Acedo et al., 2006). Prior research has also shown that managerial characteristics are positively associated with shareholder returns (Matemilola et al., 2013), and more recently, attention has grown regarding the influence of top managers on firm performance (Chan et al., 2020; Aboramadan, 2021).

FD antecedents typically fall into three categories: subsidiary-level, parent firm-level, and host-country-level drivers. At the subsidiary level, firms often choose to divest underperforming affiliates (Markides & Berg, 1992; Tang et al., 2021; Lee at al., 2022), while reallocating resources to better-performing units (Sohl & Folta, 2021). According to Schmid and Morschett (2020), subsidiary-specific factors exert a stronger influence on FD decisions than other firm or environmental characteristics. At the firm level, divestment may also be motivated by strategic portfolio restructuring or internal financial challenges, independent of subsidiary performance (Mohr et al., 2020; Hennart et al., 2002; Berry, 2013; Fisch & Zschoche, 2012).

Host-country conditions have also been identified as critical influences on FD decisions. These include loss of flexibility, reduced product quality (Dachs et al., 2019), institutional complexity, political uncertainty, and regulatory opacity (Hennart et al., 2002; Getachew & Beamish, 2017; Xu et al., 2021). Country risk, sunk costs (Dai et al., 2017), and broader environmental turbulence, such as technological disruptions or market instability as these also play significant roles (Tan & Sousa, 2018; Witte et al., 2020; Efrat & Shoham, 2012).

Studies examining the impact of FD on firm performance have yielded mixed results. Some report positive outcomes such as improved efficiency and shareholder gains (Hanson & Song, 2003; Brauer et al., 2017; Lee & Roh, 2020), while others observe negative or insignificant effects (Bergh, 1995; Veld & Veld-Merkoulova, 2004; Shimizu & Hitt, 2005; Colak, 2010). Others also noted mixed, both positive and negative investor responses (Kumar, 2005; Kaprielyan, 2016; Markides, 1995; Lee & Madhavan, 2010).

One plausible explanation for this inconsistency lies in the neglect of relevant contingencies like subsidiary age and firm CSR activities and managerial role along with others. Divestment is not merely an outcome, it is a managed strategic process, shaped by how executives evaluate risks, handle stakeholder reactions, and implement decisions under pressure. These managerial dynamics are especially relevant in Nordic firms, where internationalization strategies must align with sustainability norms, stakeholder expectations, and long-term value creation.

To summarize, FD is a multidimensional and evolving phenomenon, requiring deeper attention from scholars across international business and strategic management. Key contingencies, such as CSR and sustainability involvement, subsidiary age, and managerial capabilities, are crucial to understand FD outcomes. This dissertation addresses these gaps in FD literatures and offers a more comprehensive understanding of its role in global business strategy.

2.2 Foreign Divestment and Insolvency Risk

While FD has been increasingly studied for its strategic and economic motivations, relatively little attention has been paid to its potential financial risks, particularly its impact on the insolvency risk of the parent firm. Most prior research tends to examine FD from a performance-based lens (e.g., revenue, profitability) yet fails to address how divestment-induced resource loss can destabilize the financial foundations of

MNEs as FD plays a significant role in a parent firm's survival (Powell & Yawson, 2012).

Insolvency risk refers to a firm's likelihood of failing to meet its financial obligations. Unlike short term liquidity concerns, it encompasses structural vulnerabilities that may lead to bankruptcy or financial distress (Altman, 1968; Campbell et al., 2008). In the context of divestment, insolvency risk can increase when the firm loses key intangible or strategic resources embedded within a foreign subsidiary, such as market knowledge, local networks, or brand legitimacy, and market share, thereby weakening the resource base needed for stability and resilience (Barney, 1991).

Despite this conceptual link, the literature on FD and parent-firm insolvency risk remains limited (Rashid Shamim, 2019). Most existing studies have focused on post-divestment profitability or short-term stock market reactions (e.g. Park & Russo, 1996; Lee & Roh, 2020; Brahmana et al., 2021; Kafouros et al., 2022), while few have examined forward-looking credit risk indicators. In particular, market-based measures such as DD and CDS, which are widely used in finance to capture insolvency risk (Vassalou & Xing, 2004; Bharath & Shumway, 2008), remain underutilized in IB research on divestment.

A further underexplored aspect concerns the moderating role of CSR. While CSR research gained momentum in the 1960s and 1970s (Carroll, 1979), its historical roots extend from 18th-century to mid-20th-century (Caligiuri et al., 2013). In the 21st century, the rise of the welfare state and increasing societal expectations have intensified the strategic importance of CSR in business (Padilla-Lozano & Collazzo, 2022). CSR has often been portrayed as a stabilizing mechanism that strengthens stakeholder trust, improves legitimacy, and supports long-term value creation (Freeman et al., 2007; Lee & Min, 2015). Firms with strong CSR engagement might be expected to enjoy greater resilience in times of strategic restructuring because stakeholders may grant them more leeway during difficult periods (Ioannou & Serafeim, 2015). However, CSR activities can also be costly and may exacerbate financial strain during restructurings when firms face financial troubles or reallocate resources (Makni et al., 2009; Padilla-Lozano & Collazzo, 2022).

These tensions are particularly significant in the Nordic context, where firms combine high levels of internationalization with strong institutional expectations for CSR activities. At the same time, the region has recently experienced a surge in bankruptcies and business closures (Statistics Finland, 2023; Enento, 2024), underscoring the importance of understanding how strategic exit decisions interact with financial risks. Overall, prior research has not yet systematically examined how foreign divestment affects insolvency risk using market-based credit indicators, nor how CSR practices may condition this relationship. This gap motivates the empirical investigation conducted in this dissertation.

2.3 Foreign Divestment and Shareholder Value Creation

Beyond survival and solvency, FD also holds implications for shareholder value creation, which refers to the enhancement of a firm's market-based worth from the perspective of its investors (Nieuwoudt & Hall, 2022; Hall, 2023). In today's competitive and globalized markets, shareholder value is a critical benchmark of firm performance, especially for publicly listed MNEs, as creating shareholder value has become a central objective for organizations to sustain long-term relationships with investors (Venugopal et al., 2018). However, the literature presents mixed findings on whether and how FD contributes to or decreases shareholder value.

Much of the early literature has approached this question through short-term market-based assessments around divestment announcements (e.g., Alexander et al., 1984; Jain, 1985; Mulherin & Boone, 2000). These studies, conducted mostly in U.S. and U.K. contexts, often report positive market reactions to divestments, especially when they involve non-core or underperforming subsidiaries. However, other research highlights negative performance outcomes, especially when divestments signal strategic weakness, loss of competitive advantage, or managerial failure (Bergh, 1995; Montgomery & Thomas, 1988; Wright & Ferris, 1997). Still others report no significant impact on firm value at all (Woo et al., 1992).

This inconsistency in empirical findings suggests that contextual and firm-specific contingencies may moderate the relationship between FD and shareholder value. One such contingency is the age of the foreign subsidiary being divested, as foreign firms are considered volatile with increased divestment rate as they age (Mata & Freitas, 2012) because it's easy for potential buyers to assess its history and the potential fit (Chang & Singh, 1999). Subsidiary age reflects the depth of embedded knowledge, stakeholder relationships, and accumulated local resources (Chang & Singh, 1999; Zaheer, 1995). Divesting younger subsidiaries may limit sunk costs and reduce risk exposure, while divesting older, deeply embedded units could lead to greater resource loss and stakeholder disruption.

Another limitation is that most prior research focuses on short-term investor reactions, with far less attention to long-term value creation. Traditional abnormal return measures, although valuable, capture only immediate market sentiment. In contrast, long-term metrics may offer deeper insight into how strategic actions like divestment influence shareholders' value creation. Recent advances such as the LIVA framework (Wibbens & Siggelkow, 2020) provide opportunities to examine these long-term dynamics more systematically yet remain largely unused in FD and IB research.

Taken together, existing studies offer inconclusive evidence on whether FD enhances shareholder value, partly because most research relies on short-term event windows and overlooks important contingencies such as subsidiary age. Moreover, the limited attention to long-term value creation raises conceptual and empirical questions about how investors interpret different types of divestment decisions. These gaps are particularly relevant for firms operating in small, highly internationalized economies, where divestments can materially influence long-term strategic positioning. A more comprehensive approach is therefore required to understand the conditions under which divestment contributes to sustained value creation.

2.4 Managerial Capabilities in Divestment Risk Mitigation

While much of the FD literature has focused on structural antecedents and performance outcomes, the role of top managers in shaping the divestment process remains significantly underexplored. Yet, divestment is not merely an organizational reaction to external or financial pressures rather it is a strategic, managerially driven process that requires foresight, judgment, and execution under uncertainty (Yoo & Moon, 2024).

Managers play a vital role in mitigating divestment-related risks and ensuring successful execution. If divestment issues are attributed solely to external factors, hardly internal strategic corrections will be made but acknowledging internal misjudgements can prompt more proactive managerial responses. This is particularly relevant in FDs, which are often associated with perceived failure or flawed strategic decisions (Singer & Van der Walt, 1987; Brauer, 2006). To avoid further losses, managers must act decisively to divest successfully and refocus resources on more promising opportunities. Yoo and Moon (2024) emphasize that senior-level managers, who oversee entire portfolios, can develop pre-planned strategies to reduce the negative impacts of divestments. Still, the managerial dimension of divestment remains an underexplored area in IB research. While prior studies have concentrated on economic factors (Arte & Larimo, 2019; Schmid & Morschett, 2020), this research emphasizes non-financial considerations i.e. managerial expertise and strategic expertise (Symeonidou et al., 2022).

Within RBV framework (Barney, 1991; Helfat et al., 2023), managerial capabilities, specifically the ability to build, integrate, and reconfigure organizational resources, are considered VRIN (Barney, 1991; Monson, 2024). Barney (1995) later expanded this framework to VRIO, highlighting that resources can only yield sustainable competitive advantage if they are also supported by a firm's internal organization, structure, and culture. As employees and leadership talent are among the most strategic resources a firm possesses (Singh et al., 2020), understanding how they contribute to risk mitigation in divestment processes becomes especially important. Executives must not only manage financial outcomes but also navigate reputational risks, human capital retention, stakeholder expectations, and cross-border legal and institutional complexity. Yet the managers' role in mitigating divestment risks and successfully executing divestment to achieve the desired goals have received little attention in literature.

In the divestment context, such managerial capabilities include the ability to interpret early warning signals, manage uncertainty, make difficult trade-offs, and coordinate complex organizational transitions. Prior research also suggests that effective internal and external communication, sequencing of divestment steps, and stakeholder management may influence divestment outcomes, although these dimensions remain empirically underexplored (Kolev, 2016; Yoo & Moon, 2024). Overall, while managerial capabilities are widely recognized as central to strategic change, they have received limited systematic attention in divestment research. Existing studies rarely examine how executives mitigate divestment risks or safeguard firm value during exit processes. This gap highlights the need for more research that explicitly incorporates managerial agency into explanations of divestment outcomes.

3 THEORETICAL FRAMEWORK

Theoretical frameworks provide the foundation for analyzing and interpreting empirical findings in academic research. In this dissertation, theory plays a critical role in connecting the FD phenomenon to the broader fields of IB, strategic management, and corporate finance. The selected theories guide the identification of key constructs, help explain the mechanisms underlying FD decisions and outcomes and support the development of the research questions that are addressed in the three papers comprising this dissertation.

This chapter introduces and elaborates on the theoretical foundations used in this research, with a primary emphasis on the RBV and the FD Theory (also referred to as Reverse Eclectic Paradigm). These frameworks help explain both the causes and consequences of FD, including its effects on financial risk, shareholder value, and the role of top management.

The RBV serves as a combining lens for Papers 1 and 3, where the firm's resources, both tangible and intangible, are seen as central to explaining performance outcomes. In Paper 1, RBV is used to understand how FD can result in the loss of strategically valuable resources, thereby affecting the insolvency risk of the parent firm. In Paper 3, the RBV is extended to the domain of managerial capabilities, treating top managers as intangible, VRIN-based resources whose capabilities influence the success of divestment execution.

Paper 2, on the other hand, draws upon the FD theory, which interprets FD as the inverse of foreign market entry. Grounded in the ownership, location, internalization (OLI) framework, this approach suggests that divestment occurs when the conditions that initially justified international expansion, ownership advantages, favorable location characteristics, and the value of internalizing operations, are no longer present. This theory provides the strategic rationale for exit decisions and helps to analyze their implications for shareholder value creation.

Together, these theoretical perspectives provide a comprehensive lens for understanding FD from multiple angles including resource loss, strategic adjustment, value creation, and managerial actions. The following sections explain each theoretical lens in more detail and clarify how they are applied in this dissertation.

3.1 Resource-Based View (RBV)

The RBV has become one of the most influential theoretical frameworks in the fields of international business and strategic management, emphasizing that a firm's sustainable competitive advantage stems from its ability to acquire and leverage resources that are VRIN (Barney, 1991; Wernerfelt, 1984; Dhanaraj & Beamish, 2009; Hebert et al., 2005). According to RBV, the unique combination of resources possessed by each firm is fundamental to explaining why some firms achieve and sustain competitive advantage while others do not (Barney et al., 2021).

In this dissertation, the RBV serves as a central theoretical lens in both Paper 1 and Paper 3. In Paper 1, RBV is used to understand the potential financial consequences of FD. Divestment may involve not only the sale of physical assets but also the loss of location-specific knowledge, customer relationships, and other intangible resources embedded in foreign subsidiaries. The withdrawal from these foreign markets can deplete a firm's strategic resource base, thus weakening its long-term financial stability and increasing the risk of insolvency. This framing extends RBV by linking resource loss to credit-market-based measures of financial risk, such as DD and CDS spreads, an area rarely addressed in prior literature.

In Paper 3, RBV is applied to conceptualize managerial capabilities as intangible, strategic resources. These are the traits and skills of senior executives and manager that are critical for managing complex processes such as foreign divestments. When managerial capabilities satisfy the VRIN criteria, they can contribute to superior performance and risk mitigation to achieve competitive edge, particularly during periods of restructuring or strategic reorientation (Acedo et al., 2006; Helfat & Peteraf, 2015).

Barney (1995) later expanded the original VRIN framework into the VRIO model, which added "organization" as a necessary condition. According to this view, a resource only contributes to sustained competitive advantage if the firm is organized to fully exploit it, meaning it has the supporting culture, processes, and structure in place. This extension is particularly relevant in divestment contexts, where the success of resource reconfiguration (such as through subsidiary exit) depends on managerial alignment and strategic cohesion across a firm.

Furthermore, the RBV provides a useful theoretical lens for examining the moderating role of CSR in the relationship between FD and insolvency risk. While CSR is often viewed as a strategic asset that enhances legitimacy and stakeholder trust, firms with high CSR engagement may in fact face increased insolvency risk when undertaking divestments. This is because CSR initiatives often entail long-term stakeholder commitments, which can reduce managerial flexibility and increase strategic rigidity during restructurings (Belderbos & Zou, 2009; Chen & Wu, 1996; Li, 1995; Mata & Portugal, 2000). Although CSR may create business opportunities and improve firm value (Makni et al., 2009; Freeman, 2010), it can also represent an additional burden, especially when divestment decisions clash with stakeholder expectations. Therefore, this dissertation explores CSR not simply as a safeguard, but as a complex moderator that may mitigate or amplify financial vulnerabilities during FDs.

In sum, RBV in this dissertation is used not only to evaluate the resource costs of FD, but also to identify managerial expertise and CSR as intangible assets that shape divestment outcomes. It provides a flexible yet robust theoretical foundation for understanding how resource dynamics influence firm risk and strategic execution across multiple divestment scenarios.

3.2 FD Theory / Reverse Eclectic Paradigm

While much of the IB literature has emphasized foreign market entry and expansion, the phenomenon of FD has only recently begun to attract theoretical attention (McDermott, 2010; Schmid & Morschett, 2020). FD theories remain relatively underdeveloped, mainly due to challenges in gathering divestment data (e.g., Kotabe & Ketkar, 2009; Silva & Moreira, 2019), due to the stigma associated with divestments as a failure (Dranikoff et al., 2002). Nonetheless, a key conceptual lens to explain FD is the FD theory or reverse eclectic paradigm (Boddewyn, 1983), derived from Dunning's well-known OLI framework (Dunning, 1980; Dunning & Lundan, 2008). According to this logic, FD represents the mirror image of FDI, occurring when the original OLI advantages no longer justify continued operation in a foreign market (Dunning & Lundan, 2008). This theoretical lens interprets FD as the strategic withdrawal of firms from international markets when the conditions that initially justified entry, ownership (O), location (L), and internalization (I) advantages are no longer valid and unlike eclectic paradigm, FD theory demands only one of the OLI conditions to be fulfilled (Boddewyn, 1983).

Under this framework, a firm will consider divesting when:

- Ownership advantages (e.g., brand strength, technological know-how) are not sufficient to sustain competitive advantage abroad,
- Location-specific advantages (e.g., host country market potential, cost structures, institutional conditions) deteriorate or become unfavorable,
- Internalization benefits (e.g., control over operations, protection of proprietary assets) are outweighed by costs, complexity, risk exposure or regulatory burdens (McDermott, 2010).

As these advantages diminish, firms are more likely to leave such international markets, not merely as a reaction to failure but as a proactive strategic response aimed at resource reallocation and portfolio optimization. Thus, divestment can be interpreted as a dynamic adjustment mechanism within the firm's internationalization strategy instead of failure (Cairns et al., 2010; Sousa & Tan, 2015; Tan & Sousa, 2019).

This theoretical lens underpins Paper 2 of this dissertation, which examines the long-term shareholder value implications of FD among Nordic MNEs. Using the logic of the FD theory, the paper tests whether FD leads to value creation, especially when firms exit subsidiaries whose OLI justifications have deteriorated. In line with prior research, the study recognizes that FD is not uniform in its outcomes, its effect on shareholder value is moderated by factors such as subsidiary age, which affects the degree of local embeddedness, accumulated experience, and strategic fit (Cao & Alon, 2021; Zaheer, 1995).

By applying this framework, the study contributes to a growing body of research that views FD as a strategic recalibration rather than a symptom of failure (Batsakis et al., 2023; Schmid & Morschett, 2020). In doing so, it complements resource-based perspectives by foregrounding the external and institutional contingencies that shape firm exit decisions and contributes to the discussion regarding the role of strategic motives behind FD compared with failure-related motives discussed in earlier literature (e.g., Cairns et al., 2010; Sousa & Tan, 2015; Tan & Sousa, 2019).

3.3 Integrated theoretical positioning

This dissertation applies a multi-theoretical approach to explore the phenomenon of FD from several interconnected angles: its financial consequences, long-term value implications, and the role of managerial action in mitigating risks. While all paper adopts a specific theoretical lens, the overall positioning of the dissertation emerges from the complementarity of two core frameworks i.e. the Resource-Based View and the Foreign Divestment theory/Reverse Eclectic Paradigm.

The RBV, as applied in Papers 1 and 3, focuses on the role of strategic resources, both tangible and intangible, in shaping firm-level outcomes and mitigating divestment risks. It offers a useful framework for understanding how FD affects firms not only by reallocating physical capital, but by potentially depleting strategically valuable capabilities, knowledge assets, or stakeholder relationships. In Paper 1, RBV supports the argument that divestment-induced resource loss can weaken a firm's solvency position, particularly when those resources are difficult to replicate or redeploy. In Paper 3, the RBV lens is extended to managerial expertise, emphasizing that top executives’ capabilities are VRIN resources that shape risk responses and divestment success.

By contrast, Paper 2 applies Boddewyn's (1983) foreign direct divestment theory. FD theory, interpreting FD through the lens of diminishing OLI advantages. This framework brings attention to the external conditions that prompt exit decisions such as changes in host country institutions, demand conditions, or strategic misalignment and examines how such divestments influence shareholder value creation. It provides a useful complement to the RBV by focusing on the external, structural justifications for withdrawal, rather than internal resource configurations.

Taken together, these frameworks help bridge internal and external drivers of divestment and allow for a richer understanding of its strategic and financial outcomes. The RBV emphasizes the role of internal firm capabilities in maintaining competitiveness or managing change, while the FD theory accounts for the environmental and institutional fit that makes foreign operations viable or not.

This integrated theoretical positioning goes beyond single theoretical explanations and embrace multi-level frameworks that capture both firm agency and environmental constraints. By situating FD at the intersection of resource logic and strategic exit principle, this dissertation contributes to a more holistic and context-sensitive understanding of how and why MNEs withdraw from foreign markets. The integration of these theoretical perspectives across the three papers is illustrated in Figure 4.

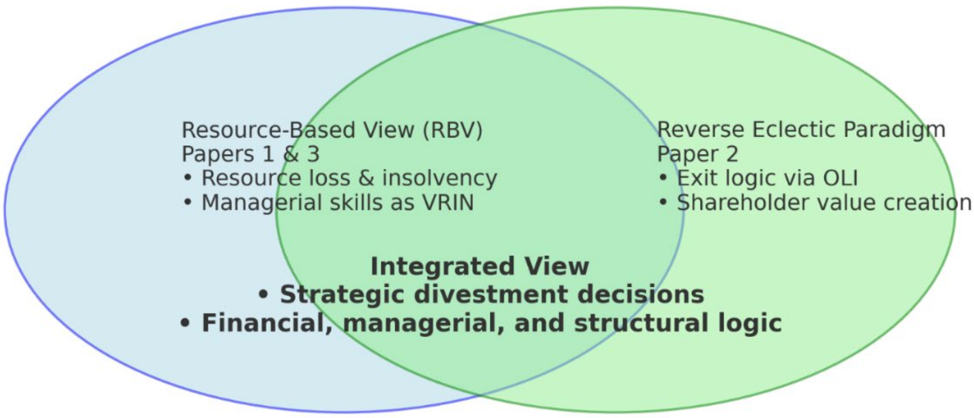

Figure 4. Theoretical integration across the dissertation

Additionally, table 3 below summarizes the central research design and theoretical contributions of this dissertation. It aligns each of the three empirical papers with the key research gap it addresses, its objective and sub-questions, the theoretical lens adopted, and the conceptual moderators or focus areas guiding the analysis. This structured overview helps to illustrate the integrated yet distinct focus of each study in advancing the understanding of foreign divestment.

Table 3. Research Design and Theoretical Integration

Research Gap	Research Objective	Research Sub-question	Theoretical Framework	Key Moderators	Paper
Limited research on financial risks of foreign divestment	To examine how FD impacts insolvency risk of parent firms	How does FD influence insolvency risk? What is the role of CSR?	Resource-Based View (RBV)	Corporate Social Responsibility (CSR)	Paper 1
Unclear relationship between FD and shareholder value	To assess FD's impact on shareholder value and moderating role of subsidiary age	How does FD affect shareholder value creation? How does subsidiary age moderate?	Reverse Eclectic Paradigm (FD as exit from lost OLI advantages)	Subsidiary Age	Paper 2
Overlooked role of managers in divestment outcomes	To explore how senior executives mitigate FD-related risks	What managerial capabilities drive successful FD execution?	Resource-Based View (RBV)	Managerial Skills (VRIN)	Paper 3

4 RESEARCH METHODOLOGY

This chapter outlines the methodological choices and rationale for the dissertation. It begins by introducing the philosophical stance of the research, followed by a discussion of the research context and strategy. Given the multi-method nature of this study, spanning quantitative and qualitative approaches across three distinct yet interrelated papers, the chapter also provide details about the data sources, collection processes, and analytical techniques applied. Finally, it addresses questions of research quality, including validity, reliability, and trustworthiness.

4.1 Philosophical underpinnings

This dissertation adopts a critical realist philosophical stance, which provides a suitable ontological and epistemological foundation for studying the complex, multi-level FD phenomenon. As a philosophy of science, critical realism (CR), first developed by Bhaskar (1978),is particularly useful for IB and management research because it acknowledges the existence of an objective reality, while also recognizing that our understanding of it is always theory-laden, partial and mediated (Bhaskar, 1978; Easton, 2010; Wynn & Williams, 2012).

CR is particularly focused on identifying the causal mechanisms that underlie observed patterns or phenomena. It does so through a process of retroduction, whereby the researcher theorizes what conditions or structures must exist for a given event to occur (Danermark et al., 2002). This stands in contrast to positivism, which relies primarily on observable empirical regularities, and interpretivism, which emphasizes subjective meaning-making without necessarily assuming a structured underlying reality (Mingers, 2004). As such, CR positions itself as a middle ground, combining realist ontology with a fallibilist view of knowledge and causation (Archer, 1998; Edwards et al., 2014).

In the context of this dissertation, FD is not treated merely as an observable action such as closure or sell-off or relocation but as the outcome of deeper generative structures, including financial pressures, organizational resource reconfigurations, managerial cognition, and institutional context. CR is well suited to this inquiry because it allows the study to link macro-structural forces (e.g., global crises, institutional change) with micro-level strategic decisions, such as how executives plan and execute divestments.

This perspective also aligns with the abductive logic of reasoning used in this dissertation, wherein theory and data iteratively inform one another. While Papers 1 and 2 use panel data to assess statistical associations between foreign divestment and outcomes such as insolvency risk and shareholder value, Paper 3 employs qualitative interviews to probe the underlying managerial thought processes, skills and capabilities that reduce divestment risks and shape desired execution.

Finally, CR supports a multi-level, context-sensitive approach which is a key strength in this study's focus on Nordic MNEs, which are embedded in SMOPECs and exposed to global volatility. This paradigm enables the study to explain not just “what” happens in FD, but “why” and “how,” by exploring mechanisms, resources, and stakeholder interactions across empirical and theoretical levels (Welch et al., 2011; Fletcher et al., 2016).

4.2 Ontological and Epistemological positioning

As discussed above, this dissertation adopts a critical realist ontological stance, which assumes that the phenomena under study such as FD, insolvency risk, shareholder value, and managerial action exist independently of the researcher, but are only partially knowable due to the complexity and contextual embeddedness of real-world events (Bhaskar, 1978). The underlying assumption is that divestment decisions and their outcomes are not random or purely subjective; rather, they are shaped by real causal mechanisms, such as resource loss, institutional context, and managerial interpretation, even if those mechanisms cannot always be fully observed or measured.

Epistemologically, this study is grounded in a pragmatist paradigm, allowing for methodological pluralism based on the nature of the research questions posed (Creswell & Plano Clark, 2011). The dissertation integrates both positivist and interpretivist elements across its three papers. The quantitative papers (Papers 1 and 2) reflect a positivist orientation, using observable, objective data to test hypotheses about the financial consequences of divestment and the moderating effects of CSR and subsidiary age. In contrast, the qualitative paper (Paper 3) adopts an interpretivist lens to explore how top managers understand, frame, and respond to divestment-related risks in practice.

This dual philosophical orientation reflects the multifaceted nature of the research topic. FD is both a measurable strategic event and a socially constructed, managerially enacted process. Adopting a pragmatic epistemology enables the use of the most suitable methodological tools to explore both the structural and cognitive dimensions of divestment, thus offering a more comprehensive and nuanced understanding of the phenomenon.

4.3 Research Context

he empirical context of this dissertation focuses on MNEs based in the Nordic region namely, Finland, Sweden, Norway, and Denmark. These countries represent what are often referred to as SMOPECs, where firms tend to internationalize early and depend heavily on foreign markets for growth, innovation, and survival (Benito et al., 2002; Oxelheim et al., 2013). Due to their limited domestic markets, Nordic firms are typically exposed to high levels of international competition and international vulnerability, making them an ideal setting for studying the FD dynamics and consequences.

The Nordic region offers a compelling research context for several reasons. First, firms originating from SMOPECs are more likely to pursue aggressive foreign expansion, and consequently, may also be more exposed to divestment pressures when host-country conditions deteriorate or strategic priorities shift (Benito et al., 2009; Benito & Welch, 1997). Second, Nordic countries share similar institutional frameworks, high standards of corporate governance, and strong commitments to sustainability and CSR, which affect how firms manage stakeholder relationships and execute strategic decisions (Freeman et al., 2007), like FDs.

Moreover, the region has experienced considerable economic turbulence in recent years, including the COVID-19 pandemic, the energy crisis linked to Russia's invasion of Ukraine, and persistent inflationary pressures. These developments have triggered a record number of insolvencies and corporate restructurings in these countries (Enento, 2024; Statistics Finland, 2023). In 2023-24 alone, more companies closed operations in Finland than during any other 12-month period in the past 25 years, surpassing even the 2009 financial crisis peak (Helsinki Times, 2024). At the same time, Nordic MNEs have engaged in a series of strategic divestments, selling or shutting down foreign subsidiaries, realigning portfolios, and prioritizing long-term resilience (Deloitte, 2024; Handelsbanken, 2024).

These empirical realities reinforce the relevance and timeliness of this research. FD is no longer an isolated or failure-driven event, but increasingly a strategic response to uncertainty, a tool for resource reallocation, and a mechanism for value protection and creation. Studying how Nordic MNEs navigate these processes, especially in the face of stakeholder expectations and sustainability imperatives, it offers both theoretical insight and practical value. All in all, the Nordic context provides a rich and strategically meaningful environment for investigating the financial, strategic, and managerial implications of FD, particularly in light of today's global volatility.

4.4 Research Strategy and Approach

In social science research, three primary approaches to the logic of inquiry are commonly discussed: deductive, inductive, and abductive reasoning. A deductive approach starts with established theories or conceptual frameworks and derives hypotheses that are then tested through empirical observation. This method is often aligned with the positivist paradigm and emphasizes hypothesis testing and causal inference (Bitektine, 2008). In contrast, an inductive approach involves drawing general conclusions from specific observations or patterns in data, often used in theory-building research. Induction seeks to generate new concepts or frameworks grounded in empirical insights (Gioia et al., 2012).

Abductive reasoning, as originally introduced by Charles Peirce and later developed in management research (Dubois & Gadde, 2002), offers an alternative logic that emphasizes an iterative, non-linear process of moving between empirical observations and theoretical ideas. Rather than starting solely from data (as in induction) or theory (as in deduction), abduction is used to explore surprising findings or anomalies that cannot be easily explained by existing theory. It is particularly valuable when studying complex, real-world phenomena that require refining or extending theoretical assumptions through back-and-forth interaction between data and conceptual framing (Timmermans & Tavory, 2012; Dubois & Gadde, 2002).

This dissertation is primarily grounded in a deductive approach, particularly in Papers 1 and 2, where theoretical frameworks such as the RBV and FD theory are used to derive testable hypotheses about insolvency risk, shareholder value, and the moderating effects of CSR and subsidiary age. These hypotheses are then empirically tested using panel data and event study methods.

However, Paper 3 adopts an abductive logic, suitable for qualitative inquiry. In this study, surprising empirical insights about how senior managers frame and respond to divestment risks prompted iterative movement between data and theory. Abduction enabled the development of a more nuanced understanding of managerial capabilities in divestment contexts which is an underexplored area in existing theory. Thus, while the overall design of the dissertation leans deductive, it also incorporates abductive reasoning to expand theoretical understanding where existing models fall short.

Given the dissertation's three-paper structure, each paper employs a tailored methodological design while contributing to the overall research framework. Papers 1 and 2 adopt quantitative methods and rely on unbalanced panel dataset of Nordic MNEs. Unlike traditional longitudinal designs, the dataset includes varying numbers of firms across years, reflecting the dynamic nature of FD events and the diversity of firm participation in each time period. These papers aim to test theoretical predictions and uncover statistically robust associations between FD and financial outcomes such as insolvency risk and shareholder value. Conversely, Paper 3 is designed as an exploratory qualitative study that investigates the role of managerial capabilities and decision-making in shaping divestment execution, outcome and risk mitigation.

According to Johnson, Onwuegbuzie, and Turner (2007), mixed methods research combines qualitative and quantitative techniques to provide both breadth and depth of understanding, as well as to corroborate findings across data types. This is particularly valuable in IB research where phenomena are shaped by strategic decisions, institutional contexts, and firm-level heterogeneity. The use of mixed methods is justified by the nature of the research questions. FD is both an economic event and a strategic process, one that involves risks and stakeholder judgments. Quantitative analyses help reveal patterns and generalizable relationships, while qualitative insights shed light on mechanisms and managerial actions that are difficult to capture with numeric data alone (Creswell & Plano Clark, 2018; Edmondson & McManus, 2007).

This multi-method approach allows for both breadth and depth in answering the research questions. It recognizes that FD cannot be fully understood through a single methodological lens, especially when evaluating its financial, strategic, and human dimensions. It also enhances the credibility and robustness of the findings by enabling triangulation across methods and data sources (Park & Ho, 2025; Molina-Azorin, 2012). In summary, the research strategy is purposefully flexible yet grounded in clear theoretical commitments. It leverages both numerical data and qualitative narratives to build a more comprehensive and context-sensitive understanding of FD within Nordic MNEs.

4.5 Data Collection and Analysis

This section outlines the data sources, collection procedures, and analytical methods used in each of the three papers. Given the multi-method research design, the dissertation draws from both quantitative panel data and qualitative interview data, selected and analyzed to align with the distinct objectives of each study. While Papers 1 and 2 rely on firm-level financial data covering a wide range of Nordic MNEs, Paper 3 is based on semi-structured interviews with senior executives involved in divestment decisions. Each sub-section below details the methodological design, sample characteristics, variable operationalization, and techniques used for data analysis.

4.5.1 Paper 1: Foreign Divestment and Insolvency Risk

The first paper investigates the relationship between FD and the insolvency risk of parent firms, using an unbalanced panel dataset of 119 publicly listed MNEs from the Nordic countries (Finland, Sweden, Norway, and Denmark). The data spans the years 1992 to 2019 and comprises 667 firm-year observations. The panel is unbalanced, as the same firms do not appear every year, reflecting the dynamic nature of divestment activity and firm availability across time.

FD events were identified and verified using a triangulation of sources, including changes in subsidiary listings and ownership data from Orbis, transaction and press release data from Refinitiv Eikon, and supplemental cross-checks using company annual reports and financial news archives. This ensured accurate detection of divestments of foreign operations. To assess insolvency risk, the study uses two complementary market-based indicators: Distance to Default (DD), based on Merton's (1974) structural credit risk model, and Credit Default Swap (CDS) spreads, which reflect investor perceptions of a firm's default likelihood (Kabir et al., 2020; Duan et al., 2018; Bharath & Shumway, 2008).

Additional control variables include Firm size, Leverage, Liquidity, Performance/Profitability, Tobin'sQ, SALES, Tangibility and international experience, which were extracted from Orbis. Environmental, social, and governance (ESG) data was also collected from Refinitiv Eikon to assess CSR performance, used as a moderating variable in the analysis.

Panel regression models were used to estimate the relationship between FD and insolvency risk, controlling firm-level heterogeneity. Robustness checks included fixed effects models and alternative specifications of the DD and CDS measures. The study found a positive and significant association between FD and insolvency risk. Moreover, it was found that parent firms with higher levels of CSR activities face increased insolvency risk when involved in foreign divestments, suggesting that while socially responsible firms may benefit from stakeholder trust, they also face heightened pressure and long-term liabilities during strategic exits.

This paper contributes by applying a credit risk perspective to international divestment strategy, linking resource loss and stakeholder obligations to credit market perceptions of financial stability. It also expands the RBV framework by connecting strategic assets to solvency outcomes.

4.5.2 Paper 2: Foreign Divestment and Shareholder Value Creation

The second paper investigates the relationship between FD and shareholder value creation, with a focus on the moderating role of subsidiary age. The study uses an unbalanced panel dataset derived from an initial pool of 153 publicly listed Nordic MNEs. After merging FD records with shareholder value data from the global LIVA database, and financial control variables from Orbis, the final sample consists of 112 firms and 551 firm-year observations spanning divestments that occurred between 1999 and 2019, while ensuring all foreign subsidiaries survived at least two years post-investment. This design mitigates potential bias from early-stage divestments and the so-called honeymoon effect (Gaur & Lu, 2007; Wang & Larimo, 2020). FD events were identified through primary and secondary sources, supplemented by firm annual reports. Shareholder value was assessed using:

- Long-term Investor Value Appropriation (LIVA): A strategic, long-term value metric (Wibbens & Siggelkow, 2020).
- Logarithmic Excess Returns (LER): A market-based short-term return measure.

Subsidiary age was included as a moderating variable, calculated as the number of years between a foreign subsidiary's entry and its divestment. Additional control variables such as firm size, leverage, and international experience were extracted from Refinitiv Eikon and Orbis. Fixed effects panel regression models were applied to test the hypotheses, with interaction terms used to assess moderation. Results show that FD generally has a positive impact on shareholder value, though this effect varies depending on the age of the divested subsidiary, highlighting the importance of contextual contingencies in divestment strategy.

The study extends the FD theory (Boddewyn, 1983; Nyuur & Debrah, 2014) by showing how the loss of OLI advantages over time can lead firms to strategically exit foreign operations in ways that protect or even enhance shareholder value.

4.5.3 Paper 3: Managerial Capabilities in Divestment Risk Mitigation

The third paper adopts a qualitative, exploratory design to investigate how senior executives in Nordic MNEs mitigate risks during FD execution. While much of the existing literature focuses on the economic drivers and outcomes of divestments, this study shifts the focus to the strategic and cognitive role of managers. The aim is to understand how executive decision-making, experience, and leadership skills shape the planning, execution, and aftermath of divestments.

Data was collected through semi-structured, in-depth interviews with senior managers and executives involved in FD decisions. A total of 7 interviews were conducted between 2024 and 2025, involving MNEs from Finland, Sweden, Norway, and Denmark across multiple industries. Participants included CEOs, CFOs, directors of international operations or strategy and other top managers. Interviewees were selected using purposeful and snowball sampling, ensuring participants had direct experience with foreign subsidiary exits. The interview guide was designed to explore:

- How managers perceive and assess divestment risks
- What strategic and operational measures are taken pre- and post-divestment
- The internal and external challenges faced during the divestment process
- The role of stakeholder management, communication, and reputation preservation
- The role of other mandatory skills like experience, knowledge and background etc.

Each interview lasted between 45-70 minutes, was recorded with consent, and transcribed verbatim. Thematic analysis was conducted using a hybrid approach combining inductive coding (emerging themes from data) and deductive coding (themes linked to the RBV and managerial capability frameworks). The analysis focused on uncovering patterns in how managerial capabilities and competencies influence divestment success and risk mitigation.

The findings highlight that managerial capabilities such as strategic foresight, communication, coordination, experience, and stakeholder management play a central role in shaping divestment outcomes. Several managers emphasized the emotional and reputational dimensions of divestment, especially in high-trust Nordic business environments. The study identifies these capabilities as VRIN resources, central to the RBV (Barney, 1991; Teece, 2012; Helfat & Peteraf, 2015), and essential for sustaining firm competitiveness during strategic transitions.

This paper contributes to the international business and strategic management literature by bringing managerial skills and dynamic capabilities into the divestment discourse. It also responds to recent calls for more qualitative research in divestment studies, especially regarding micro-foundations and executional processes (Baker et al., 2023; Schmid & Morschett, 2020).

4.6 Research Quality

Ensuring research quality is essential in a multi-method dissertation that spans both quantitative and qualitative paradigms. This section addresses the key criteria of research quality: validity, reliability, trustworthiness, and methodological rigor, applied appropriately to the mixed-method approach adopted in this dissertation.

4.6.1 Quantitative Studies (Papers 1 and 2)

In Papers 1 and 2, research quality is evaluated through the traditional lenses of reliability, internal validity, external validity, and construct validity (Tashakkori & Teddlie, 1998; Ryan et al., 2002; Ihantola & Kihn, 2011).

- Reliability was ensured by using secondary data from reputable sources such as Orbis, Refinitiv Eikon, and the LIVA database. Data processing steps such as coding of divestment events and construction of control variables were clearly documented and consistently applied.

- Construct validity was strengthened by using established measures (e.g., DD, CDS spreads, LIVA, LER) from the literature. Definitions and operationalizations of all variables were reviewed and validated against prior research to ensure consistency and replicability.

- Internal validity was addressed by incorporating multiple control variables, using fixed effects panel regressions, and conducting robustness checks to test alternative model specifications.

- External validity is supported by the inclusion of a broad and heterogeneous sample of Nordic MNEs, enhancing the generalizability of the findings within Nordic and European contexts.

4.6.2 Qualitative Study (Paper 3)

For the qualitative component (Paper 3), research quality is addressed through the criteria of trustworthiness specifically: credibility, transferability, dependability, and confirmability (Lincoln & Guba, 1985; Nowell et al., 2017; Stahl & King, 2020).

- Credibility was ensured through data triangulation (multiple firms and roles), prolonged engagement with participants, and validation of emerging interpretations through iterative interviews.

- Transferability was supported by the careful selection of senior executives with firsthand divestment experience and thick description of context and decision-making environments in Nordic MNEs.

- Dependability was enhanced by maintaining a detailed audit trail of coding decisions, analytical memos, and data processing protocols.

- Confirmability was maintained through reflective notetaking, researcher self-awareness, and documentation of assumptions, allowing other scholars to trace how interpretations were derived from the data.

4.6.3 Methodological Integration

The abductive, critical realist foundation of this dissertation supports methodological pluralism, offering a coherent philosophical basis for integrating both quantitative and qualitative approaches (Shannon-Baker, 2015). By leveraging the strengths of each method, the study maintains alignment with the complex, multi-level nature of FD, addressing both its structural patterns and the strategic agency of decision-makers.

The use of mixed methods enables triangulation of findings across the three papers and strengthens the robustness of conclusions. Quantitative analyses provide statistically grounded insights into financial and shareholder outcomes across a broad sample of firms, while the qualitative study offers rich, contextual depth into the managerial decision-making that underpins those outcomes. This integration allows the research to balance generalizability with contextual specificity, yielding a more comprehensive and practically relevant understanding of divestment as both a strategic outcome and a managerial process.

Table 4 below presents a summary of how the key constructs such as FD, insolvency risk, shareholder value creation, CSR, and managerial risk interpretation have been defined and operationalized across the three papers. These operationalizations align with each paper's research design and methodological approach.

Table 4. Operationalization of the key constructs

Variable	Definition	Measurement / Proxy	Data Source	Approach
Foreign Divestment	Withdrawal of all or major	Dummy variable (1 =	Primary data (Firm	Deductive/Quantitative

	part of operations from a foreign market	divestment event; 0 = otherwise)	webpage, reports and contacts)	Paper 1 & 2
Insolvency Risk	Risk that a firm will not be able to meet its debt obligations	Distance to Default; CDS spreads	RMI-NUS	In paper 1
CSR	Corporate social responsibility engagement level	ESG scores	LSEG	In paper 1
Shareholder Value Creation	Increase in shareholder wealth due to divestment	LER (short-term); LIVA (long-term abnormal returns)	WRDS/LIVA	In paper 2
Subsidiary Age	Age of divested subsidiary from inception to divestment	Number of years in the foreign market	Firm disclosures, Orbis	In paper 2
Managerial Capabilities	Ability of managers to frame, communicate, and implement divestment strategy	Thematic coding from interviews (qualitative)	Primary data (interview transcripts)	Abductive/Qualitative Paper 3

5 SUMMARY OF DISSERTATION PAPERS

This chapter provides concise summaries of the three research papers included in Part II of the dissertation. Each paper focuses on a separate research question that helps guide the objectives of this dissertation. Additionally, every summary includes the background, theoretical lens, research questions, methods, key findings, and the contributions of each study.

5.1 Paper 1: Foreign Divestment and Insolvency Risk

This paper investigates the relationship between FD and the insolvency risk of parent firms, offering new insights into how strategic restructuring decisions may unintentionally weaken financial stability of parent firms. While FD is often viewed as a corrective measure to improve performance, this study shifts the focus toward its underexplored consequences specifically, the risk of insolvency for MNEs following foreign subsidiary divestments.

The study is guided by the RBV (Barney, 1991), which posits that sustained competitive advantage depends on a firm's ability to acquire, deploy, and protect valuable resources. From this perspective, the divestment of foreign subsidiaries may entail the loss of critical resources such as market-specific knowledge, organizational routines, market share, and stakeholder relationships etc. that are embedded in international operations. Such losses can destabilize a firm's internal resource base and elevate its risk of insolvency.

To empirically test this relationship, the paper uses a longitudinal panel dataset comprising 667 firm-year observations from 119 publicly listed Nordic MNEs across Finland, Sweden, Norway, and Denmark, covering the period 1992–2019. It employs two market-based insolvency risk indicators i.e. DD and CDS which reflect the credit market's assessment of firm solvency. The analysis also incorporates firm-level control variables and ESG metrics, with CSR data included from 2003 onward to assess its moderating effect.

The results reveal a significant positive association between FD and increased insolvency risk, suggesting that divestment events, even when strategically motivated, may weaken the financial stability of parent firms. Crucially, the study finds that high levels of pre-existing CSR activity worsen this risk. Rather than acting as a shield, CSR commitments appear to increase financial strain during divestments, possibly due to their resource-intensive nature and stakeholder expectations during turbulent periods.

The paper makes several contributions to theory and practice. Theoretically, it advances the RBV by demonstrating how strategic asset loss through divestment can challenge firm solvency, a dimension often overlooked in IB literature. It also contributes to CSR research by highlighting the conditional and potentially adverse effects of CSR during crisis-driven scenarios like foreign divestment. From a managerial viewpoint, the findings highlight the need for more integrated divestment planning, where financial risk assessments and CSR commitments are carefully aligned. Managers are encouraged to evaluate the long-term solvency implications of resource reallocation and to balance CSR investments with firm resilience, particularly during strategic restructurings.

5.2 Paper 2: Foreign Divestment & Shareholder Value Creation

This paper explores how FD influences MNEs' shareholder value creation in short and long term, with a focus on how subsidiary age moderate this relationship. While prior research has mainly concentrated on short-term stock market reactions to divestment events, this study shifts the focus to long-term value implications, a critical but under-researched area in international business literature.

The study is grounded in FD theory (Boddewyn, 1983), which posits that firms divest when the OLI advantages that originally justified foreign market entry and expansion are no longer present. This theoretical framework is extended in the study to argue that divestment can be a strategic move that enhances shareholder value, rather than merely a sign of failure or retreat.

Using a sample of 112 publicly listed Nordic MNEs spanning the years 1999 to 2019, the paper examines both short- and long-term shareholder value using two complementary metrics:

- Logarithmic Excess Returns (LER) - to capture short-term market reactions;
- Long-term Investor Value Appropriation (LIVA) - a forward-looking, decomposition-based measure that captures long-run economic impact and strategic outcomes.

The results show that FDs are positively associated with both short- and long-term shareholder value. However, the moderating role of subsidiary age reveals a complex impact on shareholder value creation. The analysis finds no significant relationship between subsidiary age and long-term value (measured via LIVA), suggesting that divesting older subsidiaries does not necessarily enhance long-term shareholder value, unless the original OLI advantages have diminished. However, the results do show a positive and statistically significant short-term effect (measured via LER), indicating that divesting older subsidiaries may generate favorable immediate market reactions. This difference highlights the importance of distinguishing between short-term signals and long-term performance when evaluating divestment outcomes.

These findings provide important theoretical and practical insights. Theoretically, the study contributes to the FD literature by demonstrating that divestment outcomes are also conditional on subsidiary-level characteristics, particularly age. This supports the idea that FD is not universally beneficial or harmful, but context dependent. It also enriches shareholder value literature by integrating LIVA, a novel and more robust long-term performance metric.

From a managerial perspective, the study highlights the importance of strategic timing and target selection in divestment decisions. Managers are encouraged to consider the life cycle and embeddedness of foreign subsidiaries when evaluating divestment options, recognizing that divesting mature, well-integrated units may undermine long-term value, while divesting from less-established ones may provide some resources for more promising opportunities.

5.3 Paper 3: Managerial Capabilities & Risk Mitigation

This paper examines how managerial capabilities influence the successful execution and outcomes of FD, particularly in mitigating associated risks. While prior research in the field of IB has focused heavily on the antecedents and economic effects of FD, the role of senior executives and managers in shaping divestment processes remains largely overlooked. This study addresses that gap by exploring the strategic and operational capabilities managers draw upon to mitigate the risks associated with FDs.

Grounded in the RBV (Barney, 1991), the paper conceptualizes managerial capabilities as intangible but strategically critical resources that help firms adapt to turbulent environments. The study draws on in-depth semi-structured interviews with senior executives from Nordic MNEs. By analyzing these interviews, the paper identifies key managerial competencies that are vital to minimize the negative effects of divestment on both the parent firm and subsidiary operations.

The findings reveal that managers play a central role in strategic framing of divestments, often emphasizing ethical and sustainability narratives to mitigate reputational damage and maintain trust with stakeholders. In some cases, this approach even helps retain employee morale and facilitates smoother exit transitions. Furthermore, effective pre- and post-divestment planning, such as due diligence, legal risk anticipation, and alignment with long-term firm strategy, emerged as critical to avoiding legal, financial, and reputational damages.

This study contributes to theory by extending the RBV to include managerial capabilities as dynamic, non-financial resources central to successful divestment. It also highlights the value of managerial capabilities, which is the ability of managers to sense, interpret, and act upon evolving institutional and market conditions across different markets. Practically, the study suggests that firms should invest in leadership development and scenario planning, recognizing that the success or failure of a divestment often depends not just on market conditions, but also on how it is managed internally. Table 5 below provides an overview of three papers included in this dissertation:

Table 5. An overview of the research papers comprising the dissertation

Category	Paper 1	Paper 2	Paper 3
Research Objective	To examine the impact of foreign divestment on the insolvency risk of parent firms.	To investigate the effects of FD on shareholder value creation taking subsidiary age as a moderator.	To explore how managerial capabilities mitigate risks associated with foreign divestments to achieve desired objectives.
Research Questions	Does FD increase parent firms' insolvency risk? Does CSR moderate this relationship?	Does FD create value for shareholders? How does subsidiary age affect short- vs long-term outcomes?	What managerial skills are critical in mitigating FD risks and ensuring effective divestment execution?
Research Design	Quantitative (panel data analysis)	Quantitative (Panel data- Long and short-term analysis)	Qualitative (semi-structured interviews)

Data	119 Nordic MNEs (1992–2019); CSR data from 2003 onwards	112 Nordic MNEs (1999–2019); LER and LIVA measures	Interviews with senior executives from Nordic MNEs
Analysis Methods	Market-based risk models (Distance to Default, CDS); Regression analysis	Event study, LER/LIVA modeling; interaction effects	Thematic analysis of interview transcripts
Key Findings	FD increases insolvency risk; CSR exacerbates this risk.	FD enhances shareholder value creation, but no long-term gains (LIVA) from older subsidiaries.	Managerial capabilities such as risk framing, communication, and planning mitigate FD risks.

6 DISCUSSION AND CONCLUSIONS

This final chapter presents an integrative discussion of the findings from the three interrelated papers of this dissertation. The discussion is structured to highlight how these papers collectively contribute to a deeper understanding of FD as a multidimensional phenomenon in international business. Specifically, the chapter synthesizes the main theoretical and empirical insights derived from these studies, outlines their theoretical contributions, presents managerial implications, and concludes by reflecting on the limitations of the research while suggesting directions for future research.

6.1 Integrated Key Findings

The primary aim of this dissertation was to investigate foreign divestment as a strategic phenomenon that goes beyond reactive responses to performance issues. By focusing on three interrelated dimensions including financial risks (insolvency), shareholder value creation, and managerial risk mitigation skills, this study provides a comprehensive analysis of FD outcomes and also focuses on the role of top executives and managers in mitigating associated risks. In addition, it examines contingent factors such as subsidiary age and parent firm CSR investments, that shape the impact of FD decisions. Collectively, the studies demonstrate that FD is not a uniform or singularly beneficial or harmful act, but rather a complex decision shaped by various factors like firm resources, subsidiary conditions, managerial judgment, strategic choices and external market conditions etc.

The first paper examined the relationship between FD and insolvency risk, a dimension largely missing in existing literature. Key findings of the study show that FD is positively associated with parent-firm insolvency risk when measured using market-based credit indicators such as DD and CDS spreads. This extends previous FD literature, which has largely examined profitability, announcement effects, or operational outcomes (e.g., Park & Russo, 1996; Lee & Roh, 2020), but has rarely considered forward-looking financial distress measures. The results align with the RBV (Barney, 1991), suggesting that the withdrawal of foreign operations can result in the loss of strategically valuable and difficult-to-replace resources, thereby weakening a firm's resilience and exposing it to increased financial vulnerability. Importantly, the study highlighted that CSR, although often framed as a stabilizing force, does not always protect firms against this risk. In fact, high CSR activity intensified financial vulnerability of parent firms post FDs. This suggests that costly and riskier sunk investments like CSR initiatives may become liabilities during periods of divestments when firms are already vulnerable.

The second paper shifted the focus to shareholder value creation, exploring whether FD enhances or diminishes value for investors in both short and long-term perspectives. This set of findings indicates that FD can generate positive value in the short and long term, particularly through market signaling effects. However, the moderating role of subsidiary age revealed that divesting older subsidiaries was positively associated with short-term gains but showed no significant effect on long-term value. Short-term market reactions (LER) show positive value implications, consistent with studies suggesting that divestments can serve as signals of strategic focus or improved efficiency (e.g., Jain, 1985; Mulherin & Boone, 2000). However, long-term value creation, measured through LIVA, reveals a more complex pattern. These findings help reconcile mixed evidence in prior research (e.g., Bergh, 1995; Veld & Veld-Merkoulova, 2004) by showing that how investors interpret divestment depends not only on the act itself but also on the characteristics of the unit divested. This underscores the necessity for MNEs to align divestment timing and target selection with their OLI (FD theory) logic rather than relying on superficial market responses. Consistent with FD theory, the findings indicate that divesting older subsidiaries does not inherently generate positive value for shareholders. Instead, the value implications depend on the configuration of OLI advantages. Divestment contributes to shareholder value only when these OLI advantages have eroded or are no longer viable.

The third paper brought a managerial and process-oriented lens to the phenomenon, addressing a key gap in the FD literature: how divestment risks are mitigated through managerial capabilities to ensure divestment success. Based on in-depth interviews with Nordic MNE executives, the paper demonstrated that managerial decision-making, particularly in areas such as stakeholder communication, ethical framing, and pre-divestment due diligence, plays a pivotal role in shaping divestment outcomes. These insights extend FD literature, which has traditionally focused on economic or structural antecedents (Arte & Larimo, 2019; Schmid & Morschett, 2020) and often overlooks internal managerial processes. Managerial skills are shown to be central to not only executing divestments effectively but also to preserving stakeholder trust and minimizing reputational damage. In the context of the RBV (Barney, 1991), such managerial skills are regarded as a VRIN resource that significantly help parent firms during divestment processes. The quality of managerial decision-making shapes the trajectory of a divestment and is a critical determinant of its success or failure. Strategic choices made before, during, and after the divestment are essential for mitigating associated risks and achieving divestment goals. The study findings further highlight that managerial hesitation and lack of strategic alignment can amplify risks, whereas capable managers help safeguard firm value, protect stakeholders, and ensure strategic desired outcomes.

Taken together, the three articles reveal broader patterns about FD that extend beyond the contributions of each individual study. First, the results demonstrate that FD is simultaneously a financial, strategic, and managerial process. FD is not a single dimensional event but an interconnected sequence where financial vulnerabilities, value implications, and managerial actions reinforce one another.

Second, the dissertation shows that the outcomes of FD depend on the interaction of internal firm resources and managerial capabilities, rather than solely on external market or host country factors. This expands existing IB literature, which has traditionally emphasized structural antecedents, by illustrating that divestment outcomes are significantly shaped by internal reconfiguration processes, including resource withdrawal, risk management, and leadership driven decision making.

Third, by combining market-based insolvency measures, long term shareholder value metrics, and qualitative managerial insights, the dissertation develops an integrative framework for understanding divestment outcomes, moving beyond isolated financial or strategic explanations. The findings collectively suggest that divestment success requires alignment between (1) the firm's financial resilience, (2) the strategic value of the subsidiary being divested, and (3) the capability of managers to navigate uncertainty. This perspective provides a better theoretical explanation of foreign divestment as an organizational capability rather than merely a corrective strategic action.

6.2 Theoretical Contributions

This dissertation offers several important contributions to the theoretical development of IB, strategy, and risk management literatures.

First, by integrating FD with insolvency risk, this research brings a fresh financial perspective into a field traditionally focused on strategic motives or performance outcomes. While prior literature has addressed the performance effects of FD in broad operational terms (e.g. Batsakis et al., 2023; Zschoche, 2016), this study shows that FD can also erode a firm's solvency position. It contributes to the RBV (Barney, 1991) by showing how the divestment of foreign subsidiaries can harm the critical resources of parent firms that sustain competitive advantage and even solvency of a firm.

Second, this dissertation advances FD theory (Boddewyn, 1983), by showing that divestment of older subsidiaries doesn't necessarily increase value until the OLI advantages are lost. While FD theory has traditionally emphasized antecedents of divestment, this dissertation expands its scope to consider performance consequences, particularly how different configurations of subsidiary characteristics and investor expectations affect value creation.

Third, the concept of managerial capabilities as intangible, firm-level resources adds a valuable extension to the RBV literature (Barney, 1991). Whereas most divestment research treats firm behavior as structurally or market-driven, this study explores the strategic role of top executives and managers in framing, executing, and mitigating the risks associated with divestment. The concept of global dynamic managerial capabilities (GDMC) provides a conceptual bridge linking IB environments, resource planning, coordination, and executive leadership in FD processes.

Finally, the incorporation of dual performance metrics (LER and LIVA) enriches methodological approaches to studying FD outcomes. By distinguishing between short-term market signaling effects and long-term economic impact, the dissertation addresses a common issue of overreliance on short-term, event-based metrics that may not reflect underlying strategic realities of FD phenomenon. Table 6 below presents an overview of the main theoretical contributions of the dissertation across core academic domains, highlighting its relevance to IB, strategic management, and corporate finance.

Table 6. Summary of theoretical contributions

Contribution Area	Summary of Contributions
International Business	Advances FD theory by integrating performance consequences, not just antecedents; contextualizes FD in Nordic MNEs, offering region-specific insights into international portfolio strategies.
Strategic Management	Expands the RBV by demonstrating how divestments disrupt strategic assets and by positioning managerial capabilities as dynamic resources essential for effective divestment strategies.
Corporate Finance	Links FD to market-based measures of financial stability (DD, CDS) and shareholder value (LER, LIVA), showing

	how FD can affect the solvency and value creation of parent firms.

Beyond the individual contributions of the three papers, the dissertation also advances a broader theoretical argument that FD should be conceptualized as a resource reconfiguration capability, involving coordinated financial, strategic, and managerial actions. Existing IB literature typically treats divestment as a reaction to poor performance, strategic pressure, or market failure. This dissertation argues instead that divestment outcomes depend on how firms mobilize, release, and re-organize resources during divestments. This perspective links the RBV and FD theory into a unified explanation of why divestments succeed or fail.

6.3 Managerial Implications

The findings of this dissertation carry several actionable implications for managers operating in international firms, particularly those involved in strategic restructurings and divestment decisions.

First, managers must recognize that divestments are not financially neutral acts. The first paper's findings show that divestments can increase insolvency risk, especially when critical international resources are depleted and lost. Firms need to embed financial risk assessments into their strategic divestment planning processes and view divestment not as an isolated event, but as one with ripple effects on the firm's credit profile, resource base, and stakeholder confidence.

Second, while the positive short-term effects on shareholder value may persuade executives to divest, the findings suggest that long-term value is not guaranteed, particularly when older, more embedded subsidiaries are involved. Therefore, firms should move beyond event driven decision making and should adopt a lifecycle-based approach to subsidiary evaluation, aligning divestment timing with OLI logic and strategic adjustments rather than just investor pleasing.

Third, the qualitative findings emphasize that managerial agency plays a vital role in the event of divestment. Risk mitigation in FD is not just about reacting to market conditions, it involves proactive leadership, clear and ethical communication, strategic planning, and internal alignment across departments. Firms should therefore invest in managerial development and trainings, particularly in training leaders to manage reputational risk, stakeholder communication, contextual understandings, cultural and religious differences, and ethical transitions during divestment processes.

Finally, the study challenges assumptions about the protective role of CSR. While CSR is often considered as a shield against stakeholder backlash, the findings here suggest that CSR can magnify risk during FD events. So, managers should check if their CSR promises are realistic during times of change and restructuring, and if needed, update how they communicate with stakeholders to explain any short-term compromises. Table 7 below presents an overview of the key managerial implications derived from the dissertation, organized by different phases of strategy and international business practice.

Table 7. Summary of managerial implications

Managerial Focus Area	**Summary of Implications**
Strategy Formulation Stage	Firms should integrate financial risk assessments into divestment planning, particularly considering the destabilizing effects of FD on solvency. Divestment timing should align with resource configurations and long-term goals, not just short-term investor expectations.
Strategy Implementation Stage	Managers must proactively engage in ethical framing and stakeholder communication during divestments. Effective internal coordination, risk anticipation, and CSR alignment are essential for mitigating reputational and operational risks.
International Business Implications	There is no one-size-fits-all divestment strategy across global contexts. MNEs should account for institutional, cultural, and regulatory differences when executing FD, and develop globally dynamic managerial capabilities to navigate diverse environments.

6.4 Limitations and Avenues for Future Research

While this dissertation offers several theoretical and empirical contributions to the IB literature, it is not without limitations. These limitations offer productive starting points for future research seeking to advance understanding of FD, financial outcomes, risk management, and strategic decision-making in MNEs.

First, the empirical scope of the dissertation is geographically bounded, focusing on Nordic multinational firms. Although this regional focus allows for a degree of institutional, cultural, and economic comparability, it also limits the generalizability of the findings. MNEs from other institutional contexts particularly emerging markets or politically volatile environments, may face different risk configurations, stakeholder pressures, and managerial constraints when divesting foreign operations. Future research could adopt a comparative cross-national design to examine the role of institutional distance, regulatory environments, or cultural values, for instance, in moderating FD outcomes.

Second, the measurement of key constructs carries inherent limitations. For example, while the use of LIVA and LER allows for a valuable comparison between short- and long-term value creation, both metrics rest on assumptions about market efficiency and investor behavior that may not hold equally across firms or sectors. Similarly, the inclusion of CSR as a moderating factor measured via ESG ratings, may not fully capture the depth or sincerity of CSR engagement. ESG ratings can be subject to issues of standardization and reporting bias (Gyönyörová et al., 2021). Future studies could complement such data with qualitative stakeholder analyses or internal CSR audits to offer a more nuanced understanding of CSR's role in strategic decision-making during divestments.

Third, while this dissertation incorporates both quantitative and qualitative methods, the interview-based study in Paper 3 was limited by access constraints and sensitivity of the topic. FDs are often seen as reputationally and politically sensitive, making it challenging to obtain detailed disclosures from executives (McDermott, 2010; Paul & Benito, 2018). As a result, insights into managerial capabilities were rich but drawn from a relatively small and homogeneous sample. Future research could address this by expanding interview access across industries and including different level employees from parent firm and subsidiary both to better understand the decision-making process and explore organizational tensions in FD strategy.

Fourth, while the dissertation makes an initial conceptual contribution by highlighting required managerial capabilities, this concept remains underdeveloped. More work is needed to define, operationalize, and empirically test these skills as a distinct capability set. Future studies could explore how these skills and capabilities mitigate divestment risks, influence divestment success, restructuring strategies, and international divestment issues in uncertain markets. Mixed method longitudinal designs could be particularly helpful in tracking how these capabilities evolve over time and across difference markets. Moreover, further research on divestments originating from developed versus developing economies can serve as a contextual contingency, offering a more nuanced understanding of this phenomenon.

Fifth, while FD Theory (Boddewyn, 1983) and the RBV provided the primary theoretical lenses, these frameworks emphasize rational, resource-aligned decision-making. They may underestimate the political, economic, or institutional path dependencies that also shape divestment decisions (Nguyen et al., 2022). Future research could therefore benefit from incorporating alternative perspectives such as institutional theory, behavioral strategy, or sensemaking frameworks to uncover other dynamics that often reinforce divestment strategies.

Finally, the long-term outcomes of FD remain an area that needs further exploration. While this study analyzed post-divestment impacts on solvency and shareholder value, the strategic aftermath of divestment such as reinvestment patterns, capability reallocation, or organizational learning also deserves more attention. Understanding how firms restructure portfolios, reconfigure resources, and rebuild legitimacy after divestment could significantly enrich the international business literature.

In sum, while this dissertation makes important developments in advancing the theoretical and empirical understanding of FD, it also opens the door to a range of future research possibilities. Addressing the limitations discussed above could lead to a more comprehensive and context-sensitive understanding of how and why firms divest internationally, and what consequences those decisions entail for parent firm performance, stakeholder relationships, and long-term competitiveness.

7 AUTHORS' CONTRIBUTIONS

This dissertation comprises three scientific articles. The author, **Arshed Iqbal**, is the main and contributing author of all three papers. He was responsible for developing research ideas, designing the studies, collecting and analyzing the data, and writing the manuscripts.

Dr. Jamshed Iqbal contributed substantially to the quantitative empirical components of Papers 1 and 2, including the data analysis and initial results sections. He also provided valuable input on the study design and robustness checks.

Professor Arto Ojala, as the principal supervisor, provided continuous supervision, conceptual guidance, and critical comments throughout the research process and the preparation of all three manuscripts. He also contributed to improving the quality and clarity of the papers where needed.

Professor Carlos Sousa (co-author of Paper 2) offered expert advice on international business theory development and publication positioning. He also contributed to improving the manuscript's structure, theoretical framing, and readiness for journal submission.

All co-authors have approved the final versions of the respective papers.

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MBR
34,3

460

Received 6 December 2024
Revised 23 April 2025
26 August 2025
5 November 2025
11 January 2026
Accepted 15 January 2026

Foreign divestment and insolvency risk: evidence from Nordic MNEs

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Abstract

Purpose – This study aims to explore how foreign divestment (FD) affects the insolvency risk of parent firms and examines the moderating role of corporate social responsibility (CSR) in this relationship, an underexplored but critical issue in international business. It focuses on how resource losses from divestment destabilize parent firm solvency, offering insights into the financial vulnerabilities of multinational enterprises (MNEs).

Design/methodology/approach – Grounded in the resource-based view (RBV) and foreign divestment literature, this study analyzes a longitudinal dataset of 119 publicly listed Nordic MNEs (Finland, Sweden, Norway and Denmark), spanning 667 firm-year observations over 1992–2019. Insolvency risk is measured using Merton's distance to default (DD) and credit default swap (CDS) spreads, with data from the Credit Research Initiative (CRI), Orbis and Refinitiv Eikon. For the CSR moderation analysis, a sub-sample from 2003 onward is used.

Findings – Foreign divestment is positively associated with higher insolvency risk, reflecting the financial strain from strategic asset loss or reallocation. Moreover, parent firms with stronger CSR engagement face greater insolvency risk during divestments.

Originality/value – Integrating RBV and CSR perspectives, this study provides a nuanced view of the financial and strategic consequences of foreign divestment. It offers actionable insights for MNEs managing divestments in volatile markets and underscores CSR's complex role in mitigating or amplifying financial distress.

Keywords Foreign divestment, Insolvency risk, RBV, CSR, Firm performance

Paper type Research paper

1. Introduction

Even in good times there are bankruptcies, product failures, company restructurings, and the like. (Boddewyn, 1979, p. 21).

Funding: Liikesivistysrahasto (200116, 220140) and Suomen Kulttuurirahasto (00230480).

Multinational Business Review
Vol. 34 No. 3, 2026
pp. 460-485
Emerald Publishing Limited
1525-383X
DOI 10.1108/MBR-12-2024-0254

Foreign divestment, the voluntary or involuntary withdrawal from all or major parts of an initial foreign direct investment (FDI) (Boddewyn, 1979; Sethuram and Gaur, 2024), has received limited attention in international business research compared to foreign direct investment (e.g. Iurkov and Benito, 2018; McDermott, 2010; Schmid and Morschett, 2020; Tan and Sousa, 2019). However, divestment has critical implications for a parent firm's survival and financial well-being (Powell and Yawson, 2012). Its link to insolvency risk, defined as a firm's inability to meet its debt obligations (Campbell *et al.*, 2008; Rego *et al.*, 2009), remains underexplored (Rashid Shamim, 2019). Given that foreign operations are often more volatile than domestic ones (Boddewyn, 1979; Iurkov and Benito, 2020), it is important to investigate the relationship between insolvency risk and foreign divestment.

Riskier investment commitments influence firms' divestment decisions and CSR may increase their reluctance to divest by creating long-term commitments and stakeholder expectations (Belderbos and Zou, 2009; Chen and Wu, 1996; Mata and Portugal, 2000). According to stakeholder theory, CSR generates a competitive advantage and enhances firm value (Freeman, 2010; Makni *et al.*, 2009). As stakeholder demands intensify, CSR becomes increasingly vital for firm growth and survival (Aguilera *et al.*, 2007; Freeman *et al.*, 2007; King, 2008). Conversely, weak CSR performance can damage a firm's reputation and erode its market position, as investors reward strong CSR and penalize poor performance (Lee and Min, 2015). Therefore, it is important to explore the moderating role of CSR activities in the relationship between foreign divestment and insolvency risk.

To explore these dynamics, we ask the following questions:

RQ1. How does foreign divestment influence the insolvency risk of parent firms?

RQ2. How do CSR activities moderate the relationship between foreign divestment and insolvency risk?

We measure insolvency risk using both DD and CDS spreads, as these bondholder-focused indicators reflect market perceptions of financial distress. Our results show that foreign divestment significantly raises insolvency risk in the following year, indicating reduced financial stability. Notably, higher CSR activity amplifies this effect, suggesting that CSR commitments may intensify the negative effect of foreign divestment on parent firms' financial well-being, thus intensifying insolvency risk.

This study contributes to the foreign divestment literature by applying the RBV (Barney, 1991; Wernerfelt, 1984) to examine the impact of foreign divestment on parent firms' insolvency risk. We argue that divestment can deplete valuable resources critical to sustaining a competitive advantage. By linking foreign divestment to credit market reactions and exploring CSR's moderating role, we extend prior research. In practical terms, we highlight the importance of integrating financial risk assessments into divestment decisions. Managers of MNEs should carefully evaluate the long-term financial implications of resource reallocation and assess whether CSR expenditures align with firm capacity during periods of strategic divestment.

2. Theoretical framework

2.1 Resource-based view

Researchers have used various theories to elucidate the motives behind firms' internationalization and their choices to pursue foreign divestment as a strategic option. We examine the phenomenon of foreign divestment through the lens of international business, using the RBV framework introduced by Wernerfelt (1984). The RBV postulates that firms gain a competitive edge by effectively controlling and leveraging unique resources

(Barney and Hesterly, 2006). The origins of the RBV can be traced back to the work of Penrose (1959) and Nelson and Winter (1982), suggesting that enduring qualities, often referred to as the firm's "winning genes," are rooted in the development of its most valuable resources and routines. Barney (1991) further elaborated on this perspective, explaining how these attributes are used to achieve above-normal sustainable performance. That is, a firm's resources are used in a way that leads customers to expect the most valuable products and services. When a firm manages to maintain a competitive advantage and unique conditions over time, it achieves a "sustainable competitive advantage" with above-average returns (Barney and Hesterly, 2006).

These resources include a firm's assets, processes, capabilities, attributes, knowledge, information, etc. (Barney, 1991). In the extended version of the RBV (Mathews, 2003), external resources, such as law-making entities, customers, suppliers, etc. are also included. However, the process of divesting foreign subsidiaries can disrupt the established routines, stakeholder relationships and operational capabilities that are rooted in the international operations of parent firms. From an RBV perspective, such resource loss and dislocation increase organizational vulnerability and can lead to performance volatility, which can weaken a parent firm's financial stability and raise its insolvency risk.

Exporting a portion of a company's sales to international markets is considered a significant measure of competitive success, both on a national and regional scale (O'Farrell *et al.*, 1996), which can help in the growth and survival of smaller and newer firms (D'Souza and McDougall, 1989). While some foreign divestments may be strategic decisions of parent firms aimed at refocusing on core operations (Kolev, 2016), even these moves can temporarily destabilize resource configurations. In addition, forced or reactive divestments can even worsen such effects, as firms are less likely to manage resource loss and redeployment effectively. Therefore, this study applies the RBV lens to argue that foreign divestment is not only a structural adjustment but also a potential cause of financial distress, as it weakens a firm's resource base that sustains solvency and competitive advantage. Although RBV and survival analysis have different emphases, both are rooted in performance and a connection can be established between these concepts (Li *et al.*, 2010).

While our primary theoretical approach is based on the RBV, we acknowledge that foreign divestments may also act as signals to external stakeholders. Especially in foreign markets with high informational asymmetry, investors and financial institutions may interpret divestments as indicators of operational or financial distress. These signaling effects can also influence market confidence, credit perceptions and a firm's insolvency risk as a result. Although we focus on internal resource effects, future research could explore this signaling mechanism more directly.

2.2 Foreign divestment, firm performance and firm risk

Scholars have used various terms to describe the phenomenon of exit from foreign business markets, including *foreign divestment*, de-internationalization, subsidiary failure, business withdrawal, closure, disengagement, sell-off, liquidation, dissolution and total sales (Ameyaw *et al.*, 2023; Burt *et al.*, 2003; Ozkan, 2020). In this study, we encompass these various terms within the broader framework of foreign divestment. Foreign divestment is defined as "the deliberate and voluntary liquidation or sale of all or a major part of an active operation" (Boddewyn, 1979, p. 21). Therefore, foreign divestment takes place when a parent MNE reduces its equity or sells/liquidates its foreign subsidiary (Ameyaw *et al.*, 2023).

The literature on foreign divestment outcomes remains fragmented, with no clear consensus regarding its impact on parent firm performance. There are differing scholarly views on foreign divestment, with some linking it to improved firm performance, others associating it with failure and poor outcomes, and some finding no significant impact at all. The first group of researchers suggest that foreign divestment can enhance firm performance and competitiveness as it allows parent firms to reallocate resources more efficiently, realign their strategic focus, obtain funding, strengthen core operations and so on (e.g. Brauer *et al.*, 2017; Iurkov and Benito, 2020; Kafouros *et al.*, 2022; Kolev, 2016; Lee and Roh, 2020). In addition, it helps in avoiding political conflicts, economic instability and local market volatility (Liu *et al.*, 2022; Owens, 2023).

However, divestment is also associated with failure (Berry, 2013; Crick, 2004) and poor performance (Park and Russo, 1996), causing negative stock returns due to reduced geographic scope and operational flexibility and increasing market failure risk (Veld and Veld-Merkoulova, 2004). Brahmana *et al.* (2021) conducted a study in Malaysia on a sample of 319 publicly listed nonfinancial companies during 2012–2016 and found that the divestiture strategy decreased firm performance. Moreover, divestments carried out to address firm-level issues typically result in negative reactions in the stock market (Tsetsekos and Gombola, 1992). Similarly, during periods of financial distress, divestment may not alleviate bankruptcy pressures as intended because asset sales can occur at depressed "fire-sale" prices under crisis conditions (Zhou *et al.*, 2011). Some scholars have found an inconclusive relationship between divestment and parent firm performance and firm value (e.g. Duhaime and Baird, 1987; Colak, 2010; Sharma and Ho, 2002; Shimizu and Hitt, 2005). Overall, the extant literature offers inconclusive results about the impact of divestment on parent firm performance. Thus, we believe it is extremely important to determine how the insolvency risk of parent firms is influenced by foreign divestments.

Although the literature on foreign divestment and parent firm performance remains fragmented, with studies reporting positive, negative or null effects, this very inconsistency highlights the destabilizing nature of divestment decisions. Regardless of its outcome, foreign divestment introduces a high level of operational uncertainty and strategic reconfiguration, which translates into increased volatility in firm performance. Researchers have widely acknowledged performance volatility as a measure of risk (Bloom and Milkovich, 1998; Miller and Bromiley, 1990; Woo, 1987). Furthermore, increased stock performance volatility is associated with higher risk and negative outcomes (Ang and Liu, 2007; Low, 2009). In addition, it has been found that higher performance volatility is linked with a higher risk of firm bankruptcy and credit issues (e.g. Correia *et al.*, 2018; Kim *et al.*, 2001; Merton, 1974). Insolvency risk is often predicted using financial ratios reflecting profitability, leverage and self-financing capacity (Grice and Ingram, 2001; Kaya, 2022; Ohlson, 1980; Pindado *et al.*, 2008). More recent studies have also used market-based indicators, such as a firm's market value relative to debt (Kaya, 2022; Shi *et al.*, 2018). Building on these insights, we argue that foreign divestment can disrupt firm stability, increase financial volatility and amplify established insolvency risk factors.

However, the extent to which foreign divestments affect a parent firm's insolvency risk depends on characteristics such as scale, strategic motive and the type of divested operation. Strategically motivated divestments, such as shedding a small or unrelated subsidiary to refocus on core activities, tend to cause only minor resource disruptions and limited performance effects (Berry, 2013; Burt *et al.*, 2019; Iurkov and Benito, 2020; Wan *et al.*, 2015). In contrast, frequent restructurings and divestments of international operations can generate instability and operational uncertainty (Brauer and Wiersema, 2012; Erl *et al.*, 2023), thereby heightening insolvency risks. Moreover, divestment decisions are often challenging, as they can harm corporate reputation in both the host and home countries (Resmini and Vittucci Marzetti, 2020) and create ambiguity about postdivestment value creation, combined with limited transparency in strategic and financial details (Brauer, 2006;

Brauer and Wiersema, 2012; Lee and Madhavan, 2010). Accordingly, firms with high divestment activity are likely to face greater operational uncertainty and insolvency risk, particularly those that frequently and repeatedly engage in foreign divestments. As Boddewyn (1983, p. 27) rightly noted, "If investment is a hopeful affair like marriage, divestment is more like divorce."

More companies went insolvent in Finland than in any other year over the past 25 years, surpassing the peak seen during the 2009 financial crisis (Helsinki Times, 2024; Statistics Finland, 2023), which was driven by the effects of the pandemic, the energy crisis stemming from Russia's war of aggression against Ukraine, and persistent inflation. These external shocks have increased the financial vulnerability of MNEs, forcing parent firms to divest foreign operations and thereby increasing their exposure to insolvency risk. In addition, divestment of a foreign subsidiary can result in various challenges that can lead to insolvency, including decreased cash flow, loss of market share, lower profitability and a firm's overall weak financial position. Other challenges can include costs and expenses (Mohr *et al.*, 2020), a reduction in revenue and market share (Chen and Jorgensen, 2018), goodwill and intangible asset reduction (Chakrabarti and Mondal, 2017) and a loss in firm value (Marshall *et al.*, 2021). In addition, in the context of the RBV, scholars posit that the reduction of foreign operations may lead to a decrease in the resources of parent firms (Luo *et al.*, 2022; Marshall *et al.*, 2021). Such increased unpredictability and resource loss challenge a firm's ability to meet financial obligations and sustain a stable resource deployment. Therefore, even in cases in which divestment might yield performance improvements, the associated volatility and resource dislocation inherently elevate insolvency risk – a research gap within the international business literature that this study aims to address.

2.3 Role of corporate social responsibility

Since the introduction of ISO 26000 in 2010, most large organizations have begun systematically disclosing information about their CSR activities in their annual reports. CSR refers to a firm's integration of social and environmental concerns into business operations and stakeholder interactions (Commission of the European Communities, 2001). Beyond a disclosure practice, CSR represents an intangible resource configuration that supports legitimacy, reputation and trust among stakeholders, key elements of sustained competitive advantage from the RBV perspective (Barney, 1991; Hart, 1995; McWilliams and Siegel, 2011). This framing positions CSR as a strategic capability rather than a purely normative commitment.

Although numerous studies have examined the relationship between CSR and firm performance (e.g. Lopez-Arceiz *et al.*, 2018; Miras Rodriguez *et al.*, 2014; Petrenko *et al.*, 2016; Stanwick and Stanwick, 1998), the findings remain inconclusive and context-dependent (Margolis and Walsh, 2003; Mishra and Suar, 2010; Oeyono *et al.*, 2011). This ambiguity reflects the dual resource nature of CSR from an RBV standpoint. On the one hand, CSR activities can generate valuable intangible assets, such as legitimacy, trust and stakeholder goodwill, which enhance firm resilience and long-term competitiveness (Abu Bakar and Ameer, 2011; Godfrey *et al.*, 2009; Orlitzky *et al.*, 2003; Van Beurden and Gössling, 2008). On the other hand, CSR may represent a costly and inflexible resource, especially when sustained through financial downturns or strategic restructuring, such as foreign divestments, leading to reduced financial slack and potential liquidity strain (Buchanan *et al.*, 2018; Crisostomo *et al.*, 2011). This theoretical duality provides the foundation for exploring how CSR may moderate the relationship between foreign divestment and insolvency risk.

The literature has long recognized the complexity of managing CSR within MNEs (Arnold and Valentin, 2013; Husted and Allen, 2006). CSR embodies a reputation-based resource that enhances firms' social legitimacy, stakeholder trust and shareholder value, thereby strengthening their relational capital across diverse markets (Albuquerque *et al.*, 2019; Bhattacharya *et al.*, 2011; Hart, 1995; Porter and Kramer, 2006). Such legitimacy-driven resources usually operate as moral capital that provides stakeholder insurance under stable conditions (Godfrey *et al.*, 2009; Luo and Bhattacharya, 2006). However, the moderating role of CSR becomes especially salient under conditions of organizational stress, such as foreign divestment. Although the proverb that "firms do well by doing good" often holds in stable environments (Lys *et al.*, 2015), periods of strategic exit expose the costly and inflexible side of CSR commitments. From an RBV standpoint, such overcommitment and interrelated community programs, labor agreements and environmental obligations transform CSR from a flexible, value-creating capability into a rigid resource that restricts redeployment during divestment. In addition, managers may also occasionally overinvest in CSR for signaling or personal motives (Benabou and Tirole, 2010; Kruger, 2015), generating agency-related inefficiencies that drain financial slack (Buchanan *et al.*, 2018). This paradox highlights why CSR moderates the relationship between foreign divestment and insolvency risk.

Prior research has largely examined CSR's direct effects on firm performance and valuation outcomes (e.g. Gregory *et al.*, 2014; Jo and Harjoto, 2012; Servaes and Tamayo, 2013), leaving its role in financial distress contexts relatively underexplored (Nguyen and Nguyen, 2015). Yet, understanding CSR in settings of foreign divestment and insolvency is critical because such events test the true resilience and flexibility of firms' intangible resource portfolios. Drawing on RBV, we conceptualize CSR as a contingent capability whose value depends on context; it can either safeguard or increase insolvency risk depending on the degree of resource constraint created by divestment. This reasoning advances CSR theory by moving beyond performance correlations toward a dynamic understanding of how socially embedded resources interact with crisis-driven restructuring. To empirically capture this moderating effect, we operationalize CSR through firms' environmental, social and governance (ESG) scores (e.g. Gillan *et al.*, 2021; Shahbaz *et al.*, 2020; Uyar *et al.*, 2023).

3. Data and variables

3.1 Sample and data sources

Our main sample consists of Nordic firms that were publicly listed from 1992 to 2019. We chose 1992 as the starting point for our sample period because insolvency risk data from the National University of Singapore (NUS) are available only from that year onwards. We concluded the sample period in 2019, as our study did not consider the impact of the COVID-19 pandemic. In addition, we included only firms that underwent at least one foreign divestment in a given year. For the divestment data, following previous studies (e.g. Wang and Larimo, 2020), we began by manually collecting information on Nordic firms from the Thomson Reuters Eikon and ORBIS databases. Then, we performed a systematic analysis of the investing firms' annual reports, press releases and data gathered via company surveys to collect information regarding their divestment activities. We focused exclusively on foreign divestments because domestic divestment events could not be coded consistently across sources (e.g. annual reports, databases, announcements, etc.) over firms and time. Therefore, we restricted our focus to foreign divestments and marked the omission of domestic divestments as a study limitation.

We identified 119 publicly listed Nordic MNEs and began with a full panel of 967 firm-year observations (1992–2019). Nordic firms are often characterized by democratic values, equality, informality and consensus-oriented decision-making (Berg *et al.*, 2024).

They also exhibit strong corporate governance structures and low levels of corruption (Thomsen, 2016). We merged the foreign divestment data with the insolvency-risk data collected from the CRI database at NUS and combined this with control variable data from the Orbis database (Bureau van Dijk). When the dependent variable was insolvency risk (CDS spread), coverage limitations reduced the estimation sample to 667 firm-years. For the CSR moderation analysis, the requirement of ESG data further narrowed the sample to 278 firm-years (2003–2019). Each regression model used the largest available set of non-missing observations for its variables. Descriptive statistics for the full sample appear in Table 1, and those for the CDS and ESG available subsamples are shown in Appendix 2.

Furthermore, we collected ESG data from the Thomson Reuters Eikon database (now Refinitiv LSEG) to analyze the moderating role of CSR in the foreign divestment-insolvency relationship. The panel covers investments from 1990 to 2017 and foreign divestments between 1992 and 2019, ensuring that all investments survived for a minimum of two years and mitigating the honeymoon effect (Gaur and Lu, 2007; Wang and Larimo, 2020). Appendix 1 provides detailed descriptions of all the variables and data sources. Model-specific observation counts may vary slightly due to missing data, lagged specifications, and differences in variable coverage (e.g. ESG or CDS availability).

3.2 Measures of foreign divestment

Following previous studies (e.g. Amiri *et al.*, 2022; Feldman *et al.*, 2016; Humphery-Jenner *et al.*, 2019), we used the number of foreign divestments by a certain firm in a specific year as

Table 1. Descriptive statistics

Variable	Mean	Median	SD	Min.	Max.	P25	P75
Foreign divestment							
FD	3.36	1.00	8.88	1.00	226.00	1.00	3.00
Divestment dummy	0.19	0.00	0.39	0.00	1.00	0.00	0.00
FD winsorized	3.05	1.00	4.65	1.00	32.00	1.00	3.00
Insolvency risk							
CDS	20.85	16.07	21.51	0.00	393.69	9.75	25.51
Log CDS	2.71	2.77	0.87	−7.36	5.98	2.28	3.24
DD	4.81	4.42	3.11	−2.62	54.11	2.85	6.21
Log DD	1.39	1.50	0.69	−3.48	3.99	1.06	1.83
Control variables							
ROA	5.69	5.81	11.21	−202.81	157.38	3.00	9.35
Int. experience	66.94	72.54	30.28	0.00	673.15	48.26	91.86
Size (log of assets)	13.41	13.42	1.81	8.44	18.81	12.03	14.77
Total assets (millions)	2,830.17	675.70	6,168.51	4.63	147,512.00	167.41	2,602.90
Leverage	0.57	0.58	0.19	0.01	3.63	0.47	0.67
Liquidity	0.49	0.49	0.18	0.03	1.00	0.36	0.62
Tangibility	0.28	0.26	0.18	0.00	0.83	0.14	0.41
Sales to assets	1.07	1.02	0.48	−0.10	3.83	0.78	1.33
Tobin’s Q	0.56	0.57	0.17	0.01	3.36	0.47	0.66
CSR	53.22	55.90	20.31	3.2	93.29	39.15	68.83

Note(s): This table reports the descriptive statistics for the variables used in this study. The sample comprises 667 firm-year observations from 119 Nordic MNEs over 1992–2019. It uses all firm-year observations with non-missing divestment, insolvency risk (DD and/or CDS), and control variables. Model-specific Ns may be lower due to additional variable requirements or lags; each model reports its own N the metric for foreign divestment. In operational terms, FD represents the number of foreign divestment deals undertaken by each firm in a given year. In our additional analyses, we also used a dummy foreign divestment variable (FD dummy), which equaled 0 if firms experienced no divestment during a particular year and 1 otherwise [1].

3.3 Measures of insolvency risk

In this study, we used market-based insolvency risk measures because they overcome the criticism of accounting-based models due to the forward-looking nature of market data. These measures reflect the expectations of a firm's future cash flow, making them appropriate for prediction purposes (Beaver *et al.*, 2005). Consistent with prior studies (Ali *et al.*, 2018; Kabir *et al.*, 2020), we used two proxies for insolvency risk. The main proxy for insolvency risk is the CDS spread. CDSs are credit derivatives that allow for the transfer of a firm's default risk between two agents for a predetermined time period. In a typical CDS contract, the protection seller provides the protection buyer with insurance against the default of an underlying bond issued by a certain firm (the reference entity). If the reference entity defaults, the seller commits to purchasing the bond from the protection buyer for a price equal to its face value. In exchange for this insurance, the buyer pays a quarterly premium, known as the CDS spread, which is quoted as an annualized percentage of the insured notional value. A higher CDS spread indicates a greater insolvency risk [2].

The alternative proxy for insolvency risk is *DD*, a concept that originates from Merton's (1974) structural credit risk model. DD is a widely used measure for assessing the proximity of a limited liability firm to insolvency (e.g. Duan and Wang, 2012; Duan *et al.*, 2012). It is a widely used market-based measure of insolvency risk and outperforms many accounting-based measures in estimating insolvency risk (Bharath and Shumway, 2008; Das *et al.*, 2009; Duan *et al.*, 2012; Duan *et al.*, 2018; Miao *et al.*, 2018). A higher DD indicates lower insolvency risk (i.e. greater firm stability). For methodological details on estimating DD, see Duan *et al.* (2012).

3.4 Measuring control variables

Building on previous studies (e.g. Ali *et al.*, 2018; Chiang *et al.*, 2015; Schultz *et al.*, 2017), we controlled for certain variables that had the potential to influence insolvency risk. First, we controlled for firm size (*Size*), measured as the natural logarithm of total assets in millions of US dollars. Generally, larger firms are more stable and have a lower default risk. Thus, we anticipated a negative relationship between firm size and default risk. Second, we included firm profitability, measured by the return on assets (*ROA*), defined as the ratio of net income to total assets. ROA, derived from accounting data, reflects a firm's ability to generate sufficient returns to support its operations. Firms with higher ROA typically exhibit lower default risk. Third, we controlled for firm leverage (*Leverage*), defined as the ratio of total debt to total assets. Leverage reflects the capital structure of a firm, indicating how a firm finances its assets and its ability to meet financial obligations. As leverage increases, firms' financial risks rise, and we expected a positive relationship between leverage and default risk (Chiang *et al.*, 2015; Schultz *et al.*, 2017).

Fourth, we controlled for liquidity (*Liquidity*), which measures a firm's capability to meet short-term obligations. Firms with higher liquidity ratios are expected to have a lower default risk compared to those with lower ratios. Liquidity is captured using the current ratio, calculated as current assets divided by current liabilities. Fifth, we included tangibility (*Tangibility*), measured as the ratio of net property, plant and equipment to total assets. While tangibility is often negatively associated with firm value (Fukui and Ushijima, 2007; Nakano and Nguyen, 2013), it is expected to have a positive relationship with default risk, as firms with higher tangible assets can face reduced flexibility and increased exposure to fixed costs (Chiang *et al.*, 2015).

Finally, we included international experience (*Int. experience*), measured as the ratio of foreign sales to total sales. In our additional analyses, we also included Tobin's Q (*TobinQ*) as a control variable to proxy firm performance, which incorporates market information and is often considered a superior measure of performance and growth opportunities. Tobin's Q is calculated by dividing the sum of the fair market value and total liabilities by the total assets. A higher Tobin's Q, indicative of better performance and stability, is expected to have a negative relationship with default risk (Chiang *et al.*, 2015).

To reduce the influence of outliers in our estimates, we winsorized all other control variables at 1%. We kept the independent variable, foreign divestment, at its original values because we observed no issues regarding outliers in the descriptive statistics. Similarly, we retained the dependent variables (*DD* and *CDS*) at their original values, as extreme values in *DD* and *CDS* indicate poor performance (insolvency).

3.5 Empirical models

We used panel data with insolvency risk as the dependent variable. Our baseline model to examine the association between divestment and insolvency risk follows several alternative panel regressions of equation (1) below:

$$
\begin{aligned}
Insolvency\ \ Risk_{i,t} = \alpha + \beta_1 FD_{i,t} + \beta_2 Size_{i,t} + \beta_3 ROA_{i,t} + \beta_4 Leverage_{i,t} \\
+ \beta_5 Liquidity_{i,t} + \beta_6 Tangibility_{i,t} + \beta_7 Int.\,Experience_{i,t} \\
+ \ \textstyle\sum_{k=1}^{n-1} \alpha_k Firm_i^k + \ \sum_{y=1992}^{2019} \omega_y Period_i^y + \varepsilon_{i,t} \qquad (1)
\end{aligned}
$$

In equation (1), the dependent variable, *Insolvency* $Risk_{i,t}$ represents one of two alternative measures of insolvency risk: the *DD* or *CDS* spread for firm *i* at time *t*. FD *i,t* captures the number of foreign divestments undertaken by firm *i* in year *t*. Several firm-level control variables, as discussed above, are included to account for factors that can affect divestment and insolvency risk. These variables are defined in Appendix 1. The model also incorporates firm-specific fixed effects and year-fixed effects to account for unobservable heterogeneity and temporal variations. In addition, country-fixed effects are controlled for using country dummies based on the first two letters of a firm's ISIN code. To ensure robustness, all independent variables are winsorized at the 1st and 99th percentiles to mitigate potential outlier effects [3]. Standard errors are clustered at the firm level to account for heteroskedasticity and within-firm correlations.

4. Empirical analysis

4.1 Descriptive statistics and correlations

Consistent with Section 3.1, Table 1 reports the descriptive statistics for the full sample, and descriptive statistics for the ESG subsample used in the CSR models are shown in Appendix 2, which indicates notable heterogeneity in our sample firms in relation to the divestment of foreign subsidiaries. Specifically, the variable *FD* exhibits a range from 1 (minimum) to 226 (maximum), with an average of 3.36. In terms of the number of divestments, the mean of 3.36 indicates that, on average, there were no more than three divestments per year in our sample. In addition, our sample displays significant heterogeneity in terms of insolvency risk. The variable *DD* has a minimum value of −2.62 and a maximum value of 54.11. Moreover, the *CDS* ranges from −7.36 to 5.98, with a mean value of 2.71.

Finally, Table 2 indicates that our sample exhibits considerable heterogeneity related to the control variables. For instance, there is substantial variation in size, ranging from US$4.63m to 2.26tr.

Table 2 shows the pairwise correlations among the variables used in the analysis. It is evident from the table that the number of foreign divestments has a negative correlation with *DD* and a positive correlation with *CDS*, implying that a higher frequency of divestments of foreign subsidiaries corresponds to an increased level of insolvency risk. Moreover, as expected, the two insolvency risk variables, *DD* and *CDS*, are negatively correlated by construction ($r = 0.93$). As the correlation results are not controlled by other factors that may affect the insolvency risk, they should be interpreted with prudence.

4.2 Baseline regression results

Table 3 presents the results for the six alternative specifications of equation (1). Models 1–3 use DD as the dependent variable, while Models 4–6 use CDS as the dependent variable. Models 1 and 4 adopt a parsimonious specification, including only *Size, ROA and Leverage* as control variables. Models 2 and 5 expand the analysis by incorporating the full set of control variables, along with year fixed effects. Finally, Models 3 and 6 provide the most comprehensive specifications, including both year and firm fixed effects, in addition to the full set of control variables. In addition, all models account for country-fixed effects.

Table 3 shows that the number of foreign divestments has a statistically significant and negative coefficient in Models 1, 2 and 3 when *DD* is the dependent variable. These results indicate that an increased divestment of foreign subsidiaries amplifies the insolvency risk of parent firms. In addition, Table 3 shows coefficient estimates for the number of *foreign divestments* that are positively associated with the CDS spread (in Models 4, 5 and 6). This indicates that a greater frequency of divestment of foreign subsidiaries corresponds to an elevated level of insolvency risk. The coefficients related to firm-specific variables also provide important insights. For instance, firm *Size* is positively connected to the CDS spread (in Model 6) and negatively linked to DD (in Model 3), suggesting that larger firms carry higher insolvency risk. This finding is consistent with the view that larger firms tend to take more risks. As expected, the return on assets has a negative relationship with the *CDS* spread and a positive relationship with *DD*, suggesting that firm stability increases with greater profitability. Finally, our findings indicate that firms with higher leverage are exposed to increased insolvency risk.

In summary, Table 3 indicates that firms engaging in a higher frequency of divestment activities are associated with heightened insolvency risk. These findings provide an answer to *RQ1*, demonstrating that firms divesting their foreign subsidiaries are prone to greater insolvency risk. Overall, the findings reported in Table 3 broadly align with the existing literature on firm risk (see, e.g. Mohr *et al.*, 2020).

4.3 Lagged variables

Regressions based on contemporaneous variables are susceptible to endogeneity bias due to reverse causality. In contrast, a regression based on lagged values of independent variables helps control for reverse causality and thus tends to be less vulnerable to endogeneity effects. To address this concern, we followed Li *et al.* (2021) and re-estimated equation (1) by using the number of foreign divestments by firms and control variables in the prior period ($t - 1$), along with the *CDS* (*DD*) from the current period (t). The results reported in Table 4 are similar to those presented in Table 3. The relation between divestment and insolvency risk remains significantly negative with *DD* and positive with *CDS* in the one period lag specification. These results support the interpretation that firms' divestment actions influence

Table 2. Correlations

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) CDS5y	1										
(2) DtD	−0.584***	1									
(3) max_divest	0.0662	−0.0796*	1								
(4) size	−0.0388	−0.0132	0.102*	1							
(5) ROA	−0.369***	0.299***	0.0611	0.0227	1						
(6) leverage	0.299***	−0.447***	−0.0389	0.0421	−0.291***	1					
(7) liquidity	−0.0683	0.0556	0.00163	−0.228***	0.196***	0.0138	1				
(8) tangibility	0.0775	−0.122**	0.0992*	0.123**	−0.100*	−0.0492	−0.478***	1			
(9) sales_to_assets	−0.0370	−0.0350	0.0268	−0.451***	0.0743	0.00326	0.470***	−0.0830*	1		
(10) tobinq	0.298***	−0.444***	−0.0393	0.0419	−0.289***	1.000***	0.0161	−0.0514	0.00425	1	
(11) int_experience	−0.0209	0.0788	0.0508	0.277***	−0.0734	−0.0148	0.0516	−0.151***	−0.142***	−0.0145	1

Note(s): This table reports the pairwise correlations for the variables used in the empirical analysis. ***, ** and * denote significance at the 0.01, 0.05 and 0.10 levels, respectively. See Appendix 1 for the variable definitions

Table 3. Foreign divestment and insolvency risk

Variable	DD model (1)	Distance to default DD model (2)	DD model (3)	CDS model (4)	Credit default swap spread CDS model (5)	CDS model (6)
FD	−0.044** (−2.148)	−0.049** (−2.174)	−0.043* (−1.863)	0.016*** (2.757)	0.017*** (2.772)	0.017*** (2.844)
Size	0.054 (1.184)	0.011 (0.213)	−0.385* (−1.736)	0.025 (1.619)	0.028 (1.609)	0.131* (1.761)
ROA	0.069*** (4.161)	0.062*** (3.747)	0.028* (1.854)	−0.025*** (−4.017)	−0.023*** (−3.668)	−0.011* (−1.754)
Leverage	−6.153*** (−8.012)	−6.825*** (−8.802)	−4.594*** (−5.523)	1.821*** (8.234)	1.904*** (7.924)	1.036*** (3.301)
Liquidity		0.142 (0.237)	0.804 (0.631)		0.168 (0.973)	−0.455 (−1.121)
Tangibility		−0.760 (−1.164)	0.006 (0.005)		0.361* (1.806)	0.330 (0.748)
Int_experience		0.006* (1.877)	0.003 (0.705)		−0.001 (−1.264)	0.000 (0.156)
Constant	4.060*** (4.947)	5.036*** (5.309)	6.293* (1.875)	2.238*** (8.265)	2.023*** (6.732)	1.027 (0.962)
Observations	656	625	625	667	635	635
R-squared	0.508	0.522	0.704	0.387	0.394	0.601
Compno	119	108	108	123	111	111
Year FE	YES	YES	YES	YES	YES	YES
Firm FE	NO	NO	YES	NO	NO	YES
Country FE	YES	YES	YES	YES	YES	YES

Note(s): The table reports the estimates of Six alternative versions of the following panel regression specification:

$$Insolvency\ Risk_{i,t} = \alpha + \beta_1 FD_{i,t} + \beta_2 Size_{i,t} + \beta_3 ROA_{i,t} + \beta_4 Leverage_{i,t} + \beta_5 Liquidity_{i,t} + \beta_6 Tangibility_{i,t}$$

$$+ \beta_7 Int.\ Experience_{i,t} + \sum_{k=1}^{n-1} \alpha_k Firm_i^k + \sum_{y=1992}^{2019} \omega_y Period_i^y + \varepsilon_{i,t}$$

where the dependent variable, *Insolvency Risk*$_{i,t}$ represents One of Two alternative measures of insolvency risk: the *DD* or *CDS* spread for firm *i* at time *t*. FD *i,t* captures the number of foreign divestments undertaken by firm *i* in year *t*. Several firm-level control variables, as discussed above, are included to account for factors that may affect divestment and insolvency risk. These variables are defined in Appendix 1. $Firm_i^k$ is a dummy variable for firm *i*, and $Period_i^y$ is a dummy variable for fiscal years. In addition, country-fixed effects are controlled for using country dummies based on the first Two letters of a firm's ISIN code. The reported adjusted R^2s are the overall R^2s that account for the explanatory power of the firm and year fixed effects. The *t*-statistics (reported in parentheses) are based on robust standard errors clustered at the firm level. ***, ** and * denote significance at the 0.01, 0.05 and 0.10 levels, respectively

Table 4. Lagged foreign divestment and insolvency risk

Variable	DD model (1)	Distance to default DD model (2)	DD model (3)	CDS model (4)	Credit default swap spread CDS model (5)	CDS model (6)
FD	−0.053*** (−3.273)	−0.056*** (−3.434)	−0.040** (−2.485)	0.019*** (2.975)	0.020*** (3.131)	0.016** (2.151)
Size	0.063 (1.292)	0.015 (0.278)	−0.445* (−1.890)	0.022 (1.362)	0.030* (1.747)	0.174** (2.198)
ROA	0.048*** (2.661)	0.046*** (2.594)	0.014 (1.064)	−0.013** (−2.501)	−0.013** (−2.438)	−0.001 (−0.191)
Leverage	−6.335*** (−7.554)	−6.958*** (−8.413)	−4.317*** (−5.044)	1.893*** (6.952)	2.068*** (8.013)	1.123*** (3.563)
Liquidity		−1.809** (−2.466)	−1.926 (−1.419)		0.745*** (3.398)	0.408 (0.956)
Langibility		−2.295*** (−3.418)	−2.182* (−1.674)		0.782*** (3.906)	0.822* (1.697)
Int_experience		0.004 (1.228)	0.003 (0.860)		−0.001 (−0.733)	−0.001 (−0.446)
Constant	4.276*** (4.259)	6.570*** (5.926)	7.755** (2.249)	2.075*** (6.560)	1.349*** (3.992)	−0.722 (−0.647)
Observations	656	625	625	666	634	634
R-squared	0.468	0.501	0.730	0.313	0.353	0.608
Compno	114	103	103	118	106	106
Year FE	YES	YES	YES	YES	YES	YES
Firm FE	NO	NO	YES	NO	NO	YES
Country FE	YES	YES	YES	YES	YES	YES

Note(s): This table reports the estimates of Six alternative versions of the following panel regression specification:

$$Insolvency\ \ Risk_{i,t} = \alpha + \ \beta_1 FD_{i,t-1} + \beta_2 Size_{i,t-1} + \beta_3 ROA_{i,t-1} + \beta_4 Leverage_{i,t-1} + \beta_5 Liquidity_{i,t-1} + \beta_6 Tangibility_{i,t-1}$$

$$+ \beta_7 Int.\ Experience_{i,t-1} + \ \sum\nolimits_{k=1}^{n-1} \alpha_k Firm_i^k + \ \sum\nolimits_{y=1992}^{2019} \omega_y Period_i^y + \varepsilon_{i,t}$$

where the dependent variable, *Insolvency Risk*$_{i,t}$ represents One of Two alternative measures of insolvency risk: the *DD* or *CDS* spread for firm *i* at time *t*. FD *i*,*t* captures the number of foreign divestments undertaken by firm *i* in year *t*. Several firm-level control variables, as discussed above, are included to account for factors that may affect divestment and insolvency risk. These variables are defined in Appendix 1. $Firm_i^k$ is a dummy variable for firm *i*, and $Period_i^y$ is a dummy variable for fiscal years. In addition, country-fixed effects are controlled for using country dummies based on the first Two letters of a firm's ISIN code. The reported adjusted R^2s are the overall R^2s that account for the explanatory power of the firm and year fixed effects. The *t*-statistics (reported in parentheses) are based on robust standard errors clustered at the firm level. ***, ** and * denote significance at the 0.01, 0.05 and 0.10 levels, respectively the current insolvency risk, rather than the alternate interpretation of past insolvency risk influencing the current divestment activity. These findings provide additional support for the baseline results and suggest that the foreign divestment of subsidiaries can predict insolvency risk. That is, a high level of divestment activity in the current period prompts a higher level of insolvency risk in the subsequent period.

4.4 Moderating role of corporate social responsibility

To examine the moderating role of CSR in the divestment-insolvency relationship, we reestimated equation (1) by including an interaction variable, *Foreign Divestment* × *high CSR*. In this context, *high CSR* denotes firms that fall in the top quartile based on their CSR activities. The results, as reported in Table 5, feature *DD* as the dependent variable in Models 1–3 and *CDS* as the dependent variable in Models 4–6. Consistent with the findings addressing *RQ2*, the interaction terms exhibit negative and statistically significant coefficients with DD (in Models 1–3). This suggests that parent firms with higher levels of CSR activities face increased insolvency risk when involved in foreign divestments, as the DD reduces. Similarly, the interaction terms demonstrate positive and statistically significant coefficients with *CDS* (in Models 4–6), reinforcing the notion that parent firms with higher CSR activities face increased insolvency risk in the case of foreign divestments as the CDS increases. An alternative explanation of these findings suggests that the higher level of CSR activities is considered costly, time consuming and can harm trust and resources when divestment is used as a strategy to reduce the financial stability of parent firms.

4.5 Additional analysis

To check the robustness of our empirical findings, we performed several additional tests. First, we examined the relationship between foreign divestment and insolvency risk using an alternative proxy for insolvency risk: the probability of default. We used a probability of default for one month, three months, six months, one year, two years, three years and five years in our analyses. The results (untabulated) show that higher divestment of foreign subsidiaries is positively associated with the probability of default. These results suggest that higher divestment activity by parent firms leads to a greater insolvency risk.

Second, we assessed robustness by excluding observations from 2007 to 2009 to mitigate potential global financial crisis (GFC) effects, which may have temporarily increased foreign divestments and influenced our results. The (untabulated) results show that our study findings did not change due to abnormal observations of GFC. Our use of year fixed effects also controlled for macroeconomic shocks, including major global crises across the sample period.

Third, while firm size was controlled for in our main analysis to account for its baseline effects, we conducted additional analyses to explore whether firm size moderates the relationship between foreign divestment and insolvency risk. The (untabulated) results show that as the size of parent firms increases, their insolvency risk decreases in the event of foreign divestment and vice versa. These results are in line with earlier studies (e.g. Berry, 2013; Daley *et al.*, 1997; Schlingemann *et al.*, 2002), which state that larger firms try to divest unrelated and poorly performing subsidiaries to focus on the core business. Fourth, we found that international experience had no impact on the relationship between foreign divestment and the insolvency risk of parent firms. The untabulated results show that foreign divestment has the same impact on insolvency risk for firms with higher or lower international experience.

Finally, to further validate our main findings, we re-estimated equation (1) using an alternative measure of foreign divestment: a binary divestment dummy variable (FD

Table 5. CSR Moderation of the divestment-insolvency relationship

	Distance to default			Credit default swap spread		
Variable	DD model (1)	DD model (2)	DD model (3)	CDS model (4)	CDS model (5)	CDS model (6)
FD	0.021 (0.843)	0.025 (0.953)	0.042 (1.522)	−0.004 (−0.534)	−0.003 (−0.413)	−0.005 (−0.511)
FD × high CSR	−0.107** (−2.284)	−0.121** (−2.320)	−0.146*** (−3.339)	0.033** (2.347)	0.034** (2.167)	0.037*** (2.643)
High CSR	0.451** (2.248)	0.535*** (2.593)	0.528** (2.480)	−0.133** (−2.129)	−0.140** (−2.207)	−0.099 (−1.298)
Size	0.064 (1.470)	0.022 (0.445)	−0.458** (−2.022)	0.022 (1.494)	0.025 (1.487)	0.153** (2.033)
ROA	0.071*** (4.227)	0.064*** (3.811)	0.030** (1.983)	−0.025*** (−4.092)	−0.024*** (−3.735)	−0.011* (−1.841)
Leverage	−6.191*** (−8.096)	−6.852*** (−8.951)	−4.785*** (−5.820)	1.833*** (8.317)	1.913*** (8.039)	1.071*** (3.408)
Liquidity		0.238 (0.393)	0.793 (0.616)		0.142 (0.824)	−0.455 (−1.113)
Tangibility		−0.824 (−1.264)	−0.024 (−0.020)		0.375* (1.883)	0.310 (0.691)
Int. experience		0.006* (1.936)	0.003 (0.780)		−0.001 (−1.331)	0.000 (0.100)
Constant	3.588*** (4.511)	4.426*** (4.820)	7.233** (2.119)	2.373*** (8.852)	2.178*** (7.415)	0.809 (0.763)
Observations	278	277	277	278	277	635
R-squared	0.515	0.530	0.713	0.394	0.402	0.608
Compno	53	53	53	53	53	53
Year FE	YES	YES	YES	YES	YES	YES
Firm FE	NO	NO	YES	NO	NO	YES
Country FE	YES	YES	YES	YES	YES	YES

Note(s): This table reports the regression results for the moderating role of *CSR* on the relationship between foreign divestment and insolvency risk. The dependent variable, *Insolvency Risk*$_{i,t}$ represents One of Two alternative measures of insolvency risk: the *DD* or *CDS* spread for firm *i* at time *t*. FD *i*,*t* captures the number of foreign divestments undertaken by firm *i* in year *t*. *high CSR* denotes firms that fall in the top quartile based on their CSR activities. The reported adjusted R^2s are the overall R^2s that account for the explanatory power of the firm and year fixed effects. The *t*-statistics (reported in parentheses) are based on robust standard errors clustered at the firm level. ***, ** and * denote significance at the 0.01, 0.05 and 0.10 levels, respectively. The sample is restricted to firm-years with ESG data (2003–2019). Model-specific observations may differ due to additional variable inclusion and non-missing requirements (e.g. lags, controls) dummy), which equals 1 if a firm undertook any foreign divestment in a given year, and 0 otherwise. The results (untabulated) show a consistent pattern with our main results, i.e. the divestment dummy is positively associated with the CDS spread (higher insolvency risk) and negatively associated with DD (lower stability). These supplementary analyses further reinforced our main findings, suggesting that foreign divestment significantly increases the insolvency risk of parent firms.

5. Conclusion

Although prior research has mainly focused on the antecedents of divestment, the outcomes of divestment have received comparatively limited attention (Mohr *et al.*, 2020). This study investigated the relationship between foreign divestment and the insolvency risk of parent firms, focusing on Nordic MNEs and using both traditional (Merton's DD spread) and innovative (CDS spread) market-based measures of insolvency risk. Our findings reveal a positive association between foreign divestment and increased insolvency risk for parent firms, offering new insights into the financial vulnerabilities introduced by divestment decisions. This contribution extends the international business and firm risk literature, emphasizing the effects of resource loss associated with foreign subsidiary divestments (e.g., Batsakis *et al.*, 2024; Brauer and Wiersema, 2012; Schmid and Morschett, 2023; Teschner and Paul, 2021).

In addition to this core relationship, we examined the moderating role of CSR activities. While CSR is often associated with positive organizational outcomes (e.g. Orlitzky *et al.*, 2003), some studies have highlighted its potential financial downsides (e.g. Crisostomo *et al.*, 2011). Consistent with this perspective, our findings show that higher levels of CSR activities exacerbate the insolvency risk associated with foreign divestments. This suggests that despite fostering goodwill and enhancing reputation, CSR initiatives can impose significant resource demands, intensifying financial strain during crises. These findings contribute to the CSR literature by shifting the focus from success metrics, such as profitability, to the less-explored area of financial risk and failure.

Our research also addresses gaps in international business literature by exploring the implications of foreign divestments on credit market reactions and providing evidence of how bondholders perceive the risks faced by parent firms in the context of divestment. By linking foreign divestments to CDS spreads, this study underscores the critical need for MNEs to consider the financial repercussions of their strategic divestment decisions on firm solvency. These insights complement prior studies that have largely focused on operational and performance outcomes (e.g. Denning, 1988; Hillier *et al.*, 2009).

For managers, these findings highlight the importance of integrating financial risk assessments into divestment planning in addition to immediate operational considerations. Before foreign divestment commences, firms need to carefully evaluate the potential impacts it has on resource configurations, performance stability and insolvency risk. Parent firms with high CSR commitments should particularly assess whether such investments remain sustainable and beneficial during restructuring periods, as excessive CSR spending may amplify firms' financial distress.

Theoretically, our research makes important contributions by being among the first to link foreign divestment to parent firms' insolvency risk, expanding the research beyond performance outcomes to financial stability and risk management among multinational firms. By using the RBV in this context, we show how divestments can destabilize parent firms, leading to their increased insolvency risk. In addition, we extend the CSR literature by explaining that, while CSR is often seen as beneficial, it may increase the financial vulnerability of firms in cases of foreign divestment. Together, these contributions offer a new perspective on the financial outcomes of foreign divestments and open new avenues for future research on risk management in the field of international business.

However, this study is not without limitations. Our analysis covers foreign divestments only, as consistent data on domestic divestments are hard to collect. While the RBV logic applies equally to domestic exits, cutting proximate, long-standing home-market linkages could create even greater resource disruption and signals of distress than foreign exits. Therefore, our findings may represent a moderate lower bound of the broader divestment and insolvency relationship. Future research could test this by incorporating domestic divestments. Still, the fact that even geographically distant foreign exits raise insolvency risk highlights the general importance of divestment-related solvency management.

The scope of this study is restricted to Nordic firms and relies on specific data sources, which may limit its generalizability to other regions or contexts. Future research could extend this work by examining larger, more diverse samples and exploring additional factors, such as industry-specific characteristics or variations in market conditions, that may influence the relationship between foreign divestments, CSR and insolvency risk. Moreover, subsidiaries divested in developing countries may have a significantly different impact on this relationship, particularly when considering the role of CSR activities, compared to those divested in developed countries. Future studies could also explore how motivations, divestment scale and voluntary vs involuntary divestments (Makino *et al.*, 2007; McDermott, 2010) shape insolvency risk.

This study includes only firms that have undertaken foreign divestments, which may introduce selection bias, as these firms could systematically differ from nondivesting firms. Due to data limitations, we were unable to apply correction techniques, such as the Heckman two-stage model. In addition, our divestment measure does not differentiate by scale or type, potentially oversimplifying the divestment impact. This measurement may weaken the ability to capture theoretical nuances and limit the internal validity. Future research could incorporate more divestment characteristics to improve construct validity. Finally, future research could also examine whether divestment is not only a cause of financial vulnerability but also a symptom of poor firm alignment, as suggested by transaction cost and internalization theories (Hennart, 1982).

In summary, this study advances the understanding of the interplay between foreign divestments and insolvency risk by incorporating the role of CSR activities. It provides valuable theoretical and practical insights for MNEs navigating the complexities of divestment and resource management in volatile global markets. Future research could further unravel these intricate dynamics, offering a more comprehensive understanding of firm survival in the context of foreign divestments.

Acknowledgements

The authors would like to thank Robert Czernkowski, Pervez Ghauri, Carlos Sousa, Min Zhu and participants at the BAFA Joint Conference of the Corporate Finance & Asset Pricing SIG and the Northern Area Group, CIMaR 29th Annual Conference, the 2023 AFAANZ conference, 17th Vaasa International Business Conference, the Brownbag Seminar at the University of Queensland Business School and the Seminar at University of Vaasa for the valuable comments and suggestions. Arshed Iqbal gratefully acknowledges financial support from the Liikesivistysrahasto. Jamshed Iqbal gratefully acknowledges financial support from Suomen Arvopaperimarkkinoiden Edistämissäätiö, Suomen Kulttuurirahasto (grant number: 00230480) and Liikesivistysrahasto (grant number: 200116 and 220140). Any errors are their own.

Notes

[1.] The data used in this study was manually collected and provides little information on the deal size.

[2.] The CRI refers to the CDS spread as the "actuarial spread." The actuarial spread is built using the traditional CDS design but without an upfront fee, under the assumption that market participants are risk neutral. Thus, the actuarial spread has the same features as the standard CDS spread. This adjustment allows for calculation of the CDS spread for a large number of firms.

[3.] We adopt the approach of Ellul and Yerramilli (2013) and apply winsorization to the independent variables. It is worth noting that the results remain robust even when not applying winsorization.

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Appendix 1

Table A1. Variables

Variable name	Notation	Definition	Source
Foreign divestment			
Foreign divestment	FD	Number of foreign divestment deals a firm completed in a given year. Each transaction represents a distinct divestment of a foreign subsidiary or equity stake, identified from different sources. Conceptually, it reflects any voluntary or forced reduction of a firm's engagement in cross-border activities (Benito and Welch, 1997)	Primary data from annual reports, press releases, personal contacts, and databases
Foreign divestment dummy	FD dummy	Equals 1 if the firm undertook at least One foreign divestment in a given year and 0 otherwise	Primary data
Insolvency risk			
Credit default swap spread	CDS	Credit derivative spread that transfers a firm's default risk between Two agents for a fixed time period; higher values indicate greater insolvency risk	RMI-NUS
Distance to default	DD	Annual average of a firm's distance to default based on stock price volatility; higher values indicate greater stability	RMI-NUS
CSR activities			
Corporate social responsibility score	CSR score	Composite ESG score (0–100) represents the level of corporate social responsibility activity performed by a firm	LSEG (refinitiv eikon)
High CSR		Dummy variable equal to 1 for firms in the top quartile of CSR scores, 0 otherwise	LSEG
Controls			
Firm size	Size	Natural logarithm of total assets	LSEG
Leverage	Leverage	Ratio of total debt to total assets (TLTA), reflecting a firm's capital structure	LSEG
Liquidity	Liquidity	Current assets divided by current liabilities, measuring short-term solvency	LSEG
Profitability	ROA	Net income divided by total assets	LSEG
Firm performance	Tobin's Q	Market value of a firm divided by the replacement cost of its assets	LSEG
Tangibility	Tangibility	Ratio of net property, plant, and equipment to total assets	LSEG
International experience	Int. Experience	Ratio of foreign sales to total sales	LSEG

Appendix 2

Table A2. Descriptive statistics (Sub-sample)

Variable	N	Mean	SD	P25	Median	P75	Min.	Max.
CDS spread (bps)	667	20.42634	19.89703	10.64611	16.81137	25.38325	1.344162	393.6864
Log (CDS spread)	667	2.77919	0.688815	2.365193	2.822055	3.23409	0.295771	5.975554
Divestment (max_divest)	667	2.827586	4.265085	1	2	3	1	65
Size	667	14.44354	1.559303	13.41783	14.60837	15.50866	9.493412	17.69237
ROA	667	5.803388	7.398989	3.055	5.66	8.67	−45.64	60.55
Leverage	667	0.573269	0.13226	0.501597	0.590334	0.657433	0.08085	1.646398
Liquidity	661	0.462994	0.158952	0.350731	0.447818	0.567071	0.077318	0.998794
Tangibility	667	0.290807	0.160906	0.163503	0.262052	0.41378	0	0.687675
Sales-to-Assets	667	1.054401	0.452586	0.795486	0.995409	1.202612	0	3.829487
Tobin's Q	648	0.572374	0.132489	0.501234	0.589097	0.657474	0.081354	1.646528
International experience	640	72.4659	25.4371	52.73	82.82	94.21	0	111.95
ESG score	278	56.63514	19.46941	43.4625	60.12	70.3225	3.55	93.29
Distance to default	656	4.681002	2.349801	3.020371	4.476373	5.988119	−0.82999	14.94562

Note(s): The CSR moderation models use firm-years with available ESG data from Refinitiv/LSEG. The CDS subsample reflects coverage constraints for market-based spreads. Model-specific Ns in Tables 3-5 reflect the largest feasible sample conditional on the included variables

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Foreign Divestment and Shareholders' Value Creation:

Role of Subsidiary Age

Abstract

Although foreign divestment (FD) has been widely studied, there is limited consensus on its impact on shareholder value, particularly when assessed with long-term indicators. Prior research has focused mainly on short-term market reactions, overlooking broader strategic implications. This study examines FD and shareholder value using a dataset of Nordic multinational firms (1999-2019) and two measures: logarithmic excess returns (LER) and the recently introduced Long-term Investor Value Appropriation (LIVA). Results show that FD positively influences value creation, while subsidiary age moderates outcomes differently in the short and long term. These findings extend FD literature by highlighting the roles of subsidiary age and demonstrating the importance of long-term metrics. While the loss of ownership, location, and internalization (OLI) advantages remains central to FD theory, our results suggest subsidiary age is also critical in shaping shareholder outcomes.

Keywords: Foreign divestment, long-term investor value appropriation (LIVA), LER, Shareholder Value Creation, FD theory, Subsidiary age.

1. Introduction

In today's volatile environment, multinational firms face challenges in foreign operations that often require strategic responses (Chung et al., 2010) such as downsizing, sell-offs, closures, spin-offs, or relocations (Benito, 2005; Belderbos & Zou, 2006; Kolev, 2016). Foreign divestment (FD) has thus become a common strategy. Schmid and Morschett (2020) report that 22% of U.S. subsidiaries were divested over 15 years, while an EY survey of 750 CEOs found that 31% planned divestments within a year (Ernst & Young, 2022). FD, defined as "any voluntary or forced actions that reduce a company's engagement in or exposure to current cross-border activities" (Benito & Welch, 1997, p. 9), is often used to refocus on core operations and growth (Deloitte, 2024). For example, Handelsbanken sold its Finnish operations for €1.3 billion (Reuters, 2023), and Kemira divested its Oil & Gas portfolio for €260 million to strengthen core businesses (Kemira, 2024).

A well-executed FD strategy may improve firm performance by divesting underperforming subsidiaries (Kaplan & Weisbach, 1992; Gibbs, 1993; Lang et al., 1995), thereby enhancing shareholder value. While value creation can encompass benefits to multiple stakeholders (Zwikael, 2024), we focus here on how firms increase their overall worth for shareholders (Mills & Weinstein, 1996; Costa & Andreaus, 2021). Divestments are typically undertaken when parent firms determine that certain foreign subsidiaries no longer contribute effectively to performance or strategic objectives (Ueta & Yasuda, 2025; Berry, 2010; Mohr, Batsakis, & Stone, 2018). Our study examines these outcomes at the shareholder level rather than subsidiary performance prior to exit, as maximizing shareholder value has emerged as the main objective and corporate goal of the firms (Clarke, Jarvis, & Gholamshahi, 2019; Koslowski, 2000; Tampakoudis, Nerantzidis, Artikis, & Kiosses, 2022).

Whether foreign divestments enhance shareholder value remains an important empirical question. Existing research provides only limited perspectives (Alexander et al., 1984; Mulherin & Boone, 2000; Ataullah et al., 2010), underscoring the need to examine how FD affects value creation. While related, firm performance and shareholder value are distinct: performance reflects operational and financial outcomes, whereas shareholder value emphasizes the firm's worth to investors, measured through stock prices, market value added, or dividends (Nieuwoudt & Hall, 2022; Venugopal et al., 2018; Hall, 2023). Analyzing shareholder value in FD decisions therefore clarifies whether such moves ultimately serve shareholders' interests, even if they reduce firm size or revenue in the short run.

In today's competitive environment, shareholder value is a central organizational objective and essential for sustaining long-term investor relations (Venugopal et al., 2018). Achieving it requires a forward-looking approach, effective performance measurement, and strong managerial leadership (Beaver, 2001). Based on above, this study examines how FD influences long-term shareholder value for parent firms, with subsidiary age as a moderating factor. Specifically, it addresses the following research questions:

1. How does foreign divestment influence the shareholder value creation of parent firms?
2. To what extent does the age of a divested subsidiary moderate the relationship between foreign divestment and shareholder value creation?

Because shareholder value creation requires a long-term perspective, we employ both the long-term investor value appropriation (LIVA) measure (Wibbens & Siggelkow, 2020) and logarithmic excess returns (LER). LIVA is particularly valuable as it captures long-term outcomes, decomposes sources of value creation and destruction, and avoids the limitations of backward-looking accounting measures. To reduce honeymoon bias (Gaur & Lu, 2007; Wang & Larimo, 2020; Lu & Xu, 2006), we include only subsidiaries that had operated abroad for at least two years, resulting in a sample of mostly mature firms (10+ years) (Fort et al., 2013; Pellegrino et al., 2011; Pugsley & Sahin, 2019). Value creation may differ by firm age, as younger firms typically grow faster than mature ones (Haltiwanger et al., 2013; Coad, 2009; Daunfeldt et al., 2014) and they are more prone to divestments (Cefis & Marsili, 2006).

We contribute to FD literature by examining how divesting foreign subsidiaries affects shareholder value, using both LER and LIVA. LIVA, introduced by Wibbens and Siggelkow (2019), is particularly suited to capturing long-term economic impact, complementing short-term measures such as cumulative abnormal returns (CAR). This allows us to provide a clearer view of how FD shapes shareholder value over time. In addition, we extend recent work (e.g. Batsakis et al., 2023; Schmid & Morschett, 2023) by analyzing the moderating effect of subsidiary age, offering deeper insights into key contingencies influencing FD outcomes.

Subsidiary age influences value creation, as the risk of divestment changes over time (Chang & Singh, 1999). Younger units often depend more on headquarters for host-market support (Cao & Alon, 2021; Zaheer, 1995), while older subsidiaries may lose strategic relevance as parent firms' priorities evolve. According to FD theory, divestment occurs when initial investment motives fade (Boddewyn, 1983). Thus, divesting young and established subsidiaries can have different implications for shareholder value. Our study contributes by examining this moderating role of subsidiary age in the FD - value creation relationship.

We also extend FD research, which has mainly focused on sell-offs as a common divestment strategy (John et al., 1992; Schlingemann et al., 2002; Hennart et al., 1998; Mata & Portugal, 2000; Song, 2014; Konara & Ganotakis, 2020). Our dataset of 112 Nordic firms (1999-2019) covers diverse FD forms, including closures, sell-offs, spin-offs, and mergers. Results show that FD generally enhances shareholder value, while the moderating effect of subsidiary age is more nuanced.

2. Theory and hypotheses

Arte and Larimo (2019) reviewed 53 FD studies over 23 years and identified eight commonly applied frameworks: cultural dimensions, economic geography, eclectic paradigm (OLI), institution-based view, knowledge-based view, network-based view, real options theory, and transaction cost/internalization theory. Most were applied in the context of exit, often framing divestment as failure (Kotabe & Ketkar, 2009; Feldman, 2022, p. 2). Research has thus focused mainly on subsidiary failure determinants at the firm, industry, or country level, yet Schmid and Morschett (2020) highlight that findings remain inconsistent.

Divestment research has largely focused on host-country attributes affecting subsidiary survival (Fernandez-Mendez et al., 2019; Sartor & Beamish, 2020). While unstable environments are often seen as risky for foreign operations (Benito, 1997), Arte and Larimo (2019) highlight ambiguity about the role of host institutions, and Schmid and Morschett's (2020) meta-analysis finds no evidence that riskier markets increase divestment likelihood. Within this literature, institutional theory and RBV remain among the most frequently applied frameworks.

Much of the literature emphasizes divestment's negative side, examining factors that drive FD or promote survival, such as host-country experience (Kim et al., 2010; Park et al., 2011), economic geography (Dellestrand & Kappen, 2012), or cultural distance (Benito, 1997; Pattnaik & Lee, 2014). Yet divestment is not necessarily failure. To provide a broader view, we apply FD theory (Boddewyn, 1983), which posits that the absence of investment motives drives divestment. As Kotabe and Ketkar (2009, p. 245) note, subsidiary divestment and survival are "two sides of the same coin."

2.1. Conceptual model

Building on Boddewyn's (1983) FD theory, or reverse eclectic paradigm, we develop the conceptual framework for our hypotheses. FD theory provides a lens through which we can understand the strategic decision-making behind FD. It explains why experienced parent firms divest older subsidiaries despite possessing institutional and cultural knowledge. Although multiple theories have been used to study FD, Dunning's (1980) eclectic paradigm remains the most influential (Ribau et al., 2015). While Dunning focused on expansion, retention and attraction, Boddewyn extended the paradigm by addressing divestment as a distinct outcome.

Extending Dunning's eclectic paradigm, Boddewyn (1983) argued that divestment occurs when a firm (1) no longer holds a net competitive advantage, (2) sees no profit in internalizing its advantages, or (3) finds them unworthy of internalization in a host country (McDermott, 2010). This reversal frames divestment as a strategic choice rather than a failure, offering insight into how firms optimize international portfolios.

International firms weigh ownership, location, and internalization (OLI) advantages when investing abroad, but divestment occurs if any advantage is lost (Dunning & Lundan, 2008). Such shifts often stem from changes in the host-country environment (McDermott, 2010). Boddewyn (1983) noted that, unlike the eclectic paradigm, FD theory requires only one OLI condition to justify divestment. Still, FD theory remains underdeveloped (Kotabe & Ketkar, 2009; Silva & Moreira, 2019) mainly due to scarce data and the stigma of viewing divestment as weakness (Dranikoff et al., 2002).

FD theory reframes divestment as a strategic response for reallocating resources, improving efficiency, and adapting to foreign market changes. For parent firms, it can be a proactive means of enhancing shareholder value. Experienced firms, with greater resources and knowledge, are better positioned to judge when divestment yields advantage and when to discontinue foreign operations. We analyse this by focusing on the roles of subsidiary age, which is central to understanding the dynamics of FD.

This study applies Boddewyn's (1983) FD theory as its conceptual lens. The theory integrates elements from other perspectives: ownership advantages link to the RBV and KBV, location advantages to institutional theory, and internalization to transaction cost theory. Together, these explain how divestments are triggered by the loss of OLI advantages and the misalignment of subsidiaries with a firm's competitive logic. While prior research has focused mainly on antecedents (Ameyaw, Panibratov, & Ameyaw, 2023), we extend the discussion to shareholder value outcomes, a comparatively less explored area.

2.2. Foreign Divestment and Value creation

FD is an important element of firm strategy, particularly for shareholder value creation. Compared to FDI, however, FD has received less attention, largely due to data challenges and the need for longitudinal evidence (McDermott, 2010; Iurkov & Benito, 2018; Schmid & Morschett, 2020; Lee & Madhavan, 2010). Still, research recognizes its growing role in de-internationalization (Berry, 2010; Berry, 2013; McDermott, 2010; Soule et al., 2014). Terms such as divesture, closure, exit, de-internationalization, dissolution, disposition, disengagement, and disposal are often used, but here we adopt "foreign divestment". FD can enhance shareholder value by (1) reallocating resources toward strategic opportunities and core competencies (Berry, 2010; Benito & Welch, 1997; Boddewyn, 1985; Fletcher, 2001) and (2) improving transparency, reducing agency costs, and freeing capital for reinvestment or returns to shareholders (Wan et al., 2011; Sewing, 2010; Fischer et al., 2013; Montgomery & Wernerfelt, 1988).

This study focuses on MNEs that divested foreign, not domestic, subsidiaries. Foreign divestments show greater long-term volatility and may increase at higher rates (Mata & Freitas, 2012). While prior work often examines sell-offs that generate cash and positive outcomes (Bates, 2005), we include multiple FD forms to capture broader impacts, noting that not all produce cash inflows or uniform effects on shareholder value.

In times of financial distress, MNEs often divest foreign operations to raise lower-cost funds, particularly through sell-offs that provide cash for reinvestment and restructuring (Lang et al., 1995; Bates, 2005). Studies of market reactions to sell-offs (Kumar, 2005; Kaprielyan, 2016) report both positive and negative outcomes (Markides, 1995; Lee & Madhavan, 2010). Some studies report a negative relationship between FD and firm performance (Bergh, 1995; Montgomery & Thomas, 1988; Wright & Ferris, 1997), while others find no significant impact (Woo et al., 1992). In contrast, research in the U.S. and U.K. indicates positive effects on shareholder wealth following divestment (Alexander, Benson, & Kampmeyer, 1984; Jain, 1985; Mulherin & Boone, 2000; Gadad & Thomas, 2005).

Most empirical research has examined divestitures and spin-offs separately, though managers must understand their combined effects on shareholder value. Studies of U.S. and U.K. firms (Alexander et al., 1984; Hearth & Zaima, 1984; Kaiser & Stouratis, 2001; Mulherin & Boone, 2000; Ataullah et al., 2010) dominate the literature, with fewer covering other European markets (Veld & Veld-Merkoulova, 2004). These studies generally report positive short-term cumulative abnormal returns (CAAR%), typically within a few days of divestment announcements. Building on this, it is important to assess how divestment in general affect shareholder value over the longer term.

Distinguishing short- and long-term shareholder value is crucial, as investor reactions and realized outcomes often diverge (Fama, 1998; Wibbens & Siggelkow, 2020). Short-term returns (LER) reflect immediate market reactions based on perceived strategic value or signaling, while

LIVA captures realized long-term performance. Using both measures allows us to assess whether initial market sentiment aligns with actual outcomes and thus better understand the impact of foreign divestment across time horizons.

We argue that FD can enhance shareholder value across both short and long horizons. To assess this, we apply LER and LIVA, responding to calls for further research on divestment and value creation (Silva & Moreira, 2019). Focusing on Nordic MNEs, we suggest that firms' ability to learn from experience and redeploy resources supports positive effects of FD in both timeframes. Thus, we hypothesize:

> *Hypothesis 1: Foreign divestment of international firms positively influences shareholder value in the* ***short term****.*
>
> *Hypothesis 2: Foreign divestment of international firms positively influences shareholder value in the* ***long term****.*

2.3. Subsidiary age

Subsidiary age, the time since establishment in a host market, is an important contingency when assessing FD outcomes. From the RBV and KBV, older subsidiaries often possess market knowledge and networks that enhance performance (Barney, 1991; Delios & Beamish, 2001). Their divestment may therefore involve a loss of embedded knowledge. Yet FD theory suggests subsidiaries are no longer valuable once OLI advantages erode. Younger subsidiaries, by contrast, face greater risks due to limited experience and liabilities of newness, often requiring heavy parent support (Hennart et al., 2002). Our study treats subsidiary age not as a predictor of divestment likelihood but as a moderator of the FD-shareholder value relationship, reflecting the degree of strategic embeddedness through the lens of lost OLI advantages.

Older subsidiaries gain legitimacy over time and benefit from both parent-firm resources and host-country support (Benito, 1997; Hannan & Freeman, 1984). Because new subsidiaries receive substantial initial backing, they are usually not divested until these resources are depleted (Hannan, 1998; Fichman & Levinthal, 1991). Parent firms also need time to identify divestment motives and implement strategies, which initially shields subsidiaries from exit. Thus, subsidiary age is a key moderator: while older units provide valuable knowledge and networks, it remains crucial to examine whether they should still be divested once OLI advantages are lost.

Younger subsidiaries possess limited local knowledge and depend heavily on parent-firm resources (Steers & Nardon, 2005). Facing liabilities of newness, they carry higher divestment risk than older subsidiaries, which gain host-market experience and resilience over time (Belderbos & Zou, 2009; Hannan, 1998). Older subsidiaries also develop networks, legitimacy, and institutional support (Benito, 1997; Hannan & Freeman, 1984), and often enjoy greater autonomy that fosters innovation (Foss & Pedersen, 2002). Subsidiary age reflects resource accumulation, local adaptation, and organizational learning, which may condition divestment outcomes. Older subsidiaries, with higher sunk costs and deeper embeddedness, may either add value if OLI advantages are lost or disrupt value if still strategically important. Younger subsidiaries, though less embedded, face liabilities of newness and heavy reliance on parent resources. These differences suggest that FD effects may vary with subsidiary age. Accordingly, we examine whether subsidiary age moderates the FD-shareholder value relationship in both short and long term, and we hypothesize the following:

> *Hypothesis 3: Ceteris paribus, the older the divested foreign subsidiary, the greater the positive impact on* ***short-term*** *shareholder value creation.*

> *Hypothesis 4: Ceteris paribus, the older the divested foreign subsidiary, the greater the positive impact on* ***long-term*** *shareholder value creation.*

3. Research Method

3.1. Data and sample

Our sample comprises publicly listed Nordic firms from 1999 to 2019. The period begins in 1999, when LIVA data became available, and ends in 2019 to exclude COVID-19 effects. Following prior studies (e.g., Wang & Larimo, 2020), we collected divestment data from Refinitiv Eikon and ORBIS, supplemented with annual reports, press releases, company surveys, and direct firm contacts. Our initial dataset comprised 153 publicly listed firms. FD data were integrated with shareholder value data from the global LIVA database[1] and control variables from Orbis (Bureau van Dijk). After removing missing firm-year observations, the final sample includes 112 firms with 551 firm-year observations. The panel covers investments (1997-2017) and divestments (1999-2019), ensuring subsidiaries survived at least two years to mitigate honeymoon bias (Gaur & Lu, 2007; Wang & Larimo, 2020). Stock return data were obtained from Refinitiv's DataStream, and Appendix 1 details the study variables.

3.2. Estimation Method

To examine the effect of divestment of foreign subsidiaries on the shareholder value creation by parent firms, we will estimate several alternative versions of the following baseline model:

Y_(i,t)= α+β_1 〖international divestment〗_(i,t-1)+β_2 〖Controls〗_(i,t-1)+β_3 Σ〖Firm Effects〗_i+β_4 Σ〖Year effects_t+ε_(i,t)

Where Y_(i,t) represents the outcome variables, which are either LIVA or LER. Both proxies reflect shareholder value creation for the parent firms. We initiate our analysis with pooled Ordinary Least Square using contemporaneous variables. To overcome the potential issue of endogeneity bias, we also incorporate lagged independent variables.

3.3. Measures of shareholder value creation

We assess shareholder value using two approaches. The literature continues to debate how best to capture long-run performance from shareholders' perspective (Fama, 1998; Loughran & Ritter, 2000). Accordingly, we employ both cumulative abnormal returns (CAR) for short-term effects and the long-term investor value appropriation (LIVA) method (Wibbens & Siggelkow, 2019). LIVA captures realized long-term economic outcomes, which may diverge sharply from market reactions, as in the case of bankruptcies versus divestments of similar size. While CAR reflects investor expectations at the event date, LIVA evaluates the actual long-term value created or destroyed, making it particularly suitable for analyzing FD. Wibbens and Siggelkow (2019) define LIVA in terms of, "the backward-looking NPV of returns over time".[1] LIVA is measured as follows:

$$LIVA = \sum_{t=1}^{T} \frac{ER_t MC_{t-1}}{(1+r)^{t-T}}$$

ER t in this equation represents the excess return over period t, and MC t − 1 stands for the market capitalization (the value of all shares in the market) at the beginning of period t. As Wibbens and Siggelkow (2019) stated, "LIVA is equal to the sum of the discounted absolute excess returns to shareholders over a given period".

We also use logarithmic excess returns (LER), or buy-and-hold returns, defined as dividend yield plus stock price appreciation with reinvested dividends. LER is effective for explaining cross-

[1] see Wibbens and Siggelkow (2019) for the detailed measurement of LIVA.

sectional performance variation. In robustness tests, we further employ cumulative abnormal returns (CAR) around divestment announcements.

3.4. Divestment of foreign subsidiaries

Following prior studies (Pattnaik & Lee, 2014; Kang et al., 2017; Wang & Larimo, 2020), we measure foreign divestment (FD) as a binary variable: 1 if a firm divested at least one foreign subsidiary in a given year, and 0 otherwise. When a firm divested multiple foreign subsidiaries within the same year, we calculated the average age of the divested subsidiaries for that year. This approach allows us to capture general maturity profile of the divested assets while maintaining the firm-year as our unit of analysis. Although averaging may smooth over some subsidiary specific variation, it is appropriate given our research design and focus on firm level shareholder value outcomes.

3.5. Control Variables

We include firm size (SIZE), measured as the natural log of total assets (USD millions), since larger firms are generally more profitable and enhance shareholder value. We also control for leverage (TLTA), the ratio of total debt to assets. Higher leverage increases financial risk and is typically associated with lower shareholder value (Hsu & Jang, 2008; Koh et al., 2009; Park & Lee, 2009; Tsai & Gu, 2007).

We control for profitability using return on assets (ROA), calculated as net income divided by total assets ratio. ROA reflects a firm's ability to generate returns, with higher values linked to greater shareholder value. We also include liquidity (LIQ), measured by the current ratio (current assets/current liabilities), since firms with stronger liquidity are better positioned to meet obligations and enhance shareholder value.

We include Tobin's Q (TOBINQ), calculated as (market value + total liabilities) / total assets, which reflects performance and growth opportunities and is expected to enhance shareholder value. The sales-to-asset ratio (SALES) measures managerial efficiency and should also positively influence value (Rappaport, 1986). Finally, tangibility (TANG), defined as net property, plant, and equipment over total assets, is typically negatively related to firm value (Fukui & Ushijima, 2007; Nakano & Nguyen, 2013).

To limit outlier effects, all variables were winsorized at the 1% level, except FD, which showed no issues, and the dependent variables (LIVA and LER), where extreme values reflect best performing firms.

4. Empirical analysis

4.1. Descriptive statistics and correlation

Table 1 presents descriptive statistics for the variables. FD ranges from 1 to 65, with a mean of 3.15, indicating over three divestments per firm-year on average. Value creation also shows wide variation: LIVA spans -177.32 to 260.95, and LER ranges from -2.51 to 5.98 with a mean of 2.01. Control variables are similarly heterogeneous, for instance firm size varying from USD 5.93 million to 1.47 trillion.

Table 1: Descriptive statistics

VARIABLES	Mean	Median	SD	Min	Max	P25	P75	Observations
Foreign Divestment								
FD	3.15	1	5.31	1.00	65.00	1.00	3.00	941.00
FD winsorized	3.04	1	4.49	1.00	30.00	1.00	3.00	941.00
Divestment Dummy	0.21	0	0.40	0.00	1.00	0.00	0.00	4,587.00
Shareholder Value Creation								
LIVA	0.19	0.13	7.98	-177.32	260.95	-0.14	0.31	2,395.00
LER	0.01	0.03	0.38	-2.51	2.01	-0.17	0.23	2,395.00
LIVA (log)	4.61	4.60	0.08	1.47	5.89	4.60	4.61	2,394.00
Control Variables								
ROA	6.06	5.91	10.59	-202.81	104.29	3.25	9.53	3,025.00
Int. experience	67.04	73.03	30.38	0.00	673.15	48.09	91.82	2,695.00
Size (Log of total assets)	13.58	13.62	1.75	8.69	18.81	12.24	14.87	3,107.00
Leverage	0.56	0.57	0.18	0.01	3.63	0.47	0.66	3,107.00
Liquidity	0.49	0.49	0.17	0.03	0.99	0.36	0.61	3,033.00
Tangibility	0.28	0.26	0.17	0.00	0.83	0.14	0.41	3,105.00
Additional Variables								
Sales to assets	1.05	1.00	0.48	-0.10	3.83	0.78	1.31	3,104.00
Tobin Q	0.55	0.57	0.16	0.01	1.17	0.47	0.66	2,807.00
Total assets (Million USD)	3,064.93	828.16	6,386.71	5.93	147,512.00	206.37	2,859.90	3,107.00
Firm age	99.69	90	73.33	0	370	53	127	935
Subsidiary age	9.06	7	8.69	0	97	3	12	935

See appendix 1 for variable definition.

Table 2 reports pairwise correlations. FD is positively correlated with both LIVA and LER, supporting Hypotheses 1 and 2: more subsidiary divestments are associated with greater shareholder value in the short and long run. As expected, LIVA and LER are also positively correlated (r = 0.19). Since these correlations do not control for other factors, they should be interpreted cautiously.

Table 2: Pairwise correlations

	Liva	Ler	Max Divest	Firm age	size	ROA	Leverage	Liquidity	Tangibility	Sales to assets	Tobin Q
Liva	1,000										
Ler	0,186	1,000									
Max Divest	0,016	0,092	1,000								
Firm age	0,006	-0,015	0,077	1,000							
size	0,011	0,018	0,090	0,014	1,000						
ROA	0,064	0,285	0,045	0,092	0,117	1,000					
Leverage	-0,002	-0,091	-0,033	-0,074	0,066	-0,328	1,000				
Liquidity	-0,013	0,034	-0,014	0,019	-0,223	0,027	0,036	1,000			
Tangibility	0,027	0,010	0,094	-0,118	0,043	0,064	-0,018	-0,499	1,000		
Sales to assets	-0,001	0,037	0,025	-0,111	-0,246	0,143	0,099	0,396	0,036	1,000	
Tobin Q	0,000	-0,083	-0,020	-0,074	0,132	-0,228	1,000	0,023	0,019	0,175	1,000
Int. Experience	-0,004	-0,028	0,013	0,011	0,159	0,048	-0,039	0,011	-0,104	-0,043	-0,029

Here * denotes $p < 0.05$ (two-tailed).

4.2. Baseline regression results

We employ panel data where shareholder value creation serves as the dependent variable for estimating our model. Our baseline model to examine the relationship between divestment and shareholder value creation follows several alternative panel regressions of the equation (1):

$$\begin{aligned} Value\ Creation_{i,t} = \alpha + \beta_1 FD_{i,t} + \beta_2 Size_{i,t} + \beta_3 Return\ on\ assets_{i,t} \\ + \beta_4 Leverage_{i,t} + \beta_5 Liquidity_{i,t} + \beta_6 Tangibility_{i,t} \\ + \beta_7 Int.Experience_{i,t} + \sum_{k=1}^{n-1} \alpha_k Firm_i^k + \sum_{y=1992}^{2019} \omega_y Period_i^y + \varepsilon_{i,t} \end{aligned} \quad (1)$$

Where the dependent variable *Value Creation$_{i,t}$* is one of two alternative measures of shareholder value creation: LIVA or excess returns for firm *i* at time *t*. *FD* is number of divestments a firm *t* undertook during a particular year *i*. As discussed above, several firm-level control variables that could affect divestment and value creation are included. The definition of each variable is given in Appendix 1. The regressions also include firm and year fixed effects, while errors are clustered at the firm level. Moreover, we also control for country-fixed effects. Country dummies are derived from the initial two letters of a firm's ISIN code. Furthermore, all independent variables are winsorized at the 1st and 99th percentiles to mitigate potential outlier effects.[2]

Table 3 reports the results for six alternative versions of Equation (1), where Models 1-3 employ LIVA as the dependent variable, while Models 4-6 use excess returns (*LER*) as the dependent variable. Models 1 and 4 include only *Size*, *Return on assets,* and *Leverage* as the control variables to achieve parsimony. Models 2 and 5 include the full set of control variables and year fixed-effects, and Models 3 and 6 introduce both year and firm fixed-effects alongside the full set of control variables. All models include country-fixed effects.

Table 3: FD and Shareholders' value creation

VARIABLES	(1) LIVA	(2) LIVA	(3) LIVA	(4) LER	(5) LER	(6) LER
FD	-3.376*	-3.524**	-3.500**	-0.076**	-0.073*	-0.079*
	(-1.903)	(-2.221)	(-2.064)	(-2.174)	(-1.731)	(-1.657)
Parent firms*FD	3.236**	3.469***	3.452**	0.020***	0.020**	0.020**
	(2.466)	(2.837)	(2.043)	(3.214)	(2.181)	(2.133)
Parent firms	-1.086	-1.313	-1.091	0.015	0.014	-0.013
	(-1.271)	(-1.621)	(-0.488)	(0.184)	(0.177)	(-0.126)
Size	0.277	0.649	-2.800	-0.007	-0.004	-0.162***
	(0.487)	(0.593)	(-0.807)	(-0.608)	(-0.306)	(-2.658)
ROA	0.073	0.059	0.070	0.007**	0.007**	0.008**
	(0.466)	(0.466)	(0.378)	(2.215)	(2.132)	(2.199)
Leverage	1.808	-0.354	4.634	0.158	0.085	0.475*
	(0.632)	(-0.067)	(0.587)	(1.200)	(0.632)	(1.786)
Liquidity		4.188	3.937		-0.139	-0.373
		(0.600)	(0.270)		(-0.988)	(-1.330)
Tangibility		-1.213	-3.671		-0.310**	-0.446
		(-0.188)	(-0.313)		(-2.521)	(-1.192)
Int_Experience		-0.049	-0.086		-0.000	-0.001
		(-1.059)	(-1.004)		(-0.702)	(-0.826)
Constant	4.315	2.910	51.586	-0.151	0.055	2.555***
	(0.664)	(0.308)	(0.897)	(-0.717)	(0.224)	(3.074)
Observations	551	524	524	551	524	524
R-squared	0.043	0.051	0.077	0.218	0.221	0.414
Compno	112	104	104	112	104	104
Year FE	YES	YES	YES	YES	YES	YES
Firm FE	NO	NO	YES	NO	NO	YES
Country FE	YES	YES	YES	YES	YES	YES

See appendix 1 for variable definition. The reported adjusted R^2s are the overall R^2s that account for the explanatory power of the firm and period fixed effects. The *t*-statistics (reported in parentheses) are based on robust standard errors, which are adjusted for heteroskedasticity and clustered at firm level. ***, **, and * denote significance at the 0.01, 0.05, and 0.10 levels, respectively.

[2] We follow Ellul and Yerramilli (2013) and winsorized the independent variables. Results are also robust to not winsorizing.

Table 3 shows that FD has a positive and significant coefficient in Models 1-3 with LIVA as the dependent variable, supporting Hypothesis 2: foreign divestments enhance shareholder value in the long run. In Models 4-6, FD is also positively related to LER, confirming Hypothesis 1 that divestments raise short-term shareholder returns. These findings align with prior international business and finance studies (Datta & Iskandar-Datta, 1996; Markides, 1992; Meschi, 2005), which also report positive shareholder value effects. Overall, FD is linked to significant short-run market reactions, with the positive impact persisting in the long run.

Firm-specific variables also yield insights. Firm size is negatively related to LER (Model 6) and positively, though insignificantly, to LIVA (Model 3), suggesting larger firms may be viewed skeptically by investors. ROA shows a positive association with both measures, indicating profitability enhances shareholder value. Tangibility appears negatively related to value, consistent with investors reacting unfavorably to the loss of tangible assets.

Table 3 shows that international firms with more divestments generate greater shareholder value, supporting our main hypothesis. These results align with prior work on value creation (Hearth & Zaima, 1984; Cao et al., 2008; Hillier et al., 2009; Brauer & Wiersema, 2012). They also suggest that well-established firms benefit from OLI advantages in the long run, making their divestments more profitable than those of younger firms, consistent with FD theory.

4.3. Moderating role of Subsidiary age

To test the moderating role of subsidiary age, we re-estimate equation (1) with the interaction term FD × subsidiary age. Table 4 presents results for LIVA (Models 1-3) and LER (Models 4-6). The interaction shows no effect on LIVA, indicating that divesting older subsidiaries does not enhance long-term shareholder value. Thus, Hypothesis 4 is not supported. Consistent with FD theory (Boddewyn, 1983), divestment creates value only when OLI advantages are lost. If OLI advantages are present, divesting older subsidiaries is unlikely to benefit parent firms.

However, the interaction terms are positive and significant with LER (Models 4-6), indicating that divesting older subsidiaries creates short-term shareholder value and supporting Hypothesis 3. This contrast is expected: stock market reactions capture immediate gains, while long-term effects, measured by LIVA, may fade. Hence, LIVA is essential for evaluating lasting performance. Our results suggest parent firms should divest older subsidiaries only after their OLI advantages have been realized or lost, consistent with FD theory.

Table 4: Moderating role of Subsidiary age

VARIABLES	(1) LIVA	(2) LIVA	(3) LIVA	(4) LER	(5) LER	(6) LER
FD	-0.176	-0.046	-0.192	-0.046	-0.056*	-0.044
	(-0.133)	(-0.036)	(-0.111)	(-1.605)	(-1.823)	(-1.237)
sub_age*FD	0.000	-0.000	0.002	0.002***	0.002***	0.001***
	(0.043)	(-0.013)	(0.132)	(4.364)	(4.408)	(2.984)
sub_age	-0.003	-0.002	-0.006	-0.002***	-0.002***	-0.001***
	(-0.249)	(-0.162)	(-0.323)	(-4.688)	(-4.692)	(-3.280)
Size	0.320	0.701	-2.929	-0.012	-0.010	-0.157***
	(0.466)	(0.561)	(-0.836)	(-1.130)	(-0.774)	(-2.761)
ROA	0.092	0.086	0.078	0.006*	0.006*	0.009***
	(0.494)	(0.513)	(0.381)	(1.838)	(1.797)	(2.713)
Leverage	1.603	-0.622	4.662	0.130	0.059	0.391
	(0.506)	(-0.109)	(0.481)	(0.987)	(0.440)	(1.479)
Liquidity		4.916	4.139		-0.105	-0.276
		(0.676)	(0.274)		(-0.717)	(-1.046)
Tangibility		-0.843	-4.252		-0.242**	-0.171
		(-0.119)	(-0.301)		(-2.112)	(-0.511)
Int_experience		-0.054	-0.102		-0.000	-0.000
		(-1.001)	(-0.985)		(-0.384)	(-0.432)
Constant	2.665	0.709	53.286	-0.043	0.117	2.398***
	(0.383)	(0.067)	(0.883)	(-0.262)	(0.532)	(3.161)
Observations	513	487	487	513	487	487
R-squared	0.043	0.051	0.079	0.223	0.229	0.421
Compno	112	104	104	112	104	104
Year FE	YES	YES	YES	YES	YES	YES
Firm FE	NO	NO	YES	NO	NO	YES
Country FE	YES	YES	YES	YES	YES	YES

See appendix 1 for variable definition. The reported adjusted R^2s are the overall R^2s that account for the explanatory power of the firm and period fixed effects. The *t*-statistics (reported in parentheses) are based on robust standard errors, which are adjusted for heteroskedasticity and clustered at firm level. ***, **, and * denote significance at the 0.01, 0.05, and 0.10 levels, respectively.

4.4. Additional analysis

To test robustness, we conducted three additional analyses (un-tabulated). First, using younger firms, we find that higher FD activity is negatively associated with shareholder value, suggesting that divestments by young parents reduce value creation. Second, excluding 2007-2009 to account for the Global Financial Crisis (GFC) yields consistent results, confirming the crisis did not bias our findings. Finally, international experience shows no moderating effect, as FD impacts value creation similarly for firms with both high and low international experience.

5. Discussion and conclusion

This study advances research on FD and shareholder value by analyzing Nordic MNEs from 1999 to 2019. Using both LER and LIVA, we find that FD enhances shareholder value, extending prior work linking divestment to value creation (Teschner & Paul, 2021; Chen & Feldman, 2018). We also show that subsidiary age moderates this relationship: older subsidiaries raise short-term value but have no long-term effect, consistent with LIVA's focus on absolute long-term performance (Wibbens & Siggelkow, 2019).

Theoretically, this study extends FD research (Batsakis et al., 2023; Schmid & Morschett, 2023) by incorporating multiple contingencies and new measures of shareholder value. We also connect FD and value creation literature through FD theory (Boddewyn, 1983), which has been underutilized in recent work. This perspective clarifies that once OLI advantages are lost, divestment becomes more valuable for parent firms. Further, we highlight the limitations of earlier exit typologies, which often overlook multidimensional motives. In particular, our results show that FD may reflect strategic reallocation rather than mere failure, complementing prior discussions of failure-versus strategy-driven motives (Cairns et al., 2010; Sousa & Tan, 2015; Tan & Sousa, 2019; Batsakis et al., 2023).

FD theory (Boddewyn, 1983) suggests that subsidiaries lacking OLI advantages are more likely to be divested to enhance shareholder value. Our LIVA analysis confirms that value outcomes depend less on subsidiary age than on performance and OLI advantages. Parent firms with accumulated resources and experience can manage divestment more effectively (Ghemawat & Nalebuff, 1985), whereas younger firms often lack the flexibility and stability to handle such challenges (Autio et al., 2000). Experienced firms can realign and reinvest to strengthen competitiveness (Hitt et al., 1997; Zahra et al., 2000), but subsidiary age alone does not determine FD implications. Divestment is problematic if a subsidiary still holds OLI advantages (Dunning, 1988a) or remains strategically vital, yet it is beneficial when subsidiary no longer aligns with strategic objectives, has become obsolete, or if the initial investment motivations (OLI) are irrelevant (Benito, 2005).

Our results also contribute to the understanding of ownership advantages in the eclectic paradigm. Dunning (1988a, 1988b, 2001) emphasized the role of intangible assets and tacit knowledge in enabling firms to exploit location advantages. Building on this, our findings underline the importance of value creation and profitability for parent firms. Divestment decisions should therefore be based on a careful assessment of subsidiaries' strategic contributions, including technological capabilities, market conditions, and alignment with long-term goals (Hoskisson et al., 1994), or more broadly, whether subsidiaries still possess OLI advantages. Such comprehensive evaluations, rather than subsidiary age alone, should guide divestment choices.

Findings of the study show that international parent firms benefit from divesting foreign subsidiaries by creating shareholder value, particularly during periods of financial distress and uncertainty. Prior research also suggests that firms often sell foreign assets in such times to reduce financial risk and loss (Brauer, 2009, Chung et al., 2013) and reallocate resources to more strategic and profitable activities (Berry, 2010; Zhou et al., 2011). However, the age of a subsidiary does not determine long-term outcomes. Consistent with FD theory, divestment is beneficial primarily when subsidiaries lose their OLI advantages, as weak performance remains a key driver of exit (Song, 2015; Berry, 2013).

Another theoretical contribution of this study is clarifying which foreign subsidiary divestments create value for parent firms. While some research links divestment positively to parent performance (Brauer & Wiersema, 2012; Lee & Madhavan, 2010), later studies emphasize that outcomes depend on specific circumstances (Feldman, 2014). Our findings support this refinement by showing that FD enhances value particularly for experienced parent firms and subsidiaries that once benefited from OLI advantages, underscoring the joint role of firm and subsidiary factors. We also add to work on divestment motives (Burt et al., 2018; Schmid & Morschett, 2020) by highlighting the influence of subsidiary age. Practically, these results can help managers assess which subsidiaries are more suitable to divest, recognizing that age alone is less important than the presence of OLI advantages. For policymakers, the findings are especially relevant in Nordic countries, where limited domestic markets drive firms to maintain foreign operations.

Unlike prior FD research emphasizing home-country (Soule et al., 2014; Lee et al., 2022; Tan & Sousa, 2020; Da Fonseca, Da Rocha, & Ferreira, 2023) and host-country factors (Arte & Larimo, 2019; Schmid & Morschett, 2020), this study highlights the role of subsidiary age while assessing both short- and long-term effects through the recently introduced LIVA measure. We use LER and LIVA (Wibbens & Siggelkow, 2020) to evaluate shareholder value across time horizons. LIVA is particularly useful as it captures long-term economic outcomes, identifies sources of value creation and destruction, and complements short-term indicators such as cumulative abnormal returns (CAR). This makes it well suited for FD analysis, where immediate market reactions may diverge from long-term performance.

This study has several limitations. First, the sample consists only of Nordic firms in developed economies; future research should include developing-country firms to enable comparison and strengthen generalizability. Other parent and subsidiary characteristics that may shape value creation during FD should also be considered. In addition, we do not account for managerial motivations behind divestment. Agency theory (Ross, 1973; Jensen & Meckling, 1976) suggests possible misalignment between managerial and shareholder interests, and future studies could examine how governance, ownership, or incentives influence FD outcomes. Future research should further explore the role of host-country context, industry, and firm size in shaping shareholder value creation. Moreover, the analysis covers Nordic firms prior to the COVID-19 pandemic; examining post-crisis divestments could provide valuable contrasts. Future studies could also apply additional proxies and variables to deepen understanding of FD and shareholder value creation.

We lack direct measures of subsidiary performance prior to divestment, so our analysis focuses on firm-level shareholder outcomes rather than subsidiary-level conditions. Although we conceptually distinguish between strategic and performance-driven motives, these were not directly measured. Future research could incorporate subsidiary performance, roles, and divestment scale to better separate proactive from failure-driven exits. Moreover, examining voluntary versus involuntary divestments within the FD framework (Boddewyn, 1983) could yield additional insights into shareholder value implications. These limitations create opportunities to further explore the interplay of FD, value creation, and subsidiary age.

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Variable Name	Notation	Definition	Source
1.Foreign Divestment	FD	Any voluntary or forced actions that reduce a company's engagement in or exposure to current cross-border activities (Benito and Welch 1997).	Primary data
2.Shareholders' value			
Long-term investor value appropriation	LIVA	LIVA measures the absolute size of performance. It is defined in terms of the backward-looking NPV of returns over time.	WRDS/LIVA
Logarithmic Excess returns	LER	subtract the returns on a risk-free investment from the returns on an investment and that will equal the excess returns. The formula is: Excess returns = Returns on investment - Returns on a risk-free investment.	WRDS
3.Firm and Subsidiary Age			
Firm age	Firm age	Time between the initial creation of a firm and the present time (in years)	Orbis
Subsidiary age	Sub age	Total years a foreign affiliate is present in the foreign market	Primary data
4.Controls			

Firm size	Size	Natural logarithm of total assets of a firm.	Orbis
Leverage	Leverage	It is the ratio of total debt to total assets (TLTA). Leverage reflects the capital structure of the firm	Refinitiv Eikon
Liquidity	LIQ	Ability of the firm to pay its short-term obligations	Refinitiv Eikon
Performance/Profitability	Return on Assets	Net income divided by total assets.	Refinitiv Eikon
Tobin's Q	Tob Q	The market value of a company divided by its assets' replacement cost.	Refinitiv Eikon
SALES	Sale	Ratio of sales to total assets	Refinitiv Eikon
Tangibility	Tang	Ratio of net property plant and equipment divided by total assets	Refinitiv Eikon
International experience	Int. Exp	Foreign sales divided by the total sales	Refinitiv Eikon

Appendix 1: Variables

Mitigating foreign divestment risks through managerial capabilities

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Abstract

While foreign divestment has garnered attention in international business literature, existing studies primarily focus on its antecedents and economic impacts on firm performance. The role of senior executives in mitigating risks associated with foreign divestments and ensuring their successful execution remains rather underexplored. This study examines how Finnish senior managers in multinational enterprises mitigate risks throughout foreign divestment process to ensure the strategic and successful execution of divestment. Drawing on semi-structured, in-depth interviews with senior executives, we identify key managerial skills and capabilities that drive the formulation and implementation of pre- and post-divestment strategies. Our findings highlight the critical role of managerial skills, such as risk assessment, communication, and resource allocation, in safeguarding parent firms and enhancing stakeholder value. Guided by the resource-based view, this study contributes to a more comprehensive understanding of foreign divestments by integrating managerial competencies into the broader discourse.

Keywords: Foreign divestment, managerial capabilities, risk mitigation, divestment strategies, RBV, MNEs, international business, senior executives.

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1. Introduction

Foreign divestment (FD), defined as a firm's decision to liquidate or sell an active foreign operation (Tan & Sousa, 2019), has become a critical component of multinational enterprises' (MNEs) corporate strategies (Yoo & Moon, 2024). However, it remains a relatively underexplored area in international business and strategic management research (McDermott, 2010) even though recent global market dynamics underscore its growing strategic importance. In Finland, for instance, more firms closed operations in 2023 than in any other year of the past quarter century, surpassing even the peak of the 2009 financial crisis (Statistics Finland, 2023), with the upward trend continuing (Helsinki Times, 2024; Kauppalehti, 2025). Analysts attribute this surge to the lingering effects of the COVID-19 pandemic, the energy crisis stemming from Russia's war of aggression, and persistent inflation. Globally, foreign direct investment (FDI) flows stagnated at $1.3 trillion, reflecting economic slowdown and geopolitical tensions. FDI to developing economies fell by 7% in 2023 to $867 billion, with marked regional variation (UNCTAD, 2024).

Divestment is now embedded in the strategic decisions of the world's leading MNEs, with the top 100 firms undertaking major divestments in 2022-2023 in response to geopolitical and economic pressures. Nordic countries in particular have pursued divestments to rebalance portfolios, exiting fossil fuel assets while investing in renewables, though investments in sustainable development goal critical sectors also declined by over 10% (UNCTAD, 2024). Such FDs expose firms to multifaceted risks, ranging from safeguarding parent-company stability to protecting subsidiary operations and preserving long-term value. Understanding how these risks are mitigated through managerial capabilities, underpinned by executives' strategic, cognitive, and relational skills, is critical for ensuring the long-term viability of MNEs.

In international business literature, while foreign market entry and expansion have attracted considerable scholarly attention, FD has remained relatively underexplored despite its prevalence in global business practice. Prior studies have mainly investigated its economic implications, such as effects on firm performance (Denning, 1988; Hillier et al., 2009; Brauer & Wiersema, 2012; Teschner & Paul, 2021; Batsakis et al., 2023), or the antecedents that drive divestments (Benito & Welch, 1997; Benito, 2005; Kang et al., 2017; Sartor & Beamish, 2020; Nguyen et al., 2022). However, researchers have highlighted the need for deeper exploration of FD as a phenomenon (e.g. Coudounaris et al., 2020; Schmid & Morschett, 2020; Batsakis et al., 2023). A notable gap concerns the role of senior executives' decisions shaping and mitigating the risks of divestment, and how their managerial capabilities influence outcomes for parent firms and stakeholders.

Compared to domestic operations, foreign operations are inherently more volatile and exposed to risk (Boddewyn, 1979). Morover, newly established foreign subsidiaries additionally suffer from the liability of newness in unfamiliar markets (Zaheer, 1995; Belderbos & Zou, 2009). These vulnerabilities frequently leads firms to divest foreign operations rather than domestic ones as a means of restoring efficiency (Iurkov & Benito, 2020). Yet, despite these insights, existing research provides limited understanding of the managerial capabilities and strategies that underpin successful divestment processes. Much of the divestment literature has concentrated on firm-level outcomes or macroeconomic antecedents, often relying on secondary data while overlooking the micro-level mechanisms that shape divestment execution (McDermott, 2010; Paul & Benito, 2018; Schmid & Morschett, 2020; Yoo & Moon, 2024). In particular, the role of senior managers in mitigating divestment risks remains underexplored. This study addresses this gap by offering qualitative insights into the strategic role of executives before, during, and after divestment processes. It seeks to answer the following research questions:

I. What managerial capabilities are critical for mitigating risks in FDs?
II. How do these capabilities contribute to the effective and successful execution of FDs?

By addressing these questions, this study sheds light on the managerial capabilities and resources that senior executives deploy to navigate divestment challenges. It adopts the resource-based view (RBV) (Barney, 1991) to identify the competencies that underpin successful divestments. While prior theories emphasize the role of competitive advantages in retaining subsidiaries (Ameyaw, Panibratov, & Ameyaw, 2023), they do not explain how firms can mitigate divestment risks by leveraging specific managerial capabilities. Given that divestments present executives with high levels of uncertainty and strategic complexity, this study extends the RBV by highlighting the dynamic role of managers in reconfiguring resources during exit processes (McDermott, 2010; Teece, 2007; Adner & Helfat, 2003).

This research makes several contributions to international business scholarship. First, it offers a nuanced understanding of the role of senior executives in mitigating risks during FDs, thereby addressing a critical gap in the divestment literature. Second, it extends the RBV (Barney, 1991) to the context of FDs by conceptualizing managerial capabilities as strategic resources that reduce risks and safeguard value creation for parent firms and stakeholders. Third, by employing a qualitative research design, the study provides context-specific insights into the micro-foundations of managerial capabilities, contributing qualitative insights to a field dominated by quantitative methods (see e.g., Schmid & Morschett, 2020; Benito and Welch, 1997).

2. Theory and Literature

2.1. Foreign divestment

The internationalization process of multinational enterprises (MNEs) often involves not only expansion but also the divestment of foreign subsidiaries (Schmid & Morschett, 2020). Interest in FD research dates back to the 1970s (Boddewyn & Torneden, 1973; Boddewyn, 1985) and has since expanded due to its significant economic and strategic implications for both firms and host countries (Arte & Larimo, 2019; Iurkov & Benito, 2020). Although several systematic reviews have synthesized the literature (Arte & Larimo, 2019; Berry, 2013; Coudounaris et al., 2020; Schmid & Morschett, 2020), the topic remains less developed than studies of FDI and foreign market entry, largely because divestments are often associated with failure and data are difficult to access (McDermott, 2010; Paul & Benito, 2018).

Empirical work on FD has predominantly examined antecedents and performance outcomes. At the subsidiary level, misfit and poor performance often trigger divestment (Sousa & Tan, 2015; Lee et al., 2022; Han, 2021), although divestment can also represent a strategic reallocation of resources (Dunning & Lundan, 2008). Cultural and institutional distance also plays a role, with mixed findings on whether greater distance increases or reduces divestment likelihood (Delios, Xu, & Beamish, 2008; Chung, Lee, & Lee, 2013; Song, 2014). At the parent-firm level, factors such as firm performance, restructuring, portfolio overlap, or strategic reorientation frequently drive divestment (Benito & Welch, 1997; Hennart et al., 1998; Hennart et al., 2002; Berry, 2013; Berry, 2010; Kaul, 2012; Vidal & Mitchell, 2015). Host-country factors, including political and economic instability, regulatory complexity, product quality issues, technological turbulence, country risks, and institutional differences, further shape divestment decisions (Hennart et al., 2002; Witte et al., 2020; Xu et al., 2021; Efrat & Shoham, 2012; Kang et al., 2017; Tan & Sousa, 2018). The chances of divestment increases for parent firms that enter in certain foreign markets due to their unique characteristics and challenges (Getachew & Beamish, 2017).

Research on performance outcomes of FDs has yielded mixed findings. Some studies suggest that divestments enhance competitiveness, resource allocation, value transparency, and firm value (e.g., Boddewyn, 1985; Iurkov & Benito, 2020; Fischer et al., 2013), while others report varied effects (e.g., Kumar, 2005; Kaprielyan, 2016), positive outcomes (e.g., Lee & Madhavan, 2010; Brauer et al., 2017; Lee & Roh, 2020), negative consequences (e.g., Veld & Veld-Merkoulova, 2004; Bergh, 1995; Wright & Ferris, 1997), or neutral and inconclusive relationships (e.g., Woo et al., 1992; Shimizu & Hitt, 2005; Sharma & Ho, 2002), including adverse stock market reactions (Veld & Veld-Merkoulova, 2004; Bergh, 1995; Shimizu & Hitt, 2005). One plausible explanation for this inconsistency lies in the managerial capabilities and decisions guiding the divestment process as managerial actions during divestment execution may be a key factor in shaping outcomes (Brauer et al., 2017; Lee & Roh, 2020; Chiu, Pathak, & Sabz, 2022). Corporate divestments are highly complex strategic initiatives that need significant managerial energy and time (Bergh, 1997; Chiu, Pathak, & Sabz, 2022). Literature provides little insight into the role of senior executives in guiding these processes. Most studies focus on macro antecedents or aggregate outcomes, while the micro-level mechanisms such as how managers mitigate risks and influence divestment trajectories, remain largely overlooked, particularly in European context (Veld & Veld-Merkoulova, 2004).

2.2. Resource-Based View

The RBV is one of the most widely applied perspectives in international business and strategic management, emphasizing the role of a firm's internal resources and capabilities in attaining and capabilities in achieving sustaining competitive advantage (Barney, 1991; Helfat et al., 2023). According to RBV, resources must be valuable, rare, inimitable, and non-substitutable (VRIN) to generate long-term advantage (Barney, 1991; Monson, 2024). Among these resources, employees and leaders are recognized as critical intangible assets (Singh et al., 2020). In the context of FDs, the capabilities of senior managers are therefore central to risk mitigation and effective execution. Furthermore, RBV acknowledges that advantage depends on firms' ability to adapt to ongoing changes in their environment (Schilke, 2014), making it especially relevant for examining how managerial capabilities shape divestment processes in volatile international markets.

The RBV assumes that firms can create unique strategies by leveraging strategic resources that provide a competitive advantage (Gibson et al., 2021). In the case of FDs, we argue that top executives can develop such strategies to mitigate risks and safeguard parent-firm value. The RBV identifies personnel and leadership as crucial strategic assets, given their unique knowledge and experience (Singh et al., 2020; Ozdemir et al., 2023; Bloodgood et al., 1996; Sandberg et al., 2019). Indeed, Gibson et al. (2021) note that a firm's embedded communities can constitute VRIN resources that support sustained advantage. Building on this, we focus on the role of senior executives as resource orchestrators who mobilize and reconfigure capabilities during divestment processes. This perspective resonates with the dynamic capabilities view (Teece, 2007; Adner & Helfat, 2003), which emphasizes managerial abilities to sense, seize, and transform resources in turbulent environments.

In international business, the RBV has been applied to examine how firms combine assets to drive export performance and international growth (Dhanaraj & Beamish, 2003; Sousa, Martinez-López, & Coelho, 2008). In the context of FD, it has primarily been employed to highlight the role of parent firms' unique resources and capabilities in achieving superior performance and competitive advantage in international market (e.g., Barney et al., 2021; Berry, 2013; Sandberg et al., 2019; Song, 2015; Tan & Sousa, 2019, 2020). Such resources and capabilities have been shown to support firms' survival in foreign markets (Golovko & Valentini, 2011; Sui & Baum, 2014). In the context of FDs, however, senior executives represent a particularly unique and strategic resource. Consistent with Williams (2014) and Sandberg et al. (2019), RBV provides a suitable lens for examining divestments because it emphasizes the role of intangible resources such as managerial knowledge and expertise. Indeed, RBV suggests that firms can navigate risky transitions and potential failures by leveraging combinations of strategic resources (Sandberg et al., 2019; Esteve-Pérez & Mañez-Castillejo, 2008; Garcia Martinez, Zouaghi, Garcia Marco, & Robinson, 2019).

The RBV also recognizes that competitive advantage derived from unique resources is not permanent, since business environments continually change (Barney, 1991). During divestments, another set of resources, namely managerial skills and capabilities, may prove especially beneficial in overcoming risks and realizing value. Resources and capabilities must therefore be viewed dynamically, as they evolve over time, substitute for one another, and can be recombined throughout a firm's lifecycle (Lafuente et al., 2015).

While RBV provides a useful foundation, it has been critiqued for its limited ability to explain adaptation under conditions of uncertainty (Priem & Butler, 2001; Furr & Eisenhardt, 2021). To address this, scholars have advanced the concept of dynamic managerial capabilities (DMCs), defined as the capabilities that enable managers to create, extend, and reconfigure the firm's resource base in response to change (Helfat & Peteraf, 2015). This perspective highlights the impact that executives have on firm strategy and performance, particularly through the quality of their decisions and their ability to mobilize resources (Teece, 2012). Despite its relevance, the role of dynamic managerial capabilities remains underexplored in the international business domain (Tasheva & Nielsen, 2020). In contexts such as FD, where firms must navigate institutional complexity, market volatility, and heightened risks, these capabilities are especially critical. The notion of global dynamic managerial capabilities, emphasizing managers' ability to sense, interpret, and act across multiple institutional and cultural environments is recently getting attention international business field (Tasheva & Nielsen, 2022).

2.3. Managerial capabilities and risk mitigation

Within the RBV framework (Barney, 1991; Peteraf, 1993), managerial capabilities, rooted in knowledge, experience, and judgment, represent critical yet often underexplored resources in FD research. While prior studies highlight positive links between managerial characteristics and shareholder returns (Matemilola, Bany-Ariffin, & Azman-Saini, 2013), divestment literature has largely overlooked how executives actively mitigate risks during exit processes, even though their influence is acknowledged (Chan et al., 2020; Aboramadan, 2021).

Managerial capabilities draw on the micro-foundations of skills, including education, experience, and international exposure, which enhance executives' ability to make high-quality strategic decisions in turbulent environments. Higher education and broad managerial experience are associated with improved judgment and openness to new strategies (Escriba-Esteve, 2009; Ng & Feldman, 2010; Díaz-Fernández et al., 2020; Bahl et al., 2021). International experience further equips managers to navigate uncertainty across markets, strengthening subsidiary performance and adaptation (Herrmann & Datta, 2006; Sousa & Bradley, 2008; Sousa & Tan, 2015). These micro-foundations enable managers to anticipate risks, allocate resources effectively, and design adaptive exit strategies aligned with parent-firm goals.

Classic managerial skillsets such as conceptual, human, technical, and political (Mintzberg, 1975; Pavett & Lau, 1983; Latif, 2002), remain relevant as the basis of capabilities. Conceptual skills allow executives to assess portfolios holistically, human skills support communication and stakeholder management, and political skills enable negotiation and influence (Mehralian et al., 2013; Jacobs et al., 2014; Faris et al., 2005). When integrated, these top management's capabilities and skills significantly influence firm performance and success (Hani, 2021; Carmeli & Tishler, 2006; Helfat & Peteraf, 2015). Past success in preventing unfavorable scenarios also helps managers in understanding how their skills help in controlling risks in specific tasks (March & Shapira, 1987).

While all capabilities are important, their relevance varies by managerial level. Poor resource management can undermine productivity, performance, and client loyalty (Jeon & Choi, 2012; Jing et al., 2011). Within the RBV framework, tangible resources often lack strategic value because they are tradable and easily imitated, whereas intangible resources such as managerial expertise, are more heterogeneous and less mobile, making them strategically valuable (Barney, 1991; Peteraf, 1993; Bergh et al., 2024). Intangible resources therefore provide greater potential for sustained firm performance (Edeling & Fischer, 2016; Homburg et al., 2020). When aligned with market needs, they enhance competitiveness and reduce risk by signaling to stakeholders that the firm is equipped to address systemic threats (Fang et al., 2008; Katsikeas et al., 2016; Rego et al., 2009; Bansal & Clelland, 2004).

The role of managerial capabilities in mitigating FD risks remains unclear, even though managers directly shape risk-related decisions (Kim & Vonortas, 2014). Risk management includes strategies such as avoiding risk, reducing its negative impact, transferring it to a third party (like insurance) or accepting some or all of its potential consequences (Djalante, 2019; Izumi et al., 2019). Whereas risk mitigation involves minimizing the likelihood and impact of adverse events by leveraging appropriate resources and implementing preventive strategies (Bahamid & Doh, 2017; Bure & Tengeh, 2019; Chakabva et al., 2021). Risk is the possibility of expected events negatively affecting capital earnings (Raghavan, 2005).

Timely decision-making is critical for assessing and mitigating divestment risks. Early identification of potential challenges allows firms to safeguard shareholder interests (Si & Luo, 2024). While divestment can resolve subsidiary-level issues, it also carries uncertainties and opportunity costs, as resources may be lost or require reconfiguration (Levinthal & Wu, 2010; Vidal & Mitchell, 2018). Poorly managed divestments can damage an MNE's reputation, particularly when exits are abrupt or poorly communicated. By developing feedback mechanisms and adaptive strategies, managers can minimize these risks (Yoo & Moon, 2024). FD decisions are influenced by complex financial, economic, and geopolitical factors, which qualitative case studies can effectively capture (Baker et al., 2023; Larimo et al., 2022; Schmid & Morschett, 2020; Yoo & Moon, 2024).

Strategically managed divestments can generate positive outcomes by reducing risk exposure, lowering coordination costs, and reallocating resources more effectively (Markides, 1992; Gleason, Mathur, & Singh, 2000; Kafouros et al., 2022). In contrast, poorly executed divestments may undermine firm-specific advantages, weaken cross-country synergies, and create opportunities for competitors (Kafouros et al., 2022; Hitt, Holmes, & Arregle, 2021). This makes the role of senior executives crucial and their certain capabilities in planning, communication, and resource orchestration determine whether divestments become successful or not.

Building on the RBV, this study focuses on managerial capabilities as a central intangible resource that enables senior executives to mitigate FD risk and ensure effective divestment execution. By examining capabilities such as planning, communication, strategic implementation, and international experience, we explore how managers safeguard and reconfigures resources to protect firm value. Adopting a qualitative approach, it investigates how these managerial capabilities facilitate successful post-divestment outcomes and contribute to the achievement of a firm's strategic divestment goals.

3. Methodology

3.1. Research Settings

To examine how senior executives mitigate risks and ensure the successful execution of FDs, we adopted a qualitative research design based on semi-structured interviews with senior executives from different MNEs operating in Finland. A qualitative approach is well suited for investigating novel and complex phenomena (Welch et al., 2013; Fletcher et al., 2018), particularly when exploring underexamined managerial capabilities in high-risk contexts. This method balances structure with flexibility by following a framework of guiding questions while enabling situational probing (Aleandri & Russo, 2015). It therefore facilitates rich, context-specific insights (Charmaz, 2014; Polit & Beck, 2010) into how managers navigate the complexities of divestment processes. The qualitative method fosters reciprocity between interviewer and interviewee, enabling spontaneous follow-up questions that deepen understanding (Rubin & Rubin, 2005). It also allows participants to articulate their perspectives in a personalized and expressive manner (Galletta, 2013). Moreover, a qualitative approach provides an in-depth exploration of phenomenon in real-world setting, where the boundaries between process and context are often blurred (Lim, 2024) such as in examining the role of senior executives during and after FDs.

We selected Finnish executives as our research context for several reasons. Despite Finland's relatively small domestic market, its firms and professionals operate in a highly internationalized economy characterized by advanced technologies and strong global linkages (Benito et al., 2002, 2003). As an EU member since 1995, Finland is deeply integrated into the European single market, and its industries have played an important role in enhancing the EU's overall competitiveness (European Commission, 2024). Finland also contributes significantly to European trade and consistently ranks among the top 20 economies worldwide in GDP per capita (Statista, 2024). Being part of a small and open economy, most Finnish firms internationalize early to access larger markets and remain competitive (Benito et al., 2002). Consequently, Finnish managers tend to acquire extensive international experience and develop strong cross-cultural competencies, making them particularly suitable for examining managerial capabilities in foreign divestment contexts.

3.2. Case companies

This study examines the role of Finnish senior executives in mitigating risks associated with FDs through evidence from MNEs. We applied purposeful intensity sampling to ensure relevance and access to rich insights (Patton, 2015), selecting firms that had recent experience with FDs and where senior managers were directly involved in decision-making. The case companies represent a range of industries including energy, manufacturing, and services sectors reflecting the diversity of internationalization patterns. This design allowed us to capture both commonalities and differences across industries while maintaining a strong focus on the managerial capabilities underpinning divestment execution. To contextualize the empirical setting and illustrate the diversity of firms included, Table 1 presents an overview of the five case companies examined in this study. Each represents an MNE with recent divestment experience and varying international reach, ownership structures, and divestment types, providing a robust basis for cross-case comparison and analytical generalization.

Case Firm	Industry / Core Business	Scope	Ownership Type	Type of Divestment	Divestment focus	Participant Involved
Firm A	Industrial engineering and automation solutions	Operations in 100+ countries	Public MNE	Business unit sale and global exits	Portfolio realignment and ESG driven market withdrawals	P1, P6
Firm B	Technology manufacturing (energy & mobility systems)	Around 70 countries	Public MNE	Carve-outs and partial divestments	Integration with global acquirer	P2
Firm C	Energy and marine solutions	Global network	Public MNE	Portfolio-level divestments	Reconfiguration of business lines and human resource transitions	P3, P5
Firm D	Engineering consultancy	50+ countries	Public MNE	Market exits and subsidiary closures	Streamlining operations and reducing geographic dispersion	P4
Firm E	Industrial machinery and logistics systems	Worldwide manufacturing base	Public MNE	Factory closure and technology transfer	Cost optimization and strategic outsourcing	P7

Table 1. Overview of case firms

As shown in Table 1, the selected cases span multiple sectors industrial engineering, technology manufacturing, energy, consultancy, and logistics, capturing the breadth of participants' international business landscape. This diversity enhances the robustness of theoretical replication and supports the exploration of managerial capabilities under different divestment conditions. The following section describes the data collection procedures, including the interviews conducted with senior executives involved in these divestment processes.

3.3. Data and sample

Following established qualitative research practices (Eisenhardt, 1989; Yin, 2018), we conducted semi-structured interviews to explore the required capabilities and how they mitigate risks associated with FDs for successful divestment execution. Primary data were collected through individual online interviews (Zoom & Teams) between 2024 and 2025, using purposeful intensity sampling to ensure relevance and access to knowledge (Patton, 2015). We interviewed seven senior executives operating in Finland, including three women and four men, all directly involved in divestment processes. The interviews, conducted in English, lasted 45-70 minutes, were recorded and transcribed verbatim, and supplemented with secondary data from company websites. To ensure transparency and provide a clear overview of the empirical material, Table 2 summarizes the key characteristics of the interviews, including participant roles, firm codes, and interview logistics. The participants represented five multinational enterprises from diverse industries, providing variation in firm size, ownership structure, and divestment type. All identifiers have been anonymized to maintain confidentiality while preserving contextual richness.

Participant	Position	Case Firm	Core Business	Interview Date	Duration (min)	Mode
P1	Chairman/ President	**Firm A**	Global industrial engineering	8 Oct 2024	61	Teams
P2	Country Project Manager	**Firm B**	International technology manufacturer	21 Oct 2024	55	Teams
P3	HR Director	**Firm C**	Energy solutions and marine technology	19 Nov 2024	58	Zoom
P4	Managing Director	**Firm D**	Engineering and consultancy services	16 Oct 2024	63	Teams
P5	Business Development Manager	**Firm C**	Energy solutions and marine technology	1 Oct 2024	67	Zoom
P6	Strategic Controller	**Firm A**	Global industrial engineering	15 Oct 2024	49	Teams
P7	R&D Director	**Firm E**	Industrial machinery and logistics systems	7 Feb 2025	60	Teams

Table 2. Overview of the interviews

As shown in Table 2, the participants represent diverse managerial functions including strategy, finance, human resources, business development, and R&D across multiple MNEs. This diversity allowed for the identification of common and contrasting approaches to divestment risk mitigation.

The interview guide covered six themes: (1) background and work context, (2) divestment process and strategy, (3) risk mitigation, (4) communication strategies, (5) international experience, and (6) managerial insights and recommendations. This framework enabled participants to reflect on the identification of capabilities required to manage divestment risks and ensure success during and after execution. We analysed the interview transcripts using NVivo software to facilitate systematic coding, theme identification, and cross-case comparison (Sinkovics & Alfoldi, 2012). The analytical process followed an iterative and abductive logic, moving back and forth between empirical data and theoretical concepts (Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011). First, open coding was applied to identify first-order categories grounded in participants' own expressions regarding managerial decision-making, communication, and risk mitigation. These initial codes were then consolidated into higher-order themes that captured underlying managerial capabilities and their role in mitigating divestment risks. Finally, aggregate dimensions were developed to link the emergent themes to the Resource-Based View (RBV) framework, highlighting how managerial capabilities function as strategic resources (Gioia, Corley, & Hamilton, 2013). NVivo supported this process by allowing systematic retrieval, constant comparison, and memo writing throughout the analysis.

While scholars differ on the number of interviews required for theory development (Eisenhardt, 1989; Wilczewski et al., 2019; Cobern, Gibson, & Underwood, 1999; Charmaz, 2014), consensus holds that sufficiency is achieved when data saturation occurs (Seidman, 2006; Guest et al., 2006; Hennink et al., 2017; Sebele-Mpofu, 2020). After seven interviews, no new themes emerged, indicating saturation (Cobern & Adams, 2020; Hennink et al., 2017). To strengthen interpretive reliability, all authors reviewed coded segments, discussed theme boundaries, and refined the analytical structure through iterative comparison across cases.

4. Findings and Analysis

This chapter presents the findings from semi-structured interviews with Finnish senior managers from different MNEs across Finland. We employed hybrid thematic analysis (Fereday & Muir-Cochrane, 2006), integrating inductive and deductive approaches. This method allowed us to examine managerial capabilities within the framework of existing literature while also identifying novel themes specific to FD risks. For instance, the role of international experience emerged both from prior studies (e.g., Sousa & Tan, 2015) and from managers' own accounts.

The interview themes were designed to elicit insights into the capabilities managers employ to mitigate divestment risks. These capabilities are presented in structured sections, supported by illustrative quotations. Findings are interpreted through the RBV lens, emphasizing how executives orchestrate and deploy capabilities to manage uncertainty and ensure effective divestment outcomes (Barney, 1991; Sirmon et al., 2011). The semi-structured interview data led us to the identification of six themes which are explained below in detail.

4.1. Background and work context: Risk mitigation capabilities

The professional background and work context of managers formed the foundation for mitigating risks during FDs. In this study, background refers primarily to managers’ prior professional experiences, including their international exposure, functional expertise, and tenure in leadership roles. Work context refers to the organizational and situational environment in which these managers operated such as the firm’s global structure, divestment history, and industry-specific dynamics. The findings indicate that their (1) roles and responsibilities, (2) experience across diverse regions, (3) contextual awareness and decision-making ability, and (4) foundational capabilities for risk mitigation were key capabilities necessary to navigate complex processes effectively.

First, senior managers bridge strategic board level decisions with on ground execution. Their responsibilities include evaluating strategic fit, identifying divestment options, and maintaining transparent stakeholder communication. This integration of strategy formulation and operationalization is central to risk mitigation as highlighted in the following quotations:

"…We applied the same methodology to figure out which part of the business is not a strategic fit... after building those criteria, we created a portfolio of divestments…part of my job is to make a business model that demonstrates the future profitability of the business to potential buyers, ensuring a smooth negotiation." (P6)

"My role includes handling both the buying and selling of divestments across Asia, Europe, Australia, and Africa, with transactions amounting to several billion dollars." (P1)

Second, international experience equips managers to anticipate and address risks in volatile environments (Herrmann & Datta, 2006). Exposure to politically unstable or institutionally complex contexts strengthens capabilities to handle uncertainty and reconfigure operations when necessary. These experiences highlight the importance of adaptive strategies like relocation to safeguard long term sustenance, as we can observe from the following statements:

"We closed our operations in Saudi Arabia due to bureaucratic complexities, such as trade licenses and sponsorship requirements. It taught us the importance of understanding local systems thoroughly." (P4)

"In Africa, we operate in 57 countries, recognizing both the significant opportunities and substantial risks posed by political instability and labor conditions… if we decide to invest or buy operations in such regions, we often relocate key parts of the business to safer locations. (P1)

Third, managers with experience across both developed and emerging markets develop contextual awareness that shapes divestment strategies. Cultural, legal, and geopolitical differences often determine risk levels and drive divestment decisions. This awareness underscores that divestment is often driven not only by performance but also by contextual and institutional conditions as the following quotations indicate:

"Cultural and operational differences are critical. For example, challenges in Brazil due to bureaucracy regarding how you manage the local legislation and taxes. And employment laws and such things." (P4)

"Geopolitical and ethical considerations, like those in Russia and Belarus, often take priority over financial outcomes, shaping strategic decisions." (P1)

Fourth, formal qualifications and leadership training enhance analytical decision making, while soft capabilities such as communication and adaptability help maintain stakeholder trust during divestments (Mehralian et al., 2013; Jacobs et al., 2014). Collectively, such competencies enable managers to anticipate challenges, adapt strategies, and support long-term value creation. These insights highlight that while planning and communication are essential, agility and preparedness remain equally important for effective risk mitigation. The interviewees elaborated this as as follows:

"...having training like IM&A is a great source that every divestment manager should go through for successful divestment execution." (P6)

" It all comes down, in my understanding, to communication with any and all stakeholders… and even a small hiccup during divestment process can create huge issues (P2)

" Open and transparent communication with stakeholders…'open cards' helps in reducing uncertainty… but even the best planning and communication cannot help a rushed or chaotic divestment. A notable example is Belarus." (P1)

4.2. Divestment Process and Strategy: Balancing Risks and Opportunities

FD requires careful planning and execution to minimize risks and capture potential opportunities for the parent firm. The interviews revealed four interconnected themes: 1) Drivers of divestment, 2) Strategic planning, 3) Implementation challenges, and 4) Post-divestment strategies.

First, drivers of divestment decisions are shaped by strategic, operational, and external factors. Subsidiary misalignment, high costs, or poor performance often prompt exits, but even profitable businesses may be divested if they no longer fit the parent's strategic core (Schmid & Morschett, 2020). Managers also highlighted the growing importance of ethical and sustainability concerns such as environmental, social, and governance (ESG) compliance and risks related to child labor:

"…Although that business itself was a market leader and profitable, led by a good person a graduate of MIT …but this was a perfectly standalone business which could do better alone. But being part of …, I think it was not a strategic fit for us." (P6)

"Sustainability and child labor are additional factors that can lead to divestment. We are trying hard to address ESG concerns proactively. Stora Enso's divestment in country ABC was driven by concerns over child labor. Profitability does not outweigh the dangers when the business environment cannot be 'cleaned,' meaning we cannot ensure sustainable, ethical or safe operations." (P1)

"The political climate in Saudi Arabia, including sponsorship requirements and regulatory hurdles, made continued operations unsustainable." (P4)

Second, strategic planning of divestment involves risk assessment, scenario analysis, and stakeholder management. Managers emphasized reputational risks, employee safety in volatile markets, and preparation of due diligence materials. These capabilities ensure trust with buyers and stakeholders while reducing operational disruption.

“Employee unrest is another common issue, and in some of the most volatile regions, death threats against employees or management have unfortunately become a reality… Although not common, such closures remind us of the importance of remaining agile and prepared for unexpected developments." (P1)

“…Ivory Coast can be an extreme example that it's hard to maneuver in that country. (P5)

*“Get familiar with “*term sheet*” for the divestment…show future profitability of the business to potential buyers.” (P6)*

"We do a thorough risk analysis, looking at all areas to identify where we need to act before divestment…We ensure that systems, processes, and legal agreements are ready for the buyer." (P3)

Third, implementation presents unique risks, including cultural barriers, employee resistance, and loss of key competencies or customers. Here, managers’ contextual awareness and relational capabilities are vital to preserving trust and minimizing disruption.

“Subsidiary personnel are the biggest challenges along with customer loss…We divested one subsidiary in China more than a decade ago and the leading manager is now one of our main competitors.” (P7)

“…you would know the culture issues… In certain cultures, being a woman or not being able to speak their native language can cause hurdles.” (P5)

"The biggest risk during divestments is losing competencies, particularly key employees and their stakeholder relationships… Managers need to have this empathy, of course think about the organization but at the same time think about the other stakeholders." (P2)

Fourth, post-divestment strategies typically involve reallocating resources, reinforcing the parent firm’s core, and maintaining stakeholder trust through clear communication. Managers stressed that adaptability and pre planned contingency strategies are essential to sustaining long term value.

"We normally focus on the pre-planned strategy actions that we have on the table. So, it might be R&D, it might be investing in smaller core businesses. It is usually to support the overall strategic planning of the parent firm." (P3)

"Communication plays an important role post-divestment… and that we walk the talk, not only that we just talk." (P2)

4.3. Risk Mitigation: Strategies and Managerial Contributions

FDs expose firms to multiple risks, including financial losses, reputational damage, and operational disruptions. Managers' capabilities in assessment, planning, and stakeholder engagement are critical in addressing these challenges.

Regulatory hurdles, political instability, and employee concerns emerged as the most prominent risks. Managers acknowledged that not all risks can be avoided, geopolitical crises may force divestments despite financial losses. Some major closures like Nokia's exit from Germany, can have long-term impacts on cities and communities (YLE, 2011).

"Geopolitical factors, like in Russia or Belarus, may force and complicate exits… that come at a financial loss but are necessary due to ethical and political considerations." (P1)

"It is also impossible to make all subsidiary staff happy; it is one of the major hurdles…employees can join competitors or even become competitors." (P7)

"Some local legislations in a foreign country are tough…like how pensions or benefits or insurances are handled... We have also sort of in France the negotiations with the working councils."(P3)

Managers emphasized four core capabilities: risk assessment, stakeholder engagement, scenario planning, and transparent communication. Proactive assessments and due diligence highlight contingency planning, while early and open engagement with employees and stakeholders reduces resistance.

“When evaluating divestments… we rely heavily on assessment of risks and how these decisions will impact the company’s financial position and strategic outlook. This approach helps us… divestment is easier if people are informed and involved” (P1)

"Honest and consistent communication, even beyond what is necessary, builds trust with stakeholders during divestments." (P2)

Managers also highlighted the need for pre-planned post-divestment strategies, such as reinvestment, outsourcing, or focusing on the parent’s core. Equity compensations also motivate managers to take larger risks (Rajgopal & Shevlin, 2002, Sanders & Hambrick, 2007).

Analytical, communication, and adaptive capabilities were viewed as essential. Analytical capabilities support vulnerability assessments, while communication and negotiation capabilities build trust across diverse stakeholders. Adaptability enables managers to respond quickly to crises. Technical expertise and political skills are also vital, as political skills for instance can play a valuable role in negotiation, communication, and influence (Faris et al., 2005).

“analytical skills play a very important role…every divestment manager should have some sort of training like from IMAA and that helped me.”(P6)

“Despite our efforts to communicate and mitigate risks, the Belarus government took illegal control of the assets, leaving us with little choice but to exit abruptly… the consequences can escalate quickly, leading to widespread damage…even death threats.” (P1)

Despite preparation, managers stressed that unexpected challenges remain inevitable. Flexibility, decisiveness, and on-site presence were highlighted as critical elements in addressing emerging risks.

“You have to be very agile on site understanding the situation, being with the people.” (P5)

"Even with careful planning, external factors like economic downturns or political instability often require managers to adjust on the go." (P6)

4.4. Communication Strategies and Trust building

Effective communication Effective communication was consistently described as central to risk mitigation during divestments. Managers stressed both internal alignment and external stakeholder management as critical areas. Clear internal communication ensures that finance, legal, and operations teams understand the logic and expected outcomes of divestments. It helps in reducing uncertainty and reassures internal stakeholders. Externally, proactive engagement with subsidiary staff, customers, and local authorities sustains trust and reduces uncertainty.

"Communication play a very major role… it all comes down, in my understanding, to a clear communication to any and all stakeholders." (P2)

"Open and transparent communication what I often refer to as 'open cards' helps ensure that everyone understands the situation. " (P1)

"Give the possibility to people to really tell what they think about it as well, then act accordingly…Communicating with the subsidiary staff about divestment is very difficult sometimes but necessary." (P7)

"We even hire communication specialist…employees in divested subsidiary need to be assured that you will find a good home for them. Also, you pay them certain extra remuneration to help smoothen the divestment process." (P6)

Managers noted challenges in navigating language, cultural, and political barriers. Physical presence and adaptation to local norms were often decisive. Ultimately, communication is seen as a capability in its own right, shaping risk outcomes and safeguarding firm reputation and value. It ensures that everyone involved in the process of divestment understands its objectives, need and processes, which is very important to achieve desired divestment objectives.

"*…So, it's like you cannot lead it from a distance. The more difficult is the situation, the closer you have to be and then tailor the strategies accordingly." (P5)*

"In certain cultures, communication has to be in the local language and in local terminologies." (P2)

"In India, for example, you would need to communicate differently. Sweden, Poland or Saudi, it's about this adaptation that we do and… it's about these interpersonal skills. Being the female, I also think if I need a man in certain markets and situations for effective communication. " (P5)

4.5. Divestment experience

Managers' international experience significantly shapes their ability to navigate the complexities of FDs. Exposure to diverse regulatory, cultural, and market environments equips them with the capabilities to anticipate risks, refine strategies, and adapt to local conditions (Hultman, Katsikeas, & Robson, 2011). However, managers acknowledged that international experience has limits, and local expertise is often needed to address context-specific norms.

"I would say that understanding different culture is important and helpful from past experience, but this is not the solution of everything…international experience still can be not very international to understand every part. So, hiring local experts is always helpful." (P6)

International exposure broadens managers' perspectives, enabling them to identify risks across varied institutional and cultural settings. At the same time, effective divestments require combining global insights with local expertise to tailor solutions.

"Having international experience helps a lot… you hire the local experts if you are new to divestment or new to a market."(P3)

"Experience from several different cultures makes it easy to understand that what are the main points to consider as people work differently and think differently." (P7)

Managing divestments across countries requires understanding of legal, cultural, and political differences. Managers stressed that cultural competence and contextual awareness are essential for winning trust and avoiding missteps.

"In Africa we are in 57 countries… Political instability, labor conditions, war threats, and geographical complexities are all factors that we carefully consider." (P1)

Past divestment experiences provide practical knowledge that managers use to refine strategies and avoid repeating mistakes. These lessons improve decision making under uncertainty but must be applied flexibly, as no two divestments are identical.

"*Every time you do a divestment…there is a lesson learned and then it is fed back to the M&A team. And then every divestment, you create new connections, and you use those connections later on again."(P6)*

"So even though you might do something years ago, then it's about doing it now, understanding what the case is now…divestment does not happen in a certain market that often." (P5)

To enhance organizational learning, some firms document and codify lessons from past divestments, integrating them into strategy books or guidelines for future processes. This institutionalization strengthens capabilities at both individual and organizational levels.

"We have sort of a playbook that we update always according to the experiences and then use it for future references." (P3)

4.6. Insights and Recommendations

The interviewed executives shared forward-looking perspectives on how managers can navigate FDs more effectively. Four interrelated themes emerged: 1) leadership, 2) strategic foresight, 3) capabilities improvement, and 4) resource orchestration.

First, managers emphasized the importance of acting as visionary leaders who guide teams and stakeholders through uncertain divestment processes. Effective leadership requires proactive risk management, transparent communication, and the ability to anticipate challenges using prior international experience. Building trust and motivating teams were highlighted as critical leadership capabilities. Second, executives stressed the need for robust contingency planning and early engagement with local experts to address market-specific risks. Documenting lessons learned and feeding them back into organizational processes strengthens strategic foresight, allowing firms to align divestments with long-term objectives. Third, managers noted that changing global dynamics and technological advances require continuous adaptation.

Future divestments will increasingly rely on advanced tools such as AI for risk analysis and decision making, as well as stronger attention to ESG compliance and sustainability as strategic requirements is also vital. Finally, executives emphasized the importance of effectively orchestrating resources, both internal and external. Cross functional expertise, external advisory services, and advanced analytics were identified as essential. Continuous development of negotiation, cultural competence, and communication capabilities was also highlighted as key to improving divestment outcomes.

Building on the preceding insights and managerial recommendations, it is essential to view these findings not as separate observations but as interconnected elements of a broader capability framework. The following subsection synthesizes the results across all cases to highlight how Finnish senior managers draw on complementary capabilities to mitigate risks and ensure effective divestment execution.

4.7. Integrated Summary of Findings

This study examined how Finnish senior managers mitigate risks associated with FDs to ensure divestment success. Drawing on six thematic areas derived from semi-structured interviews, the findings highlight the managerial capabilities that enable executives to navigate the complexities of divestment execution.

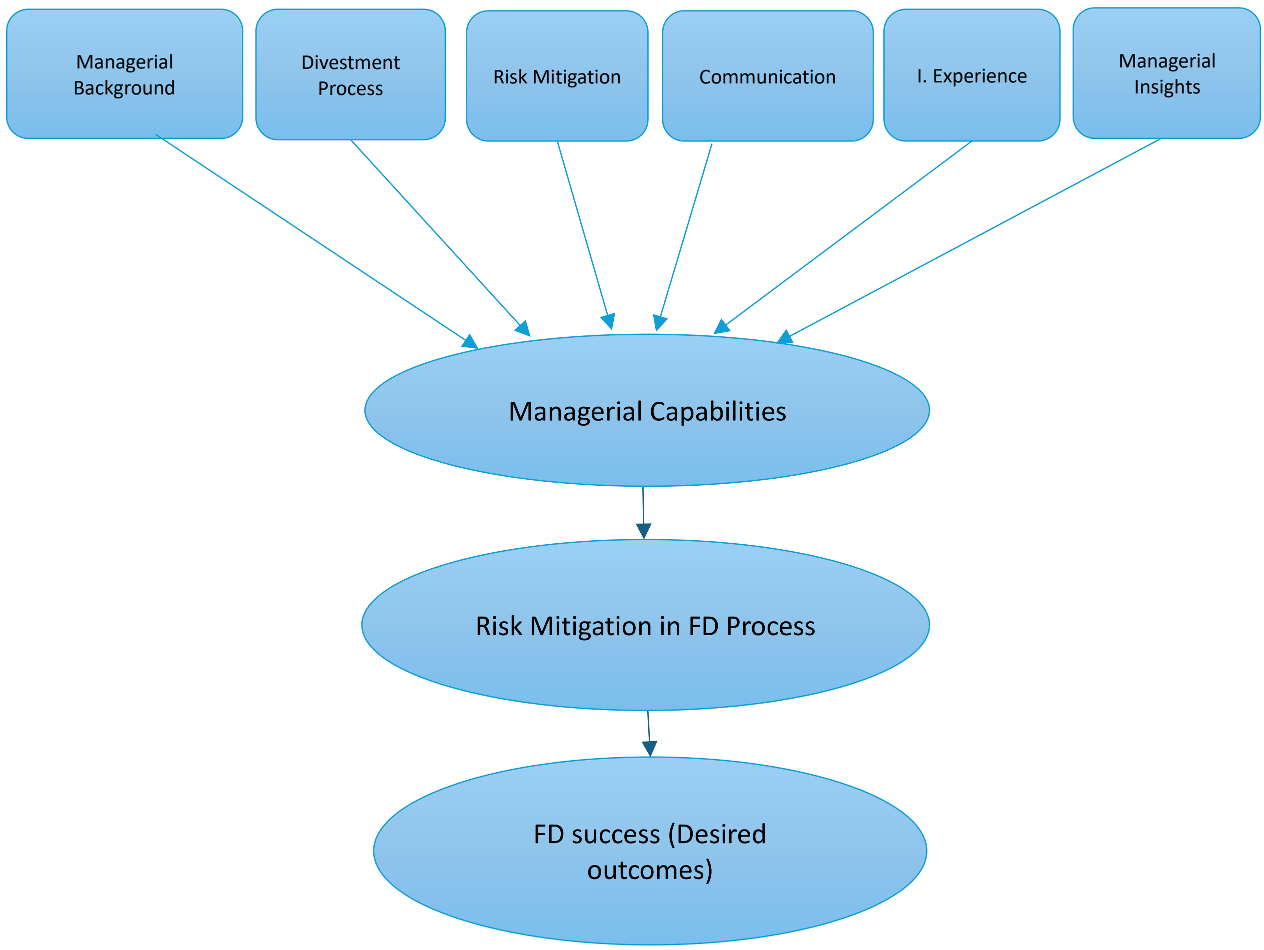
The results reveal that managers' professional backgrounds including their educational preparation, leadership roles, and international exposure provide the foundation for effective risk mitigation, allowing them to align divestment strategies with broader corporate objectives. Their strategic orientation is reflected in careful pre-divestment planning, risk assessment, stakeholder analysis, and buyer evaluation, which collectively ensure informed and timely decision-making.

Managers emphasized that risk-mitigation practices depend on stakeholder engagement, scenario planning, and transparent communication, all of which help reduce financial, operational, and reputational exposure. Communication capabilities emerged as critical for building trust and maintaining legitimacy across units. Physical presence and cultural sensitivity were particularly valuable in politically or culturally sensitive markets.

Furthermore, extensive international experience enhances managers' capacity to anticipate regulatory, cultural, and geopolitical risks, while lessons drawn from previous divestments foster adaptive learning and the ability to tailor responses to specific contexts. Finally, managerial insights underline the importance of adaptability, foresight, and stakeholder trust, alongside the growing use of digital tools and attention to ESG and sustainability standards.

Together, these findings illustrate that managerial capabilities spanning leadership, analytical, communicative, adaptive, and contextual dimensions, are central to mitigating risks and ensuring successful divestment outcomes. Based on the qualitative analysis, Figure 1 presents the conceptual model that integrates these capability domains and illustrates their interaction across different stages of divestment. Table 1 complements the model by summarizing the specific capability components and illustrative evidence from the interviews.

Figure 1. Conceptual model of managerial capabilities



NOTE: The figure illustrates how Finnish senior managers draw on interrelated managerial capabilities to mitigate risks throughout the foreign divestment process. The model integrates four key capability domains (1) professional and experiential foundations, (2) strategic and analytical decision making, (3) communication and coordination, and (4) adaptive and contextual awareness. These capabilities act as dynamic, higher order resources that enable firms to reconfigure assets, safeguard value, and ensure successful divestment execution. Arrows represent the iterative and interconnected nature of capabilities across the pre, during, and post divestment phases.

Table 1 below summarizes the identified managerial capability domains and their underlying foundations, drawn from the empirical interview data.

Themes/Areas	**Managerial Capabilities**	**Key Elements**
1. Managerial Background	Role clarity & decision-making capability	Understanding divestment processes; defining responsibilities; aligning with corporate goals; leveraging international exposure and knowledge.
2. Divestment Process	Strategic planning & adaptability	Pre-divestment planning; business performance analysis; risk identification; scenario planning; modifying strategies in changing contexts
3. Risk Mitigation	Risk management & stakeholder trust	Conducting risk assessments; crisis handling; sustaining employee morale, customer confidence, and shareholder trust
4. Communication	Communicative capability	Transparent messaging; internal coordination; external engagement with subsidiaries, authorities, and customers

5. International Experience	Cultural and contextual intelligence	Navigating cultural differences; managing regulatory requirements; applying and institutionalizing lessons learned
6. Managerial Insights	Leadership, foresight & resource orchestration	Guiding teams during uncertainty; continuous improvement; anticipating trends; orchestrating resources effectively; addressing ESG and sustainability imperatives

Table 1: Managerial capabilities for FD risk mitigation

5. Discussion and Conclusion

This study provides a novel perspective on FD by emphasizing the managerial capabilities that underpin risk mitigation and successful execution in Finnish MNEs. Drawing on the RBV (Barney, 1991; Helfat et al., 2023), we show that tacit knowledge, international experience, leadership, and communication serve as strategic resources that enable firms to navigate complex divestment processes while achieving strategic goals. Our findings extend the existing literature on FD (e.g., Benito, 2005; Iurkov & Benito, 2020) by shifting the focus from antecedents and performance outcomes to the role of managerial capabilities in mitigating divestment risks. It contributes to RBV and international business by illustrating how managerial skills contribute to mitigating FD risks and successful execution by achieving strategic goals (Tan & Sousa, 2019).

Unlike prior studies that rely heavily on secondary data and macro-level antecedents (e.g., Schmid & Morschett, 2020; Benito, 2005; Iurkov & Benito, 2020), our qualitative approach uncovers the micro-level dynamics of managerial decision-making. The findings highlight how capabilities in risk assessment, communication, and adaptive strategy transform divestments from reactive responses into opportunities for value creation, renewal, and competitive realignment (Yoo & Moon, 2024; Vidal & Mitchell, 2018).

5.1. Theoretical Contributions

We contribute to international business scholarship in three important ways**.** First, we extend RBV (Barney, 1991) in the context of FDs. While RBV is widely applied to entry, expansion, and performance (e.g., Dhanaraj & Beamish, 2003; Sandberg et al., 2019), its relevance for FD risk mitigation has been underexplored. We argue that managerial capabilities act as dynamic resources, enabling firms to strategically manage divestments rather than react passively to external shocks. Moreover, we extend RBV by demonstrating how managerial capabilities function as strategic resources in FD. Executives' tacit knowledge, leadership, and international exposure emerge as VRIN assets that shape firms' ability to proactively navigate complex divestment processes.

Second, we bridge macro and micro perspectives of FDs. Existing research largely emphasizes macro-level drivers such as firm performance or host-country factors (e.g., Berry, 2013; Sartor & Beamish, 2020). Our findings highlight micro level managerial capabilities including risk assessment, leadership, international experience, communication, and resource reallocation, that directly shape divestment outcomes**.** That is, by shifting attention from macro-level antecedents such as firm performance or host-country conditions (Yoo & Moon, 2024; Tan & Sousa, 2022) to the strategic role of managers, this study addresses a critical gap in FD research.

Thirdly, we reframe risk mitigation of FDs. Early views cast divestment as a reactive response to failure or external turbulence (Benito & Welch, 1997; Tan & Sousa, 2018). We position risk mitigation as a proactive and value driven capability, showing that managerial foresight and adaptability can transform divestments into opportunities for strategic realignment and growth. Together, these contributions enrich FD literature with a managerial capability perspective, demonstrating how firms can leverage executives' expertise to mitigate risks and achieve long-term strategic goals.

5.2. Managerial Implications

The findings provide actionable insights for managers and senior executives involved in FDs, highlighting the importance of proactive risk management, strategic leadership, and transparent communication. Based on our findings, firms should invest in developing managerial capabilities such as risk management, negotiation, stakeholder engagement, and cultural intelligence. Training enables to enhance efficiency, build trust, and increase the likelihood of successful divestments. However, divestment should not be treated as a last resort response but as part of long-term international strategy. Scenario planning and advanced analytics can help managers anticipate and prepare for risks. We found also that ESG, sustainability, and ethical concerns increasingly shape divestment decisions. That is, aligning divestments with responsible business practices reduces reputational risks and strengthens stakeholder confidence. What comes to the communicaton practices, transparent internal and external communication minimizes resistance, protects reputation, and ensures smoother transitions. Lastly, continuous monitoring, stakeholder feedback, and timely decision making are critical to successful divestment execution. By adopting these practices, firms can turn divestments from perceived failures into strategic opportunities for renewal, realignment, and growth otherwise divestment decisions can negatively impact parent firms' reputation and success (Yoo & Moon, 2024).

5.3. Future Research Suggestions

While this study advances understanding of managerial capabilities in FD, its cross-sectional design limits causal inference. Future research should adopt longitudinal and mixed methods to trace managerial decisions over time and address endogeneity concerns such as selection bias and omitted variables. It is also important to examine firm and subsidiary characteristics by exploring how firm size, performance, and industry context shape managerial decision-making in divestments**.** In the future, it seems to be important to examine how new technologies such as AI, big data, and analytics enhance risk assessment and scenario planning in divestments. Laslty, there is need for comparative studies to analyse differences across industries, regions, and institutional contexts to deepen insights into managerial approaches. Such works can provide a more robust and generalizable understanding of how managerial capabilities mitigate risks and drive desired divestment outcomes.

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