Managerial and financial-accounting elements of international divestment: A literature review

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by

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ABSTRACT

Though since the early of 1980s a substantial wave of international divestments has occurred, this phenomenon has not been sufficiently investigated up to now, *inter alia* due to its multiple nature. The primary purpose of this paper is to review existing international business literature concerning managerial and financial-accounting aspects of this issue. The main results of our analysis are the following: First, there are several modes of international divestment with different identities and characteristics. The most important of them are found to be liquidation, plant closure & relocation and divestiture. Second, none of the existing theories can satisfactorily provide a global explanation of international divestment phenomenon in terms of nature, determinants, exit mode, or decision-making; thus, major theoretical gaps still remain. Third, empirical studies use a number of firm-specific factors as independent variables (such as entry modes, equity ownership structure, extent of diversification, experience, cultural distance, and financial performance) in order to explain the decision to divest. Most of them also utilize industry-specific factors using them as control variables. Nevertheless, further empirical research is also needed to shed light on the multidimensional character of the divestment phenomenon.

INTRODUCTION

Divestment strategy constitutes a basic element of business policy of a company. Voluntary divestment transactions often represent an adjustment process and may be considered as part of a wave of corporate restructuring over the past two decades (Markides, 1995; Haynes et al, 2003). In fact, in recent years, the global realignment of business scope has become a big issue. Where the 1960s and 1970es were the decades of continuous diversification and expansion, since the early 1980s a substantial wave of national and international divestments has occurred (e.g., Jagersma and van Gorp, 2003). Strong international competition has put more pressure on corporations to rationalize their business scope and to divest non-core activities -“back to the core business” policy- (e.g., Duhaime and Grant, 1984, Li, 1995; Markides, 1995; Haynes et al, 2003; Nicolai and Thomas, 2006), to sell-off or to liquidate poor performing operations (e.g. Shaver et al, 1997) as well as to relocate manufacturing plants from one production site to another (e.g., Kogut and

Kulatilaka, 1994; Pennings and Sleuwaegen, 2000, Belderbos, 2003; Georgopoulos and Preusse, 2006). As a result, many international corporations divest some of their operations in order to become more effective and more competitive.

Divestment ranges from regions, nations, via industries, to specific firms, and even individuals[1] (Benito, 2005). Therefore, this phenomenon has been studied from a variety of perspectives such as business research, economics, labour economics, geography, sociology and politics. Due to different definitions (see next chapter), time and place, research findings are heterogeneous, making difficult to compare them.

Surprisingly, not many divestment studies have been conducted in the area of international business (Owen and Yawson, 2006; Benito, 1997a). This is because a) longitudinal data sets are difficult to obtain (Benito, 1997a), b) divestments made by non-listed companies are not monitored by authorities, or by research and consultancy firms (Jagersma and van Gorp, 2003), c) plant closures are not always recorded, or are only recorded with a substantial time lag (Belderbos, 2003), and d) divestments are often regarded as business failure and companies, consequently, treat them with secrecy (Benito, 1997a). In conjunction with this, Jagersma and van Gorp (2003) express the view that the majority of managers are focused primarily on growth which, especially in the Anglo-Saxon world, guarantees “success”, “promotions”, “power” etc. Hence, the issue of divestment is a sensitive one and is often associated by many business leaders with “failure”. As a result, whereas at the international level there is a substantial prior research on the ownership mode of entry (e.g. acquisitions, joint-ventures, Greenfield investments), not enough attention has been paid to the mode of exit though there is a substantial link between the two strategic modes. That is, a firm’s choice of entry will probably affect both

[1] The issue of divestment is not just of academic concern. Divestment operations, particularly if they involve the closing down of activities, may evoke strong reactions by governments, unions, workers and other affected parties (e.g., Feekin and Nissen, 1991; Clinebell and Clinebell, 1994).

its post-entry performance and its exit form (e.g., Mata and Portugal, 2000; McCloughan and Stone, 1998; Li, 1995; Woodcock et al., 1994).

The purpose of this paper is to review existing literature on international divestment in international business and related fields, including strategic management, industrial organization, and financial-accounting.[2]

The rest of the paper is divided into four sections. The first section provides definitions, types and some conceptual problems of divestment. The second section presents the main theoretical approaches. The subsequent section describes the most important influential factors of divestment. The final section summarizes and concludes the paper.

DEFINITIONS, CONCEPTS AND TYPES OF DIVESTMENT

There is a very wide array of definitions, concepts and types of international divestment. In this framework, the main terms which are discussed here are post-entry performance such as survival, profitability and failure as well as exit. Post-entry performance and failure indicators are used in the most empirical works as dependent variables. Some definitions and explanations concerning the aforementioned terms are given below.

Survival of foreign affiliates is defined as the continued presence of these affiliates in a geographic market (Li, 1995; Mitchell et al, 1994). Specifically, Li (1995) considers survival as a long-term measure of performance. Mitchell et al (1994) also justify the use of business survival as long-term measure of performance as follows: a) business survival complements profitability measures of performance, especially in dynamic industrial settings such as changing industries in which managers must consider the time length available to recover sunk costs investments; b) it has long been recognized as an important

[2] Our study does not concentrate on the specific literature on international joint-ventures survival (e.g. Dhanaraj and Beamish, 2003; Steensma and Lyles, 2000). Also, it does not take into account the so-called "forced divestments" which take place due to nationalization and expropriation and in which change of ownership is forced upon the foreign investor (Kobrin, 1980; Benito, 1997a).

indicator of overall efficiency for most organizations; c) it is relevant for both employees whom must consider the stability of their jobs and economic policy makers who must be concerned with the long run ability of firms to provide taxes and jobs.

Researchers have, however, expressed skepticism about the dogmatic use of survival as a business performance measure. Li (1995) recognizes that future research with a fine-grained measure of subsidiary performance is clearly needed, given that managers must consider many criteria when evaluating the long-term potential of their business. Delios and Beamish (2001) report that survival *per se* is not necessarily a sign of good performance because shareholders, employees, and the general economy sometimes benefit if business shuts done. International business scholars such as Reuer (2000) refer that international joint venture longevity can often be an inappropriate indicator of the effectiveness of a firm's international strategy, particularly when ventures constitute a means of sequential adaptation to changing locational, or firm internal conditions. Mitchell et al. (1994) note that (while survival can be an indicator of the subsidiary performance over time) complementary measures of subsidiary performance should be also examined.

Several studies (e.g., Davis, 1974; Jovanovic, 1982; Mitchell et al, 1994; Mata and Portugal, 2002) report positive relationships between business survival and market performance such as market share, growth rate etc. Davis (1974) reports that criteria that may be utilized to identify divestment candidates should include position on product life-cycle curve, profitability and market position. Mata and Portugal (2002), suggest that the growth rate of a firm can be seen as an indicator about its expectations of success. The probability of exit decreases with firm growth. Companies may enter a market at low size and expand if they are successful. Hence, longer life cycle will be linked with both greater size and greater profitability (e.g., Jovanovic, 1982; Mitchell et al, 1994).

Failure, in turn, is the affiliate's exit (Li, 1995; Mata and Portugal, 2000). Exit occurs when a firm no longer exists as a foreign subsidiary of the same parent company. Li defines exit (or hazard) rate as the probability of exit within a particular year for those foreign affiliates that are at risk that year. Yamawaki (2004) identifies exit if a subsidiary that had been established during the research period disappeared from the list of subsidiaries in the subsequent years.

Mata and Portugal (2000) note that exit might take several forms such as closure or capital divestiture of the subsidiary. In general, foreign firms can exit a local market through the following strategies (e.g, Li, 1995; Benito, 2005):

a) bankruptcy and liquidation;

b) closure via relocation;

c) divestiture (sell-offs[3] etc.).

The exit forms of liquidation and closure (where the firm no longer exists) are the most clear and socially sensitive examples of divestment. Strategic management literature (e.g., Chang and Singh, 1999) suggests that while the choice of the proper entry mode can potentially reduce the hazards of failure, the choice of the proper exit mode can also minimize loses in case of failure.

Case a. Domestic financial-accounting literature considers the disappointing performance of a company or its subsidiary as the main reason behind its bankruptcy and liquidation. At the same time, international business studies such as of Li and Guisinger (1991) explore the divestment of foreign-owned affiliates in the USA due to reasons of bankruptcy and involuntary liquidation. Studies on international joint-ventures examine venture liquidation as one of several termination options of joint ventures (e.g. Hennart et

[3] According to Chow and Hamilton (1993), a sell-off is essentially the outright sale of some assets of a firm (a subsidiary, division or product line), while a spin-off takes place, when a company distributes all the ordinary shares which it owns in a subsidiary to existing shareholders.

al, 1998; Reuer, 2000) but searching for different divestment motives also beyond failure (see below).

Case b. Foreign subsidiary closure is observed when the specific subsidiary ceases its operations in a specific location (Mata and Portugal, 2000). The reconfiguration of plant locations and the redesign of global sourcing chains to improve total corporate profitability and global competitiveness are the main motives for international plant closure (e.gt., Kogut and Kulatilaka, 1994; Benito, 2005; Simoes, 2005). Specifically, global and European-wide sourcing strategies have caused the abandonment of traditional low-wage manufacturing sites. The result is a relocation of international production on a massive scale. Literature of international business (e.g., Belderbos, 2003; Pennings and Sleuwaegen, 2000; Richbell and Watts, 2000) and economic geography (e.g., Clark and Wrigley, 1997; Watts and Stafford, 1986) has mainly addressed this issue.

Case c. Divestiture principally entails restructuring moves of multi-business firms expressed in sales of companies or of their secondary business units. Divestiture is often related to the dismantling of an ownership position because it leads to a total or partial sell-off of corporate equity. Hence, the divested firm continues to operate under new ownership and governance structure (Mata and Portugal, 2000). Hennart et al (1998) and Mata and Portugal (2000) underline that the sell-off of a foreign affiliate has a different significance compared to liquidations, since the subsidiary is likely to survive, albeit with a different parent company; thus, venture sell-offs and venture liquidations are distinct phenomena that should not be aggregated (e.g., Hennart et al.1998; Steensma and Lyles, 2000; Reuer, 2000; Dhanaraj and Beamish, 2004). Divestiture may be related to the dismantling of assets,[4] especially in the context of the reorganization of highly geographically diversified corporations (e.g., Owen and Yawson, 2006) or multi-business company groups (e.g.,

[4] In this context, Duhaine and Grant (1984: 301) define corporate divestment “as a firm’s decision to dispose of a significant position of its assets”.

Chang and Singh, 1999). Under this point of view, this strategy leads to the abandonment of some divisions, product lines, business units or activities, as well as autonomization of affiliates abroad. Industrial organization, strategic management, international business and financial- accounting literature have concentrated on this exit strategy. A large part of financial-accounting and industrial organization studies, however, concentrate on the domestic business environment.

It is important to say that divestment studies in foreign countries implicitly identify exit with failure of a foreign subsidiary, especially with weak financial performance. The contention that poorly performing units are likely candidates for divestment is supported in a number of studies (e.g., Duhaime and Grant, 1984; Li and Guisinger, 1991; Hamilton and Chow, 1993; Jagersma and van Gorp, 2003). In particular, most bankruptcies and business dissolutions may stem from low profitability performance, whether the result of poor management or environmental conditions that are changing more rapidly than a business can adapt. At the corporate level, poor financial performance may also favor divestment (e.g., Hamilton and Chow, 1993; Haynes at al, 2003). For example, in their case study on New Zealand, Hamilton and Chow (1993) report that the necessity of meeting corporate liquidity requirements was among the most important objectives motivating exit. At the international business level, Shaver et. al. (1997) classified the divestitures of their sample as economic unsuccessful because they took place within the short period of five years; according to Kaplan and Weisbach (1992) divestitures that resulted from business failure (e.g., showed losses on sales) were more likely to occur within seven years. Thus, it is expected that divestment of specific assets soon after expansion usually stem from poor performance of the investment given the strong commitment of financial and managerial resources in many foreign direct investment (FDI) projects.

Other studies (e.g., Boddewyn, 1979; Ghertman, 1988; Weston, 1989; Kaplan and Weisbach, 1989; Tsetekos and Gombola, 1992; Pennings et al, 1994; Reuer, 2000; Belderbos, 2003), however, point out that exit may be due to reasons other than failure and poor performance *per se* (e.g., divestiture policies such as sell-offs, corporate de-diversification strategies). Boddewyn (1979) suggests that the importance of financial factors like poor financial performance should not be overemphasized because many firms divest themselves of affiliates that do not “fit” (strategic dimension) even they are profitable. Pennings et al (1994) conclude that an undifferentiated position that all divestitures are failures can be erroneous. Belderbos (2003) stresses that not all closures of plants are attributed to business failure. Ghertman (1988) notes that divestment of foreign subsidiaries does not necessarily indicate problems in the subsidiary, nor in the parent company. Rather, it may be due to strategic reorientation of the parent company and to the perception that the subsidiary no longer fits with the parent. In these cases in which corporations divest one or more businesses to other companies are less clearly linked to financial failure than are business dissolutions. This argument becomes obvious in the case where an international joint-venture is replaced by a non-equity form or *vice versa*. Scholars (e.g., Reuer, 2000) view international joint venture termination[5] alternatively as an indication of failure, as a correction of the initial market entry decision, or as an adaptive response to changing environmental or firm-specific conditions. Also, in the case of divestitures (i.e., sales of business), industrial organization and strategic management literature demonstrates that successful businesses may be acquired by firms seeking market power, scale economies, or complementary resources. In the financial literature (e.g.,

[5] Reuer (2000) considers five types of international joint venture termination: a) the parent firm acquire the joint venture, b) the parent firm sells its equity position in the venture to its partner(s), c) the parent firm sell its equity stake to an outside party, d) the parent firm and its partner(s) sell the joint venture in its entirety to an outsider, or (V) the parent firm liquidates the venture. In the first type, the company increases its commitment to the venture. The four remaining types of joint venture termination involve the international firm’s withdrawal from the venture.

Kaplan and Weisbach, 1989), the acquisition of companies followed by its reorganization and subsequent sell-off has been clearly identified as a means of making a profit. However, another part of the national financial literature (especially those confirming the hypothesis of the market for the corporate control) suggests that at the time of their divestiture target firms are generally marked by below-average profitability and above-average debt.

On the whole, it should be noted that current accounting-based profitability is not always an indicator of strong performance, if externalities are not accounted for or if short-term profits are attained at the cost of foregone valuable investment or if sequential adaptation strategies of international firms are neglected. Further, measuring the performance of foreign affiliates is difficult because transfer prices are artificially raised or lowered for reasons of tax avoidance and subsidiaries are sometimes constrained in their ability to respond to market incentives due to their subordination to the global strategies of the parent company. On the other, internal subsidiary performance data are confidential and, consequently, are normally difficult to obtain (e.g., Woodcock et al., 1994). Even obtainable, such kind of performance values are frequently hard to interpret because management accounting practices differ between firms and countries, and internal subsidiary performance measures do not have necessarily to conform to legal or accounting standards.

THEORIES

The phenomenon of international divestment can be theoretically investigated from several viewpoints due to its multiple nature, determinants and characteristics. In an overview of the literature divestment, Chow and Hamilton (1993) identify three streams, that is, industrial organization, corporate strategy and finance. Simoes (2005), in turn, reports that there are three main strands in the literature on the divestment determinants: geography, industrial organization and strategic management. Benito (2005) develops an integration-responsiveness framework of international business strategy and argues that the divestment propensities of foreign affiliates depend on the type of international business strategy (e.g., multi-domestic strategy, transnational strategy) pursued by the corporation. Taking into account these considerations and extending the analysis to the approach of international relocation of production, we briefly present four theories: industrial organization theory, relocation theory, corporate strategy approach as well as financial-accounting approach. However, it should be mentioned that none of the existing theories can satisfactorily provide a global explanation of international divestment phenomenon in terms of nature, determinants, exit mode, or decision-making (e.g., Benito, 2005; Shin, 2000; Clark and Wrigley, 1997). Theories of foreign divestment are still in the premature age. Thus, major theoretical gaps still remain.

Industrial organization approach

The industrial organization literature has been mainly concerned with incentives to exit and impediments to exit (Siegfried and Evans, 1994; Benito, 2005); exit barriers could be also viewed as entry barriers (Caves and Porter, 1976; Clark and Wrigley, 1997).

An important incentive to exit is bad performance which stems from high operating costs, stagnation or permanent decrease in demand, and new aggressive entrants (Siegfried and Evans, 1994). On the other, as a substantial impediment to exit can be seen the existence of specific assets[6] which can not be easily exploited in alternative uses and locations (e.g. Clark and Wrigley, 1997; Chow and Hamilton, 1993; Caves and Porter, 1976). In this context, existing literature distinguishes those assets which have value to only one (or a few) firm(s) and those which have market value. Specific assets such as durable

[6] Clark and Wrigley (1997) suggest that over the early stages of an asset's life cycle, the firm will have a range of strategic options that are not so easily available to the firm as the asset ages and loses its discounted market exchange value.

assets may be significant barriers to exiting (Chow and Hamilton, 1993). At international level Delios and Beamish (2001) report that a successful transfer of specific intangible assets can be also subject to impediments because these assets are not always easily applicable within the new competitive environment. Hence, adaptation is needed, since national markets vary considerably in a number of important ways.

Another exit barrier is the existence of sunk costs.[7] It is widely recognized within literature that sunk costs are known as a barrier to international relocation of a firm (e.g., Clark and Wrigley, 1997; Motta and Thisse, 1994; Caves and Porter, 1976). However, Pennings and Sleuwaegen (2000) have found no statistical significance in their logit model for sunk costs (i.e., the ratio of the sunk tangible assets -plant, machinery and equipment- to total tangible assets).

Moreover, inter-relatedness between units in form of joint production and distribution facilities can also act as barrier to exit (Benito, 2005). Another obstacle to divestment stems from the firm's internal organization, particularly its vertical integration where the upstream unit may compel the continued operation of a downstream unit (Chow and Hamilton, 1993). Yamawaki (2004) found that a foreign subsidiary that engages in the intra-firm trade and is normally integrated in the parents' global sourcing and sales network, is less likely to divest. Thus, the integration in a corporate-network may prevent even an unprofitable unit from being divested because it may contribute positively to the company's overall performance.

As compared to domestic divestments, it is argued that foreign divestments show lower barriers to exit (Boddewyn, 1983; Porter, 1976). In particular, the possibility of both further geographical diversification and alternative ways of sourcing reduces the interrelatedness problems connected with any single foreign investment in the case of

[7] Sunk costs are conventionally defined as those costs that do not vary with output (unlike variable costs) and do not vary directly with scale (unlike fixed costs). Sunk costs represent a non-recoverable commitment to production in an industry (Clark and Wrigley, 1997).

multinational firms. In addition, closing a foreign operation is more easily reversible than closing a domestic operation, because foreign plant closings are associated with diminishing arbitrage opportunities in a specific location (Kogut and Kulatilaka, 1990). It means, that the firm closing a foreign plant effectively holds an option allowing reopening whenever arbitrage conditions reverse. By contrast, domestic closings are more likely associated with permanent changes (such as in product demand or production costs) expressing firm-wide problems (Tsetsekos and Gombola, 1992). Moreover, international divestment is normally accompanied by lower nationalistic attachment and fewer moral qualms. Hence, the political and social pressure not to close plants may not apply as strongly to foreign managers (Boddewyn, 1983).

Relocation approach

International business studies explain why multinational companies relocate their production activities at global level. It is widely argued that these firms have considerable potential for location flexibility; that is, the ability to switch and re-switch their resources between several host countries taking advantage of national differences in factor endowments, market potentials and economic policies (e.g. Benito, 1997b & 2005; Simoes, 2004 & 2005).

Evidence supports this argument. To be more precise, Kogut and Kulatilaka (1994) show that operating a multinational network of plants and maintaining the "real option"[8] to vary capacity loadings of different plants in response to relative cost changes is an important competitive advantage of multinational companies. In other words, the value of the multinational network derives from the opportunity to benefit from uncertainty through the

[8] According to Kogut (1991), the right to expand is an example of a "real option", real because it is an investment in operating (as opposed to financial capital), and an option because it need never be exercised. For instance, international joint ventures are designed as options that are exercised through an acquisition and divestment/ dissolution decision.

coordination of plants at global level. That is, these firms have the option to respond to uncertain events (such as change of exchange rates, change of government policies, emergence of new competition, increase of material costs etc.) in several parts of the world. Consequently, building plants in different countries can generate additional value for the firm by shifting production among them. According to Belderbos (2003), international plant closure due to relocation will occur if the increase in operational profits after relocation exceeds the fixed costs of relocation (the latter consist of fixed investment or adjustment cost in the new plant and the exit costs of the current plant). The author, investigating “antidumping jumping” FDI of Japanese firms in the EU, concludes that such investments create strong incentives to relocate manufacturing activities to lower-cost or higher-productivity locations once antidumping measures are repealed. In this case, production is shifted back to home country, to South East Asian countries or to Eastern Europe, whereas EU market is continued to be served via exports. Hence, “antidumping jumping” FDI is normally short-lived. Also, Vannoni (1999), examining entry and exit strategies of Italian multinational firms, provides support for the view that these firms consider the EU as an integrated region, and localize the production so as to exploit vertical integration advantages and to save on the cost of labour. In this context, defensive FDI such as “tariff-jumping” investments has been less important than efficiency-seeking FDI (for these terms see Dunning, 2000). Richbell and Watts’s (2000) investigation of cross-boundary closures in the EU illustrates the dominant role of plant economies of scale and specialization economies in encouraging the concentration of production on the largest pre-existing site. The authors underline that the development of an optimum production system is a particular challenge for managers operating within the EU. The evidence presented by Gibson and Harris (2001) shows that larger, lower cost, older and more export-oriented plants survived the New Zealand foreign trade liberalization. Benito (2005) argues that locally-bound subsidiaries based on traditional locational factors such as cost advantages, trade barriers and local tastes, are in general likely to display very high divestment rates. Simoes (2004) shows that international factors (such as international competition patterns and international sourcing policies of companies) rather than local conditions have led to rethinking of both manufacturing locations and the boundaries of the firms themselves. As a result, traditional low wage countries such as Portugal lost competitiveness as FDI locations. Also, Pennings and Sleuwaegen's findings (2000) demonstrate that labour intensive firms in the highly industrialized economy of Belgium tend to relocate more to other countries than their highly productive capital intensive counterparts. Simultaneously, their results indicate that large profitable multinationals move more easily part of their activities to another country as compared to domestic firms of which the relocation decision constitutes their first foreign investment decision.

Boddewyn (1983) discusses the elimination of foreign subsidiaries based on the framework of the eclectic FDI theory (Dunning, 2000;1988). The author claims that a foreign plant closing may occur whenever: (i) a firm ceases to possess ownership advantages, in other words, to possess net competitive advantages over companies of other nationalities; (ii) or the firm no longer considers it profitable to internalize these advantages and (iii) or the firm no longer finds it profitable to exploit its internalized net competitive advantages outside its home market via local production.[9] Therefore, while FDI theory demands that these three conditions be satisfied simultaneously, international divestment theory requires only a minimum of one of them. That is, even if ownership advantages remain in existence, a firm may still decide to divest when internalization or/ and locational advantages are eroded.

[9] It means that it is now more advantageous to serve foreign markets by exports or other non-equity internationalization modes such as licensing, subcontracting etc.

A recent trend in the international business literature is the investigation of internal re-configuration activities of multinational corporations concerning the relocation of their headquarters (HQs) overseas. In this context, the research of Birkinshaw et al (2006) highlights important differences between corporate strategy and business strategy. Notably, business unit HQs move overseas in response to the changes in the internal configuration of their unit's activities and the demands of their product markets. On the other, corporate HQs move overseas in response to the demands of external stakeholders, in particular global financial markets and shareholders.

Corporate strategy approach

This approach contains elements of strategic management and corporate portfolio analysis. Strategic management literature provides valuable insights in the determinants of divestment. The relevant areas include *inter alia* life cycle theory and end-game theory (e.g., Harrigan, 1979; Harrigan and Porter, 1983). The concept of life cycle has been applied by many researchers to the management of particular products, product lines, firms and industries over time. Divestment analysis related to life cycle concept views divestment as one of alternative "endgame strategies" (Harrigan, 1979) for declining industries characterized by stagnation, unexpected poor performance, and uncertainty concerning future returns (Harrigan, 1979; Harrigan and Porter, 1983; Duhaime and Grant, 1984; Benito, 2005). In other words, this approach considers a company destined to move through a number of stages –typically introduction, growth, maturity, and decline- with the divest option coming to the fore in declining industries (Chow and Hamilton, 1993).

Divestment has also been viewed from the corporate portfolio perspective (e.g., Benito, 2005; Hamilton and Chow, 1993; Duhaime and Grant, 1984) which based on financial theory background. From this point of view, a corporate is considered as a portfolio of assets, products, divisions, business units and activities. A strong interdependency among business of a corporate, particularly of multidivisional or multiproduct firms, may influence its divestment decisions (see also below). In this framework where each business unit is in competition with the other businesses for resources, poorly performing units are likely candidates for divestment in form of divestitures or liquidations.

Corporate diversification strategies appear to be particularly likely to foster divestiture (e.g., Markides, 1995; Hamilton and Chow; 1993; Duhaime and Grant, 1984). In this case, the divestment decision making of a corporate differs according to degree of relatedness among business units. That is, corporate expansion into related industries may lead to better performance and superior survival rates than expansion into unrelated industries.[10] On the other, low interdependency between units and the need to focus on core business appear to motivate the divestment decision of "over-divesrsified" companies (Markides, 1995; Haynes et al, 2003). In fact, Mata and Portugal (2000), Benito (1997a) and Li (1995) indicate that international diversification entails a higher risk of subsequent exit than foreign ventures within the parent company's main line business. Also, Liebeskind and Opler's (1995) research demonstrates that corporations which operate in a large number of countries are far more likely to simplify their corporate structure through divestitures than other companies. Kim (1997) concludes that overseas divestitures result from problems in managing operations. Owen and Yawson's (2006) results show that Australian firms that divest internationally are significantly more geographically widespread that companies that divest in Australia.

Financial-accounting approach

[10] Chatterjee and Wernerfelt (1991) found that excess physical resources, most knowledge-based resources, and external financial resources are associated with more related diversification. On the other, internal financial resources are associated with more unrelated diversification.

Financial studies of divestment focusing on agency approach, corporate finance, and corporate governance, have been paying attention to the short-term impact of divestment on corporate value, i.e. on share prices (e.g., Haynes et al, 2003), and firm performance (Haynes et al, 2002). In general, two approaches have been used (but largely in the domestic context; Woodcock et. al, 1994), in order to examine the short-term effects of divestment on performance and market value: a) the numerous ex ante financial event studies; most researchers have adopted an event study approach and evaluated the stock market response to sell-off announcements, and b) the ex post financial studies; this literature has concentrated on the ex post performance effects of divestment.

Specifically, divestment transactions could enhance corporate performance and corporate value in the following ways:

a) the organizational capabilities of "over-diversified" companies are inadequate at coping with the range of their activities. Thus, divestment that reverses previous unprofitable or loss-making diversifications should improve the efficiency and performance with which the remaining operations are managed. For instance, Markides (1995) reports cross-sectional results for large US firms which show that refocusing divestment is associated with improved operating performance. Bergh (1995) found that diversification lowering divestments improved performance. The findings of Haynes et al (2002) suggest that divestment has a positive, significant effect in raising the profitability of the vendor company. In the international context, Gleason et al (2000) observe positive performance gains for the divesting firms related to foreign divested assets in the post-divestment period through the elimination of diseconomies of scale and scope and negative synergies.

b) Taking the agency theory approach, the existence of "over-diversified" businesses can be attributed to managers who have acted in their own interests and diverted primarily "free cash flow" (Jensen, 1986) to their preferred diversification activities.

However, especially by the 1980s, the capital market appeared to have formed a more pessimistic view of highly diversified firms.[11] In this case, a downward displacement in optimal diversification levels via divestment can be explained by a better alignment of owner and management interests which improves the market value of the corporate (e.g., Nicolai and Thomas, 2006; Haynes et al, 2003; Haynes et al, 2002). That is, divestment which contributes to a reduction of the agency problem should result in positive announcement effects in the stock market. These effects may signal a reduced danger of total failure (if a firm has been performing badly) and may also capture a reward by the market of a strategic reorientation by investing firms in search of optimal markets, away from low profitability to high profitability operations (Gleason et al., 2000). Hence, divestitures may alter expected future cash flows and therefore have positive valuation consequences for divesting firms.

At the international level, Kim's (1992) results suggest that firms experience significantly positive share price reactions surrounding their international divestitures. Padmanabhan (1993) provides evidence of a positive market reaction to foreign divestiture announcements by U.K. companies. Also, Posnikoff (1997) analyzed the effect of announcing disinvestment or withdrawal of US multinational companies from South Africa during the 1980s and found a significant positive announcement effect. Reuer (2000) concludes that the international firm's abnormal returns from both international joint venture formation and international joint venture termination will tend to be positive, if parent firms use venture termination as a means of sequential adaptation.

On the other, evidence shows that plant closing has rather a negative implication on firm valuation, because the resulting downward revision in the firm's entire cash flows – bad news- normally causes a negative stock price reaction at the closing announcement

[11] Innovations in the external capital market, new financial instruments and greater shareholder activism have lowered the costs of external financing and may have reduced the comparative advantage of intra-organizational transactions within the multidivisional -M-form- firm (Haynes et. al., 2003).

(Gombola and Tsetsekos; 1992). In other words, announcements of plant closings indicate that sell-off option for the plant is out-of-the money and that the firm's operating options are also out-of-the money. Especially, the market responds negatively to financially weak firms (Gombola and Tsetsekos; 1992) or to relocation decisions that lead to a reduction in a company's production capacity and facilities (Chan et al, 1995). Blackwell et al (1990) and Chalos and Chen (2002) found a negative stock market reaction to plant closing announcements of US-firms and of *Fortune* 500 companies correspondingly. Tsetsekos and Gombola (1992) show a significant negative stock price for domestic plant closings and an insignificant negative stock price reaction for foreign plant closings.[12]

Recent financial literature (e.g., Blumberg and Owers, 1996; Gleason et al, 2000), but also strategic management studies (e.g., Capron et al., 2001), often combine foreign divestment with acquisition strategies. In conjunction with the corporate portfolio theory, the involvement in cross-border acquisitions may be an important additional antecedent to divestiture, since those activities prompt restructuring moves. International divestitures can occur, when the synergistic value of the foreign subsidiaries which have been emerged via acquisition may have been illusive.[13] The original acquisition strategy and the subsequent divestment process may have a positive impact on the market value of a company. Indeed, Gleason et al (2000) provide evidence that divestiture of foreign assets has a significant positive wealth effect on both U.S. acquirers of divested assets and divestors of these assets. From another perspective, Blumberg and Owers (1996) measuring the valuation reaction

[12] In this context, a national or foreign plant closing is undertaken when this strategy has positive net present value, that is, when the discounted value of cash flows from operating the plant is less than the expected cash benefits of abandoning it (positive net present value of divestment = future operating cash flow losses – expected cash benefits of closing). The benefits of closing principally stem from avoiding cash flow losses by closing the plant also included some tax benefits or salvage value of assets (Tsetsekos and Gombola, 1992). Foreign plant closing should be linked to arbitrage considerations. Arbitrage opportunities which may be exploited by means of a global network of operations include diversification of cash flows across national markets, production benefits via economies of scale, exploitation of international cost and exchange rate disparities, choice of location alternatives etc. (e.g., Dunning, 2000 & 1988; Tsetsekos and Gombola, 1992; Baldwin, 1986; Kogut, 1983).

[13] It is argued that these units were originally acquired in order to achieve synergies with a company's core operations.

reactions for U.S. sellers show that selling to a foreign buyer does not lead to greater divestor returns.

In general, among financial and industrial economists there has been a significant interest in market exit following deregulation, leveraged acquisitions, unrelated acquisitions, hostile takeovers, leveraged buyouts (LBOs) and recapitalizations. Specifically, research has been focused on interactions between excess capacity, capital markets and exit; debt, free cash flow and divestments; financial distress and exit by LBO firms. Nevertheless, most of this research has taken place in a national context.

There are numerous accounting-based reasons why a corporation might choose to liquidate or sell some part of its business (e.g., Haynes et al, 2003; Haynes et al, 2002; Hamilton and Chow, 1993; Duhaime and Grant, 1984). For example, managers very often make divestment decisions based on the firm's projected cash flows. Further, non-satisfactory profit performance (e.g., Haynes et al, 2002;), pressure from short- and long-term lenders to lighten the debt load of the parent company, and the requirement for more cash (e.g., Hamilton and Cow, 1993) to support higher growth are a few of the more significant ones. Specifically, Hamilton and Chow (1993) found that in the case of New Zealand the divestment decision of large companies was motivated by the need to convert unattractive assets into liquid form. These financially mobile resources could then be held to strengthen the balance sheet, or reinvested in either the core business or new activities.[14] The findings of Haynes et al (2003) suggest that divestment phenomenon is systematically associated with poor firm profitability. Clark and Wrigley (1997) report that bankruptcy or financial distress such as insolvency may also provide an opportunity for restructuring and divestment strategies. To be more precise, a firm insolvent on a flow basis has insufficient cash flow to cover current obligations. In turn, a firm insolvent on a stock basis has

[14] A firm with very many of its products in the growth stage may have insufficient capital to adequately support all of them. Hence, divestment of old products may provide the funds to properly support the others (Davis, 1974).

negative economic net worth (i.e., the present value of its cash flows is less than its total obligations). Applying this argument to the product life-cycle curve (Davis, 1974), it is very likely that company's candidates for divestment may be products in the decline stage of their life-cycle, in other words, with low market share and low growth potential.

Duhaime and Grant (1984) examine three important factors with significant bearings on the decision to divest (see also Hamilton and chow, 1993): a) low financial strength (e.g., return on equity) of the divestor firm relative to its industry average; in this case, especially firms' comparisons to their competitors exercise an important influence on their divestment decision. b) weak performance and prospects of the divested units, and c) low interdependence between the divested unit and the other sectors of the firm's activities. Especially, low accounting-based performance achieved in the divested units as well as their poor growth prospects found to be very important divestment factors. Furthermore, Hennart et al (1998) note that diverse pre-divestment profitability levels are associated with different exit modes.[15] It means, while liquidations are often akin to failure (in the sense that the investor does not meet his expected returns), all sell-offs are not necessarily failures.

To sum up, financial-accounting divestment decisions, at least in the short or middle run, are made to improve the firm's balance sheet by providing additional liquidity. In such a case, managerial recognition to improve ROI or other accounting indicators through planned divestment is required.

INFLUENTIAL FACTORS

[15] The authors distinguish exits through liquidation from exits via sale and report that divestment determinants between these two exit modes are different.

In this section we present the most important firm-specific factors which may influence the divestment decision making. These factors that used as explanatory variables in the literature are the following:

Ownership entry modes

Our understanding of the international divestment decision making could benefit greatly from the knowledge concerning market entry and post-entry performance in host countries. It means that the choice among acquisition or Greenfield entrants is related to divestment because these entry forms differ both in expected riskiness and in the importance of coordination and transaction costs. The relevance of transaction cost economics in the divestment context lies primarily in its analysis of the strategic motives underlying choice and change of operation modes.

There is considerable supporting evidence that entry modes have different performance levels. This evidence, however, is rather inconclusive. On the one hand, scholars suggest that new venture entry modes outperform acquisition modes. For instance, Woodcock et al (1994) found that acquisitions incur both high resource deficiency costs[16] and high management control costs. Li's results (1995) show that, in contrast to Greenfield investment, a higher exit rate may result for foreign acquisitions because of weak managerial attachment and difficulty in integration. McCloughan and Stone (1998) provide evidence that acquisition entrants (particularly early in life) face a higher risk of failure than Greenfield entrants mainly due to high post-acquisition costs and to weak managerial links between overseas affiliates and parent headquarters in the home country. Mata and Portugal (2000), considering two possible ways of exit –i.e., firm closure and capital divestiture-, demonstrate that the entry mode exerts opposite effects on the two modes of exit, that is

[16] It means that from a resource-based perspective, acquisitions have the potential to create more resource redundancies or duplications than synergies.

Greenfield entrants being more likely to shutdown, but less likely to be divested. Overall, they conclude that Greenfield investments are likely to have a longer lasting presence in the host country than investments by acquisition.

On the other, researchers claim that acquisitions are more likely to succeed than new ventures. According to Caves (1996), although new ventures promise a higher rate of return, their profits are more variable than those from acquisitions The profits from acquisitions are less risky because firms which are acquired have already gone into a process of developing procedures and routines that enable them to deal effectively with their environments. Pennings et al (1994) based on the organizational learning approach found that international expansions of Dutch firms were more persistent when related to the result of acquisition rather than internal development. The odds of survival of new ventures should be relatively dismal (although firms can use their homegrown skills as a form of leverage when setting up a new venture), since start ups entail a considerable degree of risk due to the "liability of newness". Hence, new ventures start up at the beginning of the learning curve, whereas existing business, as targets of acquisition, have moved beyond the "liability of newness" stage.

Equity ownership

The instability of international joint ventures has been widely recognized in the international business literature (Hennart et al, 1998; Reuer, 2000; Steensma and Lyles, 2000; Pan and Chi, 1999; Dhanaraj and Beamish, 2004). As a consequence of this great instability, many scholars found that fully-owned subsidiaries of foreign firms are more likely to survive than joint ventures. Specifically, Pennings et al (1994) found that equally and minority-owned investments are less likely to succeed than fully and majority-owned investments because they involve more risk and conflict potential. Hennart et al (1998) provide evidence that Japanese parents are more likely to terminate their stakes in U.S. joint ventures than in wholly-owned subsidiaries. Dhanaraj and Beamish (2004) conclude that while foreign investments involving small ownership levels (<20%) show very high mortality rates, those with high ownership levels (>80%) have mortality rates comparable to that of wholly owned affiliates. Mata and Portugal's findings (2000) indicate that ownership arrangements such as majority joint ventures and fully-owned affiliates, experience a lower probability of failure than do minority holdings.

Diversification

Many international business studies have investigated the relationship between product diversification and the exit hazard of foreign subsidiaries. Their results support the argument that the more remote the business of the new subsidiary from the core product areas of the parent operations, the greater is the uncertainty involved. Thus, an "over-diversification" of a firm has important negative implications for the performance and survival of foreign affiliates. In particular, the findings of Li (1995) indicate a higher exit rate for subsidiaries that diversify than for those that stay in the parent's main product areas. Gibson and Harris's findings (1996) illustrate that diversified, multi-plant firms were more likely to close plants. Pennings et al (1994) conclude that international firm expansions were more persistent when related to a firm's core skills. The results of Haynes et al (2003) suggest that the relative extent of divestment is positively related to a firm's level of diversification, whereas the findings of Duhaime and Grant (1984) show that divested units are characterized by low interdependency with other units of a firm. Also, Benito (1997a) found that related (horizontal) subsidiaries are less likely to be divested than unrelated (non-horizontal) affiliates.

Experience

Organizational learning theory suggests that prior learning facilitates the learning and application of new, related knowledge. In the foreign entry literature, advocates of the Uppsala stage model of internationalization have argued that firms expand slowly from the domestic bases into progressively distant areas. Experiential learning from previous entries is the driving force behind new investments. In other words, entry into a new foreign market requires a learning period over which entering firms establish themselves.

Host country experience can counter location-specific disadvantages to improve a subsidiary's likelihood of survival. Foreign subsidiaries that created earlier in the host country have a longer time period to accumulate the knowledge about the local market. Rich evidence concerning the economic success of FDI highlights the importance of country-specific knowledge and industry-specific knowledge within the target country. Consequently, a number of studies have found that the probability of exit may decreases with age of foreign affiliates. This pattern has been attributed to the liability of "newness", which characterizes the first years in business (Stinchcombe, 1965). During the first years of their lives, firms go through a process of legitimation, either by learning about their abilities to be in business (Jovanovic, 1982) or by developing new organizational capabilities (Nelson and Winter, 1982). For example, according to Li and Guisinger (1991), new U.S. affiliates of foreign companies are found to suffer a higher failure rate than more established affiliates. In addition, they seem to suffer the liability of newness to a greater extent than new indigenous companies. The results of Woodcock et al (1994) indicate that performance of Japanese subsidiaries in the U.S. market was initially low which subsequently increased and stabilized at a higher level. Barkema et al (1997) show that experience with domestic joint ventures and with international owned affiliates contributed to the longevity of international joint ventures. Pan and Chi (1999) found that multinational operations that started in China at an earlier time had a higher return on sales than those starting at a later time. Delios and Beamish (2001) conclude that host country experience of a foreign subsidiary has a direct positive effect on its survival. McClougan and Stone (1998) provide evidence that foreign acquisitions of older plants exhibit greater longevity than foreign takeovers of recently established plants. So, the age of acquired plant at the point of foreign takeover appears to matter to the survival of acquisition entrants. Kronborg and Thomsen (2006) found that relative foreign survival increases with affiliate age, though the foreign survival advantage decreases over time.

Some studies, however, have found that the probability of exit may increase with age. These patterns have been termed as liability of “adolescence” or “senescence”. This is due to the following reasons (Hannan, 1998): As firms age, time erodes their initial endowments of resources and mortality rises. Further, as firms age and the environment changes, the initial strategic choices of firms become less and less adequate to the new environment, and firm mortality increases. Moreover, the routines developed by companies during their life cycle may create organizational rigidities which prevent flexibility and ability to adjust to environmental changes.

Another stream of literature distinguishes a first-time direct investment in a new foreign market from subsequent investments in the same market. It is believed that when an international firm undertakes a first-time investment, the structure may not have been set up to facilitate communications between the new unit and the parent company. In subsequent investments, the parent can benefit from learning and experiences gained during its previous foreign operations and build upon the existing network of foreign value-added activities. Wilson (1980) confirms that the previous experience of the parent company affects the likelihood of divestment of foreign subsidiaries. Li (1995) shows that foreign first-time entrants to the U.S. computer and pharmaceutical industries are more likely to fail than repeat entrants. Shaver et al (1997) found supportive evidence that foreign firms operating in a host country generate information spillovers that have potential value for later international entrants. In particular, they found that a) foreign direct investments by firms with experience in a host country to be more likely to survive than investments by first-time entrants, and b) foreign investments will be more likely to survive the greater the foreign presence in the target industry at the time of entry (Mitchell et al, 1994). Nevertheless, Mitchell et al. (1994) show that Canadian entrants to U.S. medical sector markets were more likely to survive if there were moderate levels of prior foreign presence in the target industry at the time of entry. In particular, they claim that foreign survival at the earlier stages of foreign presence should be more difficult due to the lack of market knowledge, while at the later stages it should be again difficult due to congestion effects.

Foreignness

International firms can compete successfully in foreign markets only if they possess specific ownership advantages such as proprietary intangible assets (Dunning, 2000 & 1988). These advantages must be sufficient to compensate the costs of doing business abroad which are termed “liability of foreignness” by Zaheer (1995). Specific transaction costs in foreign markets derive from the fact that, as a matter of rule, an international firm is at disadvantage relative to local competitors in terms of understanding the local environment and culture. Also, differences in economic development, regulatory traditions, political infrastructure, and memberships in economics blocks all may increase the riskiness of foreign expansion. Within this framework, the crucial question raised is whether foreign ownership enhances or decreases a firm’s chance of survival. Put it differently: do foreign and domestic firms experience different chances of survival?

Only a few studies appear to have compared the survival of foreign-owned and domestic companies (Li and Guisinger, 1991; Pennings et al., 1994; Zaheer and Mosakowski, 1997; Thomsen, 2000; Mata and Portugal, 2002; Kronborg and Thomsen, 2006). Empirical evidence in this area is rather inconclusive. According to Kronborg and Thomsen (2006), the relative survival rates of foreign and domestic companies principally depend on a balance of their advantages (e.g., of ownership and internalization) against the liability of foreignness. These authors comparing over the 100 year period 1895-2001 the survival of foreign subsidiaries in Denmark to a control sample matched by industry and firm size, found that foreign-owned companies have a higher survival probability, although the foreign survival advantage appears to be eroded by globalization. Li and Guisinger' results show (1991) that foreign-controlled firms fail less often than domestically owned firms. Pennings et al (1994) report that domestic expansions of large Dutch multinationals are more likely to succeed than their foreign ones (however, this hypothesis was supported by their econometric study under a specific condition which requires the inclusion of the mode-location interaction). Zaheer and Mosakowski's findings (1997) confirm that there is a liability of foreignness, and that it decreases over time. Thomson (2000) found that foreign subsidiaries in Denmark (1895-1995) have a lower survival probability than a control group composed of the largest domestically owned manufacturing companies. Nevertheless, statistical bias was possible due to the heterogeneity of the two samples (Kronborg and Thomsen, 2006). Mata and Portugal (2002), after controlling for several firm-specific and industry characteristics, found that new domestic and foreign-owned firms in Portugal do not exhibit different chances of survival and, by extension, display identical time patterns of exit.

Cultural distance

Cultural similarity between the home and the host country should facilitate the implementation of the decision to establish a subsidiary abroad due to easier monitoring and coordination of production activities in the various locations (e.g., Benito, 1997a). On the contrary, the cultural distance of home country from host countries has been identified as a negative factor in the participation of firms in FDI, and, at the same time, has been cited as a positive factor in firms' choice of less committed entry modes. For instance, cultural distance caused foreign investors to avoid full ownership because distance increases information costs and difficulty in transferring management skills (Barkema et al, 1997). Barkema et al (1997) conclude that, in line with previous conjectures (Hofstede, 1989), international joint ventures longevity decreased with the cultural distance between Holland and a host country. Also, the findings of Li and Guisinger (1991) support their hypothesis that the U.S. affiliates whose foreign parents are from culturally dissimilar countries are more likely to fail than those from culturally similar countries.

Financial performance

Deterioration in performance is expected to raise pressure on managers of firms to divest (e.g., Haynes, et al, 2003). In fact, some scholars have identified financial performance such as profitability, liquidity and leverage with significant bearings on the divestment decision. At the profitability level, Hamilton and Chow (1993) provide evidence that the most important divestment factor is the low return achieved in the divested units. This finding is also consistent with that of Duhaime and Grant (1984) who conclude that divested units will be characterized by low financial strength. At the same time, their research results give strong support to the hypothesis that divestment decisions tend to be made when corporate financial strength (as measured by ROE), is low by comparison to industry financial strength. Also, Haynes at al (2003) report that divestment is systematically related to financial variables, and in particular, to poor firm profitability. At the liquidity level, Hamilton and Chow (1993) found that typical divestment was motivated by the need of a company to convert unattractive assets into liquid form which is then use *inter alia* to satisfy overall liquidity requirements. At the leverage level, the findings of Haynes at al (2003) indicate that the extent of divestment activity is positively associated with the extent of a firm's debt burden.

Size

Industrial organization post-entry performance literature investigates the relationship between firm size and survival. According to McCloughan and Stone (1998), foreign plant survival is likely to improve with size; by size, it is meant average size of plant or of business over its lifetime and not initial size, or size at the point of entry which was found to be unimportant. Mata and Portugal (2000) investigating closures and divestitures by foreign entrants, conclude that firm size is clearly significant (with the association negative) in the case of closure, but not in the case of divestiture. Also, the same authors (2002) examining the survival of new domestic and foreign-owned firms, found that the probability of exit decreases with firm current size. Yamawaki (2004) reports that foreign subsidiary size is statistically significant as a determinant of survival for his 1973-1985 sample, but not for his 1986-1994 sample in which the industry effects are more important. Gibson and Harris (1996) found that the probability of plant exit in New Zealand manufacturing decreased with increasing plant size. Shin (2000) provides evidence that foreign divestment from South Korea's trading sector is negatively related to the size of affiliates.

From another perspective, Pennings and Sleuwaegen (2000) exploring the determinants of international relocation of 466 domestic and foreign-based multinational firms in Belgium, demonstrate that firm size has a positive effect on the probability of relocation. Specifically, they claim that large firms not only have more plants that can be relocated, they can also benefit more from relocating business. Also, Haynes et al (2003) show that the relative extent of corporate divestment in the UK will be positively related to firm size.

SUMMARY & CONCLUSION

The reasons for international divestment are numerous, ranging from poor financial performance of particular foreign units via original acquisitions and subsequent divestitures to strategic moves such as international relocation of plants and divestment of affiliates that do not "fit" corporation's core business even **if** they are profitable. In this context, business survival provides an important indicator of financial and other performance that is of interest to shareholders, managers, employees, and others affected by the success of a business. Nevertheless, business survival, as a measure of performance, must be interpreted carefully. The ideal approach to study the performance of an expanding business would be to document multiple measures of immediate and long-term performance and competitiveness.

Divestment may arise in many forms such as downsizing of foreign activities, switching from high to low commitment modes of operation, sell-off of a foreign unit, closing and relocation of a manufacturing plant, liquidation of unprofitable subsidiaries etc. The literature of international business shows that an international firm can mainly exit a local market via three modes: bankruptcy and liquidation, plant closure via relocation and divestitures such as sell-offs. Each exit mode is associated with a specific international business strategy and/or with some specific locational conditions of the host country.

The divestment theories can be considered partly overlapping (e.g., corporate strategy approach and financial approach, industrial organization theory and relocation approach) but having frequently complementary relevance in explaining foreign divestment patterns. Each theory, however, has its own characteristics and its own identity. For instance, industrial organization theory investigates the factors that facilitate or impede market exit. International relocation theory based *inter alia* on real option and integration–responsiveness framework of international business strategy examines plant closing and relocation from one country to another. Financial theory suggests that international divestment decisions provide information about a firm's future prospects and thereby convey valuation implications. In particular, the announcement effects of corporate sell-offs have frequently reported positive value gains, especially for disposals that increase corporate focus. Accounting theory explores divestment decisions that are made to improve the corporation's balance sheet and the accounting-based performance indicators (e.g., future cash flows, ROI, liquidity).

The main result of this study is that there no any single theory that can explain the phenomenon of divestment. Divestment theories have been tested in some empirical settings. More concretely, these studies have focused on the investigation of foreign divestment decisions in some specific countries and industries rather than in a global divestment environment. We have drawn on the divestment theories in order to locate divestment drivers and, by extension, to present the most important firm-specific explanatory variables. These variables are *inter alia* modes of market entry, equity ownership, diversification, experience, cultural distance, and financial performance. Empirical evidence concerning the expected sign of these variables are rather controversial and, consequently, inconclusive. Hence, major theoretical fields and substantial empirical issues still remain unexplored.

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