Divestment Seen through the Lens of International Business Strategy

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Abstract
This paper deals with divestment, i.e. the closure or sell-off of units in foreign locations, or conversely units owned by foreign firms. Such actions are discussed from the perspective of the firms making such decisions, and divestment assessments are looked at through the lens of international business strategy. Based on the integration-responsiveness framework developed by Bartlett and Ghoshal (1989), it is argued that the divestment propensities of foreign subsidiaries depend on the type of strategy pursued by the corporation. Subsidiaries of transnational corporations are in general likely to display the highest divestment rates. Whereas subsidiaries forming part of international and multi-domestic strategies may have the lowest divestment likelihood initially, subsidiaries established as part of a global strategy are expected to be the least probable to be divested in the longer run.

Key words: Divestment, foreign operations, multinational firms, international strategy

JEL classification: F21, F23, M21, L10
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Introduction

A very large number of studies have been conducted since the 1960s regarding the internationalization of firms, especially with a focus on MNCs, i.e. firms that own and operate units in foreign locations. An impressive stock of knowledge has been accumulated regarding many aspects of the structures and behaviors of MNCs, including issues like why they choose particular locations for certain activities, how interdependencies between activities in various locations are organized, and which methods of foreign operations they select for conducting those activities. Taken together, that research has been crucial in providing a better understanding of the international firm.

However, as pointed out by Benito and Welch (1997, p. 8): “…, most of the literature on the international operations of firms has focused on the growth – or positive development – of international business operations”. It is suggestive that terms such as divestment, divestiture, closure, and exit do not even appear as entries in the otherwise comprehensive index included in Rugman and Brewer’s authoritative anthology on the state-of-the-art in international business research (Rugman and Brewer, 2001). Likewise, a recent review of research on global strategy does not explicitly touch on the subject at all (Chng and Pangarkar, 2000). Studies on divestment (e.g. Benito, 1997a; Li, 1995; Shapiro, 1983), closure of foreign units (e.g. Mata and Portugal, 2000), relocation (Pennings and Sleuwaegen, 2000), and market exit

1 The recent volume edited by Alan M. Rugman and Thomas L. Brewer (2001) provides an excellent overview of key issues and findings in international business research. The articles by John H. Dunning and Jean-Francois Hennart are particularly helpful in tracing the development of a theory of the multinational corporation.
(Matthyssens and Pauwels, 2000; Welch and Wiedersheim-Paul, 1980) are still relatively scarce, despite the apparent significance that continuing MNC operations have for a wide array of actors – ranging from national governments to individual workers – and repeated calls for more knowledge about the magnitude of foreign divestment, the drivers of divestment, and the ensuing effects (Benito, 1997b; Boddewyn, 1979; Caves, 1995).

Here I will look at divestment through the lens of international business strategy: that is, I deal with the closure or sell-off of units in foreign locations, or conversely units owned by foreign firms, and will discuss such actions from the perspective of the firms making such decisions. Specifically, I use the analytical concepts and models developed over the last 15 years by among others Bartlett and Ghoshal (1989, 1993), Doz (1986), Harzing (2000), Porter (1986) and Yip (1992) in order to probe into why and when foreign divestment is likely to be a course of action taken by MNCs.

The remainder of the paper proceeds as follows. The next section gives a brief overview of the divestment literature based on economics and business perspectives. The basics of international business strategy are then sketched out, with an emphasis on the core factors in Bartlett and Ghoshal’s so-called “integration-responsiveness” model. The central part of the paper presents an analysis of how the core factors in the integration-responsiveness framework may lead to relocation, divestment, and market exits as the effects of corporate re-structuring and adjustment processes, and not just as failures in foreign markets. Some final remarks conclude the paper.

**Perspectives on divestment**

Divestment has been studied from a variety of perspectives. The wide ranging and multi-layered characters of the phenomenon imply that appropriate levels of analysis
range from nations and regions, via industries, to specific firms, and even individuals. Also, it is one of those phenomena whose significance and complexity both attract and request a diversity of approaches: one should not presume that the insights provided by economics and business research can make greater claims of fruitfulness and understanding than those provided by sociological, political, and/or geographical approaches. Nevertheless, since my point of view is that of firms’ behavior, it is the economics and strategy literature that is of particular relevance. In an overview of the literature on divestment, Chow and Hamilton (1993) identify three main streams; industrial organization (IO), finance, and corporate strategy. Since the majority of empirical studies in the area are confined to domestic settings, it is pertinent also to look specifically to those that have studied foreign divestments.

**The industrial organization approach.** The industrial organization literature has been concerned with incentives to exit as well as impediments to exit (Siegfried and Evans, 1994). The most apparent incentive to exit is low profits, or outright losses, which in turn are due to high costs, permanent decreases in demand, or the entry into an industry by aggressive, more efficient new competitors (Siegfried and Evans, 1994). Conversely, the existence of specific assets, i.e. assets which do not have valuable alternative uses (Williamson, 1985), constitute an essential impediment to exit (Caves and Porter, 1976).\(^2\) Inter-relatedness between units can also act as a barrier to exit. For example, joint production and distribution facilities may prevent an, in a strict sense, unprofitable unit from being divested because it may contribute positively to the company's overall activities. The IO literature also proposes that divestment depends on diversification.

\(^2\) Specific assets can be either tangible or intangible. In general, the empirical evidence suggests that durable tangible specific assets, such as high sunk cost in machinery, discourage exit (Siegfried and Evans, 1994). In a similar vein, intangible assets such as goodwill, advertising and R&D intensity, firm-specific human capital, and even emotional attachment to the firm and/or industry, can also operate as exit barriers by raising the perceived cost of leaving the arena (Caves and Porter, 1976).
Haynes, Thompson and Wright (2003). Caves and Porter (1976) argue that owners of independent plants have a lower opportunity cost and are therefore willing to accept a lower rate of return than operations belonging to a multi-plant/multi-industry company would be expected to achieve. Markides (1995) argues that “over-diversified” companies typically divest non-core units in order to recuperate performance. Moreover, divestment is facilitated in diversified companies since decisions are likely to be made by top-managers which are geographically and/or emotionally remote from the units under consideration for divestiture (Wright and Thompson, 1987).

Financial studies. Financial studies of divestment have been paying special attention to the impact of divestment on company performance. While a few studies have looked at profitability measures (e.g. Haynes, Thompson and Wright, 2002), financial studies have typically looked at the effects on share prices of divestment decisions. The available evidence suggests that divestments usually increase the market value of a company (Markides, 1995), not just for domestic divestiture but also foreign ones (Padmanabhan, 1993). One obvious reason is that the divested units simply were poor performers, but Weston (1989) points out that operations might be divested for other reasons than poor performance per se. Misguided acquisition policies and, as already noted, corporate diversification strategies appear to be particularly likely to foster divestiture as time passes by (Markides, 1995). The synergistic value of units that were originally acquired in order to achieve synergies with a company's core business may have been illusive, and, if there, weaken, or even disappear, over time. In a similar vein, highly diversified companies may reach a point where a greater degree of relatedness between units is needed. In such cases, both the original acquisition and the subsequent divestment may have a positive impact on the market value of a company.
Corporate strategy perspectives. Early contributions in strategic management tended to look at divestment from the viewpoint of a product life-cycle approach, and argue that divestment is one of several strategic options for "declining" industries (Davis, 1974; Harrigan, 1980). Divestment was advocated as an appropriate route in "end game" situations characterized by high volatility and uncertainty regarding future returns. Divestment has also been from a corporate portfolio perspective: a company can be regarded as a portfolio of assets, products, and activities, which should be continuously under review from both financial and strategic point of view (Chow and Hamilton, 1993). The contention that poorly performing units are likely candidates for divestment, is supported in a number of studies (Duhaime and Grant, 1984; Hamilton and Chow, 1993). Studies also indicate that corporate financial performance influences divestment. For example, in their study of 208 divestments made by large New Zealand companies during 1985-90, Hamilton and Chow (1993) report that the necessity of meeting corporate liquidity requirements was among the most important objectives motivating divestment. In addition to the narrow financial considerations, which are undoubtedly important, strategic considerations also play an important role in the decision to divest. Following Rumelt's (1974) study on the relationship between strategy and performance, a number of empirical studies have found that corporate expansion into related industries leads to better performance and superior survival rates than expansion into unrelated industries (Bane and Neubauer, 1981; Lecraw, 1984; Morck, Schleifer and Vishny, 1990; Pennings, Barkema and Douma, 1994). Similarly, interview based studies report that low interdependency between units (Duhaime and Grant, 1984), and the need to focus on core activities (Hamilton and Chow, 1993), strongly motivate the decision to divest. Despite the occasional case of a successful conglomerate, in general
studies suggest that firms are inclined to, and probably better off by, staying close to their specific competencies.

**Studies of foreign divestment.** The number of studies dealing specifically with foreign divestment remains limited. In the 1970s, a high number of nationalization actions in developing countries led to several studies on forced divestment (see for example Kobrin, 1980), but voluntary divestment was largely overlooked. In the 1980s, although concerns were raised about the instability of the then increasingly popular cooperative ventures (Blodgett, 1992; Kogut, 1988), and about the integration problems posed by international acquisitions (Nahavandi and Malekzadeh, 1988; Olie, 1990), few studies of foreign divestments were actually undertaken at the time. It is only quite recently that research on foreign divestment has begun to appear. Some studies have looked at the issue from the viewpoint of relocation of manufacturing capacity *inter alia* as a response to the increasing cost disadvantages of advanced economies like Belgium (e.g. Pennings and Sleuwaegen, 2000), others have studied the effects of political and institutional transformation in transition economies such as Poland (Roberts and Thompson, 2003). A number of studies have taken a firm-level perspective, focusing on the relationship between cultural and experiential aspects of foreign expansion and divestitures (Barkema, Bell and Pennings, 1996; Hennart, Kim and Zeng, 1998; Li, 1995; Shaver, Mitchell and Yeung, 1997). A basic contention in these studies is that while internationalization exposes companies to an array of difficulties regardless of the actual mode of entry used or the location of the foreign unit, problems are likely to increase when foreign entries are made in culturally distant locations, when there are
few other foreign firms operating in the same country\(^3\), and/or they are made by acquisition or joint venture. Acquisitions and joint ventures involve “double layered acculturation” in which both another corporate culture and a foreign national culture have to be dealt with. Such processes are difficult, which in turn may lead to inferior performance, and the studies by Barkema, Bell and Pennings (1996) and Li (1995) report that the probability of divestment is higher for joint ventures and acquisitions. However, while Benito (1997a) also finds that acquisitions did indeed increase exit rates, joint ventures did not. Mata and Portugal (2000) take this line of investigation a step further by pointing out that divestments can be made through closure as well as through sell-offs\(^4\). Finally, in line with several studies of domestic exits, the results from Li’s and Benito’s studies also indicate that international diversification entails a higher risk of subsequent exit than foreign ventures within the parent company's main line of business.

Taken together, the studies that have been done so far on international divestment have pointed to some relatively consistent patterns regarding how certain characteristics of the modes of entry into a country may have an effect on the fate of the foreign subsidiaries established there. It is noteworthy that the level of analysis has predominantly been the foreign unit or subsidiary. Despite the considerable interest on and discussion of companies’ internationalization strategies, especially with regard to so-called global strategies, to this point the potential role of corporate level internationalization strategies has yet to be analyzed in the context of foreign divestment.

\(^3\) Shaver, Mitchell and Yeung (1997) argue that knowledge and information about local conditions generated by foreign firms already present in a country create spill-over effects from which new entrants may benefit from.

\(^4\) In a study of foreign investment in Portugal they report that acquisitions have higher sell-off rates than greenfield investments. The converse is true for greenfields, which turn out to have significantly higher probabilities of being closed down. Similarly, minority joint ventures show higher sell-off rates than majority ventures and wholly owned subsidiaries, but the ownership arrangement had no effect on closures.
International business strategies

A typology of international business strategies. A central tenet in current international business thinking is that there is no single international strategy (Harzing, 2000). Appropriate strategies are those that match companies’ resources and capabilities to given market conditions in various locations. The decisive determinants are the extent to which there are, on one hand, significant competitive advantages to be gained by integrating activities on a world-wide basis – especially economies of scale and scope – and on the other hand, market and resource conditions in specific locations demand local adaptation and responsiveness; hence, the label “integration-responsiveness” model. In Bartlett and Ghoshal’s (1989) typology, international business strategies can be divided into four basic categories: multinational strategy (also called multi-domestic strategy), international strategy, global strategy, and transnational strategy.

Firms following a multinational strategy focus on national differences to achieve their strategic objectives, usually by differentiating their product offer in response to national differences in customer preferences, industry characteristics, and government regulation. Under this strategy, the individual national subsidiaries typically enjoy considerable decision-making autonomy and are largely self-sufficient in terms of the resources needed to implement the strategy.

Firms following an international strategy focus on creating innovations at home and then exploiting them on foreign markets, and occasionally on a world-wide basis. This is perhaps the standard type of firm internationalization as portrayed in for example Vernon’s product life cycle model (Vernon, 1966). Their internationalization processes relies heavily on transferring new products, processes, and/or business systems developed from the home-country to markets elsewhere. International strategies
tend to treat foreign markets in a one-by-one fashion, and typically make use of exports as a way of serving them, especially in the earlier phases of companies’ internationalization (Welch and Luostarinen, 1988). Foreign subsidiaries are normally used relatively late in the internationalization process, and then mostly when entering important markets where the scale of operations justify their use.

Firms pursuing a global strategy focus on achieving world-wide efficiency, e.g. attaining the lowest cost position or the highest brand recognition for their products. Such companies typically centralize production as well as those other value-generating activities that exhibit high economies of scale. A characteristic of such companies is that they manufacture fairly standardized products for sale around the world. Segal-Horn and Faulkner (1999) mention Gillette razors as a representative example: razors need little local adaptation, the technological production function is well-established, and the marketing message is simple and works acceptably well in most markets, and therefore only distribution and sales need to be handled locally. As put by Segal-Horne and Faulkner (1999, p. 122): “..., the global corporation treats overseas operations as delivery pipelines to a unified global market”. Some scholars are unconvinced about the viability of truly global strategies, and doubt that more than a handful of firms actually have implemented them (see e.g. Rugman, 2000). Instead, it is argued that most MNCs are regional with the largest part of their value activities located in their home region of the triad, i.e. in either North America, the EU, or Japan.

The transnational strategy is an attempt to move beyond the global integration versus local responsiveness trade-off. Hedlund (1986) and later, Bartlett and Ghoshal (1989, 1993) have argued that to succeed MNCs will increasingly have to be locally responsive – with learning as a key requirement for success – whilst also achieving global scale and scope efficiencies. While such a double-edged approach to
internationalization may look appealing in principle, designing and implementing a transnational strategy involves the daunting task of reconciling the seemingly conflicting objectives of simultaneously achieving global efficiency, being locally responsive and exploiting and leveraging the learning potential in different national operations. Not surprisingly, the occurrence of transnational strategies appears to be low (Leong and Tan, 1993), and only a handful of companies have gained the transnational label.

**The core factors in the integration-responsiveness framework.** As noted above, the basic drivers of integration benefits across national borders are economies of scale and scope. Scale economies arise through various technological factors that make it cheaper in terms of unit costs to produce large quantities rather than a small one. Important sources of scale advantages are that high levels of production allow (i) investments in specialized manufacturing machines and tools, (ii) building manufacturing larger operations, e.g. factories, (iii) higher levels of employee specialization, and (iv) spreading overhead costs (Barney, 1996). Scale economies can also be achieved in areas other than production, especially purchasing, advertising, and R&D (Besanko, Dranove and Shanley, 2000). Scope economies exist because of the cost savings or revenue enhancements that a firm may achieve through the particular mix of activities and products that it is involved in; such as (a) savings due to sharing distribution networks for different product lines or conducting common research and development, (b) increasing revenue by offering product bundles that provide more value to customers, and (c) mutual forbearance benefits in the context of multipoint competition (Barney, 1996).
Whereas integration drivers promote standardization across borders, splitting-up the range of value activities, and finding the optimal locations world-wide for setting-up large scale operations for specific value activities, drivers of responsiveness work in the opposite direction by requiring local presence and adaptation to local conditions (Yip, 1989). In turn, these forces lead to treating various locations more or less independently of each other. Issues of responsiveness hinge on three main conditions. First, certain resources are immobile or lose considerably in value if exploited elsewhere, as is the case for production processes that are co-located with sources of natural resources and/or utilities; e.g. the processing of metal and alloys, which are extremely power-consuming activities, tend to be located close to energy generating facilities. Another instance of immobility is the co-located as well as co-specialized configuration of supplier-manufacturer relations often found in industrial clusters (Markusen, 1996; Porter, 1998). Looking at the spatial stickiness of knowledge and technology, Rajneesh Narula asserts that despite the alleged globalization of technology the distinctiveness and idiosyncrasy of locations has far from vanished (Narula, 2003): innovation systems remain largely nationally bound, and due to considerable inertia in knowledge creation (and development and usage) it remains concentrated in certain locations, institutions, and firms. Second, local responsiveness is conducive in addressing the needs of customers in various locations, thereby increasing demand for a firm’s goods or services. Local adaptation is often necessary in order to compete (see e.g. Solberg, 2000); especially in consumer goods markets where demand is a function of local tastes and customs, and where linguistic and cultural differences must be taken into account when marketing the product offer. Third, despite concerted global and regional efforts at reducing barriers towards cross-border flows of products and resources, especially
regarding tariffs and quotas, many still exist in the form of technical requirements, preferential treatment practices, and government regulations.

An analysis of divestment within the I-R model

How do the core factors behind choice of international business strategy influence divestment? It is useful to start by distinguishing between different basic motives for divestment. As shown in table 1, divestments can be seen (i) as adjustments, (ii) as failures, and (iii) as a result of re-structuring. They can also (iv) be externally imposed, e.g. expropriation and nationalization. In the proceeding I will concentrate on divestment actions that are brought about the companies themselves, i.e. voluntary divestment, and disregard divestment that has been imposed on the companies by e.g. adverse governmental action. Adjustment driven divestments tend to be small and gradual; for example, selling-off a certain entity within a larger subsidiary, outsourcing some activity, or closing down a particular unit – sometimes relocating the unit to a lower cost country. Failure driven divestments involves closing down a particular unit, but normally without repercussions (for the corporation) beyond the actual case. In contrast, divestments due to re-structuring tend to entail orchestrated strategic maneuvers with seemingly dramatic consequences for the corporate network. They can involve many corporate units performing different activities in a variety of locations, and it is difficult for any given unit to get insulated from such processes at the corporate level\(^5\). Nevertheless, due to the sheer magnitude and depth of re-structuring processes, they seldom occur. They are necessarily the exception of corporate life; otherwise

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\(^5\) Many re-structuring processes of companies have been reported in the international business and corporate strategy literatures. For example, Savary (1996) gives a detailed account of the transformation of the Thompson Consumer Electronics due to evolution of the consumer electronics industry towards globalization.
companies would most likely implode into an unproductive state of chaos and confusion.

The quest for scale advantages, fueled by an increased ability to standardize products and processes, is perhaps regarded as the prototypical globalization driver (Yip, 1989). Achieving scale effects entails setting-up large units in manufacturing and/or other value activities, which in turn often involves a degree of rationalization amongst the set of foreign subsidiaries operated by the MNC. Activities become concentrated in larger, but necessarily fewer units worldwide, from which successive stages in the value chain of the corporation, or perhaps even final customers, are then supplied. The scale economies factor hence operates as a driver of divestment of the re-structuring kind. However, while high levels of divestment should be expected at the initial stages of implementing a global strategy, when the required re-structuring has taken place divestment rates are likely to decrease. There are three main reasons. First, the remaining units are large and likely to operate at lower units costs: this is the efficiency effect. Second, since there is smaller a number of remaining units, companies simply have fewer additional re-location alternatives left: this is the scarcity effect. Third, because the division-of-labor amongst the remaining units is likely to higher, with each unit specializing on only one or at most a small set of activities, the worldwide corporate network becomes much dependent on the various individual units that it consists of: this is the dependence effect. It should be noted that there are, obviously, also diseconomies of scale; principally, managerial diseconomies, increasing distance to suppliers and markets (which in turn leads to higher transportation costs), and greater network complexity which in turn amplifies the burden on the logistics involved.
Whereas scale economies are based on a division-of-labor logic, scope economies arise from the co-specialization between activities and/or organizational entities. In order to achieve such economies, units (or activities) have to work in tandem and accept their interdependencies; e.g. when distribution networks are shared in the marketing of different product lines. From the viewpoint of scope economies, divestment is to occur primarily as a result of adjustments in the level and types of activities undertaken throughout the corporate network of subsidiaries, albeit outright failures must occasionally be expected. It is difficult to design with any great accuracy how scope advantages can be achieved. Surely, certain organizational set-ups (or architectures, if one will) may be more conducive to than others in achieving scope benefits, but such advantages are foremost developed over time as various combinations are tried out, or some times stumbled into. The quest for scope economies should therefore predictably produce some amount of divestment, simply as the by-product of the learning and adjustments processes involved. Nevertheless, due to the high degree of interdependence between units required to achieve scope advantages, the likelihood of divestment should be fairly low for individual units: risk is diversified away because they cannot just be treated as stand-alone entities.

Multi-domestic and transnational strategies are based on responsiveness factors (Harzing, 2000). The essential idea behind such factors, be they adaptation of products and their marketing to suit local demand patterns, cultivating connections to local authorities, or the use of localized resources, is that they should improve the performance of a unit – either by enhancing its revenue from the market, or by reducing its costs – which in turn ought to increase its survivability. A carefully crafted adaptation to local conditions, which may entail developing rather unique organizational competences and routines, and the privileged access to valuable resources, could be
seen as important components of a subsidiary’s competitive advantage. Being “path-dependent” and tied to the specific circumstances of time and place, such advantages are usually hard to imitate. That is not to say, however, that they are forever sustainable; they may erode over time, or even made obsolete by developments elsewhere such as the introduction of new technologies or the spill-over of profound changes in consumption and demand patterns. Local responsiveness is a two-edged sword; if the rewards to local adaptation for some reason decline considerably, being tied to a given locality drastically decreases the options open for action. Due to the unique and path-dependent character of their operations and competencies, such units are both less likely to be flexible and less likely to be of vital use to units elsewhere in the corporate network, thereby most possibly raising the divestment rates of subsidiaries based on a locally-oriented strategy.

The discussion presented above is summarized in table 1. Unsatisfactory performance defines the most basic divestment motive: any subsidiary performing below expectations runs the risk of being divested, especially if under-performance persists. The risk of under-performing, or outright failure, can be related to the type of strategy pursued by companies – in particular, a transnational strategy may due to its complexity be more difficult to pull off successfully, and any given subsidiaries of a company pursuing such a strategy may hence carry a higher base-rate divestment likelihood – but failure will happen regardless of MNCs’ strategies. Divestment propensities may well vary depending on type of strategy, but it is inconceivable that failures can be eliminated altogether. Taking the discussion beyond cases of failure, the distinct effect of scale considerations on divestment is through their call for restructuring of a corporate network. Such actions are unlikely to take place very often. They can rightly be regarded at major strategic decisions that require thoughtful
planning and implementation. When they actually are carried out, they may necessitate drastic changes – for good or for bad – in a company’s competitive posture and in the configuration of its units spread around the world. For example, increasing the scale of a given manufacturing operation usually requires very real investments in, say, factory buildings and machinery. Likewise, re-configuring a corporate network by concentrating previously dispersed manufacturing operations into a smaller set of larger facilities, involves closing down a number of hitherto active manufacturing units. Conversely, scope considerations as well as local responsiveness concerns are more liable to require frequent adjustments, of which some will involve divestment through closing down particular units or selling them off, but where many only involve divestments of a more partial kind, such as changing the activity composition of given foreign subsidiaries.

***** Table 1 about here *****

From the viewpoint of given foreign subsidiaries \((S_i)\), what is the likelihood that they will be divested depending on the type of strategy that their parents follow regarding international business? Or put differently, does it matter whether a subsidiary caters to a local market within the scope of a multi-domestic strategy (a \(S_{MS}\) subsidiary), or whether the subsidiary is a constituent part of a worldwide production network operated by a global company (a \(S_{GS}\) subsidiary)? Does it matter whether it basically is an extension of the parent MNC’s domestic operations into foreign markets (a \(S_{IS}\) subsidiary), or whether it is a node (a \(S_{TS}\) subsidiary) in a MNC’s worldwide matrix? Propositions concerning a typology of subsidiaries based on characterization of parent corporations’ international strategies must necessarily be broad, and one cannot expect a
high degree of predictive power for individual cases. However, the preceding discussion points out to some general tendencies. First, in terms of some initial, or baseline, divestment likelihood one would expect subsidiaries established and operated within the frameworks of international and multi-domestic strategies to be the least likely to be divested. A hallmark of such strategies is that they are country-focused, either on the home country (IS) or the host country (MS). They do not require extensive coordination across borders. $S_{IS}$ subsidiaries typically carry out a limited number of value activities – such as sales – in a foreign market, whereas a $S_{MS}$ subsidiary usually takes on a greater range of activities (hence sometimes earning the label “miniature replica”), but in both circumstances their management is greatly simplified by the relative lack of cross-national coordination burdens, increased complexity, and, as a consequence, a greater risk of failing that typifies global and transnational strategies. $S_{TS}$ subsidiaries in particular, being parts of really ambitious attempts at reconciling the seemingly divergent demands of global integration versus local responsiveness, must be expected to have relatively high failure rates as they as well as their parent corporations try out workable solutions.

Ranking subsidiaries with regard to divestment probability $p(D)$, the following baseline order should be expected: $p(D)S_{TS} > p(D)S_{GS} > p(D)S_{MS} \approx p(D)S_{IS}$. Nevertheless, taking a more dynamic view, i.e. bringing a time dimension into the picture, may change that order$^6$. In agreement with the literature on the “liability of newness” (Hannan and Freeman, 1984), the slope of $p(D)$ is generally expected to be

$^6$It is obviously difficult to make well-grounded generalizations about long-term developments. Much depends on the overall risk profile of a particular venture. As pointed out earlier, that hinges on a range of factors besides the type of international business strategy; including the host country of the subsidiary (e.g. political risk), the type of industry (e.g. emergent versus sunset industries), the type of activities performed by the subsidiary (e.g. R&D versus manufacturing), and the modes of establishment (e.g. greenfield versus acquisitions, and/or joint venture versus wholly-owned subsidiary). Also, the degree of flexibility available to the corporation – e.g. due to operating production sites with spare capacity in different currency areas – has implications for the ease of which activities can be shifted around (Rangan, 1998), and/or ultimately divested.
negative, as depicted in figure 1, but the rates of decrease vary across the various strategies. While subsidiaries in transnational strategies may produce the occasional high pay-off, they persistently face a high risk of failure. As pointed out earlier, while high levels of divestment should also be expected at the initial stages of implementing a global strategy, when companies have done the necessary re-structuring of operations and shake-out of subsidiaries, divestment rates are likely to decrease sharply; partly as a result of the enhanced efficiency of the re-configured worldwide operational networks of the companies, partly due to higher interdependencies among units, and partly as a result of fewer remaining units that can be divested. Over time, it is hence probable that subsidiaries of global operators, $S_{GS}$, are those that actually reach the lowest divestment propensities of the different types of foreign subsidiaries.

***** Figure 1 about here *****

**Concluding remarks**

Divestments are an integral part of business. They can be seen as the results of ever-evolving processes of change that keep companies and whole economies rejuvenated and in shape\(^7\). Divestment is a serious issue. It frequently has wide-ranging, and sometimes severe, consequences for those involved; especially individuals that lose their jobs, and towns and regions that lose much-needed employment opportunities. Public opinion tends to be more negative whenever divestments are made by foreign companies instead of domestic ones. Despite lack of firm evidence sustaining such a claim (Mata and Portugal, 2002), it is commonly believed that the decisions to close

\(^7\) While necessary elements of any well-functioning economic system such processes are not infallible: economic actors (owners, managers, creditors) base their decisions on imperfect information and subjective beliefs; they make mistakes, as do regulators and political institutions.
down a factory or sell a subsidiary would sometimes not have been taken had the company been run by presumably more considerate national owners.

To the extent that foreign investors are at all welcomed, global players are increasingly seen as the least desirable: the imagery of ruthless and allegedly footloose global companies convey almost exclusively negative connotations. Foreign companies should preferably melt so completely into the local contexts they operate in that they become indistinguishable from indigenous ones: that in fact is the underlying logic of multi-domestic strategies. Alternatively, foreign companies should foster subsidiaries that take on strategic roles within the worldwide corporate network, as would be the case with so-called “centers-of-excellence” (Holm and Pedersen, 2000): transnational strategies seemingly cultivate such initiatives. However, an important point from the analysis presented here is that such attitudes may be misguided, at least as regards likelihood of divestment. Subsidiaries in transnational strategies run high risks. Albeit the pay-off may potentially be great, there are actually few success stories to be told. Pay-off is linked to risk, but from the perspective of individuals (and perhaps even locations/regions) that ought to be risk-averse, a low divestment risk is apparently preferable. Locally-bound subsidiaries may likewise seem desirable, but if presence in a country is based on traditional factors like cost advantages, local tastes, and trade barriers, the locational forces holding them there will in many cases be too weak to sustain their survival over time. Once that happens, they will most probably be lost forever. In an increasingly global business landscape, there is in a sense “no place to hide”. However, if one survives the initial shake-out often produced by the implementation of global strategies, becoming part of global corporate networks is potentially the best place to be.
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Table 1. The effects on divestment of integration-responsiveness factors.

<table>
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<tr>
<th>Strategy driving factor</th>
<th>Typical divestment motives</th>
<th>Likely effects on divestment</th>
</tr>
</thead>
</table>
| Scale                   | Re-structuring Failure    | • Large units less likely to be divested  
                       |                           | • Few units less likely to be divested |
| Scope                   | Adjustment Failure        | • Inter-dependent units less likely to be divested  
                       |                           | • Co-specialized units less likely to be divested |
| Adaptation              | Adjustment Failure        | • Lower divestment likelihood due to increased performance through local responsiveness  
                       |                           | • Lower divestment likelihood due to local ties  
                       |                           | • Increased divestment likelihood due to inferior (worldwide) corporate flexibility and transferability |
| Immobility              | Adjustment Failure        | • Lower divestment likelihood due to access to unique local resources  
                       |                           | • Increased divestment likelihood due to a (gradual) weakening of resource rents |
Figure 1. Divestment likelihood of different types of foreign subsidiaries as a function of time