Failures and foreign divestment in a broader context of corporate international business strategy

The case study of foreign divestments by MNCs in retail industry.
Abstract

An important problem in present academic research on foreign divestment is to understand how foreign divestments fit in a concept of international business strategy. The purpose of this paper is to research if characteristics of foreign divestment differ according to the corporate international business strategy and if so what these differences are.

This paper is unique of its kind because cases presented here have never been mentioned in any academic literature before. In this paper I am using case study method in order to compare characteristics of foreign divestment experienced by two MNCs pursuing two opposite international business strategies.

The results of the paper are inline with previous suggestions in the academic literature on foreign divestment. It was proved that international business strategy affects the characteristics of foreign divestment. These results were proved using comparable analysis of case studies.

Analysis of the findings shows that differences in foreign divestment characteristics exist in dependence of corporate international business strategy. This paper also describes these differences and draws propositions for further research in the topic.

The implications of this research are of particular interest both in practical and theoretical terms. Practically, results of the study can contribute to building better planning and predictive models of foreign divestments. Theoretically, results of the paper can be seen as a contribution to understanding and more detailed definition of relationships between international business strategy and foreign divestments.

**Keywords:** International Business Strategy, Foreign Divestments, Integration-Responsiveness framework, International Business Failures, International Retail Divestments
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Chapter 1. Introduction

In this chapter I introduce the topic of the research, reasons why this research is of value, its contribution and purpose. Chapter closes with definition of the research question.

With the accelerated globalization during the last decades, actions of big MNCs are always scrutinized by practitioners and scholars all over the world. The interest in MNCs is understandable given the economic clout of such corporations, which, as put by Peter Dicken (2003, p.198) ‘has come to be regarded as the primary shaper of the contemporary economy’. The process of increased global flow of information, goods and services boosted internationalization of companies from all over the world. Today, there are more and more companies which are interested in expanding their businesses further than their home country market. Therefore, a lot of companies from various industries from retail to audit and business consulting share the desire to become an international player. On their way to become such, corporations are pursuing different international business (IB) strategies structuring their corporate network of subsidiaries in a certain way.

Corporate IB strategy has been previously widely conceptualized (Bartlet and Ghoshal, 1989) using two dimensions – global integration and local responsiveness. Founded on integration-responsiveness framework developed in studies by Prahalad (1975), Doz (1976), and Prahalad and Doz (1987), this concepts constitutes that some MNCs pursue strategies focusing on achieving global advantage through centralized and globally scaled operations and ‘treat the world as the global marketplace’ while other MNCs are using strategies which aim at exploiting locally unique resources on the foreign market by focusing on responsiveness to local special conditions and market adaptation. The differences in these approaches results in subsequent differences in MNCs organizational characteristics such as configuration of assets, role of foreign subsidiaries and dispersion of knowledge in the organization. Nonetheless, whichever strategy MNC uses it is not failure-proof. This study addresses the cases of failures and subsequent divestment of foreign operations through the lens of international business strategy.

Most of the companies which are yet not involved in international operations have a great opportunity to learn from the mistakes that their predecessors did when entering a foreign market. Previous failures appear to be an extremely useful experience both for the MNCs and for the companies that are just commencing to grow internationally. History of the unsuccessful internationalizations scrutinized by scholars includes such famous MNCs as Mark and Spencer (Alexander and Quinn, 2002), Tesco (Palmer, 2004), Ahold (Wrigley and Currah, 2003), Home Depot (Bianchi and Arnold, 2004) and many others. The reasons behind the failures vary broadly.
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from wrong communication channels, wrong partners or misunderstanding of cultural differences to product features itself.

Being an “essential aspect of contemporary IB strategy”, divestments apparently are seemed to be neglected area of international business (McDermott 2010 p. 39). For instance, Business Week magazine (“Flops,” 1993) published a study of 11,000 new products and found that only 44% of those items were still available in the marketplace 5 years later. In fact, the new-product development literature shows that new-product failure rates range 37–80% (Karakaya&Kobu, 1994). Thus, the studies of market failures and divestment are a subject of particular practical value and the real life business practices are calling for the academic research in this topic. Additionally, it has been argued that “despite numerous studies on divestment decisions of firms, there is much we do not know about how divestment fits into a firm’s broader strategy of growth” (Berry, 2009, p. 3). The studies on divestment (e.g. Shapiro, 1983, Li 1995, Benito 1997), closure of foreign units (Mata and Portugal, 2000), relocation and market exit (Wrigley and Currah, 2003) are still scarce and thus call for additional research in the topic.

1.1 Problem statement

The purpose of this thesis is coherent with the call of Berry (2009, p.3) to explore ‘how divestments fits in broader context’ of IB strategy and this thesis can be seen is a modest contribution to understanding of foreign divestment by looking at the question if it is possible to observe any predetermined differences in characteristics of foreign divestment in dependence on IB strategy type pursued by MNC. This question seems to be relevant both in academic and practical terms and digging into it deeper will generate some added value to the previously conducted studies in this field, the study of failures will serve as a great opportunity for businesses to learn from the previously conducted mistakes as well as risks that IB bears for MNCs.

Based on real-life examples, this thesis investigates the problem of failure on foreign markets and subsequent divestment of the operations abroad. Are different subsidiaries divested in a different way? Is it possible to relate such difference, if there is any, to chosen international business strategy pursued by the corporation? In my research I try to look into these issues. It was inspired by the article of Benito (2005) where author argues that the choice of international business strategy is a factor that influences the probability of divestment of the foreign subsidiary. In his work, Benito 2005 theoretically reasoned existence of such relationships; however, his conceptualization has not been empirically tested. In my research, I don’t only look
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at the probability of divestment, but also the way divestment was executed once occurred (be it change of ownership, or termination of activity, full or partial). The purpose of the research is to test/verify the differences in characteristics of foreign divestment across MNCs pursuing different corporate international strategies.

1.2 Research question

Thereinafter, literature overview section on foreign divestments suggests that there is a lack of research in defining relationships between international strategy and divestment of foreign operations. This study examines the cases of foreign divestments and aims to contribute to previous research by focusing on the question “do characteristics of foreign divestment differ in accordance with international strategy type pursued by the corporation”.

1.3 Key definitions

So far during the introduction chapter and in the research question I have mentioned several key concepts that need to be explicitly defined before the beginning of the theoretical part in order to bring additional objectiveness for the reader.

**Multinational corporation (MNC)** - According to Dicken (2003, p. 198) general characteristics of MNC are: (1) it coordinates and controls various stages of value-added activities within and between countries; (2) it is able to take advantage of national differences in resources and policies; (3) it has considerable potential for location flexibility (ability to switch and re-switch their resources and operations between locations at an international, or even global, scale.

**International business strategy (IB strategy)** – this term can be interpreted in variety of ways, but it can be stated that a central idea can be put in accordance with Benito (2005, p.240) as ‘Appropriate international business strategies are those that match companies’ resources and capabilities to given market conditions in various locations’. However, I also would like to include another, perhaps more precise, definition by Alain Verbeke (2013, p.4).

“International business strategy means effectively and efficiently matching an MNE's internal strengths (relative to competitors) with the opportunities and challenges found in geographically dispersed environments that cross international borders. Such matching is a precondition to creating value and satisfying stakeholder goals, both domestically and internationally.”
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In general, current international business thinking agrees that there is no single international strategy (Harzing, 2000).

Additionally, it is important to mention that ‘the decisive determinants(of IB strategy) 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, local adaptation and responsiveness demanded by market and resource conditions in specific locations; hence, the label 'integration-responsiveness' model’ is introduced. Besides this aspect, it is important to mention that different international business strategies have different organizational characteristics in respect of configuration of assets and capabilities, role of overseas operations, development and diffusion of knowledge.

**Characteristics of foreign divestment** – it is vitally important to define this concept because it is a central subject of my research. By this term I consider 2 general types of things – the most significant factors determining foreign divestment and the way divestment was executed once occurred. I look at both instances because it has been argued (Stenumgård, and Norman, 2006, p.10) that ‘the factors relevant for divestment probability are also relevant to determine the mode of divestment’.
Chapter 2. Theory

2.1 Failures on foreign markets

This paper is inspired by other previous studies of failures on foreign markets (see Burt et al., 2003; Benito, 1997; 2005). However, when talking about failures of MNCs abroad it is necessary to conceptualize what is a failure? How previous research did treat this question? Terminology in this aspect is unclear and inexact. In the literature there is often a lack of adequate definition.

Hollander (1970) used the term ‘de-internationalization’ but left it undefined. Since then there has been discussion of failure, closure, exit, withdrawal and divestment. Alexander and Quinn (2002) in their study on ‘divestment’ use the terms divestment, de-internationalization, failure, withdrawal, reduction in store holdings, exit, disengagement, liquidation, partial or total sales, spin-offs and sell-offs, management buyouts and equity carve-outs to describe aspects of the phenomena. In addition to the problems of the specific use of terms there are also complex or hidden interrelationships.

Burt, Dawson and Sparks (2003) link international divestment and failure, which is defined as an unplanned underperformance by a firm. According to authors, failure of MNC abroad may arise from four sources:

- **market failure**, where the market does not ‘behave’ as expected and sales do not meet expectations;
- **competitive failure**, where operational performance does not ‘match’ that of competitors or regulation impacts upon competitive capabilities;
- **operational failure**, when a domestic retailer is simply not a good international retailer and domestic competencies do not transfer;
- **business failure**, when decisions impacting upon the international business are made because of changing domestic circumstances (performance, stakeholder expectations etc).

Case studies which are presented further in this paper illustrate these theoretical interpretations of the failures.

Conceptualization of the failures in the foreign markets is included into this chapter because it helps to build a theoretical model that will be tested further on in the research. Until now it is important to know that previous research has identified 4 different types of failures. Theoretical model that I am introducing further in my research, treats Burt et al (2003) classifications of failures as integral part of the characteristics of foreign divestment. Thus, these classifications
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are seen as one of the useful parameters for measuring the differences in divestment characteristics in respect of different international strategies.

2.1.1 Conceptualization of failures on the foreign markets

In their work of 2003, Burt et al. are presenting their conceptual model of failures in international retail. Definitions of each concept used in the model are summarized in Table 1.

Table 1 Key concepts in international retail failure literature; adopted from Burt et al., 2003

<table>
<thead>
<tr>
<th>Concept</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure</td>
<td>an unplanned under-performance by a firm that results in operational losses in some or all of the trading units in a foreign market. Failure may result from operational activities and/or environmental conditions. Failure may give rise to acceptance of continuing losses or actions to change the situation.</td>
</tr>
<tr>
<td>Divestment</td>
<td>the process of resource allocation that reduces presence in a foreign market. Divestment may be operational through closure of trading units. Divestment may also take the form of organizational restructuring e.g. changing from corporate ownership to a franchise or part-sale of a failing subsidiary. Divestment may entail exit.</td>
</tr>
<tr>
<td>Closure</td>
<td>relates to activity at the channel level and involves the cessation of trading by a firm from one or more retail units in a foreign market. The firm will continue to trade in the foreign market with a reduced intensity of distribution.</td>
</tr>
<tr>
<td>Organizational restructuring</td>
<td>relates to activity at the firm level and involves a change in the control of resources of the firm. The firm will continue to trade in the foreign market through a different organizational form, involving a reduced resource commitment.</td>
</tr>
<tr>
<td>Exit</td>
<td>total withdrawal of a firm from an operational presence in a foreign market. Exit may be accomplished through sale of assets, International store swaps, bankruptcy or other processes.</td>
</tr>
</tbody>
</table>

2.2 Foreign divestment literature overview:

Divestment as integral part of the international business strategy was previously researched by various scholars from all over the world. In this section of the work I conducted the literature
overview aligned with my research topic. Hereafter, I summarized some of the previous research about divestment of operations on the foreign market.

2.2.1 Typology of divestments

A definition of divestment is the sale, spin-off, liquidation, abandonment or destruction of a company's assets (Nees 1978). In the literature, other words have also been used, including disinvestment, divestiture and contraction. For the sake of consistency, the word divestment will be used throughout this paper. Boddewyn and Torneden (1973) were the first to publish an empirical study focusing on foreign divestment, which examined U.S. FDs during the period 1967–71 by 465 (or 93%) of the Fortune 500 companies. They defined FD as “a reduction of ownership percentage in an active direct foreign investment on either a voluntary or involuntary basis” (1973, p.26). As such, their definition included voluntary cases such as complete or partial sales as well as liquidations and non-voluntary cases such as expropriations and nationalizations.

Boddewyn (1979) as a pioneering scholar distinguished divestments into 2 different types characterized by the degree of company involvement in divestment decision. Hence, some divestment decisions are undertaken by corporate management either locally (on the subsidiary level) or at the center (headquarter). In contrast, other divestment decisions are undertaken external or in other words without corporate management involved. Thus, Boddewyn (1979) distinguished voluntary and involuntary divestment types.

1. **Involuntary divestments** are divestments which the company is forced to undertake. In other words, the company is not in charge of divestment decision making. The examples of involuntary divestments could be expropriations, nationalizations and forced gradual domestication. These involuntary changes in the ownership structure were much more common before than they are now. According to Benito(2003), in the 1970s high number of nationalizations in developing countries led to several studies on forced divestment (see for example Kobrin, 1980), but voluntary divestment was largely overlooked. Today the situation has changed and most scholars agreed that the number of involuntary divestments is decreasing today, Minor (1994) found that expropriation was declining, almost to the point of disappearing. This was also a reflection of the fact that U.S. MNCs focused the vast majority of their FDI on developed nations, notably Europe, where the level of political risk was very low. Today, as some emerging markets become very attractive due to economic growth and market opportunities, MNCs are investing
increasingly in markets where there is a much higher level of political risk. This situation, in the future, could result in an increase in involuntary FDs by MNCs in such countries.

2. *Voluntary divestments* are those that a company undertakes willingly. For instance, the pioneering scholar in divestment studies Boddewyn mostly focused his research on voluntary divestment due to the evidence that the number of involuntary divestiture actions is declining. Indeed, his findings are proving that former is heavily outweighing the latter. Further research of voluntary divestments suggests the distinction of defensive voluntary and offensive voluntary divestments (McDermott, 1996).

Further typology elaborated in later research was presented by McDermot (1996). Thus, in addition to Boddewyn’s distinction between voluntary and involuntary FDs, McDermott (1996) distinguished between defensive voluntary (DV) and offensive voluntary (OV) FDs.

1. Defensive voluntary (DV) divestments arise when an MNC suffers a notable decline in competitiveness, resulting externally in a loss of market share and internally in deteriorating financial results. When making DV FD MNCs try to protect their competitiveness in the face of weak performance. In other words, DV divestments decisions are undertaken as a response to heavy losses.

2. Offensive voluntary (OV) divestments arise when a decision to divest is made in order to do restructurisation of the company. Sachdev (1976) noted in the cases he studied that a few of the firms withdrawing from foreign operations were doing so because of better prospects elsewhere. Greater evidence in OV divestments came in 1990s in cases of post-acquisition integration and was likely to increase significantly due to the boom in trans-border acquisitions (McDermott, 2010-11). Indeed, it has become a commonplace to withdraw shortly after the performance of subsidiary was realized as poor fit, but still command a suitable price if sold.

Basically, DV and OV divestment typology has a lot to do with key terms as failure and restructuring. Several scholars studied divestment through a prism of a question – is it a corporate crisis or it might be a part of positive restructuring strategy.

### 2.2.2 Streams of divestment studies

As Benito (2005) argues in his article studies about divestment can be classified into three main streams – industrial organization (IO), finance (Haynes et al, 2002; Markides, 1995, Weston,
The Industrial organizational approach

The industrial organization perspective has been concerned with incentives to exit as well as barriers to exit (Siegfried and Evans, 1994).

<table>
<thead>
<tr>
<th>Incentives to exit</th>
<th>Impediments to exit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low profit</td>
<td>Inter-relatedness between units</td>
</tr>
<tr>
<td>Dramatic losses</td>
<td>Existence of specific assets</td>
</tr>
<tr>
<td>High costs</td>
<td>decrease in demand</td>
</tr>
<tr>
<td>Competitors</td>
<td></td>
</tr>
</tbody>
</table>

Yet another important aspect in divestment is its dependence on diversification. It is argued by (put it as example rather than evidence Caves and Porter (1976) that independent plants have lower opportunity costs and therefore can accept the lower rate of return than operations belongings to multi-plant/multi-industry company would be expected to achieve. Moreover, author argues that in diversified companies divestment decisions are facilitated since are usually made by top-managers which might be “geographically and/or emotionally remote from the units under consideration of divestiture (Wright and Thompson, 1987)”. Moreover, industrial organization literature suggests that divestment decisions are affected by the relatedness of the unit under consideration. Current research by Berry (2013) empirically proved the correlations the likelihood of divestment to be higher for unrelated businesses.

Barriers for exit

There are variety of reasons that prevent firms from divesting their foreign operations even if the subsidiary is operating at low profit or at a loss. Impediments to exit are the major factors that influence these firms to remain operations. Porter (1976) indicated that exit barriers result in expensive and ineffective attempts in turnaround strategies. Companies attempting to exit markets evaluate the alternatives as well as the consequences of these alternatives. Ansic and Pugh (1999) indicate that the expected present value of remaining in the market influences a firm’s market-exit decision and that the firm will exit only when current losses exceed the present value of expected profits. Yet another exit barrier for firms is the commitment made by two or more parties and thus these obligations prevent firms from exiting. As Gundlach,
Achrol and Mentzer (1995) fairly claim long term commitments are seen as market exit barriers. In an extensive review of the literature, Nargundkar, Karakaya, and Stahl (1996) identified six major exit barriers:

1. cost of divestment,
2. operating fit,
3. marketing fit
4. forward vertical integration,
5. backward vertical integration
6. number of years’ association of the business unit with the firm.

**Incentives for divestment**

Risk spreading by means of national and international diversification has resulted in a high incidence of under-performing multinational companies. Therefore, many MNCs respond to this by ‘drastic repositioning, rationalizing, streamlining and restructuring their portfolios’ involving large scale divestments of foreign operations which are aimed to make the company leaner, more effective and thus more competitive. According to the article of Jagersma and van Gorp (2003), many local and global conglomerates are ‘intensely preoccupied with this issue, it having much to do with the aggressive merger and acquisition (M&A) strategies these companies implemented’ beforehand.”

Seven dominant reasons for international divestments may be distinguished according Jagersma.

1. Poor financial performance.
2. Alternative local or global growth opportunities.
3. ‘Follow the market leader’ behavior.
4. Unfavorable political climate.
5. Absence of strategic policy synergy.
7. Conflicting policy views.

It is important to mention that voluntary and involuntary divestments are mainly caused by different reasons. Thus, involuntary divestment are typically associated with unfavorable political situation and conflicting policy views, whereas the rest of the dominant reasons such as lack of competitive edge, poor financial performance and alternative growth opportunities typically characterizes voluntary divestments.
Financial studies

Financial studies of divestment have been primarily concerned with divestment impact of company performance. Benito (2005) in his article is stating that there is evidence in divestments usually increase the market value of the company (Markides, 1995), not only domestic divestiture, but also foreign ones. The most obvious reason for divestment is poor performance, but Weston (1989) is pointing out other reasons such as i.e. misguided acquisition policies or as noted above corporate diversification strategies can foster divestiture.

Corporate strategy perspective

Early contributors in strategic management studies looked at divestment through a lens of product-life cycle approach and argued that divestment is one of the several strategic options for declining industries (Davis 1974; Harrigan, 1980). Consequently, divestment is seen appropriate in the ‘game over’ situations characterized by high volatility and uncertainty about future returns. Additionally to narrow financial considerations, strategic considerations also influence the decision to divest. The work of Rumelt (1974) on relationship between performance and strategy, points out that corporate expansion on related industries has higher survival rates and better performance than expansion to unrelated industries (Bane and Neubauer, 1981; Lecraw, 1984; Morck et al, 1990; Pennings et al, 1994). Moreover, as was already mentioned, low interdependency between units (Duhaime and Grant, 1984) and the need to focus on core businesses (Hamilton and Chow, 1993) also has a strong influence on the divestment decision.

2.2.3 Conceptual framework for divestments

Introduction of conceptual framework for divestments is starting by establishing the concept of incentives and barriers to exit as a core engine in the model since they are a solid systematic approach for investigation why foreign units of MNCs are divested. In this work I have been previously mentioning the concept of incentives and barriers for exit under industrial organizational approach to divestment. Drawn from the economic logic of each and every business which aims to maximize profit, Benito (1997:315) argues that “it seems that a natural starting point in a discussion of divestments would be to look at the economic basic for such actions.” Benito (1997b) further argues that a positive incentive to exit (Iexit) exists as long as current profits πt or expected profits E(πt)T over the relevant period of time T do not meet the expected rate of return π*.

\[ I_{exit} > 0 \left( π_t \text{ ; } E(πt)T \right) < \pi^* \]
However, it is not always an easy task to leave on-going operations (Benito 1997b). There are barriers to exit (Bexit) which act as an opposition to incentives to exit. Such impediments are basically the existence of both tangible and intangible assets with a value \( V_t \), which is higher when applied in their current use than in the best alternative use \( V_A \). Further, there may also be switching costs, \( SC \), such as problems related to identifying alternative options, or even more emotional issues. Following from this, barriers to exit is defined as follows:

\[
\text{Bexit} > 0 : [ (V_t - V_A) + SC ] > 0
\]

Holding (1) and (2) together, it becomes evident that even if the incentives to exit may be significant, it does not necessarily lead to exit as long as the barriers to exit are also considerable. Hence, a third condition must be introduced for exit to take place:

\[
\text{Iexit} > \text{Bexit}
\]

Drawn on abovementioned findings, the following matrix represents the graphical illustration of decision to stay or not as a function of incentives and barriers to exit.

Table 2 The decision to stay or exit as a function of incentives and barriers:

<table>
<thead>
<tr>
<th>Incentives to exit</th>
<th>Barriers to exit</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>None</td>
<td>1. Stay</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>2. Stay</td>
</tr>
<tr>
<td>High</td>
<td>None</td>
<td>3. Exit</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>4. If Iexit &gt; Bexit, then exit; otherwise stay</td>
</tr>
</tbody>
</table>

Source: Benito 1997

Literature on divestment suggests that there are two main approaches in defining this phenomenon (Simoes 2005). First approach deals with divestment as from an ownership prospective whereas second approach, which is often implied in economics, interprets divestment as plant closure (Clarckand Wrigley 1997, Watts and Stafford 1986). The former approach implies that divestment does not necessarily mean the end or the closure of the divested firm since it may remain in business under new ownership. The conceptual model (figure 2) developed in the work of Simoes (2005) is a matrix of two dimensions – ownership and operational activity. For the sake of consistency, this research addresses only full divestment type including total exit from the country market.
Table 3 Typology of approaches about divestment:

<table>
<thead>
<tr>
<th>Activity (Operation)</th>
<th>Ownership</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain</td>
<td>1. Business as usual (No divestment)</td>
<td>2. Forced divestment Subsidiary sell-off Sell-off of JV stake MBO Partial sale of equity stake</td>
</tr>
<tr>
<td>Reduce</td>
<td>3. Technological downgrading Relevance decline (termination of manufacturing activities; focusing on low value added activities)</td>
<td>4. Subsidiary liquidation Plant closure Sell-off of equity stake with reduction or downgrading of activities</td>
</tr>
</tbody>
</table>

source Simoes, 2005

More current research by Benito (1997, 2005) identifies four factors which underpin any divestment decision:

- management perceptions about the stability and predictability of the host environment,
- the economic and strategic performance of the operation over a predetermined time frame;
- the strategic fit with the domestic operation;
- management capabilities and governance issues.

Figure 1 Determinants of foreign divestment

Source: Benito, 1997b.

**Environmental stability**
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**R&D intensity**
Benito (1997b, p.320) argues that R&D intensity with regards to probability of divestment can increase barriers to exit. On the latter point “perceived barriers to exit are likely to increase due to large sunk investments made in research and in the development and marketing of new products.”

**Country risk**
Similarly to R&D intensity, Benito (1997b) argues that country risk increases incentives for exit because political risk can be realized in the form of expropriation by the adverse host country. With regards to divestment mode, it can be argued that country risk increases the likelihood of forced divestments and thus lead to total market exit.

**Economic attractiveness**

**Economic performance**
Benito (1997b, p.321) argues that high economic performance may lower both incentives to exit and barriers to exit: “A foreign subsidiary’s ability to produce a net contribution to the profits of a multinational company” he writes, “provides a strong impetus to the decision of whether it should be retained or divested. Unsatisfactory performance is probably the most obvious reason why particular units are sold off or shut down (or, in some cases, declared bankrupt).”

**Growth**
Benito argues (Benito 1997b:323) that “the attractiveness of current operations located in high growth countries is not judged solely by the current owners but by other investors as well, which, in turn, would make such operations more likely targets for takeovers”

**Strategic fit**

**Unrelated subsidiary or conglomerate parent**
Benito (1997b) argues that unrelated subsidiaries have higher incentives to exit and lower barriers to exit than related subsidiaries. He mentions that “due to lack of emotional attachment, perceived barriers to exit are lower in diversified companies than in single-industry companies”.

Additionally, Caves and Porter (1976) write that “diversified companies can be used to rapidly reallocate resources. Thus, if a given venture fails to achieve the target rate of return, it may be sold-off quickly and the cash reinvested in other projects”.

**Governance issues**

**Cultural distance**
Benito (1997b) argues that higher cultural distance increases incentives to exit and lower barriers to exit. He points to Barkema et. al (1996), who find that “internationalizing companies have to learn about and adjust to foreign cultures, and are more likely to fail whenever the required acculturation is more demanding”.

**International experience**

Benito (1997b) argues that international experience gives lower incentives to exit and higher barriers to exit, particularly as a result of learning.

### 2.2.4 Summary of failures and foreign divestments

Above mentioned concepts adopted from Simoes (2005), Benito (2003;2005) and Burt et al (2003) lies in the foundation of the foreign divestment characteristics concept that is the first integral part of my theoretical model.

#### Figure 2 Conceptual framework of foreign divestment characteristics

The scheme about illustrates the concept of foreign divestment characteristics and its components. As it was mentioned before, the concepts on which I construct the model are adopted from Benito (2003, 2005), Samoes (2005) and Burt et al (2003) studies. It is also necessary to highlight that typology of failures and determinants of divestment are mainly concerned with question **why** (reasons), whereas divestment mode is addressing the question of **how** (action) or which form divestment took once occurred.

### 2.3 International business strategy and Integration-Responsiveness (IR) framework
Now that I have covered the theoretical aspects of foreign divestment, I proceed with literature overview about international business strategy. First of all, in order to make it clear to the reader, I introduce the dual dimensional integration-responsiveness (IR) framework drawn on which scholars conceptualize international business strategy.

The IR framework grew out of earlier evolutionary theories of the development of multinational enterprises (MNEs) (Perlmutter 1969, Stopford/Wells 1972, Verron 1966). Although popular, these models did not encompass the new technological, market, competitive and governmental factors that were beginning to impact on multinationals (Bartlett 1986). To incorporate these factors, authors - beginning with Fayerweather (1969), Prahalad (1975) and Doz (1976), followed by Prahalad and Doz - reformulated the classic differentiation and integration approach of Lawrence and Lorsch (1967) into the IR framework of today. Prahalad and Doz identified the economic, technological, political, customer and competitive factors that create the global integration and local responsiveness pressures on the diverse businesses and functions in MNEs. Initially, they identified three environmental pressures: the need for (1) global integration of activities, (2) global strategic coordination, and (3) local responsiveness. Given the high correlation between (1) and (2), they combined them to create two essential dimensions - global integration and local responsiveness.

The integration-responsiveness framework has a longstanding tradition in international business. Prahalad (1975), Doz (1976), and Prahalad and Doz (1987) lay the foundation for extensive

![Integration-Responsiveness grid](source.png)
research on international strategy. Representing a contingency approach to international strategy, the core idea of the I-R framework is that companies operating internationally on the one hand must balance the need to be responsive to local demands imposed by government or market forces, and on the other hand, must exploit market imperfections due to firms’ multiple country locations (Roth and Morrison, 1990). The higher the responsiveness of the company to local conditions which entails high adaption, the lower the possibility for standardization of business process, and thus two dimensions thus work in opposite directions (Benito, 2005).

As illustrated in Figure 1, integration-responsiveness grid is represented by two dimensional matrix. In accordance with Prahalad and Doz, if managers perceive high pressures for Global Integration (GI) they emphasize actions for global strategic coordination. In the same logic if managers perceive high pressures for Local Responsiveness (LR) they seek more locally responsive strategies (see. Foreign subsidiaries of MNCs have different management styles in accordance with their role in the company. Integration responsiveness framework suggests that there are number of factors encouraging integration and also ones that encourage local responsiveness. In reality, companies of course need to balance between these two domains. The balance between integration and responsiveness is dependent on the international strategy of the firm.

Table 4 Factors driving integration and responsiveness in MNCs

<table>
<thead>
<tr>
<th>Factors for Integration</th>
<th>Factors for responsiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers that themselves are multinational - they will seek global supplier(s)</td>
<td>Host government legislation - the MNC may face a stark choice of 'adapt or withdraw'</td>
</tr>
<tr>
<td>Existence of strong, global rivals</td>
<td>Existence of very strong local customers who have already established 'the rules'</td>
</tr>
<tr>
<td>High investment intensity - high R&amp;D costs demand global co-ordination to amortise costs quickly</td>
<td>Existence of local substitute products encourages MNC to adapt</td>
</tr>
<tr>
<td>Uniform/standardised needs precluding need for adaptation</td>
<td>Perhaps unique distribution channels in the country preclude the use of the conventional routes</td>
</tr>
<tr>
<td>Pressure for cost-reduction - maximise economies of scale</td>
<td>Very different needs demand adaptation</td>
</tr>
<tr>
<td>Access to key raw materials</td>
<td></td>
</tr>
</tbody>
</table>
Prahalad and Doz (1987, p. 36), argued that ‘functions such as R&D, manufacturing, marketing and service may be used to identify pressures for global integration and local responsiveness’, and Kobrin (1991) who finds that in particular R&D intensity and advertising intensity are appropriate to measure global integration and responsiveness, respectively. Advertising intensity was measured as the ratio of purchased advertising services to total industry output whereas R&D intensity was measured as the ratio of R&D expenditure to total sales of MNCs.

Figure 3 Industry Pressures Toward Integration (R&D Intensity) and Responsiveness Toward Integration (R&D Intensity) and Responsiveness (Advertising Intensity).

Global Integration

According to Benito, basic drivers for integration dimension of the IR framework are economies of scale and scope. Scale advantages appear due to various technological factors that make it cheaper in terms of unit cost to produce large quantities over small ones. High level of production allow (1) investments in specialized machinery and tools; (2) build larger manufacturing facilities (plants, factories); (3) higher level of employees specialization and (4) spreading overhead costs (Barney, 1996).
Figure 5 The advantages of integration due to scale/scope economies.

Source: 2005. Benito

Scale economies also may be achieved in other areas than production, i.e. purchasing, advertising, marketing, R&D (Besanko et al. 2000). Economies of scale focus on unit costs by reduction of unit costs through large scale operations, whereas scope economies are giving an advantage by 1) savings due to the sharing distribution networks for different product lines or conducting common research and development; 2) increasing revenue by offering product bundles that provide more value to customers; 3) mutual forbearance benefits in the context of multipoint competition (Barney, 1996). Overall, integration drivers are promoting standardization across borders, dividing the range of value activities, finding optimal locations for setting up large scale operations for specific value activity.

Local Responsiveness

Responsiveness as the second dimension of IR framework is driven by local conditions, market demand and tastes and thus it stands for adaptation. Using Barltett-Ghosal typology, multidomestic and transnational firms are based on responsiveness factors. Luo (2003, p. 454)\(^1\) states that local responsiveness is need ‘to reap benefits from emerging opportunities’. Local responsiveness factors such as adaptation of products and their marketing to suit local demand patterns, cultivating connections to local authorities, or use of localized resources, aim to

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Improve performance of a unit, either by enhancing revenue or by reducing costs which in turn ought to increase unit’s survivability.

Figure 6 The effect responsiveness factors on divestment.

Carefully conducted adaptation to local conditions which may lead to development of rather unique organizational competences and routines, could be seen as important components of subsidiary competitive advantage. According to Benito (2005), such advantages are hard to imitate. In fact, local responsiveness is two-edge sword; if the rewards for local adaptation decline considerably, companies or units that are tight to the given locality drastically decreases the options open for action. Due to the unique and path-dependent character of their operations and competences, such units are both less likely to be flexible and less likely to be used elsewhere in the corporate network. Therefore, divestment rates of subsidiaries based on a locally oriented strategy are possibly rising as argued by Benito in his article.

Figure 7 Scheme of integration responsiveness advantages
2.3.1 Typology of international strategies

Based on the two dimensions of I-R framework, Bartlett and Ghoshal developed their typology of corporate international strategy and empirically tested it in their works (Bartlett and Ghoshal [1986, 1987a, 1987b, 1989]). Using a clinical approach, they conducted an in-depth study of nine companies from three countries operating in three industries with worldwide interests in order to develop a typology of organizations operating in the international business environment. Based on their results, Bartlett and Ghoshal identified four forms of organizations used to manage international businesses. They labeled these the multinational, global, international, and transnational corporations. Specific characteristics associated with the four forms of international organizational structures that differentiated their management practices were also proposed. Further, it was argued that businesses with a transnational structure and mindset would be most effective and efficient in future. Yet, scholars argue that transnational type of international business strategy is the least prevailing organizational form of MNCs (Leong et al 1993).

Drawing on IR framework, Bartlett (1986) firstly distinguished 3 types of MNCs, each implementing a different strategy (that was global, multinational and international, see table below.

**Table 5 Initial typology on international strategy**

<table>
<thead>
<tr>
<th></th>
<th>Multinational Enterprise</th>
<th>Global Enterprise</th>
<th>International Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic competency</strong></td>
<td>responsiveness</td>
<td>efficiency i.e. output per unit of input</td>
<td>transfer of learning</td>
</tr>
<tr>
<td><strong>Structures</strong></td>
<td>loose federations of enterprises; national subsidiaries solve all operative tasks and some strategical.</td>
<td>tightly centralized enterprise; national subsidiaries primarily seen as distribution centres; all strategic and many operative decisions centralized</td>
<td>Somewhere in between multinational and global enterprises; some strategic areas centralized, some decentralized</td>
</tr>
<tr>
<td><strong>Examples</strong></td>
<td>Unilever, ITT</td>
<td>Exxon, Toyota</td>
<td>IBM, Ericsson</td>
</tr>
</tbody>
</table>

In their later works with Ghoshal (Bartlett and Ghoshal, 1987, 1989) Bartlett and Ghoshal [1989] go further in arguing that with the growing complexities of conducting international business, such traditional management modes cannot effectively respond to the multi-dimensional and dynamic demands of contemporary industries and markets. They propose a fourth model based on the notion of a transnational corporation. Such companies seek to be globally competitive through multinational flexibility and worldwide learning capability.
2.3.2 Organizational characteristics of international strategies.

International strategy, by Bartlett and Ghoshal’s (1987) definition, means that a company takes whatever it does very well in its domestic market and attempts to reproduce that success internationally. Previous research has identified MNCs (for example, Toys R Us, McDonald’s, IBM, Kellogg, Procter & Gamble, Wal-Mart and Microsoft) using this strategy in an international environment (Bartlett et al., 2004; Hill, 2006). International strategy makes sense if a firm has a valuable core competence that indigenous competitors in foreign markets lack and if the firm faces relatively weak pressures for LR and cost reductions.

A multi-domestic strategy, based on Kedia et al. (2002) explanation, involves internationalization with locally adapted products (or service) through marketing and production processes specific to the host markets that target country-specific customer needs. Kedia et al. (2002) assert that multi-domestic strategy is driven by a “multiple managerial philosophy” because it requires considerable strategic variety as subsidiaries of each country may pursue its own strategy. In practice, this strategy indicates that the company allows each subsidiary to operate relatively independently, each being free to customize most aspects of its operations to meet the specific needs of its local customers. Firms adopting this strategy should be able to maximize the competitive responses of those firms to the idiosyncratic requirements of each market (Taggart and Hood, 1999).
A global strategy could simply mean that a company views the world as a single marketplace and thus, it offers standardized products (Kedia et al., 2002). Kedia et al. (2002) also point out that a global strategy is driven by a ‘‘shared managerial philosophy’’, which may be based on empirical evidence (cf. Roth et al., 1991). In practice, this strategy is employed by firms serving multiple host country markets with internationally branded goods that are produced from a single location (that is, in the home country) (Baden-Fuller and Stopford, 1991; Kedia et al, 2002).

Roth and Morrison (1990) further reaffirm that firms may take advantage of economies of scale by adopting global strategy. Previous research findings also suggest that many Japanese firms have often pursued this strategy with success (Johaansson and Yip, 1994). However, Rugman and Verberke (1992) argue that adopting a global strategy implies counteracting on the country-specific advantages and/or opportunities.

Transnational strategy combines the benefits of global scale with the advantages of LR. The effective implementation of a transnational strategy often produces higher performance than either a multi-domestic strategy or a global strategy alone does (Luo, 1999). By adopting this strategy, a firm carefully assigns responsibilities for various tasks to the part of the organization best able to achieve both efficiency and responsiveness. However, some scholars express doubt because ‘‘in reality, it is difficult to achieve a pure transnational strategy because of the conflicting goals’’ Hitt et al.,(2001) and Young (1997) claims that a transnational strategy is ‘‘a future prospect at least’’. Others argue that a transnational strategy could be only a trade-off between the global and multi-domestic strategies (Paik and Shon, 2004).

In the studies of international business strategy researchers and scholars have argued that four basic types of strategies have been widely broadly adopted by MNCs in order to enter and compete (Ghosal and Bartlett, 1990 ;Macharzina, 1993) in the foreign markets. The summary of this part on international strategies is illustrated below (See Figure 5).

<table>
<thead>
<tr>
<th>Organizational characteristics</th>
<th>Multinational</th>
<th>Global</th>
<th>International</th>
<th>Transnational</th>
</tr>
</thead>
</table>
2. Role of overseas operations.

- Sensing and exploiting local opportunities.
- Implementing parent company strategies.
- Adapting and leveraging parent company competencies.
- Differentiated contributions by national units to integrated worldwide operations.


- Knowledge developed and retained within each unit.
- Knowledge developed and retained at the center.
- Knowledge developed at the center and transferred to overseas units.
- Knowledge developed jointly and shared worldwide.


<table>
<thead>
<tr>
<th>International</th>
<th>Multi-domestic</th>
<th>Global</th>
<th>Transnational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coca-Cola</td>
<td>Unilever,</td>
<td>CEMEX</td>
<td>Wal-mart</td>
</tr>
<tr>
<td>IBM</td>
<td>Philips*, Nestle</td>
<td>Toyota</td>
<td>Boeing</td>
</tr>
<tr>
<td>Pfizer, GE</td>
<td>Nestle, McDonalds*</td>
<td>Canon</td>
<td>Virgin</td>
</tr>
<tr>
<td>Disney*</td>
<td>Lafarge*</td>
<td></td>
<td>BP*</td>
</tr>
</tbody>
</table>

Table 7 Examples of MNCs by international strategy type

Table 8*Source: drawn from cases from Verbeke.‘International Business Strategy. 2nd ed. Cambridge: Cambridge University Press, 2013’.

2.3.3 Corporate international strategy and foreign divestment

In accordance with Benito’s work, divestment likelihood among different subsidiaries is also a subject for variations depending on the integration-responsiveness factors. Present research supports the idea that subsidiaries’ divestment likelihood differ significantly across units of firms facing different degree of integration-responsiveness factors (Benito, 2005). For instance, strong emphasis on local adaptation and lack of integration lead to higher sunk costs when unit is divested. On contrary, units with low pressures both from responsiveness factors face easier divestment decision due to the lower costs of divestment. From the resource point of view, divestment is often undertaken as a response to poor performance. Putting it simply, unit is divested when the current poor performance or losses outweigh expected future returns of the unit. However, study of Berry (2012) suggests that poor performing subsidiaries are less likely to be divested if overall market is expected to grow. Thus, it can be observed a number of other important factors which are affecting divestment likelihood of the foreign subsidiary besides poor performance, i.e. exchange rate volatility, country/market/industry growth, and policy stability (Berry, 2012). Additionally, as was previously mentioned, the industry relatedness of the
unit to the core business of the parent corporation is also another proven determinant of divestment. It has been argued (Berry, 2012) that unrelated foreign subsidiaries are more likely to be divested.

Table 9. The effects on divestments of integration-responsiveness factors.

<table>
<thead>
<tr>
<th>Strategy drivers</th>
<th>Typical divestment motives</th>
<th>Likely effects on divestment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Integration factors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scale</td>
<td>Re-structuring</td>
<td>Large units less likely to be divested</td>
</tr>
<tr>
<td></td>
<td>Failure</td>
<td>Few units less likely to be divested</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Specialized units less likely to be divested</td>
</tr>
<tr>
<td>Scope</td>
<td>Adjustment</td>
<td>Inter-dependent units less likely to be divested</td>
</tr>
<tr>
<td></td>
<td>Failure</td>
<td>Co-specialized units less likely to be divested</td>
</tr>
<tr>
<td><strong>Responsiveness factors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adaptation</td>
<td>Adjustment</td>
<td>Lower divestment likelihood due to increased performance through local responsiveness</td>
</tr>
<tr>
<td></td>
<td>Failure</td>
<td>Lower divestment likelihood due to local ties</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increased divestment likelihood due to inferior (worldwide) corporate flexibility and transferability</td>
</tr>
<tr>
<td>Immobility</td>
<td>Adjustment</td>
<td>Lower divestment likelihood due to access to unique local resources</td>
</tr>
<tr>
<td></td>
<td>Failure</td>
<td>Increased divestment likelihood due to a (gradual) weakening of resource rents</td>
</tr>
</tbody>
</table>

Source: Benito, 2005

Benito (2005) in his article is presenting the typology of international business strategy. Benito in line with previous research argues that decisive determinants of international strategy are the degree integration of activities on a worldwide basis - especially economies of scale and scope, - and on the other hand market and resource conditions in specific locations demands local adaptation and responsiveness. Using Barlett and Goshal typology which divides international business strategies in four basic categories – multidomestic, global, international strategy and transnational strategy. Benito in his work approach theoretical reasoning and examines each strategy through the prism of divestment likelihood. The results of the study shows that (1) subsidiaries in transnational strategies may produce occasional high pay-offs, but persistently face the risk of failure; (2) high levels of divestment is expected to occur at the early stages of implementing a global strategy, but after successful restructuring of operations and shake-out of subsidiaries, divestment rates will decrease sharply;(3)subsidaries of global strategy MNCs are actually those that reach the lowest divestment rates according to Benito’s study (see Graph 1).
International units

International strategies will most certainly lead to rather long divestment times, which mainly depends on the fit between the products developed in the home market and the demand pattern in the foreign market. Further, since these target companies usually perform a low number of value activities the number of divestments and divestment value relative to deal size can be expected to be rather low. Full divestment can be expected when the demand decreases and makes the target company unprofitable, due to the company being tailored for a specific set of products, and hence re-aligning focus becomes difficult.

Multidomestic units

Multi-domestic strategies are likely to have the longest divestment time, due to a high degree of adaptation to local market demand patterns, and hence divestment is not likely to occur before local market conditions significantly change, and hence decrease the subsidiaries fit and leads to low performance (failure). Since the organization has been tailored to one specific market, change becomes difficult, and therefore full divestment can be expected. Further, due to a single market focus, and hence less managerial complexity, failure is less likely to take place, increasing the divestment time. The divestment number can be expected to be high, due to target companies performing a high number a value activities. For the same reason divestment value relative to deal size will be high.

Global units

Subsidiaries established as part of global strategies have the lowest divestment probability in the longer run (Benito, 2003). In terms of divestment anatomy, it can be argued that target companies within a global strategy framework will have the shortest average divestment time due to rapid re-structuring following the acquisitions in order to achieve scale advantages. The average number of divestments can be expected to be rather high, because of the extensive re-
structuring in order to achieve scale advantages. For the same reason the average divestment value relative to deal size can be expected to be rather high.

**Transnational units**

Transnational strategies will most likely lead to the highest number of divestments, due to substantial risk of failure stemming from high cross-national coordination burdens, high degree of complexity and organizational issues. Divestment time is hard to predict since divestment will most likely occur when failure is a reality, but full divestments, and high divestment value relative to deal size can be expected. Moreover the impact of the strategy on divestment anatomy will depend on the target company’s place within the strategy framework. If the target company is located within the responsiveness part, the impact can be rather similar to that stemming from multi-domestic strategies, while target companies within the integration part will experience effects similar to those arising from global strategies.

### 2.3 Summary of the theoretical part

The summary of the theoretical chapter presents the conceptual findings about relationships between international business strategy type pursued by the corporation and characteristics of divestment of the foreign subsidiary.

Summarizing findings of the theoretical part of this thesis it can be stated that the following relationships has been previously observed in academic literature. Corporate international strategy proved to affect barriers and incentives for exit (i.e. local R&D increase barriers for exit leading to lower probability of divestment). Furthermore, according to Benito (1997, 2005) barriers and incentives for market exit in turn are affecting probability of divestment through a number of determinants namely classified in 4 groups. One, the stability of the environment in which the foreign business operates. Second, the attractiveness of the foreign business. Third, the strategic fit of the foreign business with the parent company. Finally the last but not the least — issues related to governing the foreign operation. It has been also argued (Stenumgård, and Norman, 2006, p.10) that ‘the factors relevant for divestment probability are also relevant for determing the mode of divestment which is conceptualized by Simoes (2005). The divestment mode is seen as either a reduction in ownership (sale) or termination of activity (closure). Previous research suggested (i.e. Benito, 2003) that that incentives and barriers for exit also affect divestment mode.

Theoretically, the chapter found some evidence supporting the idea that the choice of international business strategy has an effect on characteristics of foreign divestment. However,
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current literature lacks evidence to describe such relationships in more details in order to contribute to our understanding of how foreign divestment fits into a broader strategy of growth.

**Figure 8 Theoretical model**

The theoretical model above is the result of the theory section and lays in the foundation of the research. The left part of the model stands for international business strategy and its integral parts such as configuration of assets, role of foreign subsidiary and development and diffusion of knowledge in the organization. The right part of the model is illustrating the integral components of foreign divestment characteristics. The arrow and the question mark stands for the main research question – to test/verify the effect of international business strategy has on foreign divestments. The square with incentives and barriers to exit is acting as ‘connection bridge’ between the two concepts in line with previous research (Benito, 2003:2005). Thus, organizational characteristics of the organization are impacting incentives and barriers to exit and it (may) entail the certain changes in characteristics of foreign divestment.
Chapter 3. Methodology

This chapter is devoted to methodology of the research. It aims to describe a research method that is used in this paper. Chapter starts with introduction of the research mind map and highlights core logic of the work. First part (3.1) is talking about research design and describes how this research method allows answering the research question. Chapter continues with description of data sampling (3.2), data collection (3.3) and types of data used (3.4). Methodology section ends with explanation of data analysis techniques and considerations about research method limitations.

3.1 Problem statement

Using methodology described in this chapter, I am going to answer the research problem which is formulated as following:

Theoretically, it has been argued that international strategy type pursued by the MNC affect the characteristics of foreign divestment (Benito, 2005). However, this statement needs further examination in order to understand do characteristics of foreign divestment differ depending on international strategy and if so what the differences are.

3.2 Research method

I have now formulated the research question and introduced theoretical insights about the topic of this research. Here I proceed with explaining the methodology used. In order to answer the research question I adopted qualitative case study research method due to its usefulness for international business (Ghauri, 2004; Welch, Piekkari, Plakoyiannaki, &Paavilainen-Mantymaki, 2011), ability to answer ‘how’ and ‘why’ questions. Moreover it gives an opportunity to investigate complex phenomena of foreign divestments within real-life context, and to develop new theoretical/practical insights. In choosing the methodology best matching this thesis, I agree with Welch (2009) who stated that ‘empirical research on re-internationalization via broad survey studies is less appropriate given its complexity, process aspects and opaque quality. Rather, exploratory, detailed case analyses, with a longitudinal perspective, appear to be necessary in order to develop a better understanding of the re-internationalization process through time’”. Because the term re-internationalization implies previous failure and de-internationalization which hereinafter is always referred to foreign divestment, I believe that case study research method will be the most relevant to this thesis. Although due to the character of this research and its length, I was not able to conduct a truly ‘longitudinal’ observation.
However, I hope to eliminate this problem by conducting interviews with managers directly involved in the mentioned cases, who have been experiencing divestment of the foreign operations in international retail industry.

The mind map of the research should not be left unclear. In this research corporate international strategy is seen through the lens of integration-responsiveness prospective. Thus, looking at two extremes of the theoretical model, some MNCs pursue globally integrative strategies emphasizing economies of scope and scale which often entail standardization and yet other MNCS are pursuing locally responsive strategy emphasizing local adaptation and decentralization. Taken these two extremes on the I-R continuum, previous research (Benito, 2005) argued that international strategy affects the divestment of foreign operations. In this research I am to describe linkages of how organization characteristics of the corporation affect characteristics of foreign divestment based on the real business case study of McDonalds Corporation and Kookai (fashion brand, subsidiary of Vivarte Corporation).

The cases of McDonalds in Bolivia and Kookai in Russia are chosen due to several reasons. First, the companies represent two opposite international strategies and thus are very suitable for analysis as it is more likely to capture differences in characteristics of foreign divestment when looking at two very different approach is crafting the international strategy. By manipulating the type of IB strategy I aim to capture the differences in characteristics of foreign divestment. Second, it can be assumed that these cases are rather typical and therefore the results can be relatively generalized. Obviously, each company is unique in its own way, but McDonalds is very typical representative of international retail (fast food) and Kookai is also a very common retail company (mass production of apparel). Taking into consideration the small number of
cases used in the study, such approach to choose typical cases will bring additional objectiveness for the findings

3.3 Case study design

Having introduced my research method, here I discuss the way how I designed the case studies. First, when designing the cases I addressed the main issues that are relevant to this thesis and particularly highlight core aspects that will help to answer the research question. In each of the two case studies, I highlighted company profile, international business strategy pursued by the corporation, and divestment case subdivided into early stage and market exit stage. Moreover I had an endeavor to collect as much information as possible about determinants of divestment (reasons) and divestment mode together conceptualized as characteristics of foreign divestment throughout the paper.

3.4 Sampling

Initially, purposeful sampling is used in order to find information-rich cases. Due to the scarcity of open data on divestment the initial sample is limited to small number of cases. Small n case study analysis allows going more in details of each case.

The sample of MNC for case study is characterized by high heterogeneity. Cases are selected to represent two opposing international strategies according to Bartlett and Ghosal (1989) international business strategy typology. Thus, the McDonalds case is representing high locally responsive international strategy (multi-domestic), while the case of French fashion brand Kookai represents the centralized globally integrated international strategy (global). This logic was used in order to maximize potential results from the case study. By examining two opposing approaches in respect of international strategy both of which led to divestment of foreign operations taking place more or less within the same time frame (2002 / 1999) will enable to capture differences in divestment characteristics and describe them in detail. Obviously, if such differences exist (previously stated in the work of Benito (2005)) it is most likely to capture it by looking at two totally opposite approaches in terms of international strategy. It is in line with Porter (1986) and Prahalad and Doz (1987) accent on the contrast between these two strategies. This contrast is expected to be useful in defining differences in divestment characteristics and helpful to find evidence to answer the research question.

In order to bring additional relevance to the research, sample is expected to represent cases of foreign divestments conducted within at least 3 years after initial investment in a given industry
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(retail) and restricted time frames. Unfortunately, for the reasons of associated failure and maybe due to non-disclosure agreements, corporate managers were not very eager to give their interview about divestment of foreign subsidiaries. Thus, limited in a number of options, I selected most information-rich cases based on managers availability for the interviews. However, I admit that cases which are described in this paper are relatively old, which is a possible limitation of this study.

It was decided to limit the sample of companies in accordance with several criteria. First, their degree of internationalization and industry they operate in. It is important to compare relatively similar companies in terms of number of foreign subsidiaries and this criteria is met when MNC conducts operations in more than 3 foreign markets. It was decided to use retail industry as the selection criteria because this industry was proven to be most case-rich. Yet another criteria for selection is set to be the age of the divested subsidiary. It is an important factor to keep in mind when comparing FD characteristics of a subsidiary. As was mentioned earlier, ‘subsidiaries abroad also born, grow and die’ thus indicating to have their own life-cycle. In order to eliminate inequality, the age of the divested subsidiary should be not less than 3-5 years.

3.5 Data collection

As the main approach during data collection section of my thesis, I used data triangulation approach which involves using different sources of information in order to increase the validity of a study. From the methodological prospective, case study implies use of data collected from different sources using different methods. In order to collect case study data I mixed intensive desk research based on open sources, books, corporate press-releases and annual reports, academic and news articles, academic journals, web-archives, data from information agencies (i.e. Reuters.com) and qualitative interview research with 4 experts involved in the particular case study in their past experience. Additionally, I asked for opinions among my professional and personal network and some of them I include into the case studies.

As data collection tools I intensely used professional social networks (LinkedIn, Viadeo) and personal network to find connections to managers in the corporate world. Noteworthy, the whole process of interviews was greatly facilitated by online video services such as Skype, which allowed contacting respondents at no travel costs and other expenses.

3.5.1. Qualitative research interview
This technique is used to collect qualitative data by setting up a situation (the interview) that allows a respondent the time and scope to talk about their opinions on a particular subject. The focus of the interview is set by the researcher and there are specific areas the researcher is interested in exploring during the interview. The objective is to understand the respondent’s point of view about cases listed in following chapter. In interview structure (see Appendix 1) uses open ended questions, some suggested by the researcher (“Tell me about…”) and some arise naturally during the interview (“You have just pointed out an interesting observation about…can you tell me more?”). The researcher tries to build a rapport with the respondent and the interview is like a conversation. Questions are asked when the interviewer feels it is appropriate to ask them. They may be prepared questions or questions that occur to the researcher during the interview. The wording of questions will not necessarily be the same for all respondents.

3.5.2 Interview structure

Qualitative research interview in the form of the semi-structured interviews as one of the data collection methods allow to get detailed primary data for my case studies.

Questions for the first part of the interview were primary about concentration of their corporate resources and core competences, role of foreign subsidiaries, generation and dispersion of knowledge across corporate network. This first part of the interview was adopted from Leong et al (1993) and thus appears to be reliable and previously used in their empirical research on Bartlett and Ghoshal typology of corporate international strategy.

Furthermore, questions about divestment case are discussed. In particular, I ask about determinants for foreign divestment and continue with questions about divestment mode. Thus, interviewee is acting as a source of primary qualitative data which was collected and included in the case studies. Final part of the interview concludes with questions about interviewee’s opinion about links between IB strategy and characteristics of foreign divestment.

Average length of the interview was around 45 minutes, but in some cases it was much shorter. For example, due to the tight schedule of Mr. Gonzales, he could devote only 20 minutes for the interview. However, this was later compensated with a series of follow-up questions via email.

3.5.3 Respondents

Interviewees experienced failures on the foreign market and subsequent divestment of foreign subsidiary within retail industry, both were in charge of foreign subsidiaries by the moment of
divestment. I believe it is hardly possible to find better people for interviews in respect of the cases presented in this paper. It is important to highlight that both interviewees were actively involved in cases that examined here.

A list of interviewees includes Elena Korotaeva, the head of operations in Russia and CIS at Kookai, Vasily Strelnikov, director of first two Kookai shops, Roberto Udler, the former owner of the McDonald's franchises in Bolivia, and Joao Marcos Branco, marketing director at McDonalds. Moreover, I had a great chance to enrich the information about cases with a short comment from Jose Gonzalez-Mendez, ex vice president of McDonalds South America.

While Elena, Vasily, Roberto and Jose were very actively involved in the process described in case study, Joao agreed to give his opinion about McDonalds international strategy, although this question is not the specific area of his expertise, he kindly agreed to ask his colleagues for help when answering my questions. Additionally, I would especially emphasize high level of competences and expertise of Elena Korotaeva and Jose Gonzalez-Mendez. They both share fruitful 20+ year of professional experience in retail industry on senior managerial level and particularly were involved in divestments of Kookai from Russia and McDonalds from Bolivia, respectively.

3.6 Data types

Considering different data types, Jacobsen (2000) distinguishes between qualitative and quantitative data. He also introduces mixed data as a possible avenue, combining both fixed and open alternatives. I consider mixed data as the main data type, combining “hard” stock price data with “softer” analyses from newspapers and trade publications. In both instances this research is based both on primary and secondary data collected by means of intensive desk research and complemented with real life semi-structured interviews. Secondary data sources include books, corporate press-releases and annual reports, academic and news articles, academic journals, web-archives, data from information agencies (i.e. Reuters.com), newspapers and social web sources (blogs, forums). It is necessary to mention that collected primary data is based on a first hand expert opinion thus providing a vast opportunity for further analysis and serving as a reliable source for solving my research question. Additionally, as was mentioned above the respondents who were interviewed, were actually employees of the corporations described in cases and thus are seen as perfect sources for “inside” view about the divestment cases. On contrary, use of secondary data helped to construct the “outside” view about the issues described in the text. It allows minimizing the potential biases and misjudgments. Finally, such approach to use mixed
data types and collection methods results in increase of reliability of the findings and enables to draw a comprehensive picture of the divestment case.

3.7 Data analysis

In order to grasp the differences, if any, in divestment of foreign subsidiaries between subsidiaries of 2 MNCs with opposing international business strategies I analyzed collected data by comparing findings of the two cases. The findings of the case studies are analyzed using the analytical model that was described below.

I constructed the table where the information from the case studies is summarized and illustrated. I used a set of several key parameters that are referring to characteristics of foreign divestment according to theoretical model constructed earlier. If the parameter was mentioned in the case study then the value of cell corresponding to the parameter takes value of X, if not then it is 0. Finally, I am looking at the results of both cases and compare them with each other. This comparison is expected to bring most fruitful evidence for solving the research problem.

Additionally, when analyzing data I plan to follow three phases suggested by Miles and Huberman (1994): (1) data reduction (reducing and organizing the mass of qualitative data through writing summaries and discarding irrelevant data); (2) data display (creating tables and charts to draw conclusions) and (3) the verification of the initial conclusions through field notes and further data collection.
Chapter 4. Case study findings

Now when I have established a theoretical framework and discussed methodology that is used to answer the research question, I present key findings of conducted case studies. In order to do so, I summarize below these findings of two real-life business cases of McDonalds in Bolivia and Kookai in Russia representing two opposite groups of MNCs according I-R grid and IB strategy type.

4.1 Case Study 1 McDonalds in Bolivia

Company profile (source: company website)

It is difficult to find a person that didn’t heard about McDonalds corporation nowadays. The profile of the corporation hardly needs to be explicitly commented. In a very few words, McDonald's is the world's leading global foodservice retailer with over 35,000 locations serving approximately 70 million customers in over 100 countries each day. More than 80% of McDonald's restaurants worldwide are owned and operated by independent local business men and women.

McDonalds International business strategy

It is relatively hard to exactly name the type of the IB strategy pursued by McDonalds as it is a kind of ‘mix’ according to marketing director at McDonalds Mr Marco. According to official website, the goal of the corporation is to ‘become customer’s favorite place and way to eat and drink by serving standard Fries, Big Mac and Chicken McNuggets. At the same time, McDonald's business model enables to the corporation to ‘consistently deliver locally-relevant restaurant experiences to customers and be an integral part of the communities we serve’. Additionally, Mr Udler is especially pointing out that ‘it is obvious that McDonalds subsidiaries in Bolivia had quite substantial level of local embeddedness and various local commitments’.

According to the latest corporate annual report the business of McDonalds corporation is managed as distinct geographic segments including: U.S, Europe, Asia/Pacific, Middle East and Africa (APMEA), and Other Countries & Corporate(OCC). One of the owner of McDonalds joint venture in Bolivia, Roberto Udler says: “Our business in Bolivia at that times did not have any knowledge transfer from subsidiary to HQ. Locally specific market knowledge was kept inside the country and not spread all over the corporation. In general, McDolands is managed as several distinct geographic segments and is characterized by decentralized organizational model”.


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Divestment case

When McDonald’s entered in 1997, it contracted local suppliers, Frigosa for hamburger meat, La Francesa for buns, and Hipermaksi for iceberg lettuce, but required them to upgrade their technology and know-how. McDonald’s used local Bolivian beef, bread and vegetables, but it imported French fries, frozen pies and other products. In this respect Mr Udler says: “Wedged between the Andes mountains and Amazon rain forest and lacking an ocean port. Bolivia is a logistics night-mare”.

The battle of McDonalds on the Bolivian market wasn’t just a short fight, it was a 5 years old confrontation which resolved in McDonalds exit and divestment of all its restaurants in Bolivia. In Bolivia McDonald’s used a joint-venture, with McDonald’s and the local partners each providing 50 percent of the US$6mn necessary to construct the first four stores. Before it opened in Bolivia, McDonald’s required the two local individuals who would be the managing directors (Roberto Udler and Silvia Koziner) of the joint-venture to attend the Oakbrook Hamburger University.

Entry stage

When McDonald’s opened its first restaurant in the affluent Calacoto district of La Paz a serpentine waiting line stretched out onto Avenida Ballivan, with some people standing as long as two hours to try their first McDonald’s hamburger. Jim Cantalupo, president and CEO of McDonald’s International at that time said in press: "At McDonald’s, we have high standards in all our restaurants throughout the world. At more than 11,000 feet, this McDonald's restaurant literally has the highest." La Paz McDonald’s represents the first in a wave of Big Mac locales to hit the country — sort of a fast-food manifest destiny. The second restaurant was opened in Santa Cruz in December, followed by the third in Downtown La Paz, then Cochabamba, Sucre, ‘on down until all nine departments have one’ , according to Roberto Udler, ex-co-directing manager for the McDonalds’ Bolivian locations.

The examples of local adaptation that McDonalds did in Bolivia are another important point to be mentioned. In addition to McDonald’s traditional menu items, the restaurant in La Paz allows offers two local specialties: "llujua" (pronounced yah-wah), a salsa-like condiment and "mate," a popular local tea. Another example of menu adaptation was the altitude that required some cooking modifications, including longer cooking times, especially for McDonald’s Quarter Pounder with Cheese. Roger Lexell, vice president, International Operations at McDonalds, said "We conducted unprecedented testing to ensure that our products in the high altitudes of Bolivia
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would have the same great taste as our products available throughout the world," "Months before the restaurant opening, more than a dozen experts from McDonald's quality assurance and menu management teams tested products and procedures to get it right," he continued.

_Market exit_

As the hispanically Speaking News reports, for well over a half decade McDonald's tried to win over the Bolivian public with its Big Macs and McNuggets, but consistently found itself losing money. So, in light of the loss of revenue, McDonald's Corporation made an unprecedented announcement of market exit and closure of its restaurants in Bolivia that is now the only country in the Americas without a McDonald's in 2002.

"We were introducing a kind of service-oriented business this country isn't accustomed to," said local licensee Roberto Udler, "It's a challenge, but we trying to force the country to change in the process." – he adds.

When asked about the determinants of divestment, Mr Jose Gonzalez-Mendelz mentioned several key aspects. First of all, the main underpin for the divestment decision was the poor financial performance of the subsidiary. “We were having losses on Bolivian market for several years in a row, and initial investments were not even break even.” Here it is possible to add McDonalds had built some of the new restaurants ‘from the stretch’ while some were situated in the big shopping malls where the rent was very high. Another considerable costs were associated with menu adaptation as it required marketing research as well as adaptation of the supply chain partners to get the necessary ingredients.

Yet another important determinant of the divestment was cultural issues. McDonalds business model and its marketing strategy simply didn’t fit the tastes of the local customers. As Mr. Gonzalez is pointing out, McDonalds didn’t enter the market without preparation. “Before entering Bolivian market we made a solid market analysis which required a lot of financial and human resources, we though we know our customers and their tastes very well.” In fact, the missing part was the cultural aspect, as Bolivians treat food as something sacred, so the process of eating was very different from other Latin America countries.

The process of divestment was not an easy thing to do, says Mr Udler. He said that McDonalds tried to minimize the costs of divestment by investigating possibilities to sell the buildings as well as some equipment and furniture to the market, but nonetheless, it failed to find a good

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option. Thus, all the restaurants were closed, equipment was shipped to another subsidiaries and it again entailed extra costs for the company.

Overall, McDonalds since the beginning was having quite high barriers to exit the market, and that is why it was keeping the Bolivian subsidiary for quite a long period despite its poor financial performance. In fact this strategy resulted in accumulating even more expenses associated with divestment.

Speaking about the nature of McDonalds failure in Bolivia, Mr Udler and Mr Gonzales had agreed that it can be classified as pure example of market failure. “Despite considerable efforts to study the market before entering, McDonalds wasn’t able to anticipate such market behavior.” – said Roberto Udler.

According to NY Times newspaper of 2003, McDonald's took charges of $656.9 million after taxes in the quarter, mainly to cover the cost of closing 719 restaurants; exiting Bolivia, Paraguay and Trinidad; restructuring in the Middle East; cutting some 600 jobs; and ending a multiyear technology project. In the same year it ditched Bolivia, McDonald’s withdrew from nine other countries, closing 700 stores in the process. According to the recently released documentary Fast Food Off the Shelf, the company’s failure had to do with the country’s fierce local food culture”.

4.2 Case Study 2 Kookai in Russia

Company profile
Kookai is a French fashion label founded in 1983 by Jean-Lou Tepper, Jacques Nataf and Philippe de Hesdin. It has stores in Europe, Asia, America and Australia. Its clothing line is generally characterised by French fashion trends. The clothing international retailing chain currently comprises 650 stores worldwide. It is a subsidiary of the Vivarte group which is a ‘leading footwear and clothing retailer in France, operating in both fashion and mass market formats’ according to annual report information of 2012. It has a portfolio of 15 of its own highly recognised brands including Andre, Minelli, Cosmoparis, Caroll, Kookai, NafNaf and La Halle!

International business strategy of Kookai
Kookai is implementing centralized integrated approach in its IB strategy by setting up scaled retail operations opening up shops in the heart of Moscow and popular shopping malls. ‘Everything was made in accordance with French business model and special requirement and
frequent inspections from central office were taking place when we started Kookai in Russia’ – says Elena Koroteva.

The role of the Russian subsidiary in corporate network, general manager of Russian subsidiary, Elena Korotaeva describes as follows: ‘Our subsidiary was tightly controlled and dependent upon central office in France’. Commenting on core competence and assets distribution she mentioned that despite Kookai required personal training of managers at the central office, but key competences are kept in the center, as well as main assets of the company. According to Elena’s opinion, knowledge and core competences can be an equivalent to ‘designers and production’ which are developed and retained in the center in the case of Kookai.

Additionally, Elena mentions that Russian subsidiary was required to strictly implement parent’s strategy. In fashion industry she argues ‘it is very important to create a strong universal brand and to be consistent in terms of quality and customer experience that the brand entails’. Usage of standardized model allows achieving cost advantages due to the savings of market adaptation.

**Divestment case**

Kookai, the French fashion designer, withdrawn from the Russian market, according to Business FM radio (Russian radio station) in 2010. It has been reported that Kookai’s lease agreements for outlets in Russia have not been extended. Kookai had re-entered Russia for the third time in 2006/2007 when it concluded an agreement with the Russian fashion retailer Sela.

*Early stage*

Kookai entered Russian market initially in 1995 and opened the first shop in the prestigious central shopping mall GUM. Later in 1998, through a franchising venture with a Russian partner RusskoeZoloto, opened second shop on NoviyArbat, the tourists’ favorite district in Moscow. However, both attempts failed reportedly due to the company’s inappropriate pricing strategy. Kookai withdrew from Russia after the economic crisis in 1998.

*Market exit*

Elena Korotaeva said that prior to any divestment it is necessary to ask yourself two questions. “Is the business part of the core (related to corporate portfolio?)” and “Is there a better owner for the business?”. In the case of Kookai the divestment of the Russian subsidiary was followed up several attempts to get back on Russian market, none of those turned up to succeed. According to Elena, ‘in order to success on the Russian fashion retail market in the segment dominated by
such brands as Mango and Promod, Kookai will have to offer Russian customers something new’. It can entail adaptation of to the local tastes and customer’s brand perception.

Kookai terminated operations in Russia in late 1998. It closed all of the operations, but shortly afterwards Kookai re-entered Russia in 2006/2007 when it concluded an agreement with the Russian fashion retailer Sela. This venture apparently also turned out to end up with divestment in 2009/2010. Elena Korotaeva thinks that that the reason for that is that Kookai brand ‘will be better distributed through multi-brand stores and outlets, rather than mono-brand stores’.
Chapter 5. Analysis

In this chapter I discuss findings of the research. The particular focus of the chapter is to analyze key findings of the case study in order to understand if they are in line with the main purpose of the paper. Additionally, chapter aims to provide evidence that findings of the research answer research question.

In accordance with data analysis section of the methodology chapter of this thesis, I start the analysis of case study findings summarized in previous chapter by looking at each case separately and drawing several conclusions based on this analysis. Further, I proceed with comparing analyzed findings of the case studies and continue with a short summary of the results.

Case Study 1 McDonalds in Bolivia

First of all, the findings of McDonalds case study give us evidence on international strategy type pursued by McDonalds. McDonalds is pursuing a locally responsive multi-domestic strategy by ‘consistently delivering locally-relevant restaurant experiences to customers and being an integral part of the communities we serve’. It is also evident that by establishing contracts with local suppliers, McDonalds increased its local commitment and its Bolivian subsidiary local embeddedness increased accordingly thus increasing barriers to exit.

It was found that decentralized approach at McDonalds is implemented on the level of geographical segments. In McDonald’s case characteristics of divestment according to findings of previous chapter are the following. First, in term of determinants of divestment it can be stated that “the company’s failure had to do with the country’s fierce local food culture”:

Among all divestment determinants conceptualized previously, both R&D intensity and country risks, economic performance and growth, and cultural distance were implied in the case of McDonalds’ Bolivian subsidiary. The divestment mode of McDonalds was total market withdrawal and closure of all its operations in Bolivia.

Case Study 2 Kookai in Russia

Analysis of the findings of the Kookai’s Russian subsidiary shows some evidence about the international strategy type pursued by the company. Thus, due to ‘centralized approach’, ‘tight subsidiary control’, blind execution of parents’ strategy, Kookai international strategy is matching global type according to research typology.
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Kookai exited from Russian market and shortly afterwards tried to enter again, meaning that it preserved its reputation for seeing the world as a ‘global market place’. Low adaptation and high standardization of their business model allows achieving scale advantages and reduces the barriers to exit.

Overall, among all the divestment determinants, the case of Kookai in Russia implies governances issues such as cultural and physical distance, economic performance, but now economic growth. In terms of divestment mode, Kookai closed all its 3 shops in Moscow, but kept looking for a new partner.

Case study comparative analysis

Comparative analysis of the difference in characteristics is illustrated in the table 8.

<table>
<thead>
<tr>
<th>Determinants of divestment</th>
<th>McDonalds</th>
<th>Kookai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>R&amp;D Intensity</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Country risk</td>
<td>X</td>
</tr>
<tr>
<td>Economic attractiveness</td>
<td>Economic performance</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Market growth</td>
<td>X</td>
</tr>
<tr>
<td>Strategic fit</td>
<td>Unrelated subsidiary</td>
<td>O</td>
</tr>
<tr>
<td></td>
<td>Conglomerate parent</td>
<td>O</td>
</tr>
<tr>
<td>Governance issues</td>
<td>Cultural distance</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>International experience</td>
<td>X</td>
</tr>
<tr>
<td>Divestment mode</td>
<td>Sale / change of ownership</td>
<td>O</td>
</tr>
<tr>
<td></td>
<td>Closure / Total withdrawal</td>
<td>X</td>
</tr>
</tbody>
</table>

Talking about difference in more details it is possible to state that in McDonalds case it is possible to observe clear locally responsive strategy along with some product adaptation and some R&D of the local tastes and market peculiarities and consumption patterns. Implementation of the new products to the menu required R&D mention that and then further relate to it in findings. R&D intensity of divested foreign subsidiary is a strong determinant for the exit mode. Subsidiaries with high R&D intensity will have higher barriers for exit and moreover, it also may be an additional driver towards divestment in the form of sale rather than closure and thus
Meeting main stakeholder’s expectations by minimizing costs and maximizing profit of potential divestment. The first important finding is that due to increased R&D intensity subsidiaries of multinational corporation unlike global corporations are expected to have increased exit barrier by high associated sunk costs.

Existence of differences in foreign divestment characteristics across different corporate strategies was proved to take place. The findings of the research are discussed hereinafter in more details.

As is seen in case study material failures of MNC on the foreign markets are caused by various reasons both internally and externally imposed to the corporation. Different level of global integration and local responsiveness features of MNCs strategy indeed impact divestment of foreign operations. In consideration of multi-domestic corporations, governance issues and R&D intensity, product adaptation costs as well as accumulation of locally unique knowledge, resources and expertise, appear to affect incentives and barriers for exit which in turn affect divestment probability or in other words why divestment took place. In the case of McDonalds in Bolivia, underperforming units were causing considerable loss to the corporation, but remained operating for a long time before divestment. It may indicate that increased barriers for exit prevented divestment from happening.

In consideration of global corporations, the causes for foreign divestment are typically linked with governance issues such as cultural and psychic distance as well as strategic fit. The absence of locally unique knowledge and expertise impacted incentives for market exit. Projecting domestic success on foreign market disregarding needs for adaptation and customer brand perception worsen by overestimated similarity of Russian market lead Kookai concept to failure.

In respect to divestment mode, the findings of the research revealed noteworthy observation. Multi-domestic subsidiaries’ knowledge, expertise and unique resources cannot be transferred elsewhere in the corporate network, and thus it may be a driver towards sell-off of the subsidiary and ownership re-structuring rather than total closure and activity termination of the subsidiary. Assuming inevitable sunk costs of adaptation and local responsiveness in doing business, companies are willing to cover it with full or partial sell of the subsidiary. Indeed, McDonalds case illustrated this attempt although it finally resulted in closure and termination of activity as well as divestiture of the local assets. Unlike locally responsive strategy, global strategy requires MNC to have strong global brand and usually standardized product. Subsidiaries of global MNCs are tightly controlled and dependent on parent company and thus appear to be hostages of their own strategy. Divestment of global subsidiaries appeared to be done through total
termination of activities, closure and market exit as is illustrated in the case of Kookai. In this respect both cases resulted in complete market withdrawal and closure of all operations.

Case studies conducted in this research are also supporting Burt et al (2003) classifications of sources of failures (see 2.1). Thus it is possible to draw following analogies:

1) The case of McDonalds in Bolivia is matching author’s definition of market failure, where the market does not behave as expected and sales do not meet expectations.

2) The case of Kookai in Russian market is a real life example of mixture of operational failure when retailer fails to transfer its domestic competences abroad and competitive failure, where operational performance doesn’t match that of competitors.

Findings of the cases study support the idea that foreign units of highly responsive MNCs are increasing costs of divestment by accumulating specific local knowledge and resources which can’t be used elsewhere in the corporate network. In the same spirit, divestment of R&D intensive foreign business is associated with additional costs and loss of local knowledge, impact corporate reputation, and may lead to corporate crisis. International strategies based on responsiveness factors (i.e. multi-domestic strategy) are associated with increased expenses for local adaptation which are regarded as sunk costs when taking a divestment decision and thus increase barriers for exit. At the same time, foreign units of low responsive MNCs are not suffering additional costs for local adaptation and focus on scale and scope efficiency. Moreover, foreign subsidiaries of MNCs whose main focus is on achieving global efficiency are characterized by high dependence and tight control. These subsidiaries typically are just implementing parent’s strategy and knowledge as well as core competences and assets are kept in the center.

Finally, findings of the research proved to be helpful means to answer the research question. It was observed that configuration of corporate assets and core competences, strategic role of foreign subsidiary and knowledge dispersion across corporation serves as factors impacting characteristics of both how and why foreign divestment takes place. However, for the sake of objectiveness it is important to say that current findings will be greatly complemented with further research. Therefore, recommendations and research propositions are presented in the following chapter.
Chapter 6. Discussion

In this chapter, I will discuss the findings of conducted case study with regards to the theoretical foundation presented earlier. The main objective is to compare results of this research with the expectations I had before. After this discussion, I will present the conclusion with regards to the problem statement of this thesis.

Based on integration-responsiveness theory this research is seen as a contribution towards filling the gap in understanding of foreign divestment process in a broader context of international business strategy. The findings of the research shares the spirit of Benito’s (2005) research, supporting authors idea and complementing it by focusing both on how and why aspects of relationships between international strategy and foreign divestment.

Findings of the previous chapter vividly illustrates that research method allowed to get evidence for solving the research problem, however, investigation of the topic will greatly benefit from additional testing. Divestment as a complex phenomenon was scarly studied through the prism on international business strategy. Hence, this paper constitutes that such direction calls for further research.

It is important to mention that this research will greatly benefit from increased validity of the findings. Due to the scarcity of information about divestments and its association with a failure, corporations are not so glad to share information about mistakes on the foreign markets.

It is important to mention concluding remarks on international business strategy typology used throughout the paper. Nowadays, organizations perhaps became so complex that features of international, global, multi-domestic and transnational strategies can be seen at the same time in depend of:

- Divisions
- Functions
- Products
- Geographical areas

Although the research question was answered, it would have been better to bring additional objectiveness by investigation foreign divestment in a given geographical market or from a given home country prospective, restricted time frames and subsidiary size. Conceptually, this research can serve a foundation for a number of related questions discussed below.
6.1 Limitations

Obviously, chosen research method as well as the design of the research is supposed to have its own important limitations. First, case study data may contain unknown errors due to the secondary data used in it. Additionally, primarily data collected during the interview may contain certain biases and misjudgments.

Second, this paper is based on a limited number of case studies. This reduces the generalizability of the results – for instance, it is not possible to propose that all other MNCs will be affected by the same factors as strongly – and increases observer bias (Voss, Tsikriktsis, & Frohlich, 2002) and the risk of misjudging single events (Leonard-Barton, 1990), but allows retaining the depth of the study (Piekkari, Welch, & Paavilainen, 2009) and presenting the richness of results (Dubois & Gadde, 2002).
Chapter 7. Conclusion

This chapter concludes the paper by drawing lines under conducted research. It discusses what implications this research may have.

In line with the main purpose of the research, findings of the paper allow making a following conclusion. Being integral part of international business, failures on the foreign markets and characteristics of subsequent foreign divestment are affected by the type of international business strategy pursued by the corporation. Therefore, conducted research supports ideas expressed in previous academic works (Benito, 2005;) It was observed that certain relationships between international business strategy and foreign divestment exist, but it hardly could be comprehensively examined within a limit of a single thesis.

The main aspects learned from the conducted case study may be implemented both in theoretical and practical value. Theoretically, findings of the paper call for additional research in the topic. Nevertheless, conceptualization of foreign divestment from the I-R prospective in this paper has successfully identified interdependence between chosen international strategy and characteristics of foreign divestment. Therefore, this paper can be counted as basic foundation for more detailed definition of such interdependences.

In practical terms, with the help of this paper corporate managers’ may build better planning and predictive models, taking into consideration identified relationships of international business strategy on foreign divestment characteristics. Thus the research question was answered with real-life evidence and the purpose of the research was accomplished in line with expectations.

7.1 Recommendations for further research

In the context of integration-responsiveness theory foreign divestment is seen as a result of strategy failure. However, it is obvious that there are number of other, perhaps, more important determinants of foreign divestment characteristics. In the spirit of Burt el al (2003) and Berry (2013) my proposition for further research would be to examine correlation of international business strategy and factors influencing divestment probability. Using statistical approach and data on divested subsidiaries it is possible to go in depth into conceptualization of foreign divestment and to test existence of correlation between factors influencing divestment probability and type of international business strategy. This scope of further research will bring additional evidence supporting differences in foreign divestment with regards to integration-responsiveness factors.
Another interesting proposition is to look at foreign divestment using different theoretical framework. My recommendation for further research is to explore the problem pointed out during interview. The conflict of interests of local subsidiary management of underperforming unit and HQ in decentralized organizations may be approached through the lens of principal-agent theory. This question is related to both to foreign divestments and international business strategy and thus perfectly fits in a broader picture inspired by the paper.

In the spirit of this paper, it can be argued that academic literature on divestment will greatly benefit from further investigation into relationship between international business strategy and foreign divestments. For example, one of the possible propositions for further research can be to look into the question of what activities should a MNC of different IB strategies implement in order to minimize potential costs of divestments.
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Appendix 1

Interview structure

In my master dissertation, I use qualitative research interview method. Conducted interviews are held with current mid-senior managers of MNCs who experienced divestment of foreign operations. As was mentioned earlier, interviews were conducted by phone and video calls as well as personal meetings. While a structured interview has a rigorous set of questions which does not allow one to divert, a semi-structured interview is more open, allowing new ideas to come up during the interview as a result of what the interviewee says. The interviewer in a semi-structured interview generally has a framework of themes to be explored. This framework can be found below.

**Interview framework themes**

1. Corporate international strategy (Organizational types)

   This part of the interview is aimed to collect expert opinions about MNCs international strategy type based on organizational characteristics of configuration of assets, role of foreign subsidiaries in MNCs network, creation and knowledge diffusion across the MNC.

   Please choose which of the following organizational characteristic mostly describe your company organizational type:

   1. Configuration of assets, core competences and capabilities in my company is best described by the following statement (Choose 1 answer only):

   Could you please comment on main organizational characteristics of your MNC?

   How are key corporate assets distributed across corporate network of foreign subsidiaries?

   | A. Decentralized and nationally self-sufficient. | B. Centralized and globally scaled. | C. Sources of core competences centralized, others decentralized. | D. Integrated network; Dispersed, interdependent, and specialized. |

   2. Role of overseas subsidiaries in the corporate network is best described by the following statement:
A. Sensing and exploiting local opportunities.  
B. Implementing parent company strategies.  
C. Adapting and leveraging parent company competencies.  
D. Differentiated contributions by national units to integrated worldwide operations.

3. Development and diffusion of knowledge is best described the following statement:

A. Knowledge developed and retained within each unit.  
B. Knowledge developed and retained at the center.  
C. Knowledge developed at the center and transferred to overseas units.  
D. Knowledge developed jointly and shared worldwide.

Part 2 Foreign divestment

Please, provide some information about:

2) Divested units  
3) Market  
4) Reasons behind divestment

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<th>Growth</th>
<th>R&amp;D intensity</th>
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Benito (1997b) proposes that the essential determinants of divestment probability can be put together into four main groups: One, the stability of the environment in which the foreign business operates. Two, the attractiveness of the foreign business. Three, the strategic fit of the foreign business with the parent company. Four, issues related to governing the foreign operation. Please comment on these aspects for each case of FD.

Could you tell me how the divestment was executed once occurred.

1. Sale / closure  
2. Full/partial

Could you please tell me if the divested firm or unit changed ownership structure or completely ceases to exist?

Do you think that organizational characteristics of MNE and MNE international strategy affect the way market exit was executed once occurred?
Interview questions 2

Could you please tell me about the divestment of **** venture? Obviously, the venture ended up financially not attractive, but was the situation different at the point of entry?

How could you characterize the market in terms of economic situation – was there it growing, stagnating or declining?

Where was the divestment decision taken?

Please describe the role of the foreign subsidiary in the corporate network.

When making the decision to divest the operations, did **** face any major barriers preventing from doing so? If yes, please comment on these exit barriers.

How could you characterize the development and diffusion of knowledge between subsidiary and HQ? Was it one way top down approach or there was a certain exchange between the two?

Did the exit from the market impact seriously the whole corporation? What consequences did the market exit entail?

Is it possible to say that the company learned a certain lesson from its failure? Did it bring some new ‘knowledge’ to corporation that was further implement elsewhere?

What was the divestment mode – closure and market exit or sale of local assets to another company? Was it complete or partial?