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Wang, Daojuan; Wu, Juan

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A promising marriage that ended in divorce – a longitudinal case study of foreign divestment

Daojuan Wang¹ and Juan Wu²

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ABSTRACT

Using a longitudinal case study, this chapter unveils the critical antecedents and their impacting mechanisms leading to foreign divestment, particularly the divestment of strategic assets in developed markets that acquirers from emerging markets fervently pursued. This interesting phenomenon is not yet sufficiently understood. Most studies on this topic apply quantitative methods and use one-time data collection; thus, the dynamic evolutionary process from foreign direct investment to divestment is under-researched. This study is based on 22 in-depth interviews conducted during 2012-2020 with top managers of both the subsidiary and the parent firm and external experts involved in the acquisition process, complemented by extensive secondary data. Through the analysis, the evolutionary process from initial investment to foreign divestment is depicted and discussed. Meanwhile, a conceptual framework is developed from a reversed eclectic paradigm perspective that identifies particular antecedents and six mechanisms of foreign divestment. This study advances our understanding of the reasons behind foreign divestment and contributes to the development of foreign divestment theories. Specific lessons can be drawn from this failed investment case, and the developed framework offers a practical guideline.

¹ Correspondence to Daojuan Wang, Aalborg University Business School, daw@business.aau.dk

² Finance & Insurance, ZHAW School of Management and Law, juan.wu@zhaw.ch

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INTRODUCTION

Divestment of foreign subsidiaries is a common phenomenon and a significant event within a company's internationalization process. Despite extensive studies (Schmid & Morschett, 2020; Steenhuis & Bruijn, 2009), research on divestment is not yet fully developed, with insufficient attention paid to one topic: The divestment of eagerly sought strategic assets that emerging market multinational enterprises (EMNEs), such as Chinese and Indian firms, acquire in developed countries (Arte & Larimo, 2019). Many researchers have argued that strategic asset seeking is the main motivation for EMNEs' cross-border M&As in advanced economies (Buckley, 2019), that it is the fastest approach to reach desired goals (Boateng et al., 2008), and that it aims to overtake Western incumbents (Luo & Tung, 2007) or earn legitimacy and prestige in the marketplace (Deng, 2007). However, various upmarket acquisitions by EMNEs have ended in the divestment of the acquired assets (Cogman & Tan, 2010); this is worth an in-depth investigation. Particularly, as Arte and Larimo (2019: 14) contend, due to their unique ownership advantages, country of origin factors, and industrial policies, "the antecedents to divestment and the decision-making process can be different in the case of emerging economy MNEs, which calls for detailed analysis".

Several antecedents of foreign divestment have been identified, but results on the impacts of some variables, including cultural differences, institutional system, and host country and international experience, are contradictory and inconclusive (Arte & Larimo, 2019; Schmid & Morschett, 2020; Steenhuis & Bruijn, 2009), perhaps due to missing variables in the literature (Steenhuis & Bruijn, 2009), different measurements of the constructs in empirical studies, different chosen control variables, and/or inadequate examination of these variables' interaction and their joint effect

(Schmid & Morschett, 2020). Most foreign divestment studies apply quantitative methods, and the dynamic process from acquisition to divestment is under-researched (Schmid & Morschett, 2020). In addition, most existing empirical studies with primary data (survey- or interview-based divestment studies) are based on data collected after divestment and apply retrospective questions, which can cause information distortion and bias due to decayed memories and the topic's sensitivity. Very few studies exist based on continuous observation before the divestment. In particular, theories of foreign divestment are much less developed than those of foreign direct investment (FDI) (Arte & Larimo, 2019; Schmid & Morschett, 2020; Steenhuis & Bruijn, 2009; Wu et al., 2021), perhaps due to the sensitive nature of this topic.

Finally, the divestment rate is generally higher in joint ventures and acquisitions (see e.g., Barkema et al., 1996; Hennart et al., 1998; Li, 1995), especially in acquisitions (Benito, 1997; Schmid & Morschett, 2020). Moreover, foreign subsidiaries are more likely to be divested than domestic ones (Cefis et al., 2021). Therefore, divestment following cross-border acquisition is worth investigating. Our study, which followed the divestment process and obtained detailed information, was intended to fill these gaps. We aim to unveil the underlying determinants and their impacting mechanisms that lead to foreign divestment, particularly the divestment of foreign subsidiaries with strategic assets that acquirers originally pursued vigorously. Specifically, we explore the following two questions:

1. How does a foreign divestment evolve from the initial subsidiary-parent relationship established via acquisition?
2. What are the critical antecedents and their impacting mechanisms?

These two questions are addressed through a longitudinal case study of a Chinese manufacturing firm's cross-border acquisition and then divestment of a Swiss company. We have been tracking this case for over ten years, from the 2012 negotiation of the acquisition deal to the 2019 divestment

(liquidating the subsidiary) and its 2020 aftermath. The analysis is based on 22 in-depth interviews with top managers of the acquiring and acquired firms and external experts involved in the acquisition process combined with extensive secondary data. Based on a rich longitudinal dataset, we describe the evolutionary process from the acquisition of this strategic partner to its divestment with liquidation. We also develop a conceptual framework to illustrate the mechanisms of foreign divestment and the multiple influencing factors from both the parent company and the subsidiary. Our contribution is three-fold. First, this study contributes to foreign divestment theory by extending the reversed OLI (ownership, location, internalization) perspective (Boddeyn, 1983) and developing a relatively comprehensive framework that identifies several antecedents and six mechanisms. Second, we provide additional insights into antecedents that had no conclusive findings, such as cultural differences, international experience, and institutional variables (Schmid & Morschett, 2020; Steenhuis & Bruijn, 2009). Third, we reveal the evolution from the establishment of a parent-subsidiary relationship to the divestment, illuminating the complex interactions among the antecedents. This case also provides insights into management's initial foreign investment decision, offering managerial implications.

We structure the study as follows. Section 2 overviews the literature on the antecedents of foreign divestment and the typical theoretical perspectives. Section 3 introduces the research methodology, while Section 4 presents the case analysis. Section 5 discusses critical findings, research implications, limitations, and future research.

RESEARCH ON FOREIGN DIVESTMENT

General literature on the antecedents of foreign divestment

Divestment is described as the most difficult and painful decision an organization must make – like a divorce, often painful yet necessary (Boddeyn, 1983). Increased attention has focused on

foreign divestment over the past three decades. Since the mid-1990s, research attention has shifted towards the characteristics of companies that are more likely to get divested (Steenhuis & Bruijn, 2009). Foreign divestment, as a multi-dimensional and multi-level phenomenon, has attracted researchers from different fields, using various theoretical perspectives and conducting analyses on different levels (Arte & Larimo, 2019; Schmid & Morschett, 2020).

Studies on the country and parent firm levels are predominant, while subsidiary and industry factors are less examined. In particular, few studies capture the influence of a foreign subsidiary's behavior on the divestment (Arte & Larimo, 2019). The current study analyzes the case from both the parent and subsidiary perspectives and considers factors at different levels, i.e., nation, industry, firm, and individual. Numerous reasons explain why divestment occurs. In their literature review, Schmid and Morschett (2020) identified 64 variables that appeared in at least two studies, while their meta-analysis examined 18 variables with seven effect sizes in the form of bivariate correlations. According to their results, around half of the variables had no clear evidence concerning their influence, including the parent firm's general international experience, geographical diversification, and host country cultural distance. We echo Schmid and Morschett's proposal (2020) that a full conceptual model is needed to examine the primary antecedents together rather than treating them as independent determinants, and think an in-depth case study will help identify complexity and nuances.

Generally, foreign divestment can be classified into two types: crisis-response (reactive/involuntary) divestment and strategic (proactive/voluntary) divestment (Boddewyn, 1983; Steenhuis & Bruijn, 2009). Crisis-response divestment is usually triggered by a discrepancy between goals and performance (Boddewyn, 1983) which could arise from unanticipated changes in the external environment, flawed past judgments, and/or inefficient management. Strategic divestment is a pre-planned, systematic change in corporate direction, including aggressive

relocations for larger profit and the financial portfolio approach (Steenhuis & Bruijn, 2009). Therefore, international divestment does not always signal a failed foreign investment, and the strategic motivations for acquiring and divesting subsidiaries should be examined.

However, according to Schmid and Morschett (2020), these strategic motives have rarely been considered in previous research and have only recently become an emerging trend. We argue that the initial strategic motivations for FDI are critical elements to understanding divestment, as they guide subsidiary management and collaboration strategies and subsequent performance assessments; depending on these motives, potential impacting factors can affect the process differently, with different results. For instance, Wang et al. (2020) found that cultural differences affect the cross-border acquisition performance more negatively if the subsidiary was acquired to generate synergies necessitating shared tacit knowledge and extensive interaction between the two firms. In these cases, the subsidiary may generate lower returns and is likely to be divested. Benito (2005, p.245) highlighted the challenges of “reconciling the seemingly divergent demands of global integration versus local responsiveness,” arguing that divestment rates are highest when an investor pursues a transnational strategy, meaning the subsidiary becomes a node in the parent firm’s global matrix. Examining the strategic motivations of establishing subsidiaries is a critical first step in investigating the reasons for foreign divestment.

Complementary theoretical perspectives

Researchers have applied various theoretical perspectives to foreign divestment, including Dunning’s elective (OLI) theory, the resource-based view (RBV), the knowledge-based view (KBV), organizational learning theory (OLT), and the institution-based view (IBV) (Arte & Larimo, 2019; Schmid & Morschett, 2020). Theories of foreign divestment are generally underdeveloped

and a comprehensive view is absent (Arte & Larimo, 2019; Trąpczyński, 2016). Some theories, such as RBV and KBV, are useful in explaining foreign divestment, whereas others, such as OLT and IBV, are not supported by sufficient evidence (Schmid & Morschett, 2020).

Dunning's elective (OLI) theory (Dunning, 1980; 1988; 2000; 2001) and transaction cost theory/internalization theory (Buckley & Casson, 1976; Hennart, 1982; Rugman, 1980) are the dominant theories explaining the initial FDI decision. According to Dunning's eclectic theory, firms establish overseas subsidiaries when (1) they possess ownership (firm-specific or competitive) advantages (Ownership advantages, O); (2) the market outside the home country allows firms to benefit by exploiting their ownership advantages (Location advantages, L); and (3) "internalizing" these advantages within the firm is more profitable than selling/licensing them to independent parties (Internalization advantages, I).

Based on Dunning's OLI framework, Boddewyn (1983) proposed a theory of foreign divestment by reversing these conditions, arguing that the loss of any of these advantages can lead to foreign divestment (see also Dunning, 1988). Meanwhile, he emphasized several differences between this "reversed theory" and FDI theories. For instance, firm-specific factors in FDI theories do not sufficiently differentiate the parent firm and the subsidiary, yet the subsidiary can significantly affect the divestment. A potential buyer also becomes more important in FD than in FDI. Furthermore, an unfavorable market condition is necessary for FDI but not FD since other factors, such as strategic consideration and bad management, can cause divestment.

Since ours is a typical reversed FDI case, i.e., a cross-border acquisition followed by divestment, we apply FDI theories as well as the "reverse-mirror image" approach (Boddewyn, 1983, p.353). We also agree with Boddewyn (1983) that Dunning's eclectic theory grounds the understanding of foreign divestment, whereas other factors and perspectives also must be considered. To concretize the three types of advantages (OLI) and examine their evolution and interaction, we consider other

theories as supplementary perspectives, such as the applications of the RBV (Barney, 1991,1997), KBV (Berry, 2013), OLT (Hennart et al., 2002) and IBV (Dhanaraj & Beamish, 2009). Although we lack the space to extensively discuss these theories (see Arte & Larimo, 2019 and Schmid & Morschett, 2020 for an overview of typical theoretical perspectives in foreign divestment research), we include several in the discussion below while considering others during the case analysis.

Dunning (1988, p.2) categorizes ownership/firm-specific advantages as “1) asset advantages that arise from the proprietary ownership of specific assets by MNEs vis-à-vis those possessed by other enterprises; 2) transaction advantages which mirror the capacity of MNE hierarchies vis-s-vis external markets to capture the transactional benefits (or lessen the transactional costs) arising from the common governance of a network of these assets, located in different countries.” While this typology enables us to analyze the ownership advantages, it is still somewhat vague. The RBV complements this view by explicating the strategic resources that form firms’ ownership/competitive advantages (O), such as brand, innovation capability, and managerial skills, which are valuable, rare, and imperfectly imitable, potentially enhancing the performance and survival of foreign subsidiaries (Benito, 1997; Mata & Portugal, 2000; Song, 2014).

Internalization advantages (I) involve the transaction costs of operating in the external market, determined by institutional systems through regulatory, normative, and cognitive structures (Scott, 1995) or formal and informal institutions (North, 1990). This view also connects to location (dis)advantages (L) and has been used to discuss how institutional voids, institutional differences (e.g., cultural, political, and administrative distance; political uncertainty), and increased local legitimacy affect foreign divestment (Gaur et al., 2019; Henisz & Delios, 2004).

When internalization advantages are achieved based on knowledge sharing and creation, the KBV provides some insights. It informs that product un-relatedness and cultural differences can complicate knowledge sharing, acquisition, absorption, and creation by/between parent firms and

foreign subsidiaries, (Benito, 1997; Javidan et al., 2005; Schmid & Morschett, 2020; Zeng et al., 2013), potentially causing divestment if internalization advantages dependent on these processes cannot be generated. However, based on the OLP, international and especially host-country experience can help an MNC better understand and manage its foreign subsidiary, overcome cultural differences and liabilities, and gain legitimacy in the host country, thereby protecting against divestment (Benito 1997; Dow & Larimo, 2009; Hennart et al., 2002; Norback et al., 2015). Overall, these perspectives frequently interconnect, overlap, and complement each other. Therefore, our analysis is founded on the reverse eclectic (OLI) paradigm, which provides an integrative view by considering both internal and external business environments and unifies antecedents on different levels (country, industry, firm). We also adopt supplementary theoretical perspectives to help concretize the O, L, I parameters, identify additional factors, and explain their impacting mechanisms. First, we consider and examine the strategic motives of FDI, as “the identification and value of the specific ownership, location and internalization (OLI) parameters that will influence individual MNEs in any particular production decision will vary according to the motives underlying such production” (Dunning, 1988, p.5). Since “no study has really investigated different O, L, I factors simultaneously” (Schmid & Morschett, 2020:11), this longitudinal case study can inform and help develop FD theories by drawing on this perspective. Furthermore, it is worth mentioning that in applying the OLI, we consider 1) both the advantages and the disadvantages within these three dimensions; 2) both the parent and subsidiary perspectives concerning O and L (dis)advantages; and 3) the interaction between these (dis)advantages and their joint effect on the divestment. Below, we introduce our research methodology.

RESEARCH METHODOLOGY

Seizing the research opportunity

In 2012, we began a longitudinal multi-case study to investigate acquisitions by Chinese Multinational Enterprises (CMNEs) in advanced markets, motivated by strategic asset seeking (SAS). We targeted the whole acquisition process, covering the identification of the targets, the negotiations, and the short- and longer-term post-acquisition integration activities.

The co-author's professional network contained several CMNEs that had conducted SAS-driven cross-border acquisitions. This longitudinal study focused on the acquirer CN-Y and its target firm SW-X (companies are anonymized to preserve confidentiality). We tracked this case from the bidding process in 2012 to the acquisition in 2013, the divestment and subsidiary sale to a private equity company in 2019, and its aftermath in 2020.

Hermanowicz (2013) suggests that research opportunities arising from the “emergence” of unforeseen events in a longitudinal study should be seized:

“LQIs (longitudinal qualitative interviews) may be formulated into a design after a study has been completed, when the research is conducive to longitudinal formulation and where the benefits of such work are likely large.”

His suggestion aligns with our case, which provides an excellent opportunity to add to the few existing divestment studies based on continuous observation before the divestment. Our ex-ante data lack the potential risks of ex-post surveys and interviews, i.e., memory bias and distorted reality, particularly regarding sensitive events like divestment.

Our data are particularly valuable as we witnessed and recorded not only the business development between the acquirer and the target but also the evolution of their relationship over six years.

Our main research questions are twofold. The first question addresses the evolution of the relationship: How did the relationship between acquirer and target evolve from 2013 (acquisition) to 2019 (divestment)? The second question addresses the drivers and their mechanisms impacting this evolution: What were the critical factors and how did they drive the evolution? Yin (2009)

suggests that “how” and “what” research questions are suitable for case-based research methodologies. Although our research questions were developed during data collection, because we originally tracked this case intending to follow the acquisition’s evolutionary process, the gathered data are highly relevant to these questions.

Data collection and case description

We focused equally on voices from the acquirer and the target, considering opinions from insiders (managers) and outsiders (external experts involved in the bidding, acquisition, integration, or divestment).

For data triangulation, we conducted an extensive longitudinal search of the activities of CN-Y and SW-X, including newspaper/magazine appearances, company press releases and blogs, personal blogs, interviews, and talks by managers and external experts involved in the case.

From 2012 to 2020, we conducted 22 interviews with six interviewees, including the president assistant of CN-Y; two executives of the target firm; a local official from the Swiss regional economic development authority in charge of attracting Chinese FDI to Switzerland who participated in the acquisition as a non-profit consultant; and the head of overseas investment of the company CN-Z (a potential investor in SW-X), who participated in the due diligence in 2018.

Table 1 presents detailed interviewee information.

Insert Table 1 here

Data analysis

As is typical for qualitative research methodologies (Yin, 2009), we began the analysis by synthesizing all the interview data and the secondary data with the statistical analysis tool MAXQDA. The data analysis followed the methodology recommended by Miles et al. (2014), including full interview transcriptions, translation of the interviews from Chinese and German into English, case description, development of a coding frame that fit the theoretical background, code revision, code reliability assessment, and coding. A brief introduction to the two companies is provided below.

Founded in 2002, CN-Y is a Chinese company specializing in non-ferrous metal processing. Since China's accession to the WTO in 2002, CN-Y experienced rapid development both in the home market and international markets, serving clients from the energy, mining, transporting, and machine manufacturing industries. In 2013, CN-Y acquired SW-X, a century-old Swiss firm with a strong brand focusing on fine non-ferrous metal processing. SW-X mainly developed products for precise instruments, aircraft, space technologies, etc. Although these products enjoyed an excellent reputation, SW-X's development deteriorated due to management infighting, bad investments, two strikes, and working capital exhaustion since early 2002. After restructuring its capital base in 2013, SW-X was acquired by CN-Y, which aimed, among other goals, to integrate its brand and product design capability and gain access to high-end markets. Before the merger, both firms had only conducted exports. However, in 2019, CN-Y sold SW-X to a private equity fund following another restructuring process.

A comprehensive understanding was developed through reading and coding all the interviews and documentary data. The coding process comprised three steps: open coding, axial coding, and selective coding (Corbin & Strauss 2008, Miles et al. 2014). We refined and consolidated the first-order constructs and second-order themes by alternating between the data and existing theoretical concepts.

FINDINGS

The following analysis is based on extensive primary and secondary data, as introduced in the methodology. We first describe the evolution of the foreign divestment and then discuss the antecedents and their impacting mechanisms.

Evolution of foreign divestment

This section describes three phases with critical events that led to the final divestment, as illustrated in Figure 1.

Insert Figure 1 here

Phase 1: Honeymoon with ambitious vision and potential synergies

Several factors contributed to CN-Y's acquisition of SW-X, including external drivers and internal motivations.

In the two years before the acquisition (2011-2013), the free trade agreement between China and Switzerland was under negotiation; diverse media tracked and reported on the negotiations, and there were positive signals that an agreement was imminent before it was signed in 2014. An interview revealed that the CN-Y chairman had repeatedly followed the Chinese free trade negotiation delegation to Switzerland, seeking to acquire strategic assets. With the government's assistance, the chairman connected with SW-X and continuously followed the news about the company. CN-Y viewed this as an optimal time to acquire SW-X. As the president assistant of SW-X commented in 2014:

“The acquisition is a good deal. The price was cheap and SW-X really has its unique technology and brand.”

Apart from these external drivers, CN-Y possessed strategic motivations and ambitious visions. Their primary targeted strategic assets at SW-X were excellent products, advanced technology, talent, its century-old, globally recognized brand, and its sales network as well as Switzerland's positive image among consumers. By internalizing these strategic assets and ownership advantages, CN-Y aimed to upgrade its products, enhance its profit margin, expand its product lines, engage in joint sales, cross-sell each other's products, and achieve market expansion to Europe. By leveraging their ownership and location advantages, such as production efficiency, low cost, large market size, and government support, CN-Y also aimed to help SW-X reduce their production costs and revive 2000 out of 3000 dead products in China. Both companies held ambitions and expected synergies from this marriage. According to the president assistant of SW-X in 2014:

“CN-Y is a strategic investor eyeing on the potential of SW-X, not a finance investor eyeing on its monetary value. We want to keep it in operation, instead of selling it or passing it over in short

period. Besides, we are in the same industry. There is synergy between both companies and potential for coalition.”

The SW-X managers were grateful because the infusion of funds allowed them to complete product orders. During 2014-2015, drawing on their advanced technology and reputation, the favorable institutional environment facilitated by the Chinese government’s promotion of the aerospace equipment industry’s development, as written in “Made in China 2025”, and the local government support of CN-Y, SW-X received many orders from state-owned organizations that produced aircraft and built nuclear power plants. Also during this period, CN-Y established a worldwide sales network crossing the Asia Pacific, the Americas, and Europe, exporting products to over 30 countries and regions. These factors enabled the combined business to achieve its highest performance in 2015. However, almost no technology transfer occurred during this stage, knowledge sharing was limited to project-specific information and projects were separated into standard tasks and customized tasks fulfilled by CN-Y and SW-X, respectively.

Phase 2: Middle-stage marriage with struggles

Unfortunately, after these orders were completed in 2015, the decline began, including struggles with cash flow. The interview and secondary data suggest that this can be attributed to several external and internal factors.

First, the macro environments in Switzerland and China underwent unfavorable changes that hurt the business considerably. In January 2015, the Swiss franc soared by up to 17% in chaotic trade after the Swiss National Bank (SNB) abandoned the cap on the currency's value against the euro (ECB, 2021). This appreciation severely undermined the international competitiveness of Swiss products. Meanwhile, the Chinese government tightened its foreign exchange control and outward FDI (SAFE, 2016), limiting the money transfer between CN-Y and SW-X. Second, when SW-X

was acquired by CN-Y, it had already entered a bankruptcy protection procedure. The bankruptcy destroyed SW-X's credibility with Swiss banks until it could not obtain bank loans to support its daily business. Therefore, after the acquisition, SW-X's working capital was completely dependent on CN-Y's financial infusion. CN-Y also had to pay the social security of all its Swiss employees. As the president assistant of SW-X mentioned (2017):

“CN-Y'll have to shoulder many responsibilities of it after the acquisition, including the payment of defaulted social security, vocation subsidies, benefits and compensations for its employees.”

“CN-Y pumped immediately money to SW-X, as soon as the deal closed. Also in the past 4 years, CN-Y keeps pumping financial fund “

The CEO of SW-X (2014) stated:

“Thanks to the Chinese, SW-X is now a new company that is not listed on the stock exchange but is debt-free. We hope, Chinese will further invest in SW-X and help us to gain more Chinese clients. ... We also need funding from CN-Y for integrating further production steps in the future.”

While SW-X's poor reputation prevented it from obtaining money from Swiss banks. CN-Y could not obtain funding in Switzerland or Europe either as a relatively young company with no European businesses and little standing with local banks. Chinese bank loans backed by CN-Y ultimately became SW-X's only funding option. In 2016, CN-Y was a guarantor for SW-X to borrow millions of Swiss francs from Chinese development banks. According to the Chinese CEO of SW-X (2018):

“Ok, the acquisition price of SW-X may be cheap. The price does not matter, CN-Y needs to continuously put money into SW-X, actually feeding money in it every day. For me, this acquisition is nonsense.”

Despite this financial support, in 2017, the Swiss labor union found SW-X to have increasing debt and unpaid social security contributions for employees accumulating to over a million of Swiss francs.

The company's lack of capital and failure to negotiate a loan with a Chinese bank meant a plan to acquire a German company to transform production and reduce costs was aborted. This aroused strong dissatisfaction among employees, who blamed the company, highlighting that it dreamed of expansion while refusing to fund their social security. Section 4.2 further discusses the poor management and lack of communication this situation demonstrated.

Phase 3: Marriage crisis ends in divorce

After exhausting CN-Y's financing capacity, SW-X's financial situation and operating conditions deteriorated until it could not repay interest, secure new loans, or support its operations. In 2018, auditors reported that SW-X had excessive debt, forged documents, fraud, and illegal operations in the previous loan of Swiss francs, triggering legal sanctions against the top management of CN-Y. Early in the crisis, CN-Y planned to sell SW-X to companies within the same industry, and a potential investor (CN-Z) finished due diligence but decided not to proceed. In 2019, the previous bank loan was due and SW-X's payment ability was exhausted, forcing it into liquidation despite still having customer orders. After the liquidation, CN-Y returned to its main product lines, focusing on domestic production and export.

According to the head of overseas investment of CN-Z, SW-X offered an excellent brand and customized product development capabilities and could function as CN-Z's global R&D center. However, SW-X also possessed remarkable disadvantages. First, because of Switzerland's high labor and overall costs, transforming SW-X into an R&D center would have required a heavy layoff of redundant staff (non-R&D employees), potentially creating negative government and labor union responses. Second, SW-X lacked a refined cost management and effective KPI system. Third, the price-value relation of SW-X's products did not fit the Chinese market. The following section describes the critical antecedents of this divestment and their impacting mechanisms.

Critical antecedents and impacting mechanisms

Drawing on the reversed OLI model and other supplementary theoretical perspectives, we analyze crucial antecedents from both the subsidiary and parent firm, integrating them into three constructs based on their ownership/firm-specific and location (dis)advantages. We also consider the interactions between these (dis)advantages and their joint effect as the HQ-subsidiary relationship evolves from acquisition to divestment. The coding/data analysis of the antecedents is summarized in Figure 2.

Insert Figure 2 here

Based on the coding and analysis of critical antecedent interactions, we identified six general mechanisms that led to the divestment (Figure 3). First, while strategic motivations/ambitions existed for establishing this foreign subsidiary, misjudgments also occurred and the parent firm lacked a solid foundation or action plan. These issues planted the seeds of failure, leading to divestment. Second, in reality, the subsidiary's ownership/firm-specific disadvantages (S-OD) outweighed or equaled its ownership/firm-specific advantages (S-OA). Third, the parent firm lacked strong ownership/firm-specific advantages (P-OA), and some of the competitive advantages bundled with its location advantages were not transferable or stable. Meanwhile, CN-Y's ownership/firm-specific disadvantages (P-OD) prevented it from identifying and creating perceived internalization advantages. Fourth, a mismatch existed between the subsidiary's ownership (dis)advantages (S-OD&A) and the parent firm's ownership (dis)advantages (P-OD&A); they could not leverage their advantages to strengthen each other or compensate for each other's disadvantages. Fifth, a mismatch existed between CN-Y's ownership advantages and SW-X's location advantages (subsidiary's location advantages, S-LA; parent firm's location advantages, P-LA), meaning the ownership advantages were barely exploited in their respective countries. Sixth, the location disadvantages of both the subsidiary (S-LD) and parent firm (P-LD) created barriers

to reaping and/or creating perceived internalization advantages. Below, we discuss these individually.

Insert Figure 3 here

Strategic motivations/ambitions without concrete foundation

Figure 3 illustrates several strategic motivations/ambitions for acquiring SW-X, including recovering SW-X's dead products, upgrading CN-Y's products, developing new products via knowledge sharing and technology transfer, cross-selling products, and enhancing CN-Y's profit margin through SW-X's world-famous brand and positive "Swiss Made" image. These seemingly promising potential synergies were challenging tasks that required deep understanding, careful planning, extensive coordination, and knowledge sharing as well as an overall strong internalization capability of CN-Y. However, the embedded challenges and synergy traps were ignored or undervalued, perhaps due to unprofessional due diligence, competition pressure in the negotiation, and a general lack of international acquisition experience/capability.

The CEO of the holding company of SW-X commented (2018),

"The acquisition of SW-X was not very brilliant... The company is just like the persimmon rotten to the core ... It has been going down continuously, after being stitched for 20 years... it is a total mess...Before the acquisition, CN-Y should clear out for what reason they buy SW-X? What would be the business plan and function of SW-X? There is no guarantee that the investor can operate an acquired firm well. If European managers could not run it well, how could you expect the Chinese to run it well...Nobody from CN-Y has truly thought about it and no one made the strategy analysis...the acquisition price may be cheap. The price does not matter. CN-Y needs to continuously put money into SW-X, actually feeding money in it every day."

Two other interviewees offered similar comments:

“Neither CN-Y nor SW-X has clear product positioning for SW-X.” (Head of overseas investment of CN-Z, 2020)

“SW-X has a lot of treasures on the product list, neither side knows how to use them together” (President assistant of SW-X, 2015)

These issues could also have been caused by pressure from other competitors in the bidding process, which ultimately led CN-Y to offer the best overall conditions for SW-X, purchasing the entire firm and assuming all its liabilities. Regardless, we propose that without clear strategic motives and a solid analysis or plan, eventual divestment is likely. Below, we analyze SW-X in detail.

Problematic subsidiary

SW-X had several significant advantages (Figure 2, including advanced products, leading technology, talent, strong innovation capability, a globally recognized and century-old brand, and an extensive sales network. However, it also had remarkable disadvantages, including redundant employees, a problematic legacy, and a reputation for indebteding and bad management, reflected in strategic mistakes, two strikes, and inefficient cost management and KPI systems. Due to these disadvantages, another company (CN-Z) decided not to acquire SW-X from CN-Y. The head of overseas investment of CN-Z stated that:

“They (SW-Y) did not have refined cost management, especially no good material management ...They did not carefully analyze cost-saving factors in each link of the production line...no effective KPI system, which cannot stimulate staff to work hard. Their system has raised a large number of redundant employees and lazy people.” (Head of overseas investment, CN-Z, 2020).

Similar comments were made by three other interviewees:

“I’d attribute the troubles SW-X had in the past two or three decades to its problematic management. The problem was in the people.” (President assistant of SW-X, 2014)

“The decision-maker of SW-X who was just not the correct person for production management.”
(General director of production, SW-X, 2014)

“In the past 25 years, the firm only tried to forgive low-margin products and focused on high margin niche products. However, in this way, it lost the mass market. Ignoring the scale, then its client base has been narrower and narrower. And finally, SW-X was struggling to survive.” (CEO, Holding company of SW-X, 2017)

SW-X also had a history of expensive strategic mistakes, including a large plant left unused due to changed plans and a large machine that was expensive to use with small orders. Although SW-X wanted to enhance its economy of scale, its product strategy, i.e., niche, high-precision products, meant that it received only small orders.

SW-X’s reliance on CN-Y to inject capital, offer funding, or cover social security, benefits, and compensation for its employees created a financing burden for CN-Y, becoming another synergy trap.

However, CN-Y did not fully recognize some of these disadvantages and hidden problems at first.

4.2.3 Parent firm with weak internalization capability

As the previous discussion illustrates, the parent firm’s weak internalization capability was reflected in the first step of the acquisition. To create internalization advantages, parent firms must first identify them, yet CN-Y had no experience with cross-border acquisition, organizing with, or even collaborating with modern foreign companies. For instance, CN-Y’s ambition to revive dead products using the market in China required intensive and extensive knowledge sharing, coordination, and collaboration, and CN-Y failed to develop the win-win solution plan and motivation mechanisms that SW-X requested. In particular, CN-Y paid little attention to the cultural differences and lack of trust from both parties. As the president assistant of SW-X claimed in 2019,

“There are a lot of cultural problems. Despite it, CN-Y did not organize cross-cultural training... Swiss employees were unhappy about the idea to teach the Chinese employees”

The CEO of the holding company of SW-X remarked (2018):

“There is no mechanism for mutual learning and communication (such as staff exchange and cross-cultural learning). Every year, the Chairman organized several delegations from China to Switzerland, but most of them just for sightseeing in Europe. Although the post-integration has crossed six years, the two parties still do not trust and understand each other. CN-Y's leadership has no international vision and experience, and has not won the real respect of the local Swiss employees.”

Two other interviewees made similar comments. Ultimately, the lack of trust and commitment, misunderstandings, conflict, and limited knowledge and information sharing made the revival of dead products unachievable.

Furthermore, some of CN-Y's major ownership advantages were bundled with its location advantages, including efficient mass production achieved through the low cost of labor and raw material at its location, supplemented by support from the provincial government. It lacked independent firm-specific advantages, advanced technology, a related knowledge base, expertise, and R&D capability. Without these advantages, knowledge and capacity to absorb information tend to be low (Cohen & Levinthal, 1990), meaning firms are less able to recognize the value of new external information, assimilate it, and apply it to commercial ends.

Mismatch of S-OD&A and P-OD&A

The mismatches between the subsidiary and the parent firm ownership (dis)advantages are reflected in their product un-relatedness, different production processes and mentalities, redundant resources, and major gap in technological development. Hence, they were unable to leverage each other's advantages or compensate for each other's disadvantages.

Broadly speaking, they belonged to the same industry: non-ferrous metal processing. However, one conducted rough processing and the other fine processing. They produced different products and attracted different customers. CN-Y served the cable-petroleum pipeline, electric power, railway, shipbuilding, etc., industries through mass production, while SW-X served the electronics, watches, precise instruments, aerospace, military, and automotive industries through customized small-scale production.

These differences made knowledge sharing, product upgrading, and development very difficult. Specifically, transferring production to China to leverage CN-Y's production efficiency, scale economies, and location advantages (e.g., low cost, large market) became challenging. Because the companies served different customers, drawing on the sales network to cross-sell each other's products was also impractical. Different production mentalities, employee professionalism levels, and technology levels added additional difficulties to knowledge sharing, production transfer, and product development. Essentially, CN-Y lacked sufficient knowledge, experience, and qualified people and facilities to integrate SW-X's business, products, and people.

As the president assistant of SW-X stated in 2017:

"SW-X surpasses CN-Y in many ways, including product design, product precision, yield rate, and product management...The gap between the two parties is too big and it is difficult to find synergy...Many products, what SW-X can do but CN-Y cannot...Even for some products, only SW-X can do that worldwide."

The CEO of the holding company of SW-X (2018) stated:

"Technology transfer is no use. Even if CN-Y brought Swiss technology to China. People there cannot cope with it...There are a lot of techniques included. It's just like cooking. Even if the ingredients are the same, but orders and time to season are changed, the dish will also taste different...Details are the key to success. ... It's actually not about the equipment. It's about the

mentality. It is not the Chinese workers' style to be very serious and meticulous... In Switzerland, the scrap rate is high. However, in China, people often regard scrap as a waste."

These different mentalities are reflected not only in different ways of doing business but also within organizational culture, including different understandings of some concepts, management styles, and socializing norms, as the interviewee statements highlight (President assistant of SW-X, 2014):

"Deadline is understood differently by both sides, e.g., deadline at 10am 24th Jan. for SW-X means one should finish and hand up the results before this exact time, but for Chinese it means one or two days behind this day is also tolerant."

"Another example is about the understanding of the 'important issue'. Our Chinese Chairman used to say: 'Hi, this issue is very important. You can come over to me any time. We will then discuss it.' Such an expression would usually not be taken seriously by Swiss managers and employees since in their mind if it is not scheduled for a specific discussion then it is not important."

SW-X's management style was more equality-oriented with more authorization and support, while CN-Y was more hierarchy-oriented with greater control and monitoring. This difference caused complaints within SW-X, as the CEO of the holding company of SW-X reported (2017):

"One Swiss manager complained to me: 'We work on contract basis. If we agree on a goal and I fail to reach the goal, Chinese boss can fire me.' However, I don't like them to supervise me like 'big brother,' watching every movement of mine."

Two issues were discussed several times: cross-cultural training and the plan to revive SW-X's dead products. No one denied the strategic importance of the issues, but due to different mentalities and cultural backgrounds, the discussions resulted in ambitious blueprints without concrete action plans. The relationship between SW-X and CN-Y suffered, further eroding trust and commitment from both sides.

4.2.5 Mismatch of O-L on both sides

A mismatch also existed between the ownership (dis)advantages and location advantages of both parties. Due to the underdeveloped industry and technology in China, Chinese customers' price sensitivity, and SW-X's product specialization, SW-X's ultra-precision, premium quality, and expensive products found a limited market in China. Therefore, neither the ownership nor the location advantages of CN-Y (production efficiency, sales network, low cost of labor and raw materials, large market, etc.) could be leveraged. CN-Y's products were also ill-suited to the European market due to their relative lower quality, lack of branding, and higher prices. The negative image of the country of origin added additional difficulties. Moreover, as the CEO of SW-X's holding company added (2018):

“CN-Y lacks international operating experience and cannot customize the products according to the needs of retail sellers ... In China, CN-Y belongs to a successful firm but not a leader in the industry in China.”

Attempts to cross-sell each other's products and transfer production to China to reduce costs were ultimately unsuccessful

4.2.6 Challenges caused by S-LD and P-LD

While product mismatches prevented both companies from using their location advantages, location disadvantages introduced challenges. For instance, China's tightening control on foreign exchange and investment made it difficult for CN-Y to provide capital support to SW-X. As discussed previously, SW-X badly needed capital; it had entered bankruptcy with a high debt ratio, cash flow problems, and a negative reputation in the Swiss financing system. The lack of capital meant the company discarded its plan to transfer SW-X's production to Germany. High production costs in Switzerland, together with the appreciation of the Swiss franc, made matters worse for SW-X. Another critical factor involved national cultural differences and the language gap, which

combined with organizational cultural differences made coordination and collaboration difficult.

Two interviewees highlighted these challenges:

“The Chinese culture and the European culture can hardly communicate with each other. (CEO, Holding company of SW-X, 2018)

“Swiss people will never understand Chinese corporate culture. You can be sure about this. Because Swiss lack the Confucian education, the one to be received at a young age and the one to be made a part of one’s life.” (President assistant of SW-X, 2019)

Overall, these circumstances and negative impacts rendered the perceived internalization advantages unachievable, leading to the final divestment with liquidation.

DISCUSSIONS AND IMPLICATIONS

Theoretical implications and discussion

This study was motivated by a lack of understanding about how strategic assets once eagerly pursued by emerging market firms are ultimately divested, a lack of research on the dynamic process, underdeveloped theories of foreign divestment, and inclusive and contradictory findings on the impact of certain antecedents of foreign divestment (Arte & Larimo, 2019; Schmid & Morschett, 2020; Steenhuis & Bruijn, 2009). Rather than providing conclusive answers to all of these issues, this study aimed to generate insights and develop a preliminary conceptual framework based on a longitudinal case study of a divestment that evolved from a cross-border acquisition. The study offers three contributions to both foreign divestment and cross-border acquisition research. The first and primary contribution is a relatively comprehensive conceptual framework (presented in Figure 3) based on the reversed OLI perspective to explain the antecedents and mechanisms of foreign divestment. Second, we provide insights into antecedents that lack conclusive findings, such as cultural differences, international experience, and institutional variables (Schmid & Morschett, 2020; Steenhuis & Bruijn, 2009), while confirming antecedents

that determine foreign divestment, such as product un-relatedness and the performance of the foreign subsidiary. Third, drawing on an in-depth longitudinal dataset, we reveal the evolutionary process from the establishment of a parent-subsidiary relationship to the divestment, examining the complex interactions among antecedents. That said, our failure case of divestment with liquidation should be distinguished from sales divestment cases that may have been driven by strategic considerations (Hennart et al., 1998).

It has been widely confirmed that a subsidiary's poor performance is the strongest predictor of divestment (Berry, 2013; Schmid & Morschett, 2020; Wu et al., 2021). However, for involuntary divestment cases with liquidation, the subsidiary's poor performance may be viewed not as an antecedent but as a result, since it is associated with and indeed part of the divestment. In such cases, the factors leading to poor performance will also lead to divestment. We thus urge future research to distinguish divestment driven by failure (involuntary/reactive divestment) from divestment driven by strategic considerations (voluntary/proactive divestment), as the antecedents and their impacting mechanisms could vary significantly.

Our framework reveals chains of causal relationships among country-, industry -, firm-, and individual-level factors from both the parent firm and subsidiary that lead first to unachieved internalization advantages, then to poor performance, and ultimately to involuntary divestment. The chain begins at the original strategic motivations for acquiring the subsidiary. As our case demonstrates, without clear and practical motives, a careful analysis of their achievability and challenges, and strategic plans for achieving them via the acquisition, a future divestment could already be predictable at this stage.

Therefore, to understand the reasons for foreign divestment, we must backtrack to the strategic motivations behind the initial investment, which current research has overlooked (Schmid & Morschett, 2020).

Drawing on the reversed OLI perspective and supplementary theoretical perspectives, we find that the parent firm's and subsidiary's ownership/firm-specific and location (dis)advantages jointly triggered the divestment through five related mechanisms, as summarized in our conceptual framework (Figure 3).

The first two mechanisms are on the firm level. A mismatch existed between ownership/firm-specific (dis)advantages of both parties, and disadvantages dominated on both sides. While the subsidiary had several strategic assets, it also exhibited multiple hidden problems, such as its lack of Swiss financing capability and legacy issues. Addressing these problems while integrating and leveraging the subsidiary's advantages required the parent firm to invest time, energy, and capital. The misfit between the two organizations, reflected in their major technological, product, and cultural differences, created additional complexity and challenges. The parent firm's strategic motives included reviving dead products in China, transferring some of the subsidiary's production to China, and upgrading the parent firm's products and technology, which required extensive and intensive knowledge sharing. However, the KBV and OLP suggest that product un-relatedness makes knowledge sharing, knowledge absorption, and mutual learning difficult due to unfamiliarity, especially when knowledge about products and their production is complex, tacit, path-dependent, and embedded in the organization (Cohen & Levinthal, 1990; Kogut & Zander, 1992; Tan & Sousa, 2018).

Both practitioners and scholars should also consider the precise definition of "relatedness." Quantitative studies often define product/business relatedness using SIC codes with 2-4 digits (Berry, 2013; Tan & Sousa, 2018). However, although the parent firm and the subsidiary in our case belonged to the same four-digit industry, they manufactured different products using different production processes and technologies. The parent firm's management, initially believing the

subsidiary belonged to the same industry, expected synergies and opportunities to revive dead products. In the end, as the analysis shows, these outcomes did not occur.

The technology gap, language barriers, cultural differences, and lack of trust made knowledge transfer and mutual learning difficult. Confronted with complicated multi-tasks and many challenges, the parent firm lacked the necessary firm-specific advantages, e.g., experience and capability in acquiring, managing, and coordinating a foreign and modern subsidiary. Their primary ownership advantages were bundled with location advantages that were not unique, stable, or transferable. Schmid and Morschett (2020) found “the strongest effects and most variables with conclusive results are found on the subsidiary level,” while host country or parent firm characteristics affect a subsidiary’s fate less significantly. It is difficult to determine whether subsidiary or parent firm factors influenced the divestment more in our case. Rather, the interactions and factors between them jointly determined the fate of the subsidiary.

These interactions occurred not only on the firm level but also across country, industry, and individual levels, as is reflected by the dominating role of both firms’ location disadvantages, the mismatch between the parent firm’s ownership advantages and the subsidiary’s location advantages, and the mismatch between both firms’ location advantages. For instance, the Swiss location disadvantages (e.g., high production costs) together with the subsidiary’s poor cost management made its products more expensive and less competitive in China despite their superior quality. The Chinese location disadvantages, including the underdeveloped industry and technology and price-sensitive customers, further limited the market for its products. Because of this mismatch, the parent firm’s advantages, such as its expanded sales network in China and production efficiency, could not be leveraged. Regulatory (e.g., tightening foreign exchange and foreign divestment control in China), cognitive (e.g., different cognitions related to production), and cultural (e.g., different views of hierarchy and equality) institutional variables added challenges.

While Schmid and Morschett's (2020) meta-analysis does not conclusively show the effect of institutional variables on subsidiary divestment, this study provides strong evidence supporting this effect. Without a favorable institutional system, the subsidiary's ownership advantages lack the required conditions to be realized.

Overall, this case study demonstrates that the REP has significant explanatory power for foreign investment and that additional theoretical perspectives (e.g., RBV, KBV, OLP, and IBV) should be considered to concretize the O-, L-, I- advantages. While O-, L- and I- advantages exist, disadvantages should also be considered to create more comprehensive analyses of foreign divestment. Moreover, this study suggests that it is the interaction among O-, L-, I- (dis)advantages, rather than their individual effects, which determine a subsidiary's fate. However, whether this is a special or a common case requires further research. We encourage further quantitative research to incorporate more interaction relationships into the model, as this could help explain the inconclusive and contradictory findings for particular antecedents.

Managerial implications

We consider this divestment an expensive business failure case, from which we hope managers can draw lessons for FDI and the management of their foreign affiliations.

First, we believe that while some low-hanging fruits (i.e., poorly performing targets with perceived cheap price) are easy to take, they may not taste good because they are rotten at the core. Therefore, careful due diligence and thoughtful analysis are needed to determine why a subsidiary is needed, whether it is really worth the money, how to achieve strategic motives post-acquisition, whether the capabilities exist to do so, and how much additional investment is required – the more concrete, detailed, and practical the answers, the better, especially for poorly performing targets.

We expect the conceptual framework developed in this study to assist managers in this process. Managers should also realize that it might take additional time to recover poorly performing foreign subsidiaries and reap the benefits, which must be considered in decision-making.

Second, managers should consider the nuances of “relatedness.” Belonging to the same industry does not necessarily mean that organizations are related, that they will achieve synergy, or that their products, technology, and production can be easily understood and communicated. An advanced understanding and comparison analysis of both organizations’ product lines and customers is necessary, especially if the synergy is product-related, e.g., cross-selling, integrating production, and co-developing products. Our study also suggests that synergy from business relatedness can only occur when the parent company has absorptive and leverage capabilities and a favorable, supportive ecosystem exists; these factors should also be assessed.

Third, cultural differences can exert significant negative influences, causing mistrust, misunderstanding, and conflict, when synergy realization requires extensive knowledge transfer and collaboration between a foreign subsidiary and the parent firm. The managers should thus incorporate pre-acquisition cultural due diligence and post-acquisition strategies to achieve social and cultural integration, enabling knowledge transfer and collaboration.

Fourth, since the parent firm initiates both acquisition and divestment activities, the parent firm, especially if from an emerging market, must develop more solid and independent firm-specific advantages (rather than relying on those bundled with location advantages) that allow it to successfully integrate and utilize international resources.

Fifth, firms from advanced markets should avoid focusing solely on gross profit margins and mainly targeting high-end customers while overlooking the advantages of scale economies and profit opportunities from middle- and low-end markets. This was the strategic mistake made by the foreign subsidiary in our case, and one reason behind its underperformance.

Lastly, multiple factors on different levels, both internal and external, can lead to a failed investment, as discussed in the study and shown in our framework. If managers consider these issues before and during the investment process, then failure-driven divestment can be largely reduced.

LIMITATIONS AND FUTURE RESEARCH

This study has several limitations that could inform future research.

First, a single longitudinal case study limits the generalization of the findings, although the in-depth and difficult-to-obtain dataset yielded many insights. Particularly, as this is a failure case showing an interaction between firms from emerging and developed markets, the findings should be interpreted within such a scope. However, this phenomenon is under-researched, as a recent literature review (Arte & Larimo, 2019) and meta-analysis (Schmid & Morschett, 2020) also note, and thus requires further research. Similar cases could be studied to determine the convergence between antecedents and their impacting mechanisms on foreign divestments, using the proposed framework as a reference. Meanwhile, more longitudinal case studies are encouraged to capture the dynamics and multi-level, multi-dimensional nature of this phenomenon. Comparative case studies could also examine the divestment of foreign subsidiaries in emerging markets by firms from developed markets with the divestment of foreign subsidiaries in developed markets by firms from emerging markets. Alternatively, comparative studies of FDI cases ending in no divestment, divestment with sales, or divestment with liquidation would also be valuable.

Second, while our framework reveals many interactions, it cannot quantify them and test their impacting strengths. Although it is challenging quantitative studies to incorporate many complex interactions, we urge future quantitative research to consider these relationships as much as possible in their empirical models. Overlooking important interactions could lead to spurious

relationships; this could help explain the inconclusive and/or contradictory results for some antecedents.

Third, although we qualitatively discuss specific antecedents without quantifying them, we hope that our findings can provide insights to support more nuanced measurements. For instance, this study highlights the influence of international experience and product relatedness, but what types of international experience are more important, and how should product relatedness be measured? General international experience, host country-specific experience, and international experience entail different entry modes or collaboration types (equity-based or non-equity-based) and may affect foreign divestments differently. For instance, if the parent firm in our case had previously conducted international acquisition or collaborated with foreign companies, (e.g., working as an OEM or ODM partner), it may have understood its foreign subsidiary more deeply and been more aware of and prepared for cultural differences. We recommend that future quantitative studies focus on similar nuances in their measurements.

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APPENDIX 1 LIST OF FIGURES

Table 1. Details of the interviewees

	President assistant of CN-Y (A1)	CEO, SW-X (A2)	CEO, SW Holding (A3)	Official from Swiss regional economic development authority (A4)	Credit manager of China Development Bank (A5)	Head of overseas investment CN- Z (A6)
2012	90 min.			45 min.		
2013	60 min.	60 min.		60 min.		
2014	70 min.	45 min.				
2015	90 min.	40 min.	210 min.	45 min.		
2017					30 min.	
2018	180 min.	60 min.	120 min.	45 min.	45 min.	60 min.
2019	120 min.			60 min.		
2020	50 min.			30 min.		45 min.

APPENDIX 2 LIST OF FIGURES

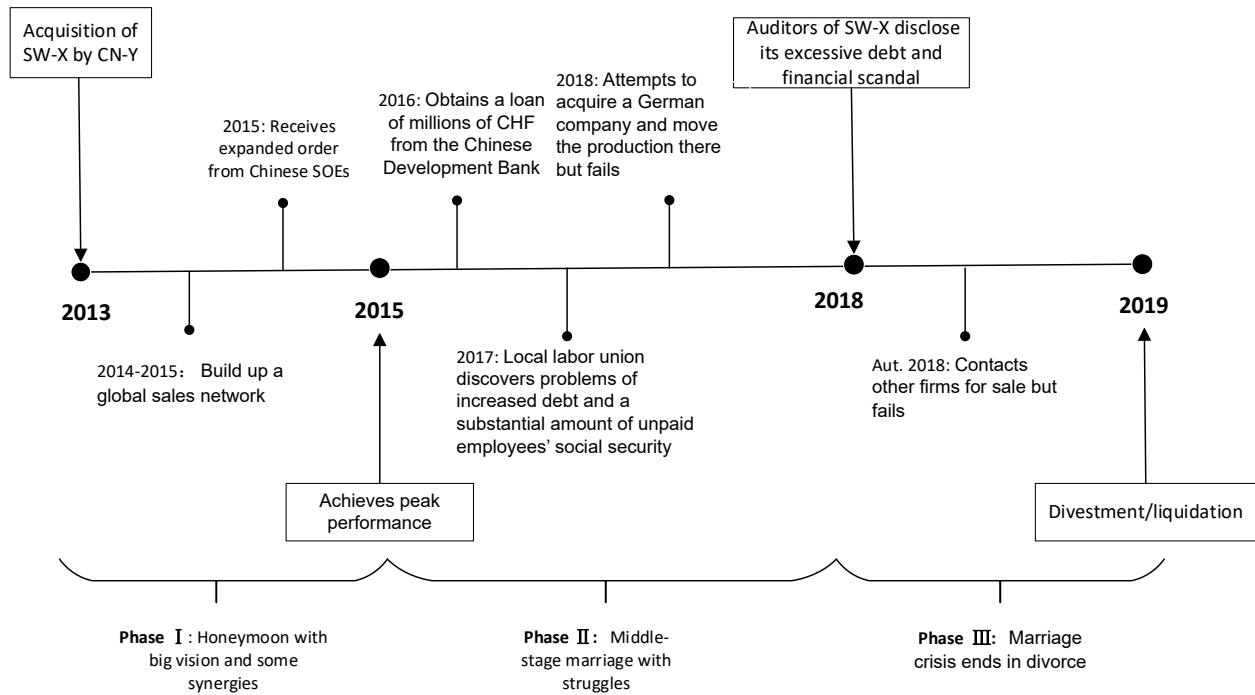
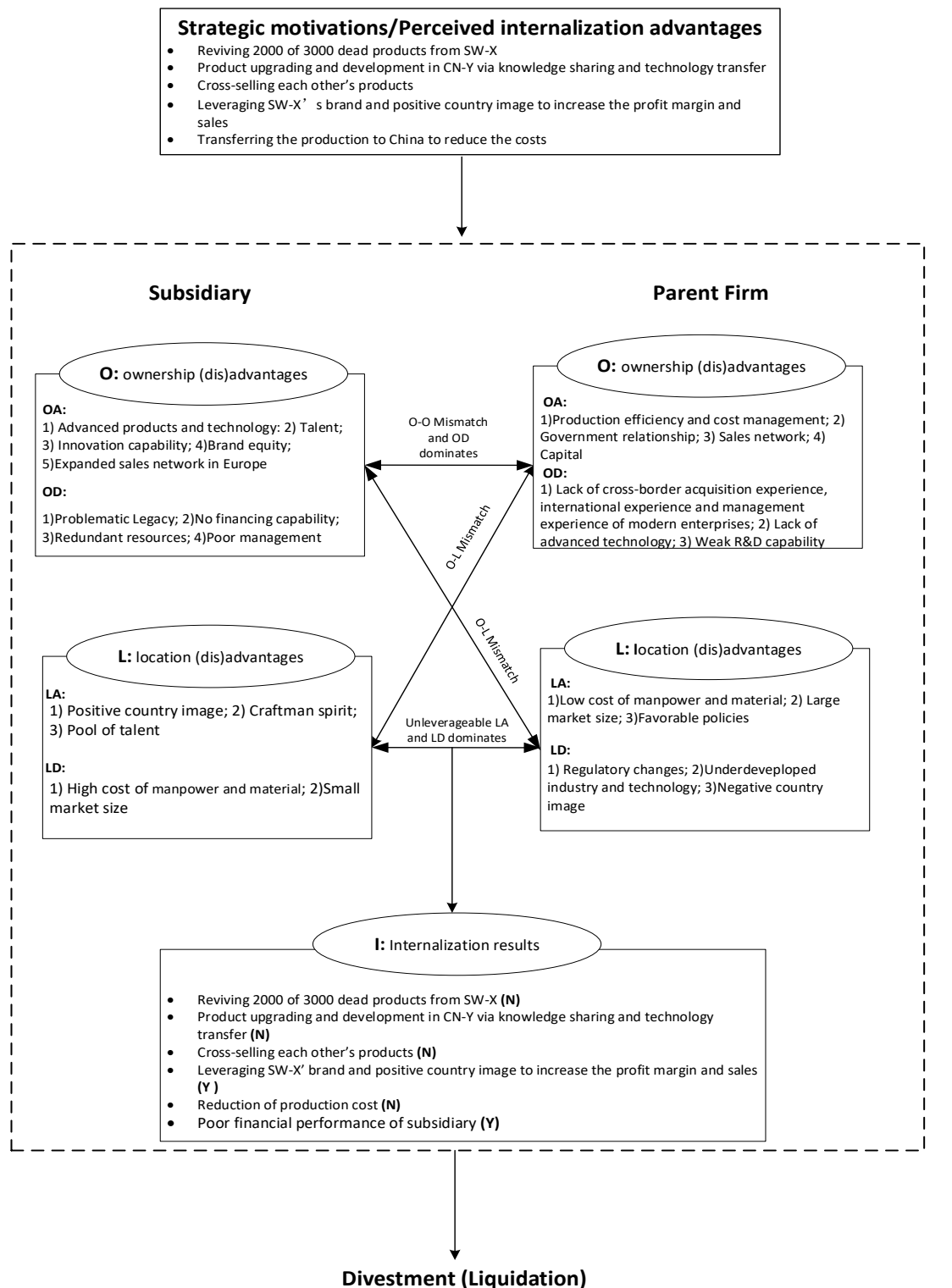


Figure 1. Evolutionary process of foreign divestment from the acquisition (created by the authors)

First-order codes	Second-order constructs	Theoretical dimensions
Unused plants and huge equipment; unfunded commitment to the pension plan and social security; long lasting cash-flow problems	Problematic legacy	Subsidiary-ownership disadvantages (S-OD)
Over-indebted and bad reputation in the Swiss financing system	No financing capability	
Redundant employees; unrelated but inseparable business	Redundant resources	
SW-X focuses on a high profit margin while ignoring cost management; focuses only on niche (high end) products; overlooks scale economies and loses mass market; ineffective KPI system; high fixed cost combined with small scale; has experienced two strikes during the past 15 years	Poor management	
Staff know-how and creativity are the real value of SW-X; its technology is the global number one	Advanced technology and know-how	Subsidiary-ownership advantages (S-OA)
High precision and excellent product; defects are in the management	Advanced products	
Its core competence is its product design and development; a complete system of product innovation and production management	Product innovation capability	
Excellent engineers, skilled workers and product designers	Talents	
A world-famous century-old brand; number one among its peers; the brand can add 20% to 30% to the selling price	World-famous century-old brand	
SW-X has a wide coverage; many customer resources in Europe; an exclusive supplier of many important products (e.g., aircraft industry, space technology, precise instruments)	Expanded sales network in Europe	Subsidiary-location advantages (S-LA)
High added value of "Swiss Made"; powerful country label	Positive country image	
"Swiss Made" is a very strong label, indicating a commitment to quality and a craftsman spirit; Swiss tradition of precision engineering, with many available skilled workers and senior engineers	Craftsman spirit and pool of talent	
High cost of labor, raw material, electricity and water in Switzerland; rapid appreciation of the Swiss franc at the end of 2015	High production cost	Subsidiary-location disadvantages (S-LD)
Small market size	Small market size	
Mass production; good technology for producing standard elements	Production and cost management efficiency	Parent-ownership advantages (P-OA)
Strong support from the provincial government; large scale backed by governmental orders	Government relationship	
CN-Y originally thought it could use its sales channels in China to sell SW-X products in batches	Sales networks	
Continuously pumping money into SW-X since the first day after acquisition	Capital	
SW-X is the first foreign company that CN-Y took over; no clear strategic plan for SW-X; bad work in due diligence; M&A team comprises only 3-4 internal people and no professional M&A experts engaged; no mechanisms for mutual learning and communication system; manager allocated to the foreign subsidiary has little knowledge about production	Lack of cross-border acquisition experience	Parent-ownership disadvantages (P-OD)
No standardized management process; no modern enterprise management mindset	Lack of management experience of modern enterprises	
No international operation, only export; no cooperation experience with foreign companies; no knowledge about European markets	Lack of international experience	
Eager to acquire the technology of the fine processing of non-ferrous metals	Lack of advanced technology	
Weak technology development capability; not able to customize the product according to the needs of retail sellers in the European market; success mainly based on the scale of standard products, low cost in that province and government support	Low R&D capability	
Low cost, especially in the province where CN-Y is located	Low cost of labor and production facilities	Parent-location advantages (P-LA)
Large market size	Large market size	
Government's promotion of the development of customer industries (Made in China 2025)	Favorable policies of developing relevant industries	Parent-location disadvantages (P-LD)
Tightening of foreign exchange control and outward FDI since the end of 2016	Regulatory changes	
Small precise instrument manufacturing industry in China; domination of the medium and low-end market; domestic industrial level lags behind that of Switzerland	Under-developed industry and technology	
Negative perception of "Made in China"	Negative country image	Mismatch of ownership (dis)advantages between subsidiary and parent firm
2/3 people should be laid off but cannot; inseparable unrelated business line	Redundant resources	
SW-X is the world leader in this technology, while CN-Y is not even a technology leader in the Chinese market	Big technology gap	
Big difference in product design, level of product precision, margin and production process; different groups of customers	Product un-relatedness	
Different working styles, management styles, decision-making process and perception of hierarchy	Organizational cultural difference	
Lack of trust and communication from both sides	Weak parent-subsidiary relationship	Mismatch of one's ownership advantages with the other's location advantages
Only a small market for the high-end products of SW-X while Chinese clients prefer products that offer value for their price; a big gap between Chinese and Swiss manufacturing technologies; some products from CN-Y are hardly acceptable by Swiss and EU markets	Product-market mismatch	
Language gap; different mentality (hierarchy vs equality; Confucian education vs Christian education)	National cultural differences	

Figure 2. Data analysis of critical antecedents



Note: OA: Ownership advantages; OD: Ownership disadvantages; LA: Location advantages; LD: Location disadvantages; N: not realized; Y: Yes, realized

Figure 3 Antecedents of foreign divestment and their impacting mechanisms