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The Effect of Foreign Divestment on Subsequent Firm Performance: The Moderating Role of Spatial and Temporal Dispersion of Prior Divestment Experience

Georgios Batsakis [1,2] Alexander Mohr,[3] Palitha Konara[4] and Christos Koritos[1]

[1]Alba Graduate Business School, The American College of Greece, Xenias 6-8, Athens, 11 528, Greece, [2]Brunel Business School, Brunel University London, Eastern Gateway, Kingston Ln, Uxbridge, UB8 3PN, United Kingdom, [3]Vienna University of Economics and Business, Welthandelsplatz 1, Building D1, Vienna, 1020, Austria, and [4]Essex Business School, University of Essex, Southend on Sea, SS1 1LW, United Kingdom
Corresponding author email: gbatsakis@alba.acg.edu; georgios.batsakis@brunel.ac.uk

Previous research has stressed the importance of the relationship between foreign divestment and subsequent firm performance. Yet, controversy remains, as some authors suggest that foreign divestment has a positive effect on firm performance, and others propose that foreign divestment has negative performance effects. To help reconcile this controversy, we first explicate existing arguments and argue that in the context of retail (de-)internationalisation, foreign divestment will have a predominantly negative effect on retailers' financial performance. We then draw on organisational learning theory to argue that this negative performance effect of foreign divestment is contingent on (a) the spatial dispersion of previously divested foreign operations (i.e. the extent of geographical diversity of the foreign divestments the multinational enterprise [MNE] has conducted over a specified period of time), and (b) the temporal dispersion of previously divested foreign operations (i.e. the time between prior divestment episodes). Drawing on a panel of some of the largest retail MNEs over the 20-year period 1997–2016, we find that foreign divestment has a negative effect on retailers' subsequent performance. Our results also indicate that the negative performance effect of foreign divestment is effectively mitigated by retailers' prior divestment experience in spatially diverse and temporally dispersed settings.

Introduction

Prior research in the strategy and international business (IB) literature has investigated the performance effects of foreign divestment, that is, any partial or full, forced or voluntary withdrawal from foreign markets (Kafouros *et al.*, 2021).[1] Yet, the findings on the nature of this effect remain inconclusive (Lee and Madhavan, 2010), and we continue to know very little about the factors that

[1]Foreign divestment has received many definitions, such as a firm's exit from a foreign market, the survival of a foreign affiliate unit, the termination of a foreign operation, among others. While most of these definitions relate to equity based modes of foreign operations, de-internationalisation may also be associated to non-equity based modes, such as a firm's backshoring, reshoring, de-exporting and de-franchising (Tang *et al.*, 2021). While we adopt a wider definition of foreign divestment that encompasses both equity and non-equity-based divestments, the empirical setting of this study has a focus on foreign retail stores. Accordingly, for the purpose of this study, foreign divestment is measured as the liquidation or sale of a foreign subsidiary (i.e. retail store) by the parent firm (Schmid and Morschett, 2020).

A free video abstract to accompany this article can be found online at: https://youtu.be/3aRL0bU7VH4

determine the performance effects of foreign divestment. In this paper, we study the effect that foreign divestment in the retail sector, that is, the closure of overseas retail outlets, has on retailers' financial performance. We suggest that in this particular context, foreign divestment will have a negative effect on firm performance and that this effect will be moderated by a firm's learning from prior foreign divestments because the specific knowledge gained through prior foreign divestments weakens the negative performance effects of foreign divestment.

Although the drivers and outcomes of foreign divestment have been researched extensively in the IB and strategy literatures (for recent reviews, see Arte and Larimo, 2019; Kafouros *et al.*, 2021, Schmid and Morschett, 2020; Tang *et al.*, 2021), to date, most scholars have studied the drivers of foreign divestment (e.g. Benito, 2005; Kolev, 2016; Nachum and Song, 2011). In contrast, the importance of the performance outcomes of foreign divestment have only recently been recognised (e.g. Chang, 2019; Mohr, Konara and Ganotakis, 2020; Zschoche, 2016). Furthermore, within the research on the performance outcomes of foreign divestment, both the theoretical predictions and the existing empirical findings on the effect of foreign divestment on firm performance have remained inconclusive (Tang *et al.*, 2021). We, thus, aim to contribute to this debate on the effect of foreign divestment on firm performance. Therefore, our first research question is as follows: *(1) What is the relationship between foreign divestment and firm performance in the context of retail MNEs?*

Existing research on foreign divestment has explored the role of learning but has so far used firms' experiential learning (or lack thereof) only as a potential driver rather than as an outcome of foreign divestment (e.g. Belderbos and Zou, 2009; Dow and Larimo, 2009; Kafouros *et al.*, 2021; Kim, Delios and Xu, 2010; Schmid and Morschett, 2020). Thus, this research has not yet accounted for the possibility that foreign divestment may be a source of (rather than being driven by) learning, which might then affect firm performance. The learning associated with previous foreign divestment activity might allow firms to weaken the negative effects of subsequent foreign divestments. We thus argue that the performance effect of foreign divestment in a focal year is likely to be contingent on the nature of a firm's foreign divestment activity over the previous years. Organisational learning theory (henceforth OLT) suggests that the range and extent of organisational learning varies with both the spatial dispersion of learning sources and the temporal dispersion of learning episodes (Bapuji and Crossan, 2004; Fahy, Easterby-Smith and Lervik, 2014; Rowe, 2015). We thus propose that there will be variation in the learning from prior foreign divestments and, thus, in the effect that these prior divestments have on the performance effect of subsequent foreign divestment.

Strategy and IB scholars have highlighted the experiential learning associated with entering various foreign markets and being exposed to different local contexts (Barkema and Vermeulen, 1998; Contractor, Kundu and Hsu, 2003). While such *spatial dispersion* of operations increases internal and external transaction costs, research has shown that the accumulated experiential learning combined with firm- and location-specific advantages can outweigh these costs (Kim, Hoskisson and Lee, 2015). Based on OLT, we argue that the spatial dispersion of prior foreign divestment activity shapes the experiential learning obtained from this activity and thus affects the performance effect of subsequent foreign divestment. We define the spatial dispersion of foreign divestment activity as the extent of geographical diversity of foreign divestments the MNE has conducted over a specified period. Thus, our second research question is as follows: *(2) How does the spatial dispersion of a firm's prior foreign divestment activity moderate the relationship between foreign divestment and firm performance in the context of retail MNEs?*

OLT has also highlighted the role of time compression diseconomies (Dierickx and Cool, 1989) that are caused by an experience occurring too fast for learning to take place (Eisenhardt and Martin, 2000), for example, when a firm enters new markets too quickly. The speed with which foreign divestments are undertaken is thus likely to shape the learning that is possible from these divestments. We define temporal dispersion as the average time between consecutive divestment episodes that the MNE has conducted over a certain period. Thus, our third research question is as follows: *(3) How does the temporal dispersion of a firm's prior foreign divestment activity moderate the relationship between foreign divestment and firm performance in the context of retail MNEs?*

To address our research questions, we draw on OLT to develop three hypotheses that we test using a panel consisting of some of the largest retail

MNEs over the 20-year period 1997–2016. We employ a Heckman selection model (Heckman, 1979) to account for sample-induced endogeneity as well as a range of sensitivity tests that validate the findings of our main model. Our study's findings indicate that foreign divestment does indeed have a negative impact on the subsequent financial performance of retailers. However, in line with our hypotheses, we find that retailers whose foreign divestment experience takes place in spatially diverse and temporally dispersed settings are more capable of mitigating the negative performance effect of foreign divestment. Our theoretical development and the empirical support for all hypotheses contribute to resolving the conflicting findings on the performance effects of foreign divestment.

Literature review

Foreign divestments: Theoretical underpinnings

Research on foreign divestment has been growing rapidly over the past three decades. This is evidenced by the numerous reviews (Arte and Larimo, 2019; Coudounaris, Orero-Blat and Rodríguez-García, 2020; Schmid and Morschett, 2020; Tang *et al.*, 2021) and meta-analyses that have been conducted recently (Arte and Vähämaa, 2022; Arte, Filenko and Larimo, 2022). Research on foreign divestment has employed a variety of theoretical perspectives. Using the *knowledge-based view*, several studies (e.g. Kim, Delios and Xu, 2010; Park, Yul Lee and Hong, 2011) have demonstrated that firms with rich host-country experience are less likely to divest their foreign operations, whereas others use this approach to suggest that following the same entry mode across all markets increases the possibility of subsidiary exit due to low learning flexibility (Vermeulen and Barkema, 2001). Adopting *transaction cost economics*, other researchers have examined the survival rate of different foreign market entry modes (i.e. IJVs vs. greenfields) (Hennart, Kim and Zeng, 1998). Extant research has also drawn on the *economic geography* perspective, arguing that a lower spatial distance reduces the likelihood of divestment due to the reduced transaction costs and the relatively easier knowledge transfer from home to host countries (Dellestrand and Kappen, 2012). In addition, the *institution-based view* has been employed in both the internationalisation and de-internationalisation literatures. A large body of research demonstrates that the lack of mature institutions in host countries is associated with uncertainties that eventually may force foreign subsidiaries to exit (Chung and Beamish, 2005; Soule, Swaminathan and Tihanyi, 2014). In the same vein, cultural distance increases the odds of foreign divestment, primarily due to the increasing levels of liability of foreignness that overseas subsidiaries face (Benito, 1997; Pattnaik and Lee, 2013, 2016).

Performance outcomes of foreign divestment

Extant IB research has long examined the link between firm performance and foreign divestments. Yet, the vast majority of these studies have focussed on the effect that firm performance has on foreign divestment (e.g. Amiri, 2022; Berry, 2013; Decker and Mellewigt, 2012; Schmid and Morschett, 2020; Tan and Sousa, 2019). In contrast, research examining the opposite effect, that is, the effect of foreign divestment on firm performance or on other performance-related outcomes remains scarce and the few existing studies have produced inconsistent findings (Kafouros *et al.*, 2021; Tang *et al.*, 2021).

Although IB research examining the causal effect of foreign divestment on firm performance is scarce, the broader management and corporate finance literature has examined the effect of corporate divestment on firm performance in terms of stock price, shareholder gains and other proxies of corporate or financial performance (e.g. Afshar, Taffler and Sudarsanam, 1992; Coakley, Thomas and Wang, 2008; Gleason, Mathur and Singh, 2000; Padmanabhan, 1993). Some studies have drawn on corporate restructuring logic to argue that divestments improve firm performance (Bergh, 1998). Borde, Madura and Akhigbe (1998), for instance, examined the valuation effects of foreign divestment announcements and found positive effects that they attributed to a positive market reaction to firms' reallocation of resources towards better uses. A recent meta-analysis also suggests a positive link between divestment and firm performance. Specifically, the meta-analysis study by Arte, Filenko and Larimo (2022), encompassing a sample of 24 studies, claims that the relationship between foreign divestment and stock-market reactions is positive.

In contrast, a second stream of research has argued for a negative effect of foreign divestment on firm performance. For example, some authors

have argued that divestment negatively affects established routines and day-to-day activities within the MNE's network of operations resulting in increasing average costs and decreasing MNE efficiency (Zschoche, 2016). Finally, it should be noted that some studies find foreign divestment has no effect on firm performance after arguing that it has either positive or negative performance effects (e.g. Engel and Procher, 2013).

Contingencies on the effect of foreign divestment on firm performance

Given the contradictory arguments and findings regarding the nature of the performance effect of (foreign) divestment, scholars have more recently begun to identify and examine contingencies that affect it. Extant research has identified several factors that might moderate the performance effect of (foreign) divestment (Lee and Madhavan, 2010). Our review of the existing findings on the contingencies of the (foreign) divestment–performance relationship has highlighted several contingency factors. Thus far, however, research has not investigated how the learning associated with divesting foreign operations might affect the performance effect of foreign divestment. This is surprising, given the likely learning effect associated with foreign divestment (Tan and Sousa, 2019; Schmid and Morschett, 2020; Kafouros *et al.*, 2021) and the fact that learning (or a lack thereof) is often referred to in the existing studies on the performance effects of (foreign) divestment. For example, in their meta-analysis of corporate divestiture, Lee and Madhavan (2010) highlight the role of experiential learning accrued from divestments and consider it an important firm-specific resource that shapes firm performance.

Hypotheses development

The effect of foreign divestment on firm performance

We focus on the performance outcomes of de-internationalisation of retailers. While prior research has highlighted a possible positive as well as negative effect of foreign divestment on performance, we suggest that given the idiosyncrasies of retailers' internationalisation, the positive effect highlighted in prior research will be less pronounced than the negative effect. In particular, retailers internationalise predominantly horizontally for market-seeking reasons through the creation of sales outlets (Moatti *et al.*, 2015). Tapping into foreign markets with physical stores allows them to directly access local customers and learn about local consumer preferences (Cao and Li, 2015). As a result, retailers depend to a greater extent on the creation of global brand awareness and high levels of service/product customisation, all of which adds to the upfront costs of building and maintaining the value of a global brand (Özsomer and Altaras, 2008). Such a global brand awareness, although costly initially, results in comparatively lower levels of integration of retailers' overseas operations in the long run, since retailers benefit from it by mitigating any hazards stemming from the liability of foreignness (Batsakis *et al.*, 2023). Also, unlike other sectors, where the stock market reactions are of significant importance, retailers' performance is predominantly judged by their financial performance, that is, their ability to deliver high return on assets and return on sales ratios (Batsakis and Theoharakis, 2021; Nath *et al.*, 2019). Therefore, while restructuring through divestment activity can potentially be judged a good signal in the public markets for firms that have overdiversified internationally (Bergh, 1998; Borde, Madura and Akhigbe, 1998), for retailers who are in general characterised by low levels of international integration, this can be deemed a sign of weakness, which has a negative effect on their financial performance. Below, we append our arguments in favour of a negative effect of foreign divestment on retailer financial performance.

We suggest that in the context of retail (de-) internationalisation, foreign divestment will have a negative effect on firm performance for a number of reasons. First, a direct effect of the closure of a retailer's overseas operations is a **loss of sales**, which have been the main driver for the overseas engagement. The closure of firms' foreign operations divestment reduces growth opportunities, particularly in markets that grow faster or are more profitable than the firm's home market (Berry, 2010). A loss of sales is thus one of the negative consequences that the closure of overseas operations has on firms' financial performance (Nummela, Saarenketo and Loane, 2014). Second, closing down foreign outlets leads to a **loss of scale benefits** associated with, for example, purchasing power or more efficient distribution systems that a retailer may have enjoyed previously.

This loss of international sales caused by foreign divestment thus reduces the advantages associated with the firm's overall internationalisation. This loss of scale effects has been highlighted as a main driver for the negative effects that a firm's announcement of foreign divestments has on a firm's stock price (Depecik, van Everdingen and van Bruggen, 2014; Lee and Park, 2016). Third, the divestment of a retailer's foreign operations, including sales outlets or warehouses, is likely to result in **disruptions in the day-to-day logistics and distribution** in any remaining outlets in a particular or neighbouring countries. Firm performance will be affected by such disruptions to established routines to the firm's network and day-to-day operations (Zschoche, 2016).

Overall, we thus suggest that given the context of retail (de-)internationalisation, the negative performance effects of foreign divestment highlighted in the existing research are likely to be more pronounced than any positive effects. Thus, we formulate the following hypothesis:

H1: Foreign divestment has a negative effect on firm performance in the retail context.

The moderating effect of learning from foreign divestment experience

Researchers have drawn on OLT predominantly to study how organisations learn from their experiences and adapt to environmental changes (Fiol and Lyles, 1985). Although OLT has been applied to examine organisational phenomena, such as the termination of activities or poor operational and organisational activities (e.g. accidents, bankruptcies, or other incidents) and their impact on firm performance (e.g. Baum and Dahlin, 2007; Park, Lehman and Ramanujam, 2022), it has not yet been adopted to study foreign divestment. Scholars drawing on OLT have long argued that phenomena related to firm exit, failure or poor performance are extremely important sources of learning (Amankwah-Amoah *et al.*, 2022; Brauer *et al.*, 2017; Saridakis *et al.*, 2022). When faced with such situations, firms are seen as more likely to challenge their taken-for-granted routines in their drive to explore more efficient solutions to their problems (Greve, 1998). We thus suggest that foreign divestment will be associated with organisational learning – which is an important catalyst for improving firm performance – in several ways.

OLT suggests that the level/benefit of organisational learning will depend on the diversity of the sources of this learning (Ely and Thomas, 2001; Foldy, 2004). Therefore, we suggest that the level to which these learning effects result from foreign divestment will depend on the characteristics of a firm's foreign divestment activity, specifically, its spatial and temporal dispersion. Dispersion (or variance) is considered an important facilitator in the learning process of organisations (Madsen and Desai, 2010). The extant literature on organisational learning has examined various forms of dispersion in regard to the latter's effect on performance. For instance, Dahlin, Chuang and Roulet (2018) argued that diversity – expressed in the form of group diversity – can be particularly beneficial for the improvement of learning, which, in turn, can decrease the odds of failure.

As far as strategy and IB research is concerned, prior studies that adopt an OLT perspective have accounted for the variation in the countries in which firms operate (Ruigrok and Wagner, 2003), the variety of events a firm undergoes (Stan and Vermeulen, 2013), the pace and frequency of a certain event (Edmondson, Bohmer and Pisano, 2001) and the level of complexity (Musaji, Schulze and De Castro, 2020) as well as the variability of events (Desai, 2011), etc., arguing that (experiential) learning increases with the variety of the underlying experiences. Drawing on these developments in OLT, we consider variability and heterogeneity in the event of divestment to facilitate the accumulated learning of organisations and consequently improve their performance or future survival rate (Baum and Dahlin, 2007; Chung and Beamish, 2005; Dahlin, Chuang and Roulet, 2018; Filatotchev and Toms, 2003; Getachew and Beamish, 2021; Madsen and Desai, 2010; Musaji, Schulze and De Castro, 2020; Stan and Vermeulen, 2013). Specifically, we account for the spatial and temporal perspectives of organisational learning (Bapuji and Crossan, 2004; Fahy, Easterby-Smith and Lervik, 2014; Rowe, 2015) and suggest that the temporal and spatial dispersion of prior foreign divestment activity affects organisational learning, and thus, moderates the performance effect of subsequent foreign divestment.

The moderating effect of spatial dispersion of foreign divestment. MNEs, as learning organisations, are able to learn from past experiences of failure and capitalise on this knowledge to avoid

repeating any unsuccessful practices in the future (Pangarkar, 2009; Surdu, Mellahi and Glaister, 2019). We argue that a high level of *spatial dispersion* of prior divestment activity allows firms to benefit from access to a wider range of insights into what can go wrong, so they can avoid repeating the same mistakes in the future as well as tap into a wider knowledge base that can have multiplying effects on the positive learning effects.

First, high levels of spatial dispersion of divestment activity can improve the effect of foreign divestment on firm performance, as tapping into variable sources of learning allows firms to rapidly refine decision making (Musaji, Schulze and De Castro, 2020). Second, learning methods developed under complex conditions and difficult-to-solve problems are more likely to increase the effect of learning in a high-risk case or failure event on firm performance (Stan and Vermeulen, 2013). Third, learning from divestment experience that stems from local subsidiaries can help MNEs adopt more effective practices at the parent level. This, in turn, can be shared with the rest of the MNE network so that common mistakes can be avoided and more efficient practices can be adopted (Birkinshaw and Haas, 2016; Schmid and Morschett, 2020). Through foreign divestments in spatially diverse locations, firms can learn how to build specific processes and effective structures (e.g. learning protocols, post-divestment review processes, formal structures for sharing lessons from failure with employees) that can act as a cushion for any potential negative performance effects of subsequent foreign divestments of the MNE. Fourth, divesting outlets in a spatially diverse context allows firms to learn about how they can optimise the reallocation of their resources, and specifically, how resource fungibility across diverse locations can be better achieved.

In contrast, firms with a low level of spatial dispersion of divestment will not have the opportunity to draw on a varied level of learning. First, such firms will not have the opportunity to directly and actively learn from foreign divestment, as they will have limited opportunities to build formalised processes and learning protocols that, in turn, can help them mitigate against any potential negative performance effects of subsequent foreign divestments. This means that the negative performance effects of divestment activity will be stronger and the positive effects weaker, leading to a weaker performance effect of foreign divestment. Second, firms following a less diversified and more linear approach towards learning from divestment (i.e. drawing more heavily on recurrent information and routines associated to less heterogenous spatial contexts) will be less prone to improve their learning from divestment, as they will seek less experimentation and less complexity in the learning process (Stan and Vermeulen, 2013). As a result, the negative performance effects of divestment activity are likely to be stronger and the positive effects weaker, thus leading to a weaker performance effect of foreign divestment.

Following the aforementioned arguments, we argue that a high degree of diversity in relation to the number of locations where prior foreign divestment has taken place can enrich and expand the content of the information processed with regard to the knowledge local management teams accrue from the divestment process itself. Consequently, with the increase in this geographical diversity, we expect the negative performance effects of divestment activity to become weaker. Accordingly, we hypothesise as follows:

H2: Spatial dispersion of prior foreign divestment weakens the negative performance effects of foreign divestment and*, thus, positively moderates the effect of subsequent foreign divestment on firm performance in the retail context*.

The moderating effect of temporal dispersion of foreign divestment. Further, we argue that a high level of *temporal dispersion* of prior divestment activity will weaken the negative performance effect of subsequent foreign divestment. The concepts of time and temporality have been discussed in the foreign divestment/exit literature (e.g. Aguzzoli *et al.*, 2021; Chen, Sousa and He, 2019; Fernández-Méndez, García-Canal and Guillén, 2019; Meschi and Métais, 2015; Sousa *et al.*, 2021; Surdu *et al.*, *2018*; Tangpong, Abebe and Li, 2015). These concepts have received a similar level of attention also in the organisational learning literature (e.g. Baum and Dahlin, 2007; Dahlin, Chuang and Roulet, 2018; Ganotakis *et al.*, 2022; Haunschild, Polidoro Jr and Chandler, 2015; Musaji, Schulze and De Castro, 2020). Further, extant IB research has stressed the important role that time plays when it comes to facilitating or impeding the accumulation of learning (García-García, García-Canal and Guillén, 2017). OLT suggests that the process of learning requires slack time so that both indi-

viduals and organisations can reflect on their past moves and resulting errors in an attempt to learn by making the required changes (Kerr, 2009; Ganotakis *et al.*, 2022).

First, high temporal dispersion of prior divestment activity translates into a longer period between consecutive divestment episodes and thus facilitates the process of learning from divestment by allowing firms to effectively analyse failure events within sufficient time intervals (Cannon and Edmondson, 2005). Since slack time is an important organisational resource, divesting firms can gain useful knowledge by analysing divestment-related information in longer time intervals. Since time availability can influence the amount and quality of information a firm can accumulate in the learning process (Hashai, Kafouros and Buckley, 2018), the learning effect stemming from foreign divestment can be enhanced when more time is available for the firm to collect information, process data, and reflect on this newly acquired knowledge. Second, firms that choose to divest their operations in a temporally dispersed manner over time stand to gain by allowing more space between divestment phases. This extended timeframe affords them the opportunity to conduct post-divestment reviews more efficiently and to create new structured training programmes for their employees, drawing valuable insights from past divestment experiences (Birkinshaw and Haas, 2016). Third, with the added advantage of extended time intervals between divestment episodes, firms can systematically enhance their ability to reallocate resources or create more versatile resources that can seamlessly transition across markets. This may involve strategic moves like internationalising within homogeneous regional clusters, as suggested by Mohr, Batsakis and Stone (2018).

On the other hand, compressing time intervals between divestment episodes can result in added pressure and complexity for the firm. Extant research has found that firms which increase the pace of the decision-making process are less prone to learn compared to those that follow a slower pace in their decision-making process (Musaji, Schulze and De Castro, 2020). Specifically, the high pace reduces the ability to process information thus also leading to mistakes in the decision-making process (Hashai, Kafouros and Buckley, 2018). The reason is that (negative) past performance is subject to a process-oriented feedback-loop where the organisations require slack time to reflect on the outcome, learn and improve their knowledge, which will be applied in future events. Consequently, when foreign divestment episodes take place in short periods, firms need to increase the pace of learning. This, however, puts a strain on their learning ability, which, in turn, negatively affects the performance effect of foreign divestment.

We therefore expect that firms with a high level of temporal dispersion (in terms of how much time has elapsed between consecutive divestment episodes) are more likely to have developed the required resources and capabilities to learn more effectively from the process of foreign divestment. Accordingly, we hypothesise as follows:

H3: *Temporal dispersion of prior foreign divestment weakens the negative performance effects of foreign divestment and, thus, positively moderates the effect of foreign divestment on firm performance in the retail context*.

Figure 1 depicts the study's conceptual model.

Methodology

Sample and data collection process

Our research setting is the retail sector. We focus on the largest retail MNEs with an international presence in one or more foreign markets in the 20-year period 1997–2016. Foreign divestment is a common phenomenon in the retail sector (Burt *et al.*, 2002; Guillén, 2011; Jackson, Mellahi and Sparks, 2005; Mohr, Batsakis and Stone, 2018), as retail firms – due to their aim to enter foreign markets rapidly in order to quickly exploit first, their unique resources and assets, and second, favourable market conditions – are more likely to make mistakes. The main sources of our data are the PlanetRetail (now acquired by Edge by Ascential) and the OSIRIS databases. PlanetRetail sources longitudinal information, such as the number of outlets each retailer has opened/closed in a given country and a given year, on the largest retailers in the world. Recent empirical studies on the foreign divestment process in the retail sector have used this database (e.g. Mohr, Batsakis and Stone, 2018; Sohl and Folta, 2021). Next, we merged the retail-specific information with other firm-level data we collected from Bureau van Dijk's OSIRIS database, which

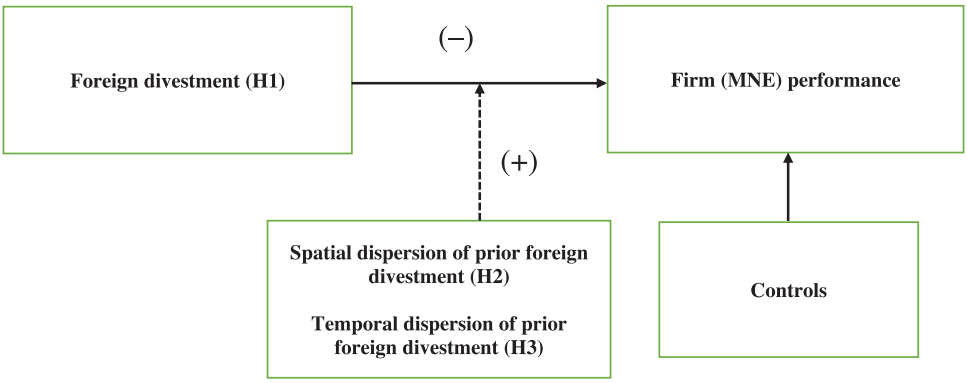

Figure 1. Conceptual model [Colour figure can be viewed at wileyonlinelibrary.com]

provides firm-level data on both listed and major unlisted/delisted companies around the world. Our final sample consists of 478 firm/year observations attributed to 83 retail MNEs over the period 1997–2016. This number of observations is due to the inclusion criteria we established for our dataset. First, we include data of retail MNEs reporting foreign sales for at least 1 year of operations in one or more foreign markets during the period of examination. This means that retailers without international activity are automatically excluded. Second, we include data only for the years for which the focal MNE reports at least one divestment. Third, we winsorize our data by eliminating outliers for continuous variables and restraining the range of financial ratios [−100, 100].

Measures

Dependent variable. To measure our dependent variable, that is, the performance of the firms in our sample, we use the ratio of net income to total assets (ROA). This performance measure is one of the most widely applied measures in the internationalisation literature (Berry and Kaul, 2016; Contractor, Kundu and Hsu, 2003; Lu and Beamish, 2004; Mohr and Batsakis, 2017) and is particularly suitable for the retail sector when considering the market-seeking, horizontal international expansion of retail firms. Instead of using ROA levels, we measure changes (Δ), that is, the difference in ROA from year t to year $t + 1$ (Bergh, 1997). Also, to avoid yearly fluctuations, we use a 3-year moving average of ΔROA (Chang and Rhee, 2011; Lu *et al.*, 2014). This means that our final variable, ΔROA, is a moving average for $(ROA_{i,t+1} - ROA_{i,t})$, with t taking values of 0, 1, and 2 for the year of divesture, 1 year after divestiture, and 2 years after divestiture, respectively. The mean value of the 3-year moving average of ΔROA of the firms in the sample is −0.21. The data are obtained from Bureau van Dijk's OSIRIS database.

Independent and moderating variables. Our independent variable, *divested foreign outlets*, is a count of net foreign divestment and is measured as the difference between the number of foreign outlets retailer i had in year $t - 1$ minus the number of foreign outlets retailer i had in year t (Berry, 2010; Iurkov and Benito, 2020).

The first moderating variable, *spatial dispersion of foreign divestment activity*, is an entropy measure of divestment diversification across countries. Specifically, we use the Jacquemin and Berry's entropy measure of diversification (Jacquemin and Berry, 1979), since this captures the diverse sources and complex procedures of learning a firm obtains through its foreign divestment activity. This entropy measure has been widely used in extant research for assessing the level of geographic diversification (e.g. Batsakis, Konara and Theoharakis, 2023; Chang and Wang, 2007; Hitt, Hoskisson and Kim, 1997) or product diversification of firms (e.g. Batsakis and Mohr, 2017; Wiersema and Bowen, 2008). Our entropy measure is calculated as $\sum P_i \ln(1/P_i)$, where P_i is the number of divested foreign outlets over the past 3 years in country i, and $(1/P_i)$ is the particular weight of each country. The advantage of using this measure as a proxy for the spatial dispersion of foreign divestment activity is that it considers both the number of countries in which the firms have divested outlets and also the number of divested outlets in each country. By

using this measure, we can effectively assess both the heterogeneity and the volume of foreign divestment activity, both of which have been linked to the learning capability of the organisation in prior research (Pennings, Barkema and Douma, 1994). A high value of our entropy measure reflects a high spatial dispersion of foreign divestment activity.

Our second moderating variable, *temporal dispersion of foreign divestment*, captures the temporal heterogeneity of firms' foreign divestment activity over the past 3 years, that is, how evenly foreign divestment episodes are spread out over this period. To measure the *temporal dispersion of foreign divestment* activity, we use the coefficient of variation, that is the standard deviation divided by the mean (Srivastava and Lee, 2005; Richard *et al.*, 2019; Belderbos *et al.*, 2020) of divested foreign outlets in the past 3 years.[2]

Control variables. We include several firm-level control variables that might potentially affect firm performance. First, we include two measures to control for firms' slack resources, which have been highlighted as affecting firm performance (George, 2005). We account for a firm's *equity ratio*, that is, the ratio of total shareholder equity to a firm's total assets, and a firm's *current ratio*, that is, the ratio of a firm's current assets to its current liabilities (Park, 2002; Yiu, Bruton and Lu, 2005). Second, we control for firms' *intangible assets*, as these have been seen as an important source for firms' competitive advantage and performance (Delios and Beamish, 2001). In line with prior research, we measure *intangible assets* using the ratio of a firm's intangible fixed assets to its total assets. Third, we control for firms' financial performance (ROA) at the year of divestment, as the overall corporate financial performance can be deemed an important factor affecting firms' performance fluctuations. Fourth, we control for firms' exposure to foreign markets by including firms' *geographic scope*, which we calculate as the total number of foreign countries the retail firm has a presence in (Mohr and Batsakis, 2014). As a final firm-level control variable, we account for a firm's operational scope in terms of internationalisation. Specifically, we control for the *number of foreign outlets* a retail firm has. Prior research has used similar measures, that is, number of subsidiaries, to account for a greater presence in foreign markets, which translates into greater knowledge on operating internationally (Shaver, Mitchell and Yeung, 1997).

We also include several macro-level controls. First, we integrate the level of accumulated *cultural distance* by adding up the cultural distances between the home country and all the existing countries a firm operates in during that particular year (Brouthers and Brouthers, 2001; López-Duarte and Vidal-Suárez, 2010). To measure the actual cultural distance between the home and the host country, we constructed a composite variable using the Euclidean method (Konara and Mohr, 2019) based on the cultural values reported by Hofstede (2001). Second, to match the cultural distance control variable, we also account for the geographic spread of foreign operations by integrating the level of accumulated *geographic distance*. We do so by adding up the geographic distances (measured in kilometres) between the home country and all the existing countries a firm operates in during that particular year (logarithmic transformation is applied). Third, we include firms' *regional concentration* to control for the relative importance of firms' home-region activity, which has been argued to affect firm performance (Mohr *et al.*, 2014). This is calculated as the percentage ratio of a firm's home-region sales to total sales (Oh and Rugman, 2012), while we use Rugman and Verbeke's (2004) concept of the broad triad to classify a firm's home region. Finally, we control for the *home country GDP* (natural logarithm), as the size of the home market can affect firm performance (Shi *et al.*, 2018). Table 1 provides short definitions and sources for all the variables used.

Estimation method

We suggest that the prior learning associated with foreign divestment activity will moderate the effect that (subsequent) foreign divestment has on firm performance. While some retail MNEs regularly divest foreign operations, others do so less regularly or not at all. This may result in sample-induced endogeneity that can bias our estimates. We thus adopt a Heckman selection model (Heckman, 1979) and the associated two-stage procedure. In the first stage, the original sample is expanded with the inclusion of additional retail firms that have not shown any foreign divestment episodes in the examined period. In our study,

[2]Since high temporal dispersion of foreign divestment is reflected upon low values of the coefficient of variation, we invert the variable so that high values denote high levels of temporal dispersion of foreign divestment.

Table 1. Variables, definitions, and data sources

Variable	Definition	Source of data
ΔROA	The 3-year moving average of annual change in ROA, that is a moving average for ($ROA_{i,t+1} - ROA_{i,t}$), with t taking values of 0, 1 and 2 for the year of divesture, 1 year after divestiture and 2 years after divestiture, respectively.	Osiris
Divested foreign outlets	The count of foreign outlets that have been divested in the focal year.	PlanetRetail
Spatial dispersion of foreign divestment	$\sum P_i \ln\left(\frac{1}{P_i}\right)$, where Pi is the number of divested foreign outlets in the past 3 years in country i, and ln (1/Pi) is the particular weight of each country. A high value denotes high spatial dispersion of foreign divestment.	PlanetRetail
Temporal dispersion of foreign divestment	The inverted value of the coefficient of variation of divested foreign outlets in the past 3 years. A high value denotes high temporal dispersion of foreign divestment.	PlanetRetail
Equity ratio	The percentage ratio of total shareholder equity to total assets.	Osiris
Intangible assets	The percentage ratio of intangible assets to total assets.	Osiris
Current ratio	The percentage ratio of current assets to current liabilities.	Osiris
ROA	Firm's return on assets in the focal year.	Osiris
Geographic scope	The count of foreign countries the retail firm has presence in the focal year.	PlanetRetail
Foreign outlets	The count of foreign outlets in the focal year.	PlanetRetail
Cultural distance	The total cultural distances between the home country and all existing countries a firm operates in that particular year.	The Hofstede centre
Geographic distance	The total geographic distances in thousands of kilometers between the home country and all existing countries a firm operates in that particular year (logarithmic transformation has been applied).	World Bank Indicators (WDI)
Regional concentration	The percentage ratio of home region sales to total sales. This measure denotes the regional concentration of a firm's operations.	PlanetRetail
Home country GDP	GDP of the home country (logarithmic transformation has been applied).	World Bank Indicators (WDI)

the first-stage probit model is estimated with a dummy dependent variable that takes the value 1 if the retail firm has divested foreign operations in the examined time period, and 0 otherwise.[3] The first-stage estimates allow us to generate the inverse Mills ratio (λ), which is included in the second-stage analysis and accounts for potential self-selection biases. For our second-stage analysis, the panel formation of the dataset suggests that the employment of an OLS model could potentially lead to biased estimates, mainly resulting from unobserved heterogeneity (Wooldridge, 2010), as well as potential heteroskedasticity between panels and autocorrelation within panels. For that reason, we opt for a feasible generalised least squares (FGLS) estimator, which delivers more efficient estimators

[3]In the first-stage probit model, we use control variables that are likely to trigger the decision of foreign divestment. Also, we include the home country internet penetration rate as the exclusion restriction (i.e. instrumental variable). Extant research shows that the strengthening of e-commerce activity leads to outlet closures (Tolstoy *et al.*, 2021). Home country internet penetration rate is significantly correlated with foreign divestment ($\rho = 0.21$, $p < 0.05$), while it does not significantly correlate with firm performance ($\rho = 0.03$, p = n.s.). The results are appended in the online appendix (Table A1).

and tackles heteroskedasticity and first-order autocorrelation (AR1). To maintain causality, we lag the independent, moderating and control variables by one year. We include year dummies to address for any business cycle effects, firm dummies to account for firm-specific heterogeneity and major retail sector dummies to account for retail sector-specific idiosyncrasies.[4]

Results

Table 2 presents the descriptive statistics and pairwise correlations of the variables included in the regression models. The correlation matrix shows that the largest coefficient is 0.66 and thus is below the commonly used threshold of 0.70. The results indicate that the mean VIF score is 3.68, which is below the commonly accepted critical value of 10 (Baum, 2006).[5] Accordingly, we infer that multicollinearity is not a problem.

Table 3 presents the FGLS regression estimates on the contingent effect of foreign divestment on firm performance. Model 1 includes only the control variables. Model 2 introduces the independent and moderating variables. The regression estimates of Model 2 show that the coefficient of divested foreign outlets is negative and statistically significant ($\beta = -0.035$, $p = 0.023$). Therefore, we find support for Hypothesis 1. In terms of the economic significance of this estimate, we can say that, on average, divesting one foreign retail store results in a negative change in ROA by 0.035.

In Model 3, we test the moderating effect of spatial dispersion of firms' prior foreign divestment activity on the relationship between foreign divestment and subsequent firm performance. For this moderating variable, a high value denotes the high spatial dispersion of firms' prior foreign divestment. As such, we expect a positive sign for the interaction term between the spatial dispersion of foreign divestment and divested foreign outlets. The results show that the coefficient of the interaction term is positive and statistically significant ($\beta = 0.197$, $p = 0.000$), providing support for hypothesis 2. Figure 2 shows that when the spatial dispersion of firms' prior foreign divestment increases by one standard deviation, the effect of divesting one foreign outlet on ΔROA leads to a positive change to ROA by 0.197 on average.

In Model 4, we test the moderating effect of temporal dispersion of firms' prior foreign divestment activity on the relationship between foreign divestment and subsequent firm performance. A high value denotes the high temporal dispersion of firms' prior foreign divestment. Accordingly, we expect a positive sign of the coefficient of the interaction term between the temporal dispersion of foreign divestment and divested foreign outlets. The estimates show that the coefficient of the interaction term is indeed positive and statistically significant ($\beta = 0.105$, $p = 0.000$), supporting Hypothesis 3. This relationship is shown in Figure 3. When the temporal dispersion of firms' prior foreign divestment increases by one standard deviation, the effect of divesting one foreign outlet on ΔROA leads to a positive change to ROA by 0.105%, on average.

Sensitivity tests

We perform several robustness tests to confirm the validity of our estimates. First, to further mitigate any remaining concerns related to the potential presence of endogeneity, we employ a system dynamic panel data Generalized Methods of Moments (GMM-SYS), which uses the lagged values of the endogenous variables and the lagged differences as instruments (Blundell and Bond, 1998). We treat our independent and moderating variables as endogenous regressors, and we enter their lagged values and the lagged values of all control variables into a predetermined set thus treating them as instruments for our model. For each model, we test for autocorrelation and for the validity of the instruments. Although the levels of significance have weakened in comparison to the main results, the results are consistent (see Table A2 in the Online Appendix). Second, we recalculate our two moderating variables by extending the period from 3 to 5 years. Running our models with these two alternative moderating variables results in almost identical estimates (see Table A3 in the

[4]Sector dummies are included for grocery, electrical and office; food service; clothing and footwear; leisure and entertainment; health and beauty; home, garden, auto; and other.

[5]Given that the VIF scores of two of the variables (geographic distance and geographic scope) are slightly above 10, as a sensitivity test, we dropped one of the variables from our analysis (geographic distance). After doing so, the highest VIF score is 2.69 and the mean VIF score is 1.69. The regression estimates remain consistent after removing geographic distance from our models.

Table 2. Pairwise correlations and descriptive statistics

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1	ΔROA	1.00														
2	Divested foreign outlets	−0.01	1.00													
3	Spatial dispersion of foreign divestment	0.00	0.05	1.00												
4	Temporal dispersion of foreign divestment	0.07	0.03	0.45	1.00											
5	Equity ratio	−0.16	−0.01	−0.11	−0.21	1.00										
6	Intangible assets	−0.07	−0.02	0.12	−0.02	−0.13	1.00									
7	Current ratio	−0.04	−0.04	0.03	0.05	0.42	−0.11	1.00								
8	ROA	0.00	−0.01	0.12	0.01	0.14	−0.14	0.16	1.00							
9	Geographic scope	0.08	0.02	0.60	0.18	−0.13	0.18	0.03	0.15	1.00						
10	Foreign outlets	0.04	0.09	0.24	0.06	−0.06	0.06	−0.12	0.03	0.41	1.00					
11	Cultural distance	0.12	0.05	0.40	0.16	−0.08	0.14	0.02	0.04	0.61	0.46	1.00				
12	Geographic distance (ln)	0.02	0.03	0.51	0.20	−0.10	0.21	0.06	0.04	0.66	0.28	0.57	1.00			
13	Regional concentration	0.20	0.01	−0.13	0.02	−0.23	−0.05	−0.49	0.00	−0.29	−0.13	−0.11	−0.31	1.00		
14	Home country GDP (ln)	0.18	0.03	0.04	0.17	−0.15	0.09	0.06	−0.05	0.11	0.14	0.51	0.33	0.09	1.00	
15	IMR	0.07	−0.09	−0.55	−0.26	0.19	−0.25	0.00	−0.03	−0.61	−0.38	−0.51	−0.67	0.30	−0.15	1.00
	Mean	−0.21	48.21	0.70	1.13	38.60	15.88	1.51	9.02	18.18	1,760.95	25.17	9.98	85.60	28.69	0.77
	Std. dev.	3.03	396.38	0.69	0.99	22.60	16.28	0.82	9.99	19.48	4,228.95	35.42	2.06	22.51	1.65	0.60
	Min	−15.55	0.00	0.00	0.58	−54.66	0.00	0.31	−47.26	1.00	2.00	0.00	0.00	0.00	22.44	0.00
	Max	16.23	7,926.00	2.90	8.37	82.18	77.03	5.15	38.39	125.00	40,179.00	183.45	13.43	100.00	30.53	2.92

Note: Correlations above |0.09| are significant at the 5% level.

Table 3. Second stage analysis - feasible *generalised least squares estimates on the contingent effect of foreign divestment on firm performance change (ΔROA)*

	Model 1		Model 2		Model 3		Model 4	
	Coef. (s.e.)	p-*val*	Coef. (s.e.)	p-*val*	Coef. (s.e.)	p-*val*	Coef. (s.e.)	p-*val*
Equity ratio	−0.352	*0.000*	−0.365	*0.000*	−0.369	*0.000*	−0.377	*0.000*
	(0.061)		(0.063)		(0.063)		(0.063)	
Intangible assets	−0.501	*0.000*	−0.486	*0.000*	−0.527	*0.000*	−0.529	*0.000*
	(0.133)		(0.135)		(0.131)		(0.129)	
Current ratio	0.017	*0.783*	0.032	*0.573*	0.024	*0.684*	0.019	*0.748*
	(0.063)		(0.057)		(0.059)		(0.060)	
ROA	−0.114	*0.064*	−0.113	*0.072*	−0.123	*0.048*	−0.121	*0.049*
	(0.062)		(0.063)		(0.062)		(0.061)	
Geographic scope	0.352	*0.076*	0.341	*0.272*	0.387	*0.208*	0.392	*0.203*
	(0.199)		(0.311)		(0.308)		(0.308)	
Foreign outlets	0.096	*0.012*	-0.114	*0.403*	-0.081	*0.504*	-0.081	*0.496*
	(0.038)		(0.136)		(0.120)		(0.119)	
Cultural distance	−0.196	*0.408*	−0.261	*0.311*	−0.320	*0.214*	−0.324	*0.206*
	(0.237)		(0.258)		(0.257)		(0.256)	
Geographic distance (ln)	−0.000	*0.357*	0.204	*0.503*	0.151	*0.609*	0.197	*0.506*
	(0.000)		(0.305)		(0.295)		(0.297)	
Regional concentration	0.010	*0.940*	−0.012	*0.926*	−0.012	*0.921*	−0.017	*0.880*
	(0.135)		(0.131)		(0.122)		(0.112)	
Home country GDP (ln)	−0.323	*0.428*	-0.638	*0.151*	−0.603	*0.168*	−0.590	*0.173*
	(0.407)		(0.444)		(0.438)		(0.433)	
IMR	0.226	*0.200*	0.351	*0.063*	0.290	*0.124*	0.305	*0.103*
	(0.177)		(0.189)		(0.188)		(0.187)	
Spatial dispersion of foreign divestment			−0.044	*0.258*	−0.024	*0.533*	−0.035	*0.355*
			(0.039)		(0.038)		(0.038)	
Temporal dispersion of foreign divestment			−0.005	*0.846*	-0.009	*0.735*	−0.002	*0.952*
			(0.028)		(0.026)		(0.025)	
Divested foreign outlets (H1)			−0.035	*0.023*	0.027	*0.177*	0.019	*0.241*
			(0.018)		(0.020)		(0.016)	
Divested foreign outlets x Spatial dispersion of foreign divestment (H2)					0.197	*0.000*		
					(0.049)			
Divested foreign outlets x Temporal dispersion of foreign divestment (H3)							0.105	*0.000*
							(0.019)	
Constant	0.700	*0.175*	0.395	*0.486*	0.554	*0.327*	0.523	*0.347*
	(0.516)		(0.567)		(0.565)		(0.556)	
Year-fixed effects	Yes		Yes		Yes		Yes	
Firm-fixed effects	Yes		Yes		Yes		Yes	
Industry-fixed effects	Yes		Yes		Yes		Yes	

Note: FGLS estimator that is robust to first-order autocorrelation (AR1) and heteroskedasticity; standardised coefficients are reported; standard errors are reported in parentheses; p-values are reported in italics; one-tailed tests for hypothesised variables; two-tailed tests for control variables.

Online Appendix). Third, we rerun our models using the 3-year moving average of the change in net income to total sales (ΔROS) as our dependent variable instead of the 3-year moving average of the change in net income to total assets (ΔROA). Return on sales is a performance indicator that is also relevant to the retail context and complements the return on assets measure (Geringer, Beamish and Da Costa, 1989). The results remain consistent (see Table A4 in the Online Appendix). Finally, we further test the sensitivity of our estimates by using an alternative measure for the spatial dispersion of foreign divestment. Previously, we used Jacquemin and Berry's (1979) entropy measure, as this allows for more efficient and more accurate capture of the divestiture heterogeneity and the volume of foreign divestment activity. As a sensitivity test, we rerun our model using the average of the count of

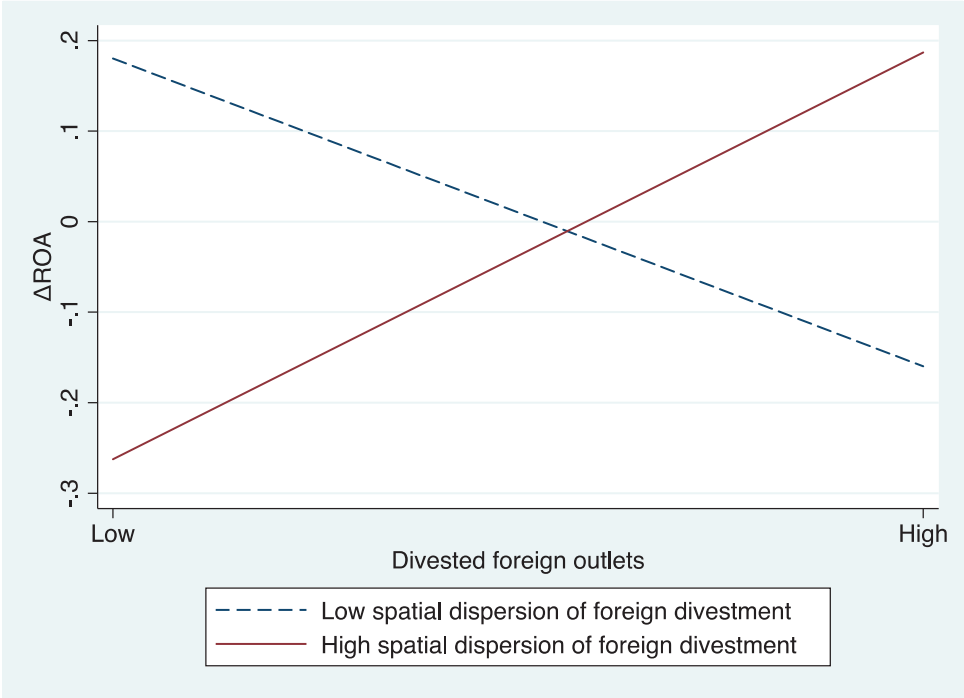

Figure 2. The moderating effect of spatial dispersion of divestment on the relationship between foreign divestment and firm performance change (ΔROA) [Colour figure can be viewed at wileyonlinelibrary.com]

foreign countries the retailer has shown divestment activity in the last 3 years prior to the focal year. This measure counts the foreign divestment (spatial) scope of retail firms. The use of such a scope measure produces an estimate similar to that of the entropy measure (see Table A5 in the Online Appendix).

Discussion and conclusion

Theoretical contributions

Our study was motivated by the need to better understand the effect of foreign divestment on firm performance, predominantly by accounting for the learning effects associated with firms' prior foreign divestment activity. Existing research on the performance effects of foreign divestment have produced conflicting findings, including positive, negative or no effect. Our study aims to reconcile these conflicting arguments and draws on the retail context to argue that foreign divestment will have a negative effect on the financial performance of retail firms. Further, we draw on OLT to highlight that firms learn not only from expanding internationally but also from foreign divestment, which often follows the process of internationalisation (Barkema, Bell and Pennings, 1996; Barkema and Vermeulen, 1998; Meschi and Métais, 2015; Surdu, Mellahi, and Glaister, 2019; Zeng *et al.*, 2013). We developed two hypotheses on the moderating effect that the nature of learning from (prior) foreign divestment activity has on the performance effect of foreign divestment. We argued that both the spatial as well as the temporal dispersion of firms' (prior) divestment activity will positively moderate the performance effect of foreign divestment.

Our first finding shows that foreign divestment can be detrimental to the financial performance of firms. Extant empirical research examining this effect is heavily dominated by studies in corporate finance literature, where the focus is mostly on divestment and shareholder/stock price reaction (Tsetsekos and Gombola, 1992; Borde, Madura and Akhigbe, 1998; Brauer and Wiersema, 2012; Depecik, van Everdingen and van Bruggen, 2014). This view of divestment and performance is largely skewed, as it focuses on the public, short-term reaction of markets rather than on the long-term performance of the firm. Our finding thus offers

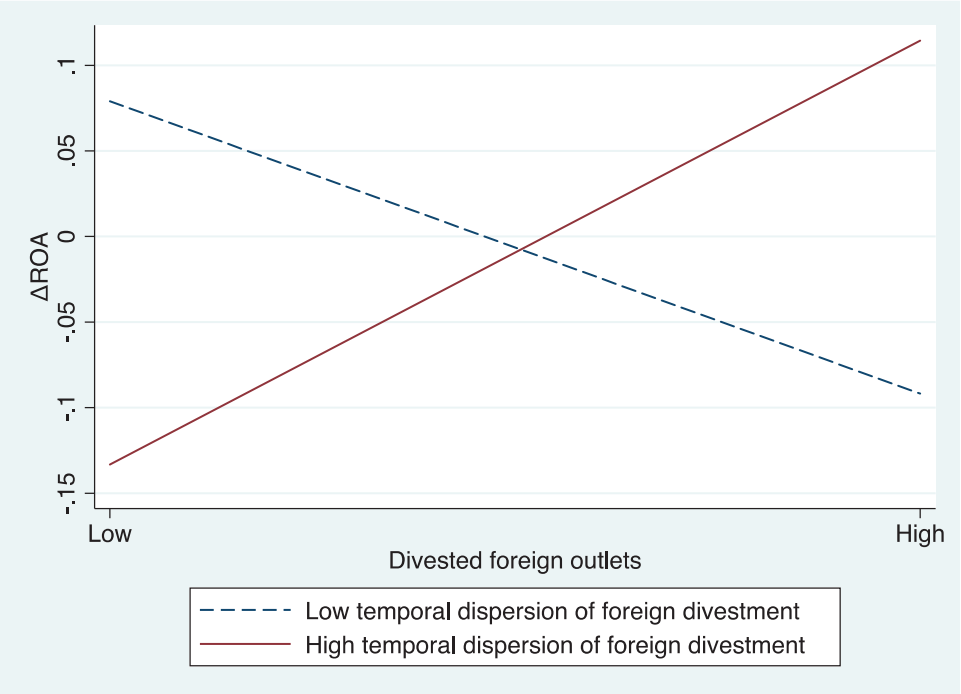

Figure 3. The moderating effect of temporal dispersion of divestment on the relationship between foreign divestment and firm performance change (ΔROA) [Colour figure can be viewed at wileyonlinelibrary.com]

a different insight to the literature by focusing on the financial performance, as measured by ROA (and ROS), the firm achieves in the market. Further, the research context of this study (i.e. retail firms) is linked to several idiosyncratic characteristics (e.g. horizontal and market-seeking expansion, access to local customers, global brand awareness, low levels of international integration) that, altogether, play a significant role in shaping the negative relationship between foreign divestment and firm performance. Accordingly, this finding contributes theoretically to the wider retail sector (de-) internationalisation literature and the literature on foreign divestment and its link to firm performance in general, by looking particularly at market-level financial performance.

Second, we find support for a positive moderating effect of the spatial dispersion of foreign divestment activity. We hypothesised that diversity and variability in the operations of an organisation improve experience and enhance learning and, as a result, they can lead to enhanced performance (Stan and Vermeulen, 2013; Dahlin, Chuang and Roulet, 2018; Musaji, Schulze and De Castro, 2020). We argued that foreign divestment increases firm learning when prior foreign divestment activity is geographically dispersed rather than concentrated in a small number of locations. Our finding supports that the learning effects associated with the geographical diversity of prior foreign divestment activity compensate for any negative effects resulting from a potential disruption of organisational activities arising due to the increased complexity of operating in (and, as a result, also divesting) diverse and complex contexts (Argote and Miron-Spektor, 2011; Stan and Vermeulen, 2013; Surdu, 2018). Past research has challenged the linear, less diversified pattern in the learning process of organisations (Greve, 1998; Edmondson, Bohmer and Pisano, 2001). This finding's theoretical contribution is that increased diversity and complexity in the learning context (i.e. spatial context) can positively influence the relationship between foreign divestment, an important corporate strategic decision, and firm performance.

Third, we find that the temporal dispersion of firms' prior foreign divestment activity positively moderates the performance effect of foreign divestment. This provides evidence for the role that time dimensions play when it comes to organisa-

tional learning (Baum and Dahlin, 2007; Dahlin, Chuang and Roulet, 2018; Haunschild, Polidoro and Chandler, 2015; Musaji, Schulze and De Castro, 2020). Firms that divest their foreign operations without securing appropriate levels of slack time are likely to face pressures and challenges in terms of efficiently deciding on what assets and resources will be released, where these should be transferred, or what managerial resources can be utilised for the next strategic expansion. We theoretically contribute to the wider foreign divestment tenet by showing that firms whose foreign divestment activity is more evenly spread out over time will learn comparatively more than firms with time-concentrated foreign divestment activity. We thus add to the (de-)internationalisation literature and the temporal process of the internationalisation tenet (Chang, Chung and Moon, 2013; Mohr and Batsakis, 2017; Vermeulen and Barkema, 2002), this time by stressing the important role time plays in shaping the link between foreign divestment and firm performance.

Managerial implications

As far as the MNE's corporate strategy is concerned, senior executives can draw on our findings to understand how their firm's foreign divestment activity may not only lead to costs but to learning about effects that are beneficial for subsequent foreign divestments. Foreign divestment activity should be seen, among others, as part of the firm's organisational learning strategy. We show that foreign divestment activity can have different patterns in terms of how it occurs (i.e. with respect to space and time). Accordingly, senior executives should be aware of the differential learning effects associated with spatially and temporally dispersed foreign divestment activity. We found particularly strong learning effects when foreign divestment activity is geographically diversified and evenly distributed across a prolonged period. Retail executives can draw on our findings to develop a structured approach when it comes to the process of divesting foreign retail stores. Retailers can use their own experience from divesting stores internationally, so they develop learning protocols, post-divestment review processes, or even formal processes to share lessons from failure within the organisation, to mitigate the losses resulting from the foreign divestment process.

Limitations and future research

This paper has some limitations. First, the sample is limited to retail firms. Although we have argued for the appropriateness of the retail sector for testing our hypotheses, at the same time, we should acknowledge that our results may not be applicable to other sectors and industries. Future studies should replicate this research in other settings to further test the validity and applicability of the findings. Second, our focus was on the specific spatial and temporal characteristics of firms' foreign divestment activity, and there are likely to be other learning mechanisms (e.g. major events, corporate or financial crises, industry dynamics, disruptive innovations, etc.) that may drive the performance effect of foreign divestment. More research is needed into identifying such contingencies, in particular those that may shape the experiential and possibly non-experiential learning effects associated with foreign divestment activity.

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Georgios Batsakis is Professor of International Business at Alba Graduate Business School, The American College of Greece and Reader in International Business at Brunel Business School, Brunel University London. His research focuses on the internationalization processes of multinational enterprises. He has published in journals such as the Journal of International Business Studies, Journal of World Business, Global Strategy Journal, Journal of Retailing, among others. In 2022 he was included in the Poets&Quants Best 40-Under-40 Business School Professors.

Alexander Mohr is Professor of International Business at the Vienna University of Economics and Business (WU Wien), Vienna/Austria. His research interests include foreign divestments, corporate political strategies, international alliances and International HRM. His research has been published in journals such as the Journal of International Business Studies, International Business Review, Strategy Science, Long Range Planning, Journal of World Business, and Management International Review.

Palitha Konara is Professor of International Business and Strategy at Essex Business School, University of Essex, UK. His research interests include MNEs' foreign entry, foreign subsidiary operations/performance, innovation, intellectual property rights, and MNE's exit/divestment. His previous research has appeared in journals such as the Journal of World Business, Journal of Product Innovation Management, Global Strategy Journal, British Journal of Management and Journal of Retailing.

Christos Koritos is Associate Professor in Marketing at Alba Business School, The American College of Greece. He studies consumer behavior in service contexts as well as frontline employees' interactions with customers. His research appears in the Journal of Product Innovation Management, Journal of Business Research, Journal of Advertising, European Journal of Marketing Tourism Management, Annals of Tourism Research, among others.

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