The Impact of Firm Diversification Level on Divestment: The Role of Cultural Distance and Previous Divestiture Activity

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1. Introduction

Over the years, research has provided evidence that divestments can improve a company's financial performance (Haynes et al., 2002). However, despite this understanding, there is still much to learn about the factors leading to successful divestments and the reasons why firms opt to divest (Moschieri & Mair, 2008). The potential for significant managerial implications has gradually attracted more attention to the topic (Arte & Larimo, 2019; Coudounaris et al., 2020; Ozkan, 2020; Schmid & Morschett, 2020). Yet, additional research is necessary to fully comprehend the motivations behind divestments, as this subject holds a crucial place in corporate strategy and can exert a profound impact on a company's long-term performance and success.

Conventional wisdom suggests a positive relation between the diversification level of a company, its size and cultural diversification. This implies that the company will be stronger and well-established, and therefore less likely to engage in divestment activities (Reed & Luffman, 1986). However, this notion does not always hold true, as evidenced by the fact that firms of all sizes engage in divestitures. Furthermore, this relationship between the diversification level and divestment probability is influenced by important factors, such as cultural distance (Flickinger & Zschoche, 2023) and the number of previous divestments (Humphery-Jenner et al., 2019). However, there is a lack of comprehensive research that has specifically explored the impact of these two subjects on the relationship under investigation.

Highly diversified companies face a higher probability of divestment, as diversification increases costs, weakens attachment to subsidiaries, and disperses managerial focus, ultimately affecting overall performance and leading to subsidiary divestment (Hitt, Hoskisson, & Kim, 1997). This perspective challenges conventional wisdom and previous literature, which often viewed firm diversification as a sign of expansion and risk reduction (Bergh & Holbein, 1997; Haynes et al., 2003). By highlighting the potential drawbacks and complexities associated with diversification, this research aims to provide a more comprehensive understanding of the relationship between diversification, mergers and acquisitions (M&A) activity, and the likelihood of divestment. Only a few authors, such as Kolev (2016), studied this connection, and one of the most relevant findings was that structural factors, such as firm size and level of diversification, which relate to internal organizational efficiency, take priority in the managerial focus of attention (Ocasio, 1997) and play a dominant role in the decision to divest. Overall, these structural factors take priority in managerial focus, mainly because they directly impact the organization's performance, profitability, and strategic alignment, which implies that managers will pay closer attention to those, especially when it comes to decide whether or not to divest.

As the number of units a company retains overseas increases, so does the cultural diversity associated with those divisions. Often, firms are less likely to expand to culturally distant locations

(Beugelsdijk et al., 2018). Cultural distance refers to the degree to which norms and values vary across different cultures (Hofstede, 2001). Thus, the greater the cultural distance between the home and host countries, the more significant the cultural differences, which can influence business operations due to the challenges of conducting business in foreign locations compared to the home country.

Additionally to cultural distance, another critical aspect of studying divestments is the common problem of managers' lack of experience and knowledge, and the associated impact of that on the decision-making process. Divestitures are typically initiated by the board of directors when the company's performance declines (Moschieri & Mair, 2008), since divestments are seen as corrective measures for prior inefficient growth and diversification strategies, pursued by managers (Jensen, 1989). However, if the company's performance is satisfactory, managers are more likely to initiate divestitures (Hitt et al., 1996). Due to the negative connotation of divestment, managers often avoid being associated with the process to protect their reputation (Boot, 1992). This lack of knowledge and reputational concerns can lead to delayed divestments, which jeopardize the company's performance. The problem of managerial knowledge is related to the number of previous divestitures conducted within the firm. Managers with experience in divestitures are more familiar with the process and possess superior knowledge, prioritizing the company's performance over reputational concerns.

Most of the existing literature on firms' internationalization focuses on the growth of international business operations, particularly the M&A conducted by companies (Benito & Welch, 1997). Divestments performed by multinational firms (MNEs) are an under-investigated topic, with limited and controversial literature, necessitating further research. This study aims to contribute to the topic by providing a more comprehensive understanding on how the level of firm diversification directly impacts the probability of divestment, considering cultural distance and the characteristics of previous divestitures conducted by the firm. Based on the examined literature and the potential contribution of this research, the focus of the study is to address the following research questions:

How does firm diversification level influence divestment? What is the impact of cultural distance and the previous divestiture activity in this relationship?

To test these hypotheses, a sample of all M&A deals conducted by companies listed on the Amsterdam stock exchange, which performed divestments in the timeframe from 1988 to 2017, was analysed using a logistic regression model. The findings indicate that a company with higher diversification level is actually less likely to divest, and that a greater level of experience with divestment activity, indeed reinforces the aforementioned relationship between diversification and divestment. However, contrary to expectations, no evidence is found to support the notion that cultural

distance has any type of influence on the relationship between diversification and divestiture. This study will, additionally, make various contributions to the managerial literature, as it will help and inform managers regarding possible reasons to divest, by providing them a deeper understanding on what are the implications of their decisions. By taking into consideration the cultural distance factor, the diversification level of the company and the experience with previous divestments, managers will be better equipped to make better and more educated decisions, regarding a subsidiary divestment. Furthermore, it will help them realize that the more experienced they are in the subject, the easier the process will be, and overall the results will be better.

The upcoming sections will be organized as follows. First, the literature review will explore the existing literature on the topic. Afterwards, the theory, where the theoretical framework is developed, underlining each relationship, and formulating the hypotheses. Methodology is next, and will provide details on the approach used, including descriptions for sample construction and variable generation. Subsequently the analysis, where the logistic regression is conducted, following by the discussion, which encompasses the main findings of the analysis, as well as theoretical and managerial implications, limitations and opportunities for future research, and the research ethics. Finally, this research paper ends with a conclusion.

2. Literature Review

Common knowledge suggests a positive relationship between the size of a firm, and its capability of being stronger and more established. However, that is not the case most times. The high level of diversification of a company can, in fact, increase its tendency for divestment. The advantages of diversification usually surpass any potential additional expenses for each new company unit (Hoskisson et al., 1993). Nonetheless, according to more recent studies, the corporation cannot be managed effectively or economically after a certain point of diversity (Haynes et al., 2003; Hoskisson et al., 1994).

Moreover, research has shown that firms operating in culturally distant markets may face greater challenges in managing their operations effectively (Hymer, 1976). These challenges can arise due to differences in consumer preferences, business practices, legal systems, and socio-cultural norms (Melnyk et al., 2022). As a result, firms operating in culturally distant markets may find it more difficult to achieve the expected synergies and operational efficiencies, that are often associated with firm size and diversification.

Organizational learning theory (Levitt & March, 1988) argues that organizational practices, developed as a result of previous management experiences, determine a firm's strategic activity (Nelson & Winter, 1982). Managers are more likely to repeat a given strategic activity the more confident they are with it, which happens as they acquire expertise (Haleblian, Kim & Rajagopalan, 2006). Managers who have participated in divestitures before, grow accustomed to the procedure, which institutionalizes and becomes a part of the organization's routines (Nelson & Winter, 1982). Overall, this suggests that management may undertake more divestitures in the future, as a result of previous transactions (Kolev, 2016). The cumulative benefits of prior divestitures and anticipated success may increase managers' confidence in carrying out more divestitures (despite their inherent difficulty).

2.1. Why divest

Divestment is the process by which a firm reduces the portfolio of the businesses it owns, by removing all of its products from the value chain and no longer providing those items to the relevant consumers (Puranam & Vanneste, 2018), associated with the closure or sell-off of units in foreign locations (Benito, 2005). Whether it is a voluntary business strategy or a last resource for a multinational, over the past few decades, divestments have been majorly considered a sign of failure (Puranam & Vanneste, 2018). Divestment performed by multinationals is an understudied topic, which requires further research. Most of the existing literature on firms' internationalization is focused on the

growth of the international business operations – on the M&A activity these companies conduct (Benito & Welch, 1997).

The literature on divestment is very scarce, and the motive behind it is the great impact divestments have on the firm performance and image. For this reason, it is important to understand why a firm should divest. It is still not clear whether divestitures are merely a reflection of the economic cycle (Aron, 1991; Duhaime & Grant, 1984; Garvin, 1983; Ito, 1995), a means to correct or reverse previous strategic decisions (for example, diversification) (Hitt et al., 1996; Hoskisson, Johnson, & Moesel, 1994; Markides, 1992; Seth & Easterwood, 1993), or a proactive strategic option (McGahan & Villalonga, 2003). A variety of external factors are related to this phenomenon. In his study, Boddewyn (1979) identified seven considerations regarding the key foreign divestment factors. These factors were low financial performance, poor pre-investment analysis leading to unfortunate investments, adverse environmental conditions, lack of fit and resources, structural and organizations factors, external initiating pressures and foreignness and national differences. This study will concentrate on the factors that managers are able to control or influence, not on external factors. Level of diversification will be the main research variable and the one with higher relevance for this study.

2.2. Diversification as the reason behind divestment

Increasing a company's level of diversity has long been viewed as a positive sign of expansion and risk mitigation (Kolev, 2016). In his study, Kolev (2016) considers that the current level of diversification of a firm is one of the most critical and widely explored determinants of divestment. Over the years, there has been an increase of divestitures among companies (Bowman & Singh, 1993; Lichtenberg, 1992; Ravenscraft & Scherer, 1987), and one widely accepted theory for such occurrence is that firms overdiversified in the 1960s and 1970s, expanding beyond the point at which they could be effectively managed (Bhide, 1990; Comment & Jarrell, 1995; Shleifer & Vishny, 1991). Divestitures arose as mechanisms for restructuring firms to their 'optimal levels of diversification' (Markides, 1992 & 1995; Williams, Paez, & Sanders, 1988). Size potentiates rigidity and tunnel vision (Miller & Chen, 1994), which can limit the firm's awareness and quick response to market competitors. This compromises the firm's competitiveness and ultimately leads to loss of competitive advantages. Heavily diversified companies tend to place more emphasis on financial controls than in strategic ones, which results in producing less internal innovation (Hitt et al., 1996), and increasing managerial risk aversion (Hoskisson et al., 1994). Therefore, a company can engage in divestitures to correct strategic choices and improve its innovation capacity and entrepreneurial spirit, or to enter technology-based or immature industries (Garvin, 1983). To counteract all the previously mentioned tendencies, managers may downsize by divesting assets (e.g., Decker & Mellewigt, 2012).

Divestment and diversity can, additionally, have a negative relationship, as divestments also influence diversification. Studies of Bergh & Holbein, (1997) and Haynes et al. (2003), show that a multinational with diverse divisions is less likely to divest. According to these theories, when a multi-divisional company grows, each division operates independently, maintaining managerial and financial efficiency, even as firm size increases and economies of scale are attained (Armour & Teece, 1978). Furthermore, divestments are often used to reduce diversification, so that firms are able to lower their costs of managing multiple business units, reconfigure internal governance structures to raise efficiency, transfer assets to more highly valued uses, have a clearer and more tightly bound group of business units, and better protect managerial employment risks over time (Bergh & Holbein, 1997).

2.3. Influencers of divestment

After understanding why a more diversified firm has a higher propensity for divestment, as the aim of this research is the study of divestments, two critical determinants will be taken into consideration: cultural distance and the number of previous divestments conducted. It is crucial to comprehend the role these variables play in the divestment process.

2.3.1. Cultural distance

When a multinational conducts business overseas, it will face many disadvantages, due to unfamiliarity with the host-country business environment (Hymer, 1976). Such unfamiliarity leads to a rise in the costs of doing business abroad, recognized as the 'liability of foreignness' (Zaheer 1995). Many studies have determined the root of such disadvantages, like the geographic differences between the parent and the foreign affiliate, sociocultural and political economic contrasts between home and host countries, as opposed to expenses driven by market forces (Zaheer, 1995; Zaheer & Mosakowski, 1997). The most obvious dimension of distance is physical or geographical distance, which creates obstacles through increased transportation costs and impacts psychic and cultural distance (Håkanson et al., 2016). Geographical distance is found to have a negative impact on FDI (Carr, Markusen, & Maskus, 2001).

However, there is a lack of focus on intangible barriers, when it comes to conducting business overseas. The cultural distance between the home and host countries creates significant barriers to multinationals (Beugelsdijk, McCann, & Mudambi, 2010; McCann, 2011). Cultural distance is the degree to which cultural norms, world views, attitudes, perceptions and ideas differ between countries (Morosini, Shane & Singh, 1998). It is considered to be an aspect of psychic distance, which is the perceived distance between two countries (Dow & Karunaratna, 2006). They diverge in the sense that

cultural distance focuses on the differences in the national cultural systems, and psychical distance analyses various subjective factors that create barriers between both home and host locations (Kogut & Singh, 1988).

It is hard to conduct business in culturally distant countries because of the misunderstanding of the norms, values and customs, which leads to complexity and uncertainty (Brouthers & Brouthers, 2001). Beyond a certain level of diversification, firms begin to experience problems stemming from loss of control and misallocation of corporate resources (Ravenscraft & Scherer, 1987), inefficiencies (Hoskisson & Turk, 1990) and increased bureaucratic costs (Nayyar, 1992). Overall, the greater the cultural distance between two countries, the higher the transaction costs will be (Hennart & Larimo, 1998) and the more difficult it will be to transfer competences and capabilities from the home country to the host subsidiary (Kostova & Zaheer, 1999).

2.3.2. Previous experience performing divestments

Knowledge management is essential to foster learning within organizations (Karkoulian et al., 2013; Del Giudice & Maggioni, 2014), and the firm's core capabilities depend on the ability to create, transfer, integrate and exploit knowledge (Teece, 2000). Barkema and Schijven (2008) argued that firms that have more experience with specific decisions will create routines and processes that can be used to improve their subsequent actions. This indicates that experience determines learning not only directly through the repetition of actions (Zollo & Singh, 2004), but also indirectly through imitation (Bingham & Eisenhardt, 2011). Organizational experiences are an important determinant of future firm behavior, since those experiences are integrated into existing routines and practices and facilitate managerial decision-making (Haleblian, Kim & Rajagopalan, 2006).

Shimizu and Hitt (2005) found that a divestiture decision is less likely when there is little past divestiture experience and past performance is poor, owing to organizational inertia. The divestiture of a poorly performing acquired unit is often impeded by organizational inertia, resulting from large size and high age, lower experience in making divestitures, larger relative size of an acquired unit, and small change of unit performance (Shimizu & Hitt, 2005).

The extent to which the knowledge stemming from past experience is used, can be influenced by characteristics of the divesting firm, namely performance and size (Peruffo, Marchegiani, & Vicentini, 2018). Additionally, divestitures frequently accumulate firm wealth (Lee and Madhavan 2010), which implies that prior divestitures incentivize managers to take on additional divestitures in the future. The cumulative benefits of prior divestitures and anticipated success may increase managers' confidence in carrying out more divestitures, regardless of their intrinsic complexity. The results of previous studies provide credibility to this claim, showing a positive correlation between

past large reorganizational changes in the corporation and future ones (Haleblian, Kim & Rajagopalan, 2006).

3. Theory

Below is presented the conceptual model of the study, which will be further tested, followed by the theoretical framework, where each relationship is underlined.

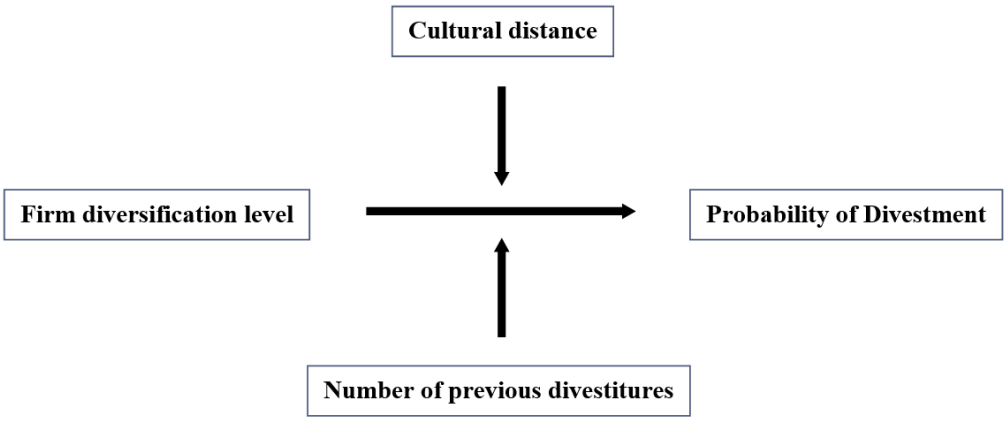

Figure 1: Conceptual model

3.1. Level of Firm Diversification

As previously mentioned, diversification is one of the stronger determinants of divestment, and it has a large quantity of diverging research connected to it (Kolev, 2016; Moschieri & Mair, 2008; Villalonga & McGahan, 2005). Although, this study will solely focus on the influence that the level of diversity of a firm has on its propensity to divest.

The higher the level of diversity of a company, the higher the number of subsidiaries it controls and, consequently, the bigger its size. By diversifying internationally, MNEs can obtain new resources and transfer their core competencies to new markets (Bartlett & Ghoshal, 1989; Kobrin, 1991), however it can increase an MNE's risk, due to the intensified organizational complexity and the uncertainty related to operating in new markets (Tihanyi et al., 2005). Higher level of diversity will call for more coordination and control responsibilities on managers (Ravenscraft & Scherer, 1987), more resources and overall higher costs, that are associated with the effort to integrate the new acquired company into the current company's activities (e.g., Cannella & Hambrick, 1993). Overdiversification occurs when each incremental investment added to a portfolio lowers the expected return to a greater degree than the associated reduction in the risk profile (DiLallo, 2022). Independently of how skilled in diversification managers are, when a company grows above a certain size and becomes overdiversified, it will always incur in additional expenses due to complexity, losses of agility, and a lower market valuation, when compared to the sum of each individual unit's valuation

(Kniephoff et al., 2019). Because managerial focus and attention are limited, if the firm is overdiversified, the necessary managerial resources to effectively control all the different units will not be available (Penrose, 1959). Therefore, the higher the diversification, the higher the complexity of the firm, which requires overall higher coordination costs and time, to a point that surpasses the ability and capacity of the managers of the company. Ultimately, because the company does not have enough financial and human resources to coordinate and control all the subsidiaries, it will have to eventually start divesting. This translates into a positive relationship between a firm's level of diversification and divesting (Bergh & Holbein, 1997). Consequently, it is hypothesized that:

H1: A more diversified firm will have a higher probability of divestment.

3.2. Cultural Distance

The relationship between the level of diversification and the probability of divestment can be influenced by various factors, including cultural distance. Cultural distance is intrinsic to internationalization, and, as previously mentioned, it refers to the extent to which cultures differ from each other, in terms of values, beliefs, and norms (Hofstede, 2001). When a firm opts to do business in foreign locations, it will face many difficulties and barriers (Hymer, 1976). This is the reason firms are less likely to expand to culturally distant locations (Beugelsdijk et al., 2023). Foreignness leads to a rise in the costs of doing business abroad, which will eventually jeopardize the business (Zaheer, 1995). The greater the cultural distance between two countries, the higher the transaction costs (Hennart & Larimo, 1998), and the more difficult it will be to transfer competences and capabilities from the home country to the host subsidiary (Kostova & Zaheer, 1999). In this research, cultural distance will be tested as to whether it has an influence on the relationship between the level of diversification and the probability of divestment.

As previously stated, the greater the level of diversification, the more likely a company is to divest, if the business or market is not performing well, or does not fit in the company's strategic objectives anymore. Additionally, this relation will be accentuated as the cultural distance between the company and the market it has diversified into increases, and many are the reasons why. Cultural differences can lead to misunderstandings and miscommunications, which can make it more difficult for companies to manage their operations effectively, since highly diversified companies will have many subsidiaries with distinct values and institutions between their home country and foreign countries of operations (Tihanyi et al., 2005). Moreover, cultural differences can lead to variations in consumer preferences and behavior, which will make it difficult for companies to market their products effectively, as either the company may struggle to understand the local market, adapt to local consumer preferences, or navigate local regulations. Furthermore, the management of an MNE's portfolio with overseas subsidiaries, from a home country, is one of the most pertinent challenges,

when it comes to managing a company with increased international diversity. A strategy many MNEs follow in the beginning of their internationalization process is initially selecting culturally similar locations, for their foreign direct investments (Johanson & Vahlne, 1977). More cultural similarities allow businesses to reach new clients at a lower cost, set up and effectively control operations, and compete against a more homogenous group of local businesses (Barkema & Vermeulen, 1998). However, because competition starts to increase in the culturally similar markets, MNEs are forced to expand to further cultural divergent countries, where they will find many tradeoffs, such as uncertain demand, increased competition, and management problems associated with local production (Benito, 1997). Furthermore, cultural distance intensifies the challenges associated with managing a diversified portfolio of businesses. Managers often face unique challenges that can create barriers to effective decision-making and hinder the company's performance (Roth & O'Donnell, 1996; Geletkanycz, 1997). As a result, highly diversified firms operating in culturally distant markets may face higher costs, inefficiencies, and difficulties in achieving synergies, making divestment a more viable option to streamline operations and improve performance.

In summary, as the international diversification of a MNE increases, so does the probability of divestment of that business, and this probability will increase with the rise of cultural distance between the home country and the portfolio of foreign operations. The higher this cultural distance, the more difficult it is to do business in diversified divisions overseas, which finally leads to divestments. Thus, the following hypothesis will be tested:

H2: A higher cultural distance strengthens the relationship between level of diversification and probability of divestment.

3.3. Number of previous divestitures

Ultimately, prior experience of a firm with divestitures can, likewise, strengthen the relationship between its level of diversification and the probability of divestment. As previously mentioned, the higher the level of diversity of a company, the more subsidiaries it controls, which strengthens organizational complexity and translates into a higher need for more coordination and control responsibilities on managers (Ravenscraft & Scherer, 1987). Experience with previous divestments will increase managers' confidence in controlling this complexity rise, in the most efficient way, due to previous experience learnings, which are an essential determinant of future firm behavior and facilitate managerial decision-making (Haleblian, Kim & Rajagopalan, 2006). In other words, the higher the experience with previous divestitures, the more confident managers are, when it comes to manage the business and decide whether one of the subsidiaries should be divested. The

decision behind divestiture of subunits is less likely to occur when there is little experience, and past performance is poor (Shimizu & Hitt, 2005).

As previously asserted, a company with a higher level of diversification has greater probability of incurring in divestments, since there is a constraint of resources due to overdiversification. Additionally, when considering a largely diversified firm, managerial slack is already very limited, so divestiture is a tool used to free up a manager's time and attention to respond to further changes in the firm (Vidal & Mitchell, 2018). However, when the management team of a highly diversified company possesses knowledge and experience regarding the divestment process, there will be a reduction in both the costs and time associated with the process. Managers will be more confident in recommending divestments, and like that are able to control the diversification complexity increase in a more efficient way, so that the process will take less time and carry less risks, as they go through it with higher confidence and certainty. Thus, it is hypothesized that:

H3: A larger number of previous divestitures strengthens the relationship between level of diversification and probability of divestment.

4. Methodology

4.1. Data

The previously mentioned hypotheses will be tested on a sample of all the M&A deals conducted by companies listed on the Amsterdam stock exchange, that performed divestments, in the timeframe from 1988 and 2017. The source of the data will be BoardEx and Refinitiv databases, and the previous annual reports provided by the company.

4.2. Variables and Controls

Dependent Variable

Probability of divestment – is the dependent variable of the study, and will be measured using a dummy variable, to capture the likelihood a company has for divesting in a year. Divestitures include publicly disclosed sell-offs, spin-offs, carve-outs, and asset liquidations. (Lee & Madhavan, 2010).

Independent Variables

Firm diversification level – This independent variable represents the level of diversification that the focal firm holds, and it will be measured by the count of the Standard Industrial Classification (SIC) codes, which represent the number of different business lines the company is active in. The count measure will range from 1 to 8 industries.

Cultural distance – Is a moderator referred to as the degree to which common norms and values vary from one culture to another (Hofstede, 2001). In his original model (1980), Hofstede identified four cultural dimensions, which represent differences among national cultures: power distance, uncertainty avoidance, individualism/collectivism and masculinity/femininity. This moderator will be measured by these four dimensions, through the use of the traditional Kogut and Singh (1988) index. The method applies the variations in the scores on Hofstede's (1980) cultural dimensions between the foreign country being considered and the home country of the MNEs, specifically the Netherlands in this case (Rian et al., 2006). These variations are adjusted for disparities in the distribution of each dimension and subsequently combined through arithmetic averaging. Mathematically:

$$CD_j = \sum_{i=1}^{4} \{(I_{ij} - I_{iN})^2 / V_i\} / 4$$

Where CD_j is the cultural distance between country j and the Netherlands, I_{ij} is country j's score on the ith cultural dimension, I_{iN} is the score of the Netherlands on this dimension, and V_i is the variance of the score of the dimension.

Number of previous divestments – This moderator measures the number of prior divestments made by the focal firm over the last years. A count eliminates issues with data availability for divestiture value and alleviates that impact (Haynes et al., 2003). As a result, a count model specification will be used, where the value might be either positive or zero.

Controls

The relationship under investigation may potentially be impacted by a variety of other variables. As a result, these will be used as control variables in the model. The four controls that were most often considered in comparable research were chosen. These address the impact of several levels of analysis, including those on the decision maker, the firm, the industry, and the whole economy. The controls are in order: the presence of a change in CEO, the firm size, the industry average return on assets, and GDP growth.

Change in CEO: A dummy to account for a change in CEO in the previous years will be included, to take into consideration the fact that a new CEO translates into a new M&A strategy (Nadolska & Barkema, 2014) and an inclination to modify what the present situation is (Feldman, 2014; Shimizu & Hitt, 2005).

Firm size: Due to their greater pool of resources, larger organizations engage in more portfolio restructuring efforts than smaller ones, according to prior studies (Vidal & Mitchell, 2015). Thus, it is expected that the firm size may have an impact on transaction behavior and company performance (Nadolska & Barkema, 2014). Firm size will be measured by the number of employees working in the company.

Industry average return on assets (ROA): This control variable takes into account the impact of rivals in the market every year, which is crucial in a sector that is always evolving (Gautam & Pan, 2016). This variable will calculate the industry's average returns on assets (Vidal & Mitchell, 2015, 2018).

GDP growth: The impact of the year (Berry, 2010) and the national economy will be captured by this variable measuring GDP growth, which may have an impact on the volume of acquisitions and divestitures (Nadolska & Barkema, 2014).

	Unit	Type	Operationalisation	Source
Probability of Divestment	Dummy	DV	Dummy of the deal's divestment	Refinitiv
Diversification level	0, 1, 2, …	IV	Count of SIC codes	Refinitiv
Cultural Distance	Continuous	Moderator	Kogut and Singh (1988) index	Geert Hofstede database
Previous Divestments	0, 1, 2, …	Moderator	Count of previous divestments	Refinitiv
Change in CEO	Dummy	Control	Dummy of the change in CEO	BoardEx
Firm Size	0, 1, 2, …	Control	Number of employees	Refinitiv
ROA Industry	%	Control	Industry specific ROA	Refinitiv
GDP growth	%	Control	Netherlands GDP growth	International Monetary Fund

Table 1: Summary of variables

5. Analysis

5.1. Descriptive Statistics

The inclusion of descriptive statistics (Appendix A) helps to understand the various variables involved within the study.

Starting with the dependent variable, probability of divestment, it was measured using a dummy variable, that accounts for the M&A deal divestment. This implies that if a given deal got divested, the dummy variable will have the value of 1. Otherwise, in case it wasn't divested, it will have a 0 value. The dataset is composed by the M&A deals, conducted between 1988 and 2017, by 91 companies listed in the Amsterdam stock exchange. Out of the 1101 deals, 54 got divested. This indicates that 4.9% of the deals were divested.

Regarding the independent variables, firm-level diversification was assessed by quantifying the number of distinct business lines in which the company operates in, and in the sample, the average number is 4.75 industries, with the maximum of 8 industries and the minimum of 1. Concerning the cultural distance between the home and the target country, the mean distance is 1.506, and the maximum is 9.138. The divestment experience was measured by the count of all previous divestments conducted by the company, and on average, these companies had conducted 9.55 divestments previously.

As for the controls, the change in CEO was measured by a dummy variable, and 3% of the firms studied had at least one change in CEO, in the year the deal was made. The average firm size was 62977 employees, the smallest firm included 9 employees and the largest firm had 605500 employees. Concerning the industry ROA, the average value is 6,742, the minimum is -80,689 and the maximum is 183,021. Finally, the minimum GDP growth registered in the Netherlands was -3.667, in 2009, and the maximum value was 5.032, recorded in 1999.

Both graphical methods and the skewness and kurtosis tests were employed to assess the normality of all variables (Appendix A). Skewness values falling outside the range of -1 to +1 indicate a substantially skewed distribution. A positive value on kurtosis indicates a relatively peaked distribution, and a negative value indicates a relatively flat distribution (Hair et al., 2018). Variables such as the number of previous divestments (skewness = 2,562, kurtosis = 6,103) and industry ROA (skewness = 4,066, kurtosis = 97,574) were recognized as not normally distributed, due to their high values of skewness and kurtosis. Firm size does not present issues of non-normality. All the other variables were considered normally distributed, apart from the variable probability of divestments and change in CEO, as both are dummy variables. Furthermore, potential outliers were detected; however, no observations were eliminated from the data as the model was tested with and without them.

For the variables firm size, industry ROA and number of previous divestments, a logarithm transformation was conducted (Appendix B), so the results of the analysis are more interpretable and meaningful (Lee, 2020).

Appendix C illustrates the Pearson correlations among all the variables used in this study. There are no overall strong correlations between the variables, nevertheless the strongest correlation observed is between the firm size and the number of previous divestments (Pearson correlation: 0,429, p-value < 0,01), which suggests that as firm size increases, the likelihood or frequency of divestments also tends to increase, as a strategic action to optimize their portfolio or reallocate resources. Furthermore, the firm size and cultural distance are mildly correlated (Pearson correlation: 0,318, p-value < 0,01). This correlation is expected, as it is a known fact (Beugelsdijk et al,. 2018). Similarly, the GDP growth and ROA industry are softly correlated, which hints that as GDP growth increases, there is a tendency for ROA to also increase in the industry.

5.2. Logistic Regression Model

As the dependent variable in this study is a dummy variable of the deals that got divested, that takes only two values (0 or 1), and in the model we have multiple independent variables, a logistic regression model will be used to test the hypotheses (Bergh et al., 2008), as it is specifically designed for situations where the dependent variable is a dummy variable (Hair et al., 2018).

In this scenario, the dummy variables of the model (both probability of divestment and change in CEO) are both not normally distributed, as well as some independent and control variables, such as the number of previous divestments and industry ROA. However, that is not a problem in this case, since logistic regression does not assume that variables have to be normally distributed. Additionally, the size of the sample has to be big enough. Authors such as Hosmer and Lemeshow (1980) recommend sample sizes greater than 400, which is the case in this research. Logistic regression assumes, additionally, that the logit of the probability of the outcome follows a linear relationship with the predictor variables and independence of observations, which are both the case on this research, since the presence or absence of the outcome in one observation does not influence the presence or absence in other observations.

Moreover, the regression model assumes no multicollinearity among the predictors. Multicollinearity occurs when the model includes multiple factors that are correlated to each other, and it can be a problem in the regression because it can lead to unreliable estimates of the coefficients of the independent variables (Hair et al., 2018). Essentially, it increases the difficulty of the process that determines which independent variable is influencing the dependent variable. In this case, by taking into consideration the Pearson correlations table (Appendix C), we see that there is no

multicollinearity between the variables, as all correlation values are low and there are no cross loadings.

The dependent variable, probability of divestment, is regressed onto the full set of controls, independent variables and lastly, onto the interaction terms. The results are present in Table 2.

The first model reports the testing with the full set of control variables. In this first model 919 cases out of 1100 were included in the analysis. Cox & Snell R^2 equals to 0,004 and Nagelkerke R^2 to 0,013, which means that only 1,3% of the variance in the outcome (either they divested or not), can be explained by the control variables. The Omnibus tests shows that the model is non-significant with the significance level of 0,405, higher than 0,05, which demonstrates that there isn't a significant improvement in fit, as compared to the null model, hence, the model is showing a bad fit. However, according to the Hosmer and Lomeshow test, the model adequately fits the data, as it is non-significant since the significance value is 0,527. Additionally, the model correctly classified 95,1% of cases overall.

Model 2 adds the independent variables diversification level, cultural distance and previous number of divestments. 722 out of 1100 of the cases were included in the analysis. This model correctly classified 94,3% of the cases. The value of Cox & Snell R^2 is 0,019 and Nagelkerke R^2 is equal to 0,054, which indicated that 5,4% of the variance in the outcome, can be explained by the control and independent variables. According to the Omnibus tests this model is still insignificant, with a significance level of 0,053 (still slightly higher than 0,05), which demonstrates that there isn't a significant improvement in fit, as compared to the null model, hence, the model is showing a bad fit. Nevertheless, according to the Hosmer and Lomeshow test, the model still adequately fits the data, as the significance value is 0,206.

The last model (Model 3) adds to the present variables two interaction terms, cultural distance*diversification level, and previous number of divestments*diversification level. The interaction terms were used to test the influence that both moderator variables have on the relationship between the independent and dependent variable. In this model, the number of cases included in the analysis were 722. This model still correctly classified 94,3% of the cases. The value of the Cox & Snell R^2 is 0,024, and the Nagelkerke R^2 increased vaguely, and is now equal to 0,067. As for the Omnibus tests, it is now significant, as the significance level equals to 0,042, which proves that the model is finally showing a good fit. The Hosmer and Lomeshow test support that the model fits adequately the data, as the significance level is 0,522.

Dependent variable: Probability of Divestment: deal divested: 1, deal not divested: 0	Model 1 Controls			Model 2 Controls + Independent Variables			Model 3 Controls + Independent Variables + Interaction Terms		
	β	*S.E.*	*Exp(β)*	*β*	*S.E.*	*Exp(β)*	*β*	*S.E.*	*Exp(β)*
Control variables									
Change in CEO (dummy)	0,613	0.629	1,846	0,482	0,661	1,619	0,553	0,663	1,738
Firm Size (ln)	0,184	0,171	1,202	0,388*	0,218	1,474	0,364*	0,215	1,440
ROA Industry (ln)	-0,393	0,564	0,675	-0,365	0,605	0,694	-0,353	0,604	0,703
GDP growth	0,126	0,101	1,134	0,086	0,101	1,089	0,082	0,102	1,085
Independent variables									
Diversification level				-0,058	0,071	0,944	-0,208*	0,122	0,812
Cultural Distance				-0,446**	0,155	0,640	-0,546	0,341	0,579
Previous Divestments (ln)				-0,415	0,358	0,660	-1,731**	0,804	0,177
Interaction terms									
Cultural Distance x Diversification level							0,012	0,064	1,012
Previous Divestments x Diversification level							0,254*	0,138	1,289
-2 log-likelihood		355,245			300,916			297,413	
Cox and Snell R^2		0,004			0,019			0,024	
Nagelkerke R^2		0,013			0,054			0,067	
Model χ^2		4,011			13,923			17,426	
Overall Correct Percentage		95,1			94,3			94,3	

**p<0,1 **p<0,05 ***p<0,005*

Table 2: Logistic Regression Results

Testing H1

Hypothesis 1 projected that a more diversified firm will lead to a higher probability of divestment. This hypothesis was tested in model 2 and 3, however, only in model 3 the coefficient of the variable was statistically significant, which means that only in this model we can verify the influence of the independent variable, diversification level, in the dependent variable. Model 3 is significant (chi square is 17,426, p-value < 0.001) and the parameters as well (Cox and Snell R^2 is 0.024 and Nagelkerke R^2 is 0.067).

The overall results reject hypothesis 1, since the coefficient of the variable diversification level is significant (p-value<0,1), but the coefficient is negative (β=-0,208), which indicates a negative relation between the diversification level and the probability of divestment. This coefficient translates into a reverse relationship between these two variables: with every percentage increase in the number of industries a firm is active in, the probability of divestment decreases by 0,208.

Testing H2

According to the prediction of Hypothesis 2, the higher the cultural distance between the home and host country, the stronger the relationship between level of diversification and probability of divestment. Model 3 tested this hypothesis, and through the use of the interaction term Diversification Level*Cultural Distance (Figure 2), we are able to test the effect of the moderator in the relationship

between the independent and dependent variable. Model 3 is significant (chi square is 17,426, p-value < 0.001) and so are the parameters (Cox and Snell R^2 is 0.024 and Nagelkerke R^2 is 0,067).

Even though the coefficient of the interaction term is positive (β=0,012), the lack of statistically significance suggests that the data does not provide sufficient evidence to extract any conclusion. Therefore, it would be inappropriate to claim that the hypothesis is supported if the beta coefficient is positive, as statistically significant evidence is necessary to confidently support a hypothesis in hypothesis testing. Therefore, no conclusions can be drawn from the analysis, regarding the effect of the moderator in the relationship between the level of diversification and probability of divestment, theorized in hypothesis 2.

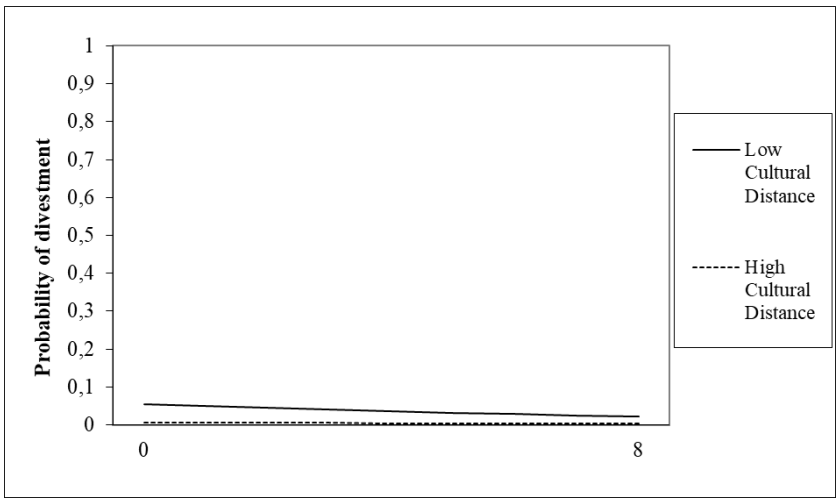

*Figure 2: Divestment level * Cultural distance*

Testing H3

Hypothesis 3 predicted that the larger the number of previous divestitures, the stronger the positive relationship between level of diversification and probability of divestment would be. This hypothesis was tested as well in Model 3, by the interaction term Diversification Level*Number of Previous Divestments, visually represented in Figure 3, which accounts for the effect that the number of previous divestments has on the relationship between level of diversification and probability of divestment.

The coefficient of the interaction term is positive (β=0,254) and statistically significant, which supports Hypothesis 3. This coefficient translates into a positive relationship between these two variables: with every percentage increase in the number of previous divestments conducted by the

firm, the strength of the relationship between the level of diversification and probability of divestments increases by 0,254.

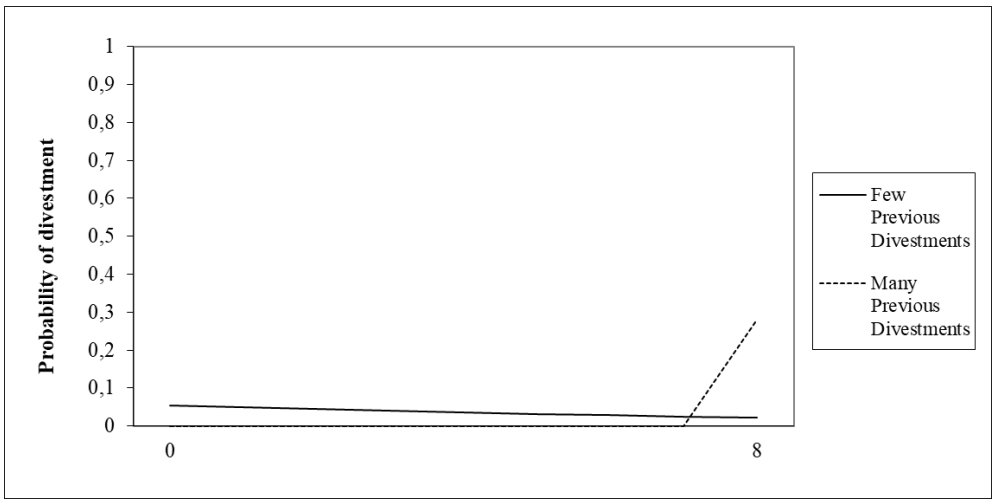

*Figure 3: Diversification level * Number of previous divestments*

Hypothesis	Hypothesised influence on divestment intensity	M3: controls + IVs + ITs	Outcome
H1: Diversification level	+	-0,208*	Rejected
H2: Diversification level x Cultural Distance	+	0,012	Not supported
H3: Diversification level x Number of previous divestments	+	0,254*	Supported

Table 3: Summary of the hypothesis testing results

5.3. Sensitivity Analysis

To validate the robustness of the aforementioned results, we can go through some sensitivity analyses, where the sampled deals are analysed similarly, but some modifications take place. Firstly, the moderator variable number of previous divestments will be recorded as a dummy variable, and moreover, the variables that previously had the logarithmic transformation, will now be used in their normalised form.

Divestment Experience Dummy

First, the count of the number of previous divestments conducted by the company, ranging from 0 to 74, was transformed into a dummy variable (taking the values 0 or 1). Applying again a logistic regression, the following results were obtained (Appendix D). Even though all models are significant (p-value<0,001), none of the coefficients, for the different hypothesis, are significant, except for both moderators in model 2. Therefore, the addition of a dummy divestment experience variable adds no additional insight to our analysis. This proves the robustness of the previously analysed results.

Normalized variables

The controls firm size, industry ROA and number of previous divestments, that previously were transformed to their logarithmic form, are now analysed in their natural form. A new logistic regression was applied, and the results are presented in Appendix E.

All models, except for model 3, exhibited significance according to the Hosmer and Lomeshow test (p-values>0,05). However, that was not the case according to the Omnibus tests, as the significance values in all the models for these tests are higher than the p-value 0,05, which demonstrates that there is not a significant improvement in fit, as compared to the null models. This proves that the models are showing a bad fit.

Interpreting hypothesis 1, the coefficient for the variable diversification level, both in model 2 and 3, is non-significant (p-value>0,1). Because the coefficient is not statistically significant, this model does not support the hypothesis, and we are not able to predict what the relation between the variables diversification level and probability of divestment is. Regarding hypotheses 2 and 3, the coefficients for these variables analysed in model 3 are, as well, not significant (p-value>0,1), which prevents any potential interpretation of the hypotheses' outcome.

Through this sensitivity analysis, we were not able to extract any type of additional result that aligns with the previous findings, showcasing the robustness of those results. Moreover, this analysis reaffirms the importance of transforming some variables into their logarithmic form. Without this transformation, our primary analysis would lack conclusive results, that are significant for drawing meaningful conclusions.

6. Discussion

Most of the existing literature pertaining to firms' internationalization primarily concentrates on the expansion of their international business operations, mostly on the M&A activities undertaken by these companies (Benito & Welch, 1997). In contrast, the study of divestments carried out by multinational corporations remains relatively underexplored, with limited and conflicting literature, warranting the need for additional research in this area. In an effort to address this gap, this research incorporated variables such as diversification level, cultural distance and divestment experience, to shed light on why expanding firms tend to divest more frequently than others. This approach offers a more comprehensive viewpoint of corporate portfolio restructuring. The findings for each hypothesis are summarized below and integrated into the conceptual model.

H1: A more diversified firm will have a higher probability of divestment. Results: Rejected – wrong direction, significant
H2: A higher cultural distance strengthens the positive relationship between level of diversification and probability of divestment. Results: Not supported – non-significant
H3: A larger number of previous divestitures strengthens the positive relationship between level of diversification and probability of divestment. Results: Supported – significant

Table 4: Summary of findings

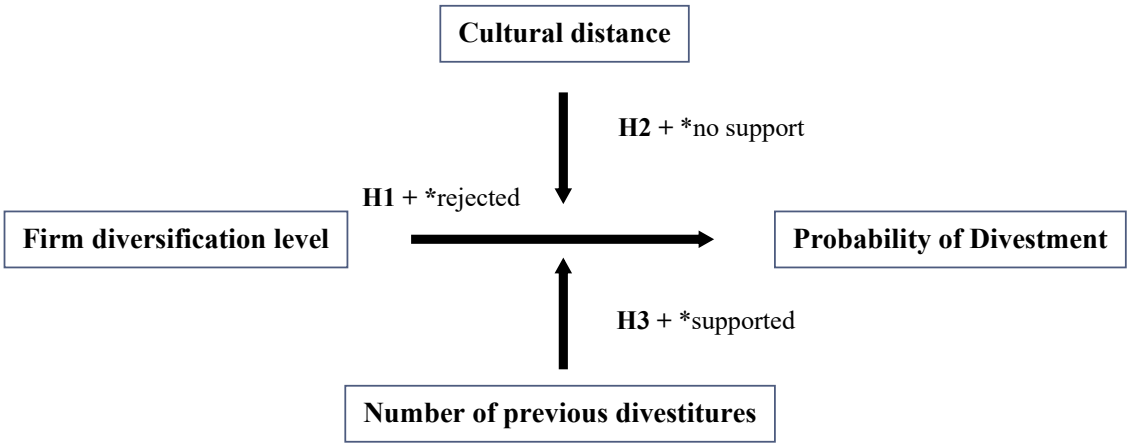

Figure 4: Conceptual model and findings

6.1 Main Findings

This research paper started with the following research question:

How does firm diversification level influence divestment? What is the impact of cultural distance and the previous divestiture activity in this relationship?

Diversification as a reason behind divestment

The first research question related the level of diversification to the probability of divestment. This hypothesis was rejected by the results of the analysis. According to the findings of the logistic regression, companies with higher levels of diversification are more likely to maintain their investments and resist the need for divestment.

This outcome aligns with the commonly accepted belief that bigger, stronger and more established companies are less inclined to engage in divestment activities. The reasons behind it are several (Reed & Luffman, 1986). First of all, larger businesses often have greater resources and financial stability, which enables them to better resist market swings and economic downturns. Second, larger businesses may have a more varied portfolio of products and services due to their vast market reach and well-established brand recognition. Diversification also reduces the need for divestitures by decreasing the risks connected with certain product lines or industries. Furthermore, established businesses can benefit from economies of scale and have a cost advantage over their rivals because of their bigger size and market domination.

Despite contradicting the initial research prediction, this finding provides additionally support to the premise that divestment and diversification share an inverse relationship, which suggests that, in reality, divestments play a role in shaping the level of diversification. This outcome was proved in Bergh & Holbein, (1997) and Haynes et al. (2003) studies. As previously stated, divestments are commonly employed to decrease diversification, enabling firms to mitigate the costs associated with managing multiple business units. Additionally, divestments facilitate the reconfiguration of internal governance structures to enhance efficiency, redirect assets toward more valuable uses, establish a more cohesive and tightly focused group of business units, and provide long-term protection against managerial employment risks (Bergh & Holbein, 1997).

The influence of cultural distance

Regarding the first portion of the last research question, it was hypothesized that the higher the cultural distance, the stronger the relationship between the level of diversification and the probability

of divestment. The findings do not support the hypothesis since the interaction term Diversification Level*Cultural Distance (Figure 2) was not found to be statistically significant. Even though the findings do not support this expected influence, it is important to consider the potential practical and theoretical implications and the role it might play in specific subgroups or under different conditions.

Moreover, it is still an established fact that, as the cultural distance between countries increases, so do the disparities in cultural norms, values, and customs, between the home and host countries (Hennart & Larimo, 1998), which makes it more difficult to do business overseas and harder to transfer competences and capabilities from the home country to the host subsidiary (Kostova & Zaheer, 1999).

The influence of previous divestment experience

The analysis results supported the influence of previous divestment experience, which was addressed in the final part of the last research question, that analysed the relationship between diversification level and the probability of divestment. In line with the hypothesis, the higher the number of previous divestments, the stronger would be the relationship between the diversification level and the probability of divestment. Because the analysis results support the hypothesis, it allows us to confidently assert that firms with a history of divestment transactions are more inclined to engage in divestment activities in the future.

As previously mentioned, several factors contribute to this relationship. Firstly, previous divestment experiences provide firms with valuable knowledge and lessons learned, making managers more comfortable and confident in executing divestment strategies in the future. Secondly, firms with a history of divestments may have a greater understanding of the benefits and potential gains associated with divestment, leading to a higher likelihood of pursuing such actions. Additionally, organizational inertia and a desire to streamline operations and refocus resources may drive firms with prior divestment experiences to continue divesting non-core or underperforming assets. Lastly, market conditions, changes in industry dynamics, and strategic shifts, may also influence the propensity for divestment among firms with a track record of prior divestment experiences.

An additional motive for managers to divest is the constraint of resources, in the case of overdiversification. In the context of a highly diversified firm, the availability of managerial slack is already constrained. Therefore, divestiture serves as a valuable tool to alleviate the burden on managers by freeing up their time and attention, enabling them to effectively respond to additional changes within the organization (Vidal & Mitchell, 2018). Divestiture allows managers to streamline operations and focus their efforts on strategic areas that require immediate attention, ultimately enhancing the firm's agility and responsiveness to evolving business dynamics.

6.2. Theoretical and Managerial Implications

The identified themes in this study hold both theoretical and managerial implications, and this study makes several contributions to the existing literature on the motivations behind divestments.

Firstly, it expands the understanding of a firm's selling behavior, beyond a narrow focus on the probability of divesting individual units, by analysing the overall magnitude of the selling behavior. By taking the diversification level into account and studying the influence that it has on the divestment likelihood of a firm, this study perceives the firm as a whole, and not only at an individual unit level. Moreover, examining data from multiple industries and holding external factors constant, strengthens the focus of the study on the country level.

Secondly, it bridges the literature on the cultural distance and the determinants of contraction decisions, viewing the firm as a unified entity with limited resources. This perspective reveals the varying strength of the relationship between firm characteristics and the probability of divestitures. From a theoretical perspective, the study of cultural distance when linked to probability of divestment contributes to the existing literature on international business and strategic management. It emphasizes the significance of considering cultural factors when studying divestment decisions, expanding our understanding of how cross-cultural variations can impact firm strategies. From a managerial perspective, this research provides practical insights for executives and decision-makers. By recognizing the influence of cultural distance, managers can incorporate cultural analysis into their strategic evaluations. Understanding the cultural nuances and potential challenges in foreign markets can guide firms in making informed decisions.

Moreover, the positive relationship between the number of previous divestment experiences and the probability of divestment adds to the literature on organizational learning and decision-making. This finding highlights the importance of organizational knowledge and experience in shaping divestment strategies. It suggests that firms with a history of divestments possess valuable insights and capabilities that influence their future divestment decisions. Additionally, the implications of previous divestment experiences suggest that managers should leverage past divestment knowledge as a resource. Learning from previous divestments can enhance decision-making processes, allowing managers to identify underperforming assets and streamline operations more effectively.

By examining different aspects of divestiture behavior, exploring relatedness, and highlighting managerial decision-making, this research paves the way for future studies to further advance knowledge in the field of corporate portfolio restructuring. Furthermore, it addresses a notable gap in the divestiture literature by providing managerial implications. Contrary to previous studies (Bergh & Lawless, 1998), it confirms that divestiture plays a pivotal role in portfolio redefinition and enables managers to allocate their time and resources to pursue new opportunities. The presented results

highlight the strategic relevance of divestiture for managers and underscore its potential to enhance a firm's overall performance and growth.

In summary, the study's results serve as a valuable resource for managers, enabling them to make more informed decisions, anticipate changes, and effectively manage corporate restructuring. By considering the broader consequences of expanding internationally, understanding the impact on resource allocation and managerial attention, and taking into account control variables, managers can strategically plan their actions and optimize the overall performance of the firm.

6.3. Limitations and Opportunities for Future Research

Although this study yielded interesting findings, it is important to acknowledge several limitations. Firstly, the study's sample was limited to firms listed in the Amsterdam stock exchange, due to variations in information availability across countries. While there is potential for additional research on multiple Dutch companies, it is important to note that Dutch firms operate within a relatively small and open economy (Nadolska & Barkema, 2014). Consequently, conducting the same research on companies in countries with larger markets, such as the United States, may reveal distinct patterns. Expanding the scope of the research to include other countries would contribute to the external and international validity of the findings, providing a more comprehensive understanding of board diversity. Such an extension would yield richer evidence and enhance the overall robustness of the study. Furthermore, the sample exclusively consisted of listed companies from which data could be readily obtained. This selection process based on data availability may introduce bias into the dataset. As a result, the study's findings may not be easily generalizable to firms in other countries or non-listed entities.

Expanding on these points, there are some recommendations for future research. The first suggestion pertains to the sample selection. In this study, only firms that engaged in M&A deals at least once during the examined period were included. However, to enhance sample representativeness, it would be beneficial to incorporate all firms, irrespective of their portfolio activities during the specified timeframe. By broadening the sample to include all firms would provide a more comprehensive understanding of the phenomenon. Another limitation to address is the availability of divestment data. In this study, the analysis was constrained by the data availability, specifically related to divestment activities. As stated previously, divestments are still an under investigated area, and further research is extremely necessary.

Hence, similar to other empirical investigations, it is crucial to exercise caution when extrapolating our findings to different institutions. Therefore, I highly encourage fellow researchers to delve into this relationship at the national level of their respective countries. By conducting further

exploration, a more nuanced understanding of the relationship can be obtained, ensuring the contextual relevance and applicability of the findings to diverse settings.

6.4. Research Ethics

This study was carried out with careful consideration for ethical principles, as outlined by the APA (Smith, 2003). As this thesis relies on quantitative analysis using data from BoardEx and Refinitiv databases, concerns arise regarding confidentiality and privacy. However, appropriate measures have been taken to address these concerns, and they are not significant. To avoid any potential deception arising from mishandling of data, both raw and processed versions have been stored, and transformations have been conducted cautiously and with proper referencing when necessary. Furthermore, no data has been altered or deleted without valid justification and corresponding references. Lastly, adherence to the research integrity agreement serves as a final step in ensuring ethical conduct.

7. Conclusion

What are the motives behind divestments? What is the influence of factors such as diversification level, cultural distance, and divestment experience in this variable?

This study aimed to address significant questions, relevant to both researchers and managers, as timely divestiture plays a crucial role in a firm's financial well-being (McKinsey, 2002). To do so, a sample of all the M&A deals conducted by companies listed on the Amsterdam stock exchange, that performed divestments, in the timeframe from 1988 and 2017, was analysed through logistic regression analyses.

The findings of this study validate that when a company ventures into diverse business areas it is less likely to engage in divestment, as opposed to what was initially hypothesized. On the other hand, when the managers of a firm have prior experience with divestment activities, there is a higher likelihood of engaging in divestment as a response. Furthermore, contrary to the prediction of the hypothesis, the findings of this study indicate that there is no significant relationship between cultural distance and the relationship between diversification and divestment. Despite expectations suggesting a positive influence on relationship between these variables, the analysis revealed no statistically significant evidence to support it.

These results, therefore, contribute to the knowledge on the determinants of divestment and open up multiple avenues for future research to investigate more closely how exactly behavioral factors influence decision-making in foreign divestments. Lastly, this research will assist managers in comprehending the relationship between their expansion decisions and subsequent contraction activities, to effectively manage their corporate portfolios.

Appendices

Appendix A: Descriptive Statistics before variables transformation

	Min	Max	Mean	St. Dev.	Skewness	Kurtosis
Probability of Divestment (dummy)	0	1	0,05	0,216	4,180	15,498
Diversification level	1	8	4,75	2,215	-0,229	-0,931
Cultural Distance	0	9,138	1,506	1,268	1,109	4,24
Previous Divestments	0	74	9,55	16,038	2,562	6,103
Change in CEO (dummy)	0	1	0,03	,180	5,181	24,883
Firm Size	9	605500	62977,13	94970,128	1,731	2,169
ROA Industry	-80,689	183,021	6,742	9,938	4,066	97,574
GDP growth	-3,667	5,032	2,47826	1,862	-1,194	2,016

Appendix B: Descriptive Statistics after variables transformation

	Min	Max	Mean	St. Dev.	Skewness	Kurtosis
Probability of Divestment (dummy)	0	1	0,05	0,216	4,180	15,498
Diversification level	1	8	4,75	2,215	-0,229	-0,931
Cultural Distance	0	9,138	1,506	1,268	1,109	4,240
Previous Divestments (ln)	0	4,3	1,715	1,255	0,298	-0,824
Change in CEO (dummy)	0	1	0,03	0,180	5,181	24,883
Firm Size (ln)	2,2	13,31	9,470	2,249	-0,655	0,089
ROA Industry (ln)	-2,45	5,21	2,030	0,655	-1,584	6,671
GDP growth	-3,667	5,032	2,478	1,862	-1,194	2,016

Appendix C: Pearson correlations Table

	1	2	3	4	5	6	7	8
1. Probability of Divestment (dummy)	1							
2. Diversification level	-0,01	1						
3. Cultural Distance	-0,072*	0,059	1					
4. Previous Divestments (ln)	-0,014	0,156**	0,115**	1				
5. Change in CEO (dummy)	0,028	-0,04	-0,015	0,127**	1			
6. Firm Size (ln)	0,051	0,268**	0,318**	0,429**	0,05	1		
7. ROA Industry (ln)	-0,005	0,031	0,087**	-0,042	-0,069*	0,139**	1	
8. GDP growth	0,043	0,03	0,048	-0,148**	0,016	0,117**	0,316**	1

**p<0.05 **p<0.01*

Appendix D: Sensitivity Analysis (Dummy Divestment Experience)

Dependent variable: Probability of Divestment: deal divested: 1, deal not divested: 0	Model 1 Controls			Model 2 Controls + Independent Variables			Model 3 Controls + Independent Variables + Interaction Terms		
	β	*S.E.*	*Exp(β)*	*β*	*S.E.*	*Exp(β)*	*β*	*S.E.*	*Exp(β)*
Control variables									
Change in CEO (dummy)	0,613	0.629	1,846	0,316	0,644	1,372	0,288	0,646	1,334
Firm Size ln	0,080	0,074	1,083	0,137	0,086	1,147	0,300	0,197	1,349
ROA Industry ln	-0,170	0,245	0,843	-0,161	0,251	0,852	-0,352	0,580	0,703
GDP growth	0,126	0,101	1,134	0,115	0,098	1,122	0,115	0,098	1,122
Independent variables									
Diversification level				-0,045	0,070	0,956	0,173	0,310	1,189
Cultural Distance				-0,447***	0,150	0,639	-0,547	0,335	0,578
Previous Divestments (dummy)				1,295**	0,627	3,652	2,643	1,907	14,056
Interaction terms									
Cultural Distance x Diversification level							0,022	0,063	1,022
Previous Divestments x Diversification level							-0,259	0,322	0,771
-2 log-likelihood		355,245			332,004			331,264	
Cox and Snell R^2		0,004			0,021			0,022	
Nagelkerke R^2		0,013			0,066			0,068	
Model χ^2		4,011			19,411			20,151	
Overall Correct Percentage		95,1			95,1			95,1	

**p<0,1 **p<0,05 ***p<0,005*

Appendix E: Sensitivity Analysis (Normalized Variables)

Dependent variable: Probability of Divestment: deal divested: 1, deal not divested: 0	Model 1 Controls			Model 2 Controls + Independent Variables			Model 3 Controls + Independent Variables + Interaction Terms		
	β	*S.E.*	*Exp(β)*	*β*	*S.E.*	*Exp(β)*	*β*	*S.E.*	*Exp(β)*
Control variables									
Change in CEO (dummy)	0,597	0.623	1,818	0,558	0,642	1,748	0,513	0,653	1,671
Firm Size	0	0	1	0*	0	1	0*	0	1
ROA Industry	-0,007	0,016	0,993	-0,007	0,016	0,993	-0,006	0,016	0,994
GDP growth	0,097	0,089	1,102	0,077	0,090	1,080	0,077	0,090	1,080
Independent variables									
Diversification level				-0,022	0,069	0,978	-0,007	0,104	0,993
Cultural Distance				-0,324**	0,138	0,723	-0,322	0,307	0,725
Previous Divestments				0	0,010	1	0,016	0,040	1,017
Interaction terms									
Cultural Distance x Diversification level							0,001	0,058	1,001
Previous Divestments x Diversification level							-0,003	0,006	0,997
-2 log-likelihood		398,897			384,809			384,621	
Cox and Snell R^2		0,003			0,009			0,009	
Nagelkerke R^2		0,010			0,029			0,030	
Model χ^2		3,330			9,572			9,760	
Overall Correct Percentage		95,2			95,3			95,3	

**p<0,1 **p<0,05 ***p<0,005*

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