

WHY DO SUBSIDIARIES DIVEST? THE ROLE OF SUBSIDIARY PERFORMANCE, SLACK RESOURCES, AND SUNK COSTS

Chen Lu-Jui^{1*}, Lee Wen-Ruey², and Hsu Yu-Hsuan³

¹*Department of International Business, Ming Chuan University, 250 Zhong Shan N. Rd.,
Sec. 5, Taipei 111, Taiwan*

²*Department of International Business, National Taipei University of Business, No.321,
Sec. 1, Jinan Rd., Zhongzheng District, Taipei City 100, Taiwan*

³*Botrista Technology Taiwan Co., Ltd., 10 F., No. 42, Xuchang St., Zhongzheng Dist.,
Taipei City 10047, Taiwan*

*Corresponding author: shunyde@mail.mcu.edu.tw

Published online: 30 June 2023

To cite this article: Chen, L. -J., Lee, W. -R., & Hsu, Y. -H. (2023). Why do subsidiaries divest? The role of subsidiary performance, slack resources, and sunk costs. *Asian Academy of Management Journal*, 28(1), 113–137. <https://doi.org/10.21315/aamj2023.28.1.5>

To link to this article: <https://doi.org/10.21315/aamj2023.28.1.5>

ABSTRACT

Subsidiaries are important in the global strategy of multinational enterprises (MNEs). However, in the face of uncertainty and competition, the decision to divest a subsidiary from a market becomes a critical decision for MNEs. This study suggests that the factors for divesting subsidiaries are related not only to the performance of the subsidiary but also to slack resources and sunk costs. It analysed 254 subsidiaries in Taiwan and found that the better the subsidiary's performance is, the less it would decide to divest from the market. Additionally, it was found that the subsidiary with slack resources would be a moderating variable with a positive impact. In addition, the presence of sunk costs reinforces the positive effect of slack resources on the relationship between subsidiary performance and the non-divestment of the subsidiary. Overall, this study points to the significance of subsidiary performance on decision-making and explains the influence of slack resources and sunk costs.

Keywords: divestment, slack resources, sunk cost, subsidiary, MNEs

INTRODUCTION

Divestment is more than about stopping losses. Sometimes, leaving a market is important for the company to refocus on the next valuable activity (Berry, 2013). The phenomenon of subsidiary divestment has been discussed in many studies (e.g., Arte & Larimo, 2019; Belderbos et al., 2021). From a corporate level, the divestiture of a subsidiary means not only the removal of assets, but also the adjustment and recalibration of corporate strategy (Madura & Murdock, 2012). Therefore, from an international portfolio perspective, subsidiary investments are of management value; for example, Citibank announced in April 2021 that it was divesting from most of its consumer finance markets in Asia and Europe in preparation for its future transformation. VF Corp., which owns Timberland, North Face, and other brands, issued a statement in January 2021 that it would close its Hong Kong office, which has operated for 25 years. Japan's Sony Interactive Entertainment has also relocated its regional executive team to Singapore. In late 2019, due to the spread of coronavirus disease (COVID-19) epidemic across the world, firms and businesses began to think how to diversify their risks. Thus, whether to divest from their original markets or stay in them has become an important management issue for multinational enterprises (MNEs) when internationalising their investments (Burt et al., 2019; Kaprielyan, 2016; Song & Lee, 2017). In April 2020 for example, the Japanese government planned an economic recovery programme to help firms divest from the Chinese market to readjust their production lines and layout strategies. The MNEs often reallocate their assets using limited resources (Lu & Xu, 2006). Therefore, exits are common in the internationalisation process.

Many studies have focused on the topic of divestment, with a particular emphasis on the factors driving the survival of subsidiaries (Burt et al., 2019; Procher & Engel, 2018). According to a traditional perspective, the headquarters plays the role of a resource provider and decision-maker that affects the performance and survival of the subsidiary (Mohr et al., 2020; Vahlne et al., 2012). However, the headquarters' investment may also become a burden to the subsidiary's decision-making, or the institutional quality of the market may affect the risk of withdrawal from the subsidiary (Doh et al., 2017). Therefore, MNEs need to think holistically about the exit decision of subsidiaries (Benito, 2005; Hong, 2015).

Research has provided different insights into the factors of firm divestment. At the country level, slow market growth and political unrest usually lead to the exit of subsidiaries (Belderbos & Zou, 2009; O'Brien & Folta, 2009). From the headquarters' perspective, it is common to divest problematic, underperforming, or overly fragmented operations (Wu et al., 2021). In short, under the same conditions and context, the decision to divest varies from subsidiary to subsidiary. Among

them, performance is an important predictor of divestment (Mohr et al., 2020), and the MNEs' decision to sell or close a subsidiary reflects the level of performance (Schmid & Morschett, 2020; Lee & Madhavan, 2010). Poor performance is the main reason for divesting from subsidiaries (Song, 2014). Irrespective if it is a MNE or local firm, the goal is to pursue a performance-based operation. Since competitive strategy and performance are of paramount importance to firms (Ismail et al., 2012), this study aims to examine the importance of subsidiary performance in divestiture decisions.

Another factor associated with divestment is the firm's slack resources. According to the resource-based view, a firm's resources can be an important driver of sustained competitive advantage (Barney, 1991; Mahoney & Pandian, 1992). When a subsidiary holds more resources, the effect on its performance is greater. From the perspective of MNEs, the headquarters is usually the resource provider. By providing physical resources, human resources, and transferring organisational capital among others, the headquarters can enhance the added value of the subsidiary's operations and increase the slack resources (Dellestrand & Kappen, 2012), which can help the subsidiary take advantage of local opportunities and reduce the possibility of it exiting (Ambos et al., 2010). Sousa and Tan (2015) argued that slack resources improve subsidiary performance and reduce the decision to exit eventually. Therefore, to have a competitive advantage in the host country market, subsidiary slack resources have become an important key to performance (Barney, 1991; Mathews, 2006).

When applying the concept of resources, sunk costs can be used in the MNE's investments in subsidiaries. Sunk costs are costs that have been paid out and are not recoverable. Specifically, they create a high exit barrier when leaving the market, which delays or prevents managers from making exit decisions (Harrigan, 1985). Subsidiaries that receive fewer resources from headquarters are more likely to leave the market or have less time to switch to a new venture (Ansic & Pugh, 1999). There is another important key to sunk costs. As productivity provides the opportunity to realise higher margins, it provides sufficient compensation for any unrecoverable sunk costs. Therefore, sunk costs are a consideration when investing in a subsidiary. If it is not profitable to cover the sunk costs, then the subsidiary will further consider whether it wants to continue as a going concern (O'Brien & Folta, 2009). In this case, the more resources the headquarters invests, the higher the sunk costs are, and the more difficult it is to transfer the committed resources to other new ventures. This in turn makes it more likely that the decision will be made because of sunk cost considerations, which will make the firm reluctant to leave and less willing to exit. Therefore, the sunk cost is critical to divestment strategy.

It is clear from the foregoing, the divestiture of subsidiaries from the Asian market is important (Zhong et al., 2019) and to that end, many studies have focused on Taiwan as a case study (Dahms, 2019; Min, 2021). The current study makes the following contributions: First, it confirms that subsidiary performance reduces their willingness to divest. Second, the relationship between subsidiary performance and non-divestment intentions is strengthened when the subsidiary has slack resources. Third, using sunk costs as a moderating factor, this study finds that sunk costs further strengthen the effect of slack resources on non-divestment intentions. In sum, the results contribute to theory and practice in the field of international business.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Divestment of Subsidiary

Many terms are used to describe the phenomenon of market exit for MNEs, such as deinternationalisation, divestment, withdrawal, failure, closure, disengagement, liquidation, and sell-off (Burt et al., 2003). Since divestment is a major decision, it has a significant impact not only on the country but also on the capabilities, competitive strategies, and overall performance of MNEs (Berry, 2013).

Divestment is a major event in the external expansion strategy of MNEs and a key theme in international business literature. However, these studies on foreign divestment have several shortcomings. First, it is not possible to simply assume that the factors responsible for foreign direct investment (FDI) are the same as those responsible for foreign disinvestments (Sousa & Tan, 2015). Belderbos et al. (2021) used the joint effect of demand conditions and labour costs to analyse drivers of foreign subsidiary divestments. Arte and Larimo (2019) summarised the findings of 53 articles to offer recommendations on divestment. When a MNC's response to globalisation is determined by international strategies in an increasingly interconnected world, the consequences of divestment should be considered with due attention.

In general, changes in the environment and its characteristics (e.g., the level of competition or economic growth) have a critical impact on the growth and survival of MNEs (Shirodkar & Konara, 2017). Not all subsidiaries can survive in the host country due to environmental and resource impacts. The longevity of the host market becomes a consideration for MNEs when establishing subsidiaries (Buckley, 2007). The decision to leave can be made in two stages. First, the firm

decides on the motivation and reasons for divestiture. Second, it evaluates the available options and makes the best decision (leaving or transferring to another business). Factors such as changes in the business context, exit barriers (Harrigan, 1985), size of exit units (Benito, 2005), business inertia (Shimizu & Hitt, 2005), headquarters decisions (Birkinshaw & Hood, 1998), geographic distance (Pattnaik & Lee, 2014), physical soundness, and physical fitness (Song, 2014), all significantly influence the decision to divest.

Slack Resources

Slack resources are defined as a stock of resources that can be used to achieve corporate goals when an organisation wants to move or redeploy. The existence of a slack resource is mainly to provide a buffer for the organisation to cope with the rapidly changing environment. The existence of slack resources gives the organisation more options. In other words, with slack resources, there is no need to take into account external constraints when formulating investment strategies, and there is no need to revise the direction the firm wants to take due to resource constraints. There is more flexibility in making decisions (Dasí et al., 2015). The range of resources can be considered slack from retained earnings to excess inventory, working capital, and employees.

Slack resources not only exist within the organisation but also can be obtained from resources in the external environment or through debt and equity release (Geiger & Cashen, 2002; Sharfman et al., 1988). According to Wu and Hu (2020), the two types of slack resources are unabsorbed slack and absorbed slack. Unabsorbed slack is a resource that has not been clearly identified for use in organisations while absorbed slack is a redundant resource that has been absorbed for system operation and can be recovered through an organisational redesign. The resources can be recovered through organisational redesign. Regardless of the type of resources, the point is to give the firm more space in decision-making and support the subsequent strategy.

Sunk Costs

Sunk costs affect the management behaviour of firms (Ansic & Pugh, 1999). Sunk costs are historical costs that have been incurred (Yi & Wang, 2012) and cannot be recovered or recouped. Since such a characteristic is irrecoverable, there is no optimal option or stop-loss choice, which is equivalent to the problem of opportunity cost. Therefore, sunk costs should not affect existing decisions theoretically, nor should they have an impact on subsequent decisions (Yi & Wang, 2012). In practice,

it has been found that when an investment plan is unfavourable, the decision-maker's willingness to continue investing is often influenced by sunk costs. This irrational decision-making behaviour is known as the sunk cost effect (Arkes & Blumer, 1985). Therefore, sunk costs are an important concept in prospect theory (Sharp & Salter, 1997) and self-jurisdiction theory (Schulz-Hardt et al., 2009). It is clear that sunk costs have an influence on decision-making. Managers may only pay attention to the invested costs in decision-making and ignore the expected value of management benefits, which may change the behaviour of decision-makers and make less rational decisions.

The degree of sunk costs is also a threshold for entry and exit (Dixit, 1989). In general, as sunk costs increase, it takes a larger loss to cause a real decision to exit; for example, when a decision-maker invests in a new business, a higher cost is required, which is called the sunk cost after the investment is made. When the future results of this investment are difficult to predict or not as expected, the decision-maker's chances of reinvesting in the new business decrease. Although this creates a high barrier to entry, it also raises the barrier to exit. Sunk costs not only affect performance but also affect the decision to enter a new market or leave an existing market. Therefore, when entering a business with high sunk costs, it is necessary to be very deliberate.

Subsidiary Performance and Subsidiary Divestment

Divestment is one of the options available to managers when a firm is facing poor performance or is unable to break through in the market. Many studies on divestiture suggest that the poor long-term performance of a subsidiary has a potentially negative impact on the value of the firm (Belderbos et al., 2021). Divestiture puts pressure on the management of the headquarters (Li & Liu, 2015), to reduce liability (Hoskisson et al., 1994; Montgomery & Thomas, 1988). Corporate behaviour in praxis reflects the conditions of the organisation. In particular, firms continuously adjust their behaviour based on previous performance and expected performance (Oehmichen & Puck, 2016). Therefore, when performance remains above expectations, managers prefer to continue to invest in relevant businesses and promising industries and are less likely to make cost-cutting or exit decisions (Iyer & Miller, 2008).

Conversely, when performance is lower than expected, organisational change will likely occur. Based on this concept, the decision to divest is dependent on the performance of the subsidiary. The subsidiary's performance is closely related to whether it leaves the host market (Song, 2014).

A firm's decision comes from its resource planning and background conditions, and its performance will determine its next move (Barney, 1991). When the performance is satisfactory, the subsidiary accumulates competitive advantages to maintain a certain level of competitiveness in the market; thus, leaving the market will not be in the interest of the subsidiary (Song & Lee, 2017). In short, the better the subsidiary's performance, the less likely it is that the manager will choose to leave the market.¹ Therefore, the following hypothesis was proposed:

H1: The better the subsidiary's performance, the less likely it is to divest from the market (i.e., there is a positive relationship with the desire not to divest).

The Moderating Effect of Slack Resource

Based on the resource-based view, the value of resources can determine the success or failure of a business. When a firm has more resources, it can gain an advantage in competition (Barney, 1991; Mahoney & Pandian, 1992). Slack resources can influence the exploration and exploitation of a firm's activities, give it greater autonomy in its development and create a buffer (Cyert & March, 1992). In addition, slack resources not only increase performance and mitigate business disadvantages but also extend the investment time when the current performance is not as good as expected or even in a losing position so that the firm has sufficient time and space to ensure success in the future (Lin et al., 2018). As managers are inherently reluctant to exit a business willingly (Shimizu & Hitt, 2005; Shimizu, 2007), financial slack can prevent managers from making an immediate decision to leave the market when the business is facing poor performance, either because of their high level of commitment or the reputational damage that would result from an exit (Ozkan, 2020). However, if a firm has no slack resources, managers must respond quickly to poor performance by shifting resources (or business units) to promising markets (Shimizu, 2007).

Managers are actively associated with their risk-taking spirit when making decisions (Wu & Hu, 2020), and slack resources allow firms to take more risks. As the managers expect results to improve, they tend to continue to invest in subsidiaries that are not yet performing, thereby reducing the likelihood of adjusting the future direction by leaving the market (Shimizu, 2007). Therefore, slack resources play an important role as a moderating variable between performance and decision-making (Huang & Li, 2012). Therefore, the following hypothesis was proposed:²

H2: The positive relationship between the subsidiary's performance and the desire not to withdraw is strengthened by the degree of slack resources available.

The Moderating Effect of Sunk Cost

Sunk costs are defined as resources invested by a firm that are not recoverable. In practice, it is common to see sunk costs as the money, time, and effort generated by the decision-maker in the process after the investment, whether it succeeds or fails. The greatest impact of sunk costs on a company is irrational decision-making behaviour, which is called the sunk cost effect (Arkes & Blumer, 1985). In particular, when the investment does not yield results or tends to fail, it should stop investing. However, it may expect to recover the investment in the future and continue to invest in it. This implies that sunk costs influence the manager's decisions and allow them to be more risk-taking (Zeelenberg & Van Dijk, 1997).

When sunk costs exist, and the firm has slack resources, its decision can change. Previous studies have suggested a positive relationship between slack resources, risk-taking and adaptability (Kraatz & Zajac, 2001). This suggests that the role of slack is not just a "firefighter" in the firm but also as an extension of the firm's reflection and risk-taking. That is, the more slack resources a firm has, the higher its ability to bear the risk of failure. However, if firms apply the concept of resource allocation, then sunk costs can change investment programmes.

When a firm has more slack resources, the more flexibility it has to make decisions. Furthermore, the higher its ability to take risks, the less likely it will be to leave. The more sunk costs the firm has, the greater the losses it faces, and the more it needs to recover from unfavourable situation through future performance. The more difficult it is to abandon a project in which the firm has invested, the stronger the manager's willingness to continue investing because of the sunk costs (Arkes & Blumer, 1985). Managers feel that since they have already invested a significant amount of resources, they think that they may be successful in the future; even if they need to invest more resources, they hope that additional investments will reduce the possibility of failure. At this point, the manager's perception is that risk mitigation may not be a priority but rather the manager is willing to accept higher risks in exchange for the chance of success and will continue to invest (He & Mittal, 2007).

Thus, as more sunk costs are invested, and the more slack resources the firm has, it leads to the managers to believe that they will succeed one day. Whether

voluntarily or speculatively, managers will be more reluctant to divest from the market. This study, therefore, formulated the following hypothesis:

H3: As the subsidiary invests more in sunk costs, it reinforces the positive effect of slack resources on the subsidiary's performance and the desire not to divest.

A theoretical framework is constructed based on the above, as shown in Figure 1.

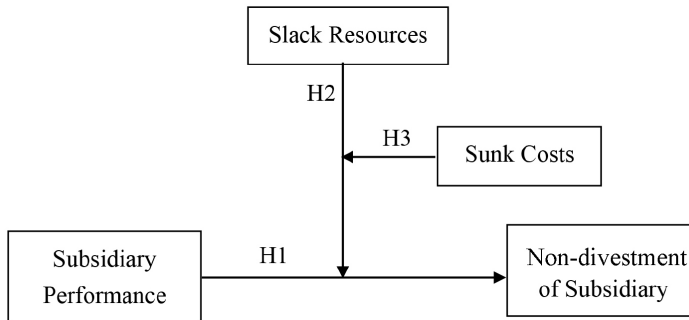


Figure 1. Theoretical framework

RESEARCH METHODOLOGY

Sample Description

Taiwan was chosen in part because it houses many leading semiconductor companies. In particular, due to its rapid technological development, Taiwan is consistently ranked as one of the most competitive countries in the world. The amount of FDI into Taiwan has been very stable (Dahms, 2019). In the report published by World Economic Forum (WEF) on global competitiveness, Taiwan was cited as a major international investment destination in Asia. The current study analysed the subsidiaries of MNEs in Taiwan, which are defined as “headquarters owning more than 50% of the subsidiary,” and the sampling period was 2021. Since most of the foreign investments in Taiwan are related to the electronics industry, the industries are divided into two types: 1) electronics, electrical, and information-related industries, and 2) non-electrical, electrical, and information-related industries. Since the subsidiary is responsible for implementing the headquarters’ strategy, the perception of the subsidiary and the headquarters will be aligned over time. Therefore, it is acceptable for the subsidiary to respond to the concepts related to the policy of the headquarters.

Although objective information is important in decision-making, the subjective perception of managers is the key to final decision. As business strategies are not easily observed through objective data (Ciabuschi et al., 2012), many strategies must be adjusted or verified over time to determine if they are effective. In addition, most of the objective data were difficult to obtain or are confidential to the firm. Many studies prefer subjective data (Liu et al., 2016; Oehmichen & Puck, 2016) which are highly correlated with objective data (Qu & Zhang, 2015). Therefore, the study used subjective measurement.

The data source was the latest foreign investment directory published by Investment Review Committee of the Ministry of Economic Affairs of Taiwan. A total of 1,000 samples were compiled and pretested to ensure the stability of the questionnaire measurement before formal delivery of the questionnaire. After three months of collection, 259 questionnaires were collected but the final valid sample was 245. The largest subsidiaries employed between 20 and 50 employees (25.7%), followed by 50–100 employees (20.4%). In terms of the number of years of establishment, most of the firms had been established for 3–7 years (30.6%), and most of the nationalities were European and American firms (73.5%).

In order to ensure representativeness of samples, they were divided into early and late samples according to collection period. A total of 158 data points were collected in the early period, and 87 were collected in the late period. The results of the independent sample testing for size, age, and response questions were found to be insignificant. This indicated that there is no nonresponse bias in this study and that the samples were representative.

Measurement

Dependent variables

Non-divestment of the subsidiary was used to measure the likelihood and willingness of the subsidiary to stay in the host country. In this study, the willingness of subsidiaries to divest was measured by two questions (Song, 2014).

Independent variables

Subsidiary performance was used to measure the performance of the subsidiary in the host country. This study used Birkinshaw and Morrison (1995) and Liu et al. (2016) to measure the performance of subsidiaries in the past three years relative to their competitors in four categories: sales growth, return on investment, cost-effectiveness, and profitability.

Moderating variables

Slack resources are a cushion of actual or potential resources, providing firms with the ability to change policies in response to pressure or change strategies in response to external circumstances (Wu & Hu, 2020). This study used Huang and Li's (2012) measure of the adequacy of headquarters' retained earnings, financial resources, and debt financing at the time of need (three questions were designed to cover these).

Sunk cost was used to measure the extent of resources invested. The study used Whitten et al. (2010) to measure the amount of time, effort, and effort invested in projects and programs operating in the host country.

Control variables

Four control variables were used in this study. First, the number of employees was used as an indicator and the logarithm to measure the size of the subsidiary. This is because larger subsidiaries are likely to exhibit more flexibility in the marketplace, and they typically have more idle resources and less aversion to international risk (Liu et al., 2019). Therefore, size affects the performance of the subsidiary and the likelihood of divestiture. Second, the longer the subsidiary has been established, the more operating experience it has. Experience helps subsidiaries better adapt to the changing environment (Shirodkar & Konara, 2017). Therefore, this study included the years of establishment of a subsidiary in the control variables. Third, there were intrinsic differences in the thinking and direction of business strategies among firms of different nationalities (Yamin & Andersson, 2011). Therefore, this study used a classification variable to classify European and Asian firms, with a 1 if the nationality is Western and a 0 if it is Asian. Fourth, different industries affect the performance and survival of the firm. In this study, the industry of the subsidiary is expressed as a dummy variable. If a subsidiary is in electronics, electrical, or information-related industry, it is denoted as 1; otherwise, 0 if it is another type of industry.

DATA ANALYSIS AND EMPIRICAL RESULTS

Validity and Reliability Analysis

Factor analysis was used in this study to confirm the correctness of the items. A relevant assessment of the suitability of the factor analysis was conducted. Table 1 shows the Kaiser-Meyer-Olkin (KMO) test (KMO value = 0.854 > 0.7)

and Bartlett's spherical check ($p < 0.01$) met the criteria, indicating that the data were suitable for factor analysis. Factor loadings were subjected to principal component analysis, and the varimax method was used to extract four factors with eigenvalues greater than one. The factor loadings were all greater than 0.5, and the cumulative explained variance was 85.06%, thereby indicating the construct validity of this study.

The current study showed the consistency between questions through Cronbach's α . Table 1 shows that the reliability values of the constructs were all greater than 0.7; in addition, the highest reliability is for subsidiary performance (0.92), followed by sunk cost (0.90), third is for slack resources (0.82), and fourth is for non-divestment of subsidiary (0.75). The results indicate that the concept of this study had good reliability.

Harman's one-factor test was used to detect the presence or absence of common method variance (CMV). In the factor analysis, the presence of CMV was determined by the number of factors extracted without spinning and the amount of explained variance. In Table 1, the first principal component factor (30.65%) extracted by unspooling did not account for most of the cumulative explanatory variance. Therefore, the problem of CMV was not serious.

Regression Analysis

In this study, Pearson correlation analysis was used to examine the correlation between the variables. As shown in Table 2, except for the control variables, there was a positive correlation between them.

In this study, a multiple regression model was used to investigate the causal relationships among the variables; the dependent variable is non-divestment of subsidiaries. As shown in Table 3, the control variables in Model 1 are insignificant, indicating that the size, year of establishment, nationality and industry of the subsidiary do not significantly affect the non-divestment of the subsidiary.

Model 2 shows that there is a positive and significant relationship between subsidiary performance and non-divestment of subsidiaries ($\beta = 0.67, p < 0.01$). The better the performance of the subsidiary, the less likely it is that the subsidiary will choose the divestment strategy. Subsidiaries are less likely to divest when their performance is good. These results support H1. In Model 3, the interaction between subsidiary performance and slack resources has a positive and significant

relationship ($\beta = 2.34, p < 0.01$). The positive relationship between subsidiary performance and non-divestment intention is strengthened by having slack resources. In other words, when the firm has sufficient resources to provide more room for decision buffers, it can continue to operate in the existing market, and it is less likely to decide to divest. Therefore, the results supported H2.

Table 1
Reliability and validity analysis

Items	Factor loadings	Eigenvalue	Variance	Cumulative variance
Subsidiary Performance (Cronbach's $\alpha = 0.92$)				
Satisfaction with your firm's sales growth rate in the past three years	0.86			
Satisfaction with your firm's return on investment for the past three years	0.95			
Satisfaction with your firm's cost-effectiveness in the last three years	0.84	3.75	32.21	32.21
Satisfaction with your firm's interest rate in the past three years	0.89			
Slack Resource (Cronbach's $\alpha = 0.82$)				
The headquarters' retained earnings are sufficient to fund	0.51			
The headquarters' financial resources are adequate	0.71	1.91	15.95	48.16
The headquarters can raise funds from banks	0.89			
Sunk Cost (Cronbach's $\alpha = 0.90$)				

(continued on next page)

Table 1: (continued)

Items	Factor loadings	Eigenvalue	Variance	Cumulative variance
A significant amount of effort has been invested in operating the host country	0.72			
The plan to run the host country has cost many funds	0.84	2.39	19.91	68.07
Many resources have been invested in the operation of the landlord country programme	0.87			
Non-Divestment of Subsidiary (Cronbach's $\alpha = 0.75$)				
Your company does not want to exit the host country market	0.60	1.84	15.35	83.42
Exiting the host country market is not helpful	0.86			

Note: KMO value = 0.86; Bartlett's spherical check approximate chi-square value of 2,363.27; $p < 0.01$.

Table 2
Pearson correlation analysis

	Mean	SD	1	2	3	4	5	6	7	8
SP	4.26	0.82	1							
SR	4.56	0.98	0.41**	1						
SC	4.36	1.51	0.17**	0.59**	1					
NDS	3.61	0.86	0.63**	0.55**	0.27**	1				
Size	3.45	1.46	-0.00	-0.00	-0.01	0.04	1			
Age	2.55	0.91	0.04	0.04	0.04	0.05	-0.01	1		
Nationality	-	-	-0.11	-0.11	-0.10	-0.02	0.02	0.03	1	
Industry	-	-	-0.06	-0.06	-0.12	-0.04	-0.02	-0.06	0.47**	1

Note: ** $p < 0.05$ Nationality is a categorical variable and industry is a dummy variable, so the mean and standard deviation are not presented. SP = subsidiary performance, SR = slack resource, SC = sunk cost, NDS = non-divestment of subsidiary

Table 3
Regression results

	Model 1	Model 2	Model 3	Model 4
Independent Variables				
Subsidiary Performance (H1)		0.67**	0.82**	2.66**
Slack Resources			1.06**	3.29**
Sunk costs				2.11
Moderator				
SP × SR (H2)			2.34**	6.37**
SP × SC				2.89**
SR × SC				3.90*
SP × SR × SC (H3)				5.29*
Control Variables				
Size	0.06	0.07	0.05	0.04
Age	0.05	0.03	0.02	0.01
Nationality	-0.02	-0.02	0.01	0.00
Industry	0.02	0.03	0.03	0.04
R ²	0.06	0.43	0.58	0.59
Adj-R ²	0.01	0.42	0.56	0.57
F	0.31	29.16**	36.74**	24.30**

Note: ** $p < 0.05$; * $p < 0.1$; SP = subsidiary performance; SR = slack resource; SC = sunk cost

H3 states that as the subsidiary devotes more sunk costs, it reinforces the moderating effect of slack resources on its performance and non-divestment intentions. In Model 4, one third-order interaction, all two-way interactions, main effects, and control variables are included in the complete model. The results showed a positive and significant relationship for sunk costs ($\beta = 5.29, p < 0.1$), as well as supporting H3, thereby confirming the reinforcing effect of sunk costs.

In explaining H2 and H3, an interaction diagram shows how to interpret the interference effect of generous resources and sunk costs. Figure 2 shows that when the performance of a subsidiary is low, its willingness to exit the market is higher than that of the subsidiary without slack resources. However, when the performance improves, it is obvious that the willingness of the subsidiary with slack resources to quit the market decreases significantly. In other words, as the performance of

subsidiaries increases, those with slack resources have more growth opportunities and are less likely to abandon the host country market. This confirms the positive reinforcing effect of slack resources.

Figure 3 suggests that the more slack resources and sunk costs a subsidiary has, the better its performance will be and the more obvious it will be that it will not leave the market. The analysis showed the slopes of high SR and high SC were particularly steep, and further analysis suggested that the slopes of High SR and High SC were particularly steep, combined with good performance, so the subsidiary will be even less likely to exit. Figure 2 shows we can see that the impact of sunk costs does have a multiplier effect on whether a subsidiary leaves the market or not. On the other hand, if the subsidiary is not performing well, even if it has slack resources, it would want to exit the market if it has sunk costs. However, once the performance improves, the effect of sunk costs on slack resources will be significantly enhanced. Additionally, if a subsidiary has a high level of sunk costs, even though it does not have many slack resources, the subsidiary is likely to exit the market even though its performance is improving. This result suggests that sunk costs have a significant moderating effect. Figure 3 confirms that sunk costs strengthen the effect of slack resources on subsidiary performance and willingness not to divest, thus supporting H3.

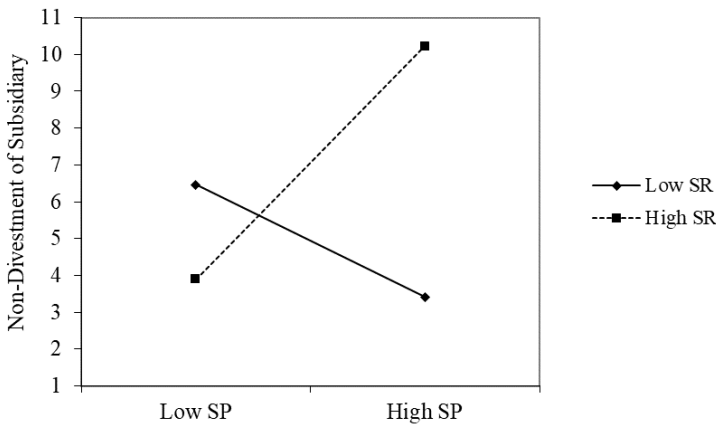


Figure 2. Two-way interaction with non-divestment of subsidiary as the dependent variable

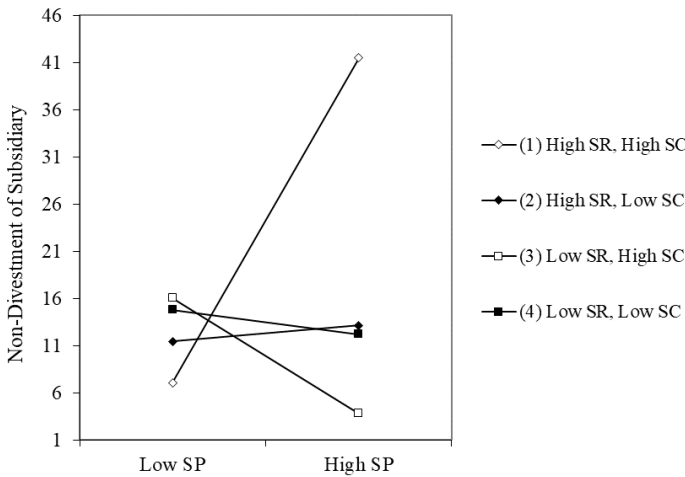


Figure 3. Three-way interaction with non-divestment of subsidiary as the dependent variable

DISCUSSION AND CONCLUSION

According to extant literature, both the slack resources and sunk cost perspectives are rarely linked to the divestiture decisions of MNEs. Most of the literature on divestiture is focused on Western firms. In an era of globalisation, it is not always the case that firms are successful in their operations; thus, the question of why they leave the market is in fact an important management issue. This study has examined implications of the increasing prevalence of divestiture in MNEs by incorporating the slack resources and sunk costs perspectives and analysing the impact of these two perspectives on managers' decisions to divest, thereby providing insights MNEs need to consider when making decisions about divestiture. The main argument is to verify the effect of subsidiary performance on the willingness of subsidiaries to divest and the positive reinforcing effect on the decision to divest when combined with the input of slack resources and sunk costs. The analysis has supported all the theoretical arguments.

There are several theoretical contributions. First, when MNEs operate worldwide, they often achieve their internationalisation goals through subsidiaries, whose main purpose of operating activities in the host country is to earn profits (Berry, 2013). When the performance of a subsidiary is better, managers will prefer to continue to invest in the related business. They will be less likely to make cost-cutting decisions and less likely to want to divest from the market (Song & Lee, 2017). In

contrast, if the performance of the subsidiary is not as good as expected, the firm will start to reduce new or unfamiliar investments (Iyer & Miller, 2018). In other words, performance is a key factor for MNEs when deciding whether to keep their subsidiaries in the market or not. The better the performance of subsidiary, the more competitive it is in the market and the more competence it can accumulate. Such a subsidiary is likely to not only become a benchmark for the firm to learn from but also to accumulate reputation and resources in the host country market, creating a competitive advantage for the MNEs (Chatzopoulou et al., 2021). This makes it less likely that the subsidiary will choose to exit the market.

Second, slack resources have a significant effect on the decision to exit. The study found that slack resources had a positive reinforcing effect on subsidiary performance and non-divestment intentions. Slack resources allow firms to continue to operate in the existing market or at least give them more time and space to improve when performance prospects are not as good as expected, thereby reducing the likelihood that managers will have to adjust the future direction of the firm by divesting from the market (Cheng & Kesner, 1997; Kuusela et al., 2017). That is, slack resources can extend the operating period of a business, alleviate capital constraints, and give managers more investment options without changing the original business's direction in the face of current operating constraints. In particular, slack resources allow firms to take more risks and innovations (Nohria & Gulati, 1996), thus allowing them to experiment more and expand their ventures. Therefore, if MNEs have sufficient resources to allow their subsidiaries to operate adequately, the subsidiaries will have more flexibility in decision-making and better planning in strategy. This will not only help their growth performance but it will also allow the subsidiary to create a long-term market position in the host country, which makes it less likely to divest.

Third, sunk costs play a key role in the decision to divest a subsidiary, especially they also positively reinforce the intervening effect of slack resources. When managers are faced with operational issues, rational managers consider how to use resources and strategies to make the optimal choice among multiple options. However, in practice, decisions are influenced by sunk costs, especially when operations are in unfavourable conditions, which can lead to sunk cost effects and make managers more insistent on making decisions. The study results suggested that sunk costs strengthen the relationship between the performance of the subsidiary and the willingness not to divest by slack resources. This means that the better the performance of a subsidiary the less likely the managers will decide to divest because they have invested time and effort that cannot be recovered and are supported by slack resources. This is because when faced with a major decision, regardless of whether the current outcome is good or bad, consideration

of the effort invested will cause the decision-maker to change risk preferences and continue to invest money, time, and effort in the hope of reducing the perception of psychological loss. Therefore, sunk costs affect the perception of risk, the willingness to continue operations, and the barriers to exit, which affects the manager's decision to divest from the subsidiary.

In terms of management implications, as global markets are often in flux, especially during the when the new coronavirus pandemic in 2020, many firms are faced with whether to divest from the market. Citibank, for example, announced in 2021 that it would exit from many countries. Even if performance is not a problem at the moment, firms often consider the future and then decide to focus on the present. From an operational point of view, when an MNE has slack resources, it can not only support the operation of the subsidiary it can also cultivate its relations with the host country for a long time; the sunk cost of the investment will certainly cause the firm to be reluctant or unwilling to give up the decision. In such a case, although MNEs will not immediately decide to exit, they will extend the investment time and maintain flexibility.

However, it is important to note that since the current environment is changing rapidly, slack resources can be useful in mitigating unpredictable attacks on the business, thus ensuring a degree of performance and allowing managers to take more risks and innovate (Cavusgil et al., 2020). However, in the long term, managers need to be able to ensure that these projects will pay off in the future. If they can perform, the persistent investment from sunk costs will yield better returns. Conversely, if performance does not improve, sunk costs can cause managers to make irrational decisions, which may result in greater losses to the business. Therefore, in the face of uncertainty, it is important the subsidiary knows how to use its resources wisely and how to support their operations (Chatzopoulou et al., 2021). When MNEs operate globally, they should not only focus on the performance of their subsidiaries but also plan and allocate their slack resources and consider the potential effects of sunk costs on decision-making to make the most appropriate decisions for the survival of their subsidiaries in the host market.

LIMITATION AND FUTURE RESEARCH

There are several limitations or constraints in this study. First, given the time and effort involved, it was not possible to collect samples from different cultures and operating backgrounds. Future research can expand the sample of subsidiaries in different countries to analyse the ideas of different host countries on divestiture strategies. Second, there are many types of slack resources, such as financial,

human, and social relationships, which can be indicators of slack resources. In the future, different types of resources can be analysed and which can have different impacts on the study. Third, this study has focused on the concept of divestment, mainly on whether to exit the market or not. Another concept of divestment can be leaving the current industry and moving to a different business. Therefore, restructuring, transferring business, etc., can represent divestment. These common concepts can be added to the analysis in the future, thus expanding the scope of explanation of divestment in the future. Fourth, follow-up research can examine concepts, such as culture, socioeconomics, human resources, and organisational hierarchy, which can expand the theory's explanatory power and increase the degree of generalisation.

NOTES

1. The authors use the concept of non-divestment, or not divesting from the market, mainly because of the concepts obtained from the interviews with the subsidiary managers. The subsidiary managers basically stated that divestment is not a priority strategic consideration. Unless the performance is really not as expected (or should not change in the long run), the decision to exit will be made.
2. The concept of divestment is not just about leaving the market (country), but also about leaving the original industry and moving to another industry (Berry, 2013). This is when the firm has slack resources that can support the transformation by exiting the original industry and investing in another business. This paper's inference is that slack makes subsidiaries less likely to want to divest from the markets in which they are located, rather than that, holding resources gives firms more room to invest in other industries.

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