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FOREIGN DIVESTMENT IN E-BUSINESS

Analysis of foreign market exit of Groupon and Lyyti

Master´s Thesis
in International Business

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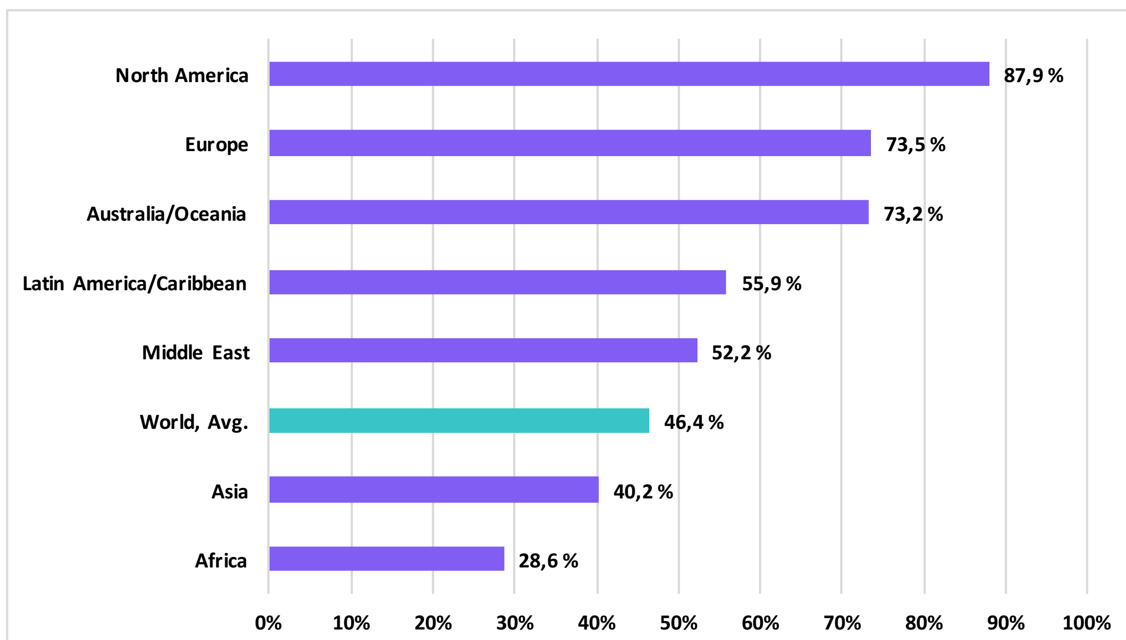
1 INTRODUCTION

1.1 Foreign divestments in e-business

The Internet has brought profound changes to the way companies conduct business today. Many industries have transformed completely over the years and the rules for business have been rewritten. The rapidly changing market is causing new challenges for companies. Competition is increasingly intense, the market is globalizing, customers are demanding more, technologies are advancing at a dramatic pace and becoming increasingly affordable, and the Internet is getting rapidly diffused globally. (Xu & Quaddus 2009.) According to Internet World Stats (2015), the highest Internet penetration rate is in North America with nearly 90 per cent while the world average penetration rate was reported to be close to 50 per cent in November 2015 (Figure 1).

Figure 1 Internet world penetration rates by geographic regions in November 2015

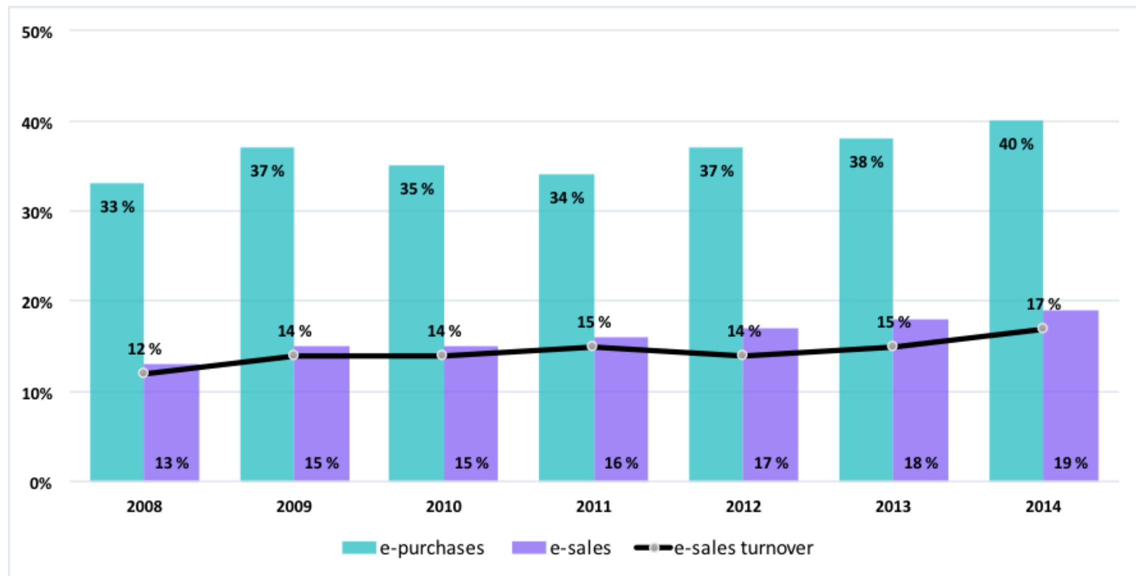


Source: Internet World Stats (2015).

In line with the ongoing digital revolution, e-business is becoming more popular and expanding dramatically. Companies are increasingly using the Internet to buy and sell goods and services, service customers, collaborate with business partners, and conduct transactions within an organization. According to Eurostat (2015), e-commerce has been growing relatively steadily over the last decade. In 2014, 40 per cent of enterprises in the EU-28 made purchases electronically. Electronic sales were made by 19 per cent of

enterprises in the same period. The turnover for electronic sales was 17 per cent of the total turnover of enterprises with 10 or more employees (Figure 2).

Figure 2 E-sales and e-purchases made by enterprises in the EU-28, % of turnover on e-sales of the total turnover of enterprises in the EU-28 (2008 to 2014)



Source: Eurostat (2015).

In recent years increased digitalization has led to a rapid growth in the number of e-business companies that are completely reliant on the Internet and its services. Through the internationalization process of these companies there has been an increase in the availability of new and foreign markets. (Dung Le & Rothlauf 2008.) Hart (2010) sees that the existence of a new technological infrastructure has reduced or even erased barriers to entry in foreign markets. A new kind of economy has emerged, where e-business companies and global companies specialized in Internet services play a central role (Gabrielsson & Gabrielsson 2010).

Firms are expanding to international markets at an ever increasing pace (Sousa & Tan 2015). Simultaneously, an increase in market entries is often accompanied by a higher number of market withdrawals in a subsequent period (Dunne et al. 1988). Internationalizing the business scope is not simple, which is why many multinational companies incur most of their losses abroad (Jagersma & van Gorp 2003). International expansion exposes firms to an array of challenges, especially regarding entries in culturally distant countries (Li 1995; Barkema et al. 1996).

Wenzel (2015), co-founder and CEO of the food delivery company Foodpanda, spoke at a hub conference in Berlin about unexpected problems when internationalizing an e-business model. In the beginning Wenzel expected internationalization to be relatively easy for an e-business company, since the Internet is everywhere and people are

everywhere. He thought that if a business model works in one country, it should easily work in another country and therefore e-business models can be exported. Wenzel describes the internationalization process as first building a website and putting the offering on the website. After this the company starts with online marketing activities in the host country to see how the website works. As with many e-business companies, Foodpanda's business was centralized and all foreign markets were managed from one country. A few years after Foodpanda had begun its internationalization, Wenzel noticed that the reality was very different from what he had expected. Foreign markets turned out to be a lot more complex and the business model as well as marketing activities did not work even nearly the same way as in the home country.

In December 2015, the online magazine Gründerszene reported that Foodpanda had sold its operations in Vietnam to a local rival (Schlenk 2015). Only a couple of months later the operations were sold in Brazil and Mexico as well. At the same time rumors went around that the business in India was also for sale. The reason was announced to be the strategy of the parent company. Business units that did not belong to the core business and did not achieve market leadership were divested. The business in Brazil and Mexico had counted in the last year for less than five per cent of Foodpanda's turnover. Wenzel stated that divesting operations in South America would enable the company to focus on its key markets in Asia, Eastern Europe, and the Middle East. (Wirminghaus 2015b.)

Wenzel is not alone with his experience but there have been in fact many similar cases in the e-business industry. In the last few years a growing number of e-business companies has reported to retreat from foreign markets. In March 2015, Lendico decided to partly withdraw its operations from Africa, Poland, South Africa, and Spain. Steinkühler, CEO of the online marketplace for peer-to-peer loans, commented that the development in these countries had remained below expectations. The offices in Johannesburg and Madrid were closed down and private investors were not allowed to finance loans anymore. However, Lendico continued to provide credits in the divested countries while managing the business centralized from Berlin. (Wirminghaus 2015a.)

Bonativo, a delivery company for local food, followed Lendico's example by withdrawing from London in September 2015. Only a few months after the online company had started its operations in London the market exit was announced. On the website there was a message saying that Bonativo had started operations within a short period of time in three countries, and building the service in three markets was a greater challenge than first expected. CEO Eggert explained that the business model is complex and not easy to implement. Furthermore, Eggert continued that Germany was a more attractive market for the company's expansion ambitions. (Loeffler 2015a.)

Around the same time as Bonativo, the Belgian restaurant delivery service Take Eat Easy suddenly changed its strategy and announced its exit from the German market, only a few weeks after entering there. CEO of Take Eat Easy Germany reported in a newsletter

that the company had decided to divest its operations in Germany due to strategic considerations. The decision was unexpected and the start-up was reluctant to reveal any further explanations. (Loeffler 2015b.)

Continuing the trend of foreign divestments, the successful online cleaning agency Helpling announced its exit from four countries. The ambitious start-up had launched within 18 months in 14 countries and employed hundreds of employees. By the end of September 2015, 20 per cent of the employees had been laid off. According to Franke, founder of the company, this was a natural step after a phase of fast growth. Helpling wanted to focus on the most profitable markets in order to make the business sustainably profitable and to use its resources as efficiently as possible. (Loeffler 2015c.)

One month later the online travel agency TravelBird followed by cutting 100 workplaces and announcing its withdrawal from five countries. Since the beginning of 2014, the Dutch start-up had rapidly expanded into 17 countries and was employing more than 700 employees. Then came the step backwards. CEO Jansma reported that the contracts in Hungary, Italy, Poland, Portugal, and Spain would not be continued and the business activities would be critically evaluated. Moreover, it was emphasized that TravelBird was not having problems but the divestment decision was due to underperformance of operations in the given countries. (Kyriasoglou 2015.)

The meaning of withdrawing from a foreign market has expanded from closing down a whole factory or a brick and mortar shop in another country to divesting international operations on the web. E-business companies may not even have physical entities in a foreign country but are able to control their business activities centralized from one location. Based on the notable change in the internationalization behavior of e-business companies, it is clear that they differ from traditional companies in many aspects. Therefore, it will be interesting to examine the factors leading to their foreign divestments and find out if this is another area where e-business companies prove their difference.

1.2 Earlier empirical studies on factors leading to foreign divestments

In order to give an understanding of the existing knowledge on foreign divestments, this chapter will discuss the methodology and key findings of earlier empirical studies made on the topic. Since the first researchers started showing interest towards foreign divestments in the 1970s, the number of studies made around the topic has increased significantly. However, no prior research has been done to examine the factors leading to foreign divestments in the e-business sector specifically. Therefore, the focus of this literature review has been extended to empirical studies on factors leading to foreign divestments, regardless the industry. Studies on divestments in general, the consequences

of divestments, or the divestment process, are not included. Moreover, studies discussing solely domestic divestments will not be presented here either.

Boddewyn and Torneden (1974) were pioneers in foreign divestment research when they began studying 53 U.S. multinational companies (MNCs) with divested international operations. What they discovered was that foreign direct investment (FDI) decisions are initially made top-down, which hinders the evaluation of the quality of the decision. Furthermore, in many cases companies were found to lack a clear international strategy and their foreign operations did not have clear operational definitions. The results also indicated that the parent companies had poor external relations with the host country, and that divestments often happened after a significant organizational change.

Torneden (1975) continued studying divestments in U.S. MNCs with the objective to identify factors behind the divestment decision and how the decision is made. The research method was an intensive case study including eight case studies as well as responses by 38 companies to a survey. Based on the collected data, Torneden reported the following seven key determinants for market exit: (1) a change in senior management within the prior two years; (2) poor performance of domestic operations; (3) a disproportionate amount of management time spent on the foreign operation relative to its size and profit; (4) political change in the host country; (5) political uncertainty generated by another host government in the region; (6) weak top management commitment to international markets; and (7) increased capital requirements within the foreign unit. The ultimate conclusion was that new senior management and a lack of commitment of the senior executive have the most significant impact on foreign divestments.

Boddewyn also followed with more material on international divestments and published in 1976 together with Business International an article based on a survey of 32 international companies with a total of 69 divestments. The results suggested that companies consider divestment decisions as failures, triggered by the following key factors: (1) poor performance and prospects; (2) adverse environmental conditions; (3) bad acquisitions; (4) lack of strategic fit; (5) lack of managerial fit; (6) lack of resources; (7) problems elsewhere in the company; and/or (8) bad management. Given the dominance of profitability considerations in the study, strategic thinking was argued to be secondary when it comes to explaining exit decisions. However, Boddewyn and Business International noticed some differences between companies in the U.S. and in Europe. While U.S. companies tended to divest for both strategic reasons, i.e. the foreign unit no longer fits the business, and tactical reasons, i.e. poor performance, European firms were found to divest solely on tactical grounds.

In the same year Sachdev (1976) studied 21 cases of foreign divestments by British multinational companies, finding support that financial considerations are the strongest factor responsible for divestments. Sachdev further specified that low profitability was

found to have the highest impact, followed by commercial difficulties and restrictions on fund transfers. Risks and uncertainties in the host country were also perceived to play a role in the divestment decision.

Li (1995) began studying foreign divestments from another point of view, investigating entry modes of foreign subsidiaries in the U.S. computer and pharmaceutical industries over the 1974–1989 period. The results demonstrated that exit rates were higher for foreign acquisitions and joint ventures than for subsidiaries that were established through greenfield investments. Furthermore, Li noted that diversified subsidiaries were more likely to be divested than those that stayed related to the headquarters. Finally, firms were found to benefit from international learning and experience, which improved the chances of success for subsequent foreign operations.

The latter point was also discussed in the study of Barkema et al. (1996) one year later. Their article examined the longevity of foreign entries by using data on 225 entries of 13 Dutch firms from 1966 onwards. The results showed that firms entering foreign countries face cultural adjustment costs which may influence the survival of a foreign unit. The longevity was found to decrease in cases of double layered acculturation, such as joint ventures or acquisitions. However, Barkema et al. noted that internationalizing firms could move along a learning curve and benefit from prior experience in the same country and in other countries in the same cultural block.

Godar (1997) was interested in finding out if the drivers for foreign divestment were simply reverse of those for foreign investment. Moreover, she examined if firms divest when they have the opportunity to purchase outside of the company, and if the exit barriers of Caves and Porter (1976) hold true in foreign divestment situations. Godar developed a model which she tested by conducting a survey on U.S. firms from various industries, including manufacturing, service, and extractive companies that had made a voluntary divestiture of a non-U.S. operation. Her findings indicated that the key driver for divestments is a firm's strategy, not environmental factors. Approximately one third of the divestments were made proactively, i.e. when the operation was performing well, but the firm found better ways to reallocate its resources. Finally, it appeared that the exit barriers of Caves and Porter (1976), such as longevity, interconnections, and divestment cost, are not operational in foreign divestments.

Benito (1997a), another devoted researcher in the divestment field, studied the divestments of 93 Norwegian companies from 1982 to 1992 by using a sample of 208 FDIs. Within the eleven-year period of his study, Benito found that more than half of the foreign subsidiaries had been divested. The results implied that foreign divestment is inversely related to the host country's economic growth. Moreover, Benito claimed that subsidiaries that had been acquired were more likely to be divested than greenfield establishments. This supported the results from the study of Barkema et al. (1996), in which acquired subsidiaries were found to last less time on the market. Finally, in

accordance with Li's (1995) findings, the risk of divestment was argued to be higher for unrelated than related subsidiaries.

Four years after Barkema et al. (1996) another study on the longevity of foreign entrants was published. Mata and Portugal (2000) obtained the data of their study from a survey conducted by the Portuguese Ministry of Employment. The survey had been conducted every year since 1982, which allowed a longitudinal research. Mata and Portugal found that greenfield entries are less likely to be divested than firms with limited liability. In addition, the results indicated that ownership arrangements as well as organizational structure affect the risk of divestment, and that firms with large human capital are less likely to exit.

Shin (2000) followed Benito's (1997a) path in examining the factors affecting foreign divestment but focused specifically on the trading sector. The study used data from the Korean Ministry of Finance and an analysis of 378 companies that had invested in or divested from South Korea from 1993 onwards. According to the results, the size of a foreign affiliate is negatively related to foreign divestment in the Korean trading sector. However, Shin did not find evidence for his other two hypotheses, that operating years or ownership ratios would play a role in divestment decisions.

The increasing level of retail divestment activity led Alexander and Quinn (2002) to examine two prominent cases of international market withdrawal in the retailing industry. Based on the results, the following main reasons for divestment could be identified: (1) trading conditions in the domestic market; (2) changes in top management; (3) lack of integration between home and host country operations; (4) lack of managerial commitment; (5) independence of international operations; (6) relative size of international operations; and (7) disproportionate resource allocation to international operations. Furthermore, Alexander and Quinn noted that international market divestment is often a proactively made strategic decision when the company identifies better use for its resources and decides to reallocate them. Alexander and Quinn concluded that early experiences of internationalization help the firm shape further, later international moves. The findings implied that prior market failures led the case companies change their strategy fundamentally in subsequent market entries.

Jagersma and van Gorp (2003) made an extensive field study to analyze the motives behind Dutch multinational companies' international divestments and the following consequences. The empirical data used in the study was from a total of 868 international divestments on the period 1981 through 2000. Absence of strategic policy synergy as well as poor performance of the international operation were found to be the dominant causes for international divestment. Other, less significant motives included alternative local or global growth opportunities, follow the market leader behavior, unfavorable political climate, lack of competitive edge, and conflicting policy views.

Leung et al. (2008) began the research on divestments in the service sector by explaining entry and exit decisions of foreign banks in Hong Kong through a theoretical framework. Data was collected from the period of 1981 to 2001, using a sample of 157 banks from 35 different countries. The results suggested that non-Asian banks with less international experience, and whose home country is experiencing slower trade growth with Hong Kong, will be more likely to exit the market. Furthermore, divestments were also found to be linked to the slow growth of the Hong Kong banking sector.

Cairns et al. (2010) were the first to specify their focus on the role of leadership in divestment decisions. The research method used in this study was a multiple case approach where the cases were selected from a database of international retail divestment activity over the period of 1987 to 2008. The findings implied that all of the divestment cases could be classified as a result of a corporate crisis or as a proactive action, i.e. positive restructuring. Cairns et al. described corporate crisis as an instance when the management fails to deliver stability and strategic focus, and where international divestment is driven by the need to refocus on core operations in the home market. Thus, instability in leadership structures was argued to have severe consequences for the company's international operations. Interestingly, Cairns et al. pointed out that companies tend to appoint a new CEO to trigger the divestment decision and to act as a change agent during the corporate restructuring phase. In addition to being a response to failure, Cairns et al. argued that divestment may also be a strategic decision. Positive restructuring was described as an instance where companies respond proactively to changing market conditions and emerging opportunities. As noted already before (see e.g. Alexander & Quinn 2002), companies may decide to divest in order to devote their resources more efficiently elsewhere.

Continuing the research on foreign bank exits, Hryckiewicz and Kowalewski (2010) studied 81 closed foreign bank subsidiaries across 37 countries during 1999–2006. Based on the results, Hryckiewicz and Kowalewski argued that a multinational bank's decision to divest a foreign unit is caused by problems in the home country rather than the underperformance of the subsidiary.

In the following year, Hryckiewicz and Kowalewski (2011) published another study on the same topic, using panel data for 149 closed or divested foreign bank subsidiaries across 54 countries from the period of 1997 to 2009. The findings further supported the conclusion of their previous study, that foreign subsidiaries are mainly closed because of problems in the home country. Moreover, weak financial performance of the parent company was found to increase the risk of foreign divestment. Hryckiewicz and Kowalewski concluded that the likelihood of divestment was highest when the profitability of the parent bank and its foreign affiliate decrease at the same time.

Still remaining in the banking industry, the study of Jackowicz and Kowalewski (2011) focused on the role of external factors on divestments. The empirical results from 313

divestment transactions between 1997 and 2010 suggested that parent companies of divested units often originate from countries with relatively high accumulated wealth, slow GDP growth, stable macroeconomic situation, and dominant bank intermediation in the financial system.

Ketkar and Ali Saleem (2012) looked at divestments from another point of view and investigated how a firm's home country institutional quality influences the quality of its international divestment decisions. In addition, the study examined the effects of these factors on developed and developing host countries during normal and crises years. Ketkar and Ali Saleem used a sample of 85 divestments in 42 countries from the period of 2000 to 2008. The results of their empirical data showed that the home country's institutional quality explains divestments from developed countries, but not from emerging markets.

Berry (2013) studied the moderating effect of product and market characteristics on divestment decisions. The study was based on the analysis of the divestment decisions of a comprehensive panel of U.S. MNCs across their international operations from 1989 to 2004. The results supported the negative relationship of poor performance and divestments in both related and unrelated firm operations in locations characterized by low growth, policy stability, and exchange rate stability. However, in countries characterized by high growth, policy instability, and exchange rate volatility, there seemed to be significant differences across the divestment decisions of companies for their related and unrelated foreign units. Furthermore, Berry noted that only about one third of the divested foreign units were poorly performing.

One year later, Nyuur and Debrah (2014) expanded the divestment research field to developing countries by using Ghana as a case example. Nyuur and Debrah studied factors influencing foreign firms' strategic decisions in a host country, regarding expansion, downsizing, relocation and termination of their operations. The empirical data was collected through a questionnaire survey of 92 foreign companies operating in Ghana between 2009 and 2010. The findings implied that host countries' business environments have a significant impact on foreign firms' subsequent strategic decisions. Furthermore, unfavorable conditions regarding government regulations, cost factors, and infrastructure were found to increase the probability of strategic divestment.

In the same year Pattnaik and Lee (2014) published a study examining how cross-national distance influences the divestment of foreign operations. The data was gathered from 1697 multinational corporations headquartered in Korea and their 2435 affiliates in 67 host countries between 2000 and 2010. Pattnaik and Lee reported that distance created by economic, financial, political, administrative, cultural, demographic, knowledge, and global connectedness increases the likelihood of international divestment. Moreover, the impact of cross-national distance on foreign divestments was claimed to become stronger

when a MNC enters a foreign market through a joint venture and weaker for affiliates with higher international experience in the host country.

Song (2014a) investigated the conditions leading to foreign manufacturing subsidiary survival in labor-intensive industries when the labor costs in the host country are rising. The study utilized a sample of 1560 foreign subsidiaries of 101 Korean MNCs in 31 host countries. The companies were all publicly listed on the Korean stock exchange from 1990 to 2008. Song identified that underperforming, smaller, and stand-alone units, especially in riskier countries, have a higher risk of being divested. Moreover, the likelihood of divestment was found to further increase for foreign affiliates that are facing currency appreciation and increasing labor costs.

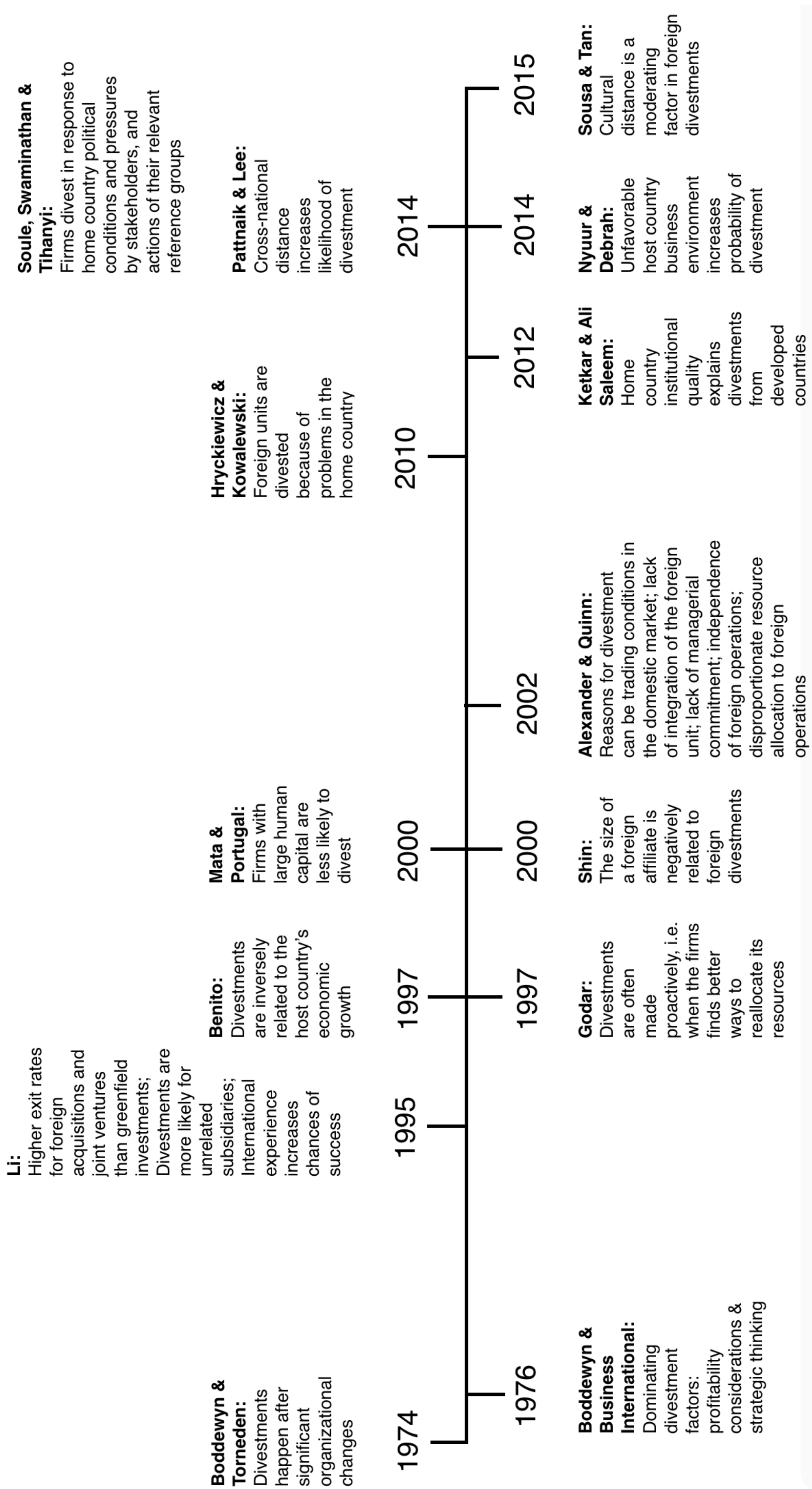
In the same year, Song (2014b) published another study where he was examining how different entry modes and environmental uncertainty in host countries can influence the exit of multinational companies' foreign subsidiaries. The study used a large sample of FDIs by Korean manufacturing MNCs from 1990 to 2007. Song noted that partially-owned subsidiaries are more likely to exit the market than fully-owned ones that have greater irreversibility. Moreover, environmental uncertainty was found to strengthen the impact of irreversible entry modes on the likelihood of a subsidiary exit.

Soule et al. (2014) investigated the diffusion of foreign divestments by MNCs from Burma. 449 firms from 32 countries were utilized as a sample, all of which had business ties to Burma in the period of 1996 to 2002. The results indicated that firms divest in response to the political conditions of their home country, pressures by their different stakeholders, and actions of members in their relevant reference groups.

Finally, Sousa and Tan (2015) published a study that focused specifically on the effects of strategic fit and international performance on a company's decision to exit a foreign market. Furthermore, the moderating impact of cultural distance and international experience was also considered in the research. The empirical data was collected through a questionnaire survey from 180 outward foreign investment firms. Subsequently, it was analyzed through a framework created by the authors. The study showed that strategic misfit and poor international performance have a detrimental impact on the firm's survival in the foreign market. In addition, the results indicated that cultural distance strengthens the negative impact of internal strategic fit on the exit decision. However, the findings implied that the larger the cultural distance between home and host market, the less likely managers are to divest poorly performing foreign activities. To conclude, the study showed that as international experience increases, managers are more willing to withdraw a poorly performing foreign affiliate from a culturally distant market.

Figure 3 provides an overview on the findings of the aforementioned studies. The timeline summarizes the most important results regarding foreign divestment decisions. In order to avoid duplication in the timeline, only new findings are presented even though other researchers may have come to the same results later on.

Figure 3 Timeline of the main findings regarding foreign divestment decisions



As presented in the timeline, earlier empirical research examining the factors leading to foreign divestments has shown that there are various reasons why firms may decide to exit a foreign market. The most common explanations are financial considerations and a lack of strategic fit between the headquarters and its foreign affiliate. Furthermore, the studies point out the influence of cultural distance and business environment on international divestments. In addition, the chosen entry mode is noted to play a role in the survival of the foreign affiliate. Foreign acquisitions are reported to have a higher risk of divestment than greenfield investments. Another observation made in several cases is that international experience has a moderating impact on exit decisions. Other less frequent factors that were identified were, inter alia, lack of strategy, poor relations with the host country, organizational changes, change of management, lack of managerial commitment, size of the foreign affiliate, as well as problems in the home country.

Despite the slowly growing number of studies on foreign divestment decisions, it remains a neglected area in the international business and strategy field worldwide (McDermott 2010). A possible explanation for this may be the difficulty in obtaining appropriate data. Studies of exit often require longitudinal research, and what is more, companies tend to associate divestment with failure and are thus unwilling to talk about it. (Benito 1997a.) Nevertheless, Benito emphasizes that firms need knowledge about which factors influence the longevity and success of foreign operations in order to assess potential FDI projects. Knowledge about the motives for divestment can provide useful information about adequate policy measures and appropriate government actions. Prior research has shown that learning from failure tends to be more effective than learning from success (Madsen & Desai 2010). Research on exit behavior is important for managers as it can inform them about factors that inhibit success. This, in turn, may improve the probability of future success. (Sousa & Tan 2015.)

As seen in this literature review, the majority of earlier divestment studies have been quantitative studies. Most of these studies have focused on examining the impact of one or two specific factors on divestment decisions instead of trying to create a comprehensive picture of the different motives underlying a divestment decision. In order to get a deeper understanding about the factors leading to foreign divestments, more qualitative research is needed.

Moreover, until today there have been no earlier empirical studies on market exits in the e-business sector. Prior research in this field has widely focused on explaining the internationalization and market entry of e-business companies (e.g. Loane et al. 2004; Drakulevski & Mijoska 2008; Ziyae et al. 2014). As McDermott (2010) points out, the change in international business has been accompanied by a similarly notable change in foreign divestment activities. It is evident that there is a research gap in examining the factors leading e-business companies to exit from foreign markets.

1.3 Objective and structure of the research

The objective of this study is to understand why e-business companies decide to divest from foreign markets. The main purpose is to examine what is the role of different factors on foreign divestment decisions in the e-business sector. Consequently, the research question is formulated as follows:

What are the factors leading to foreign divestment in e-business?

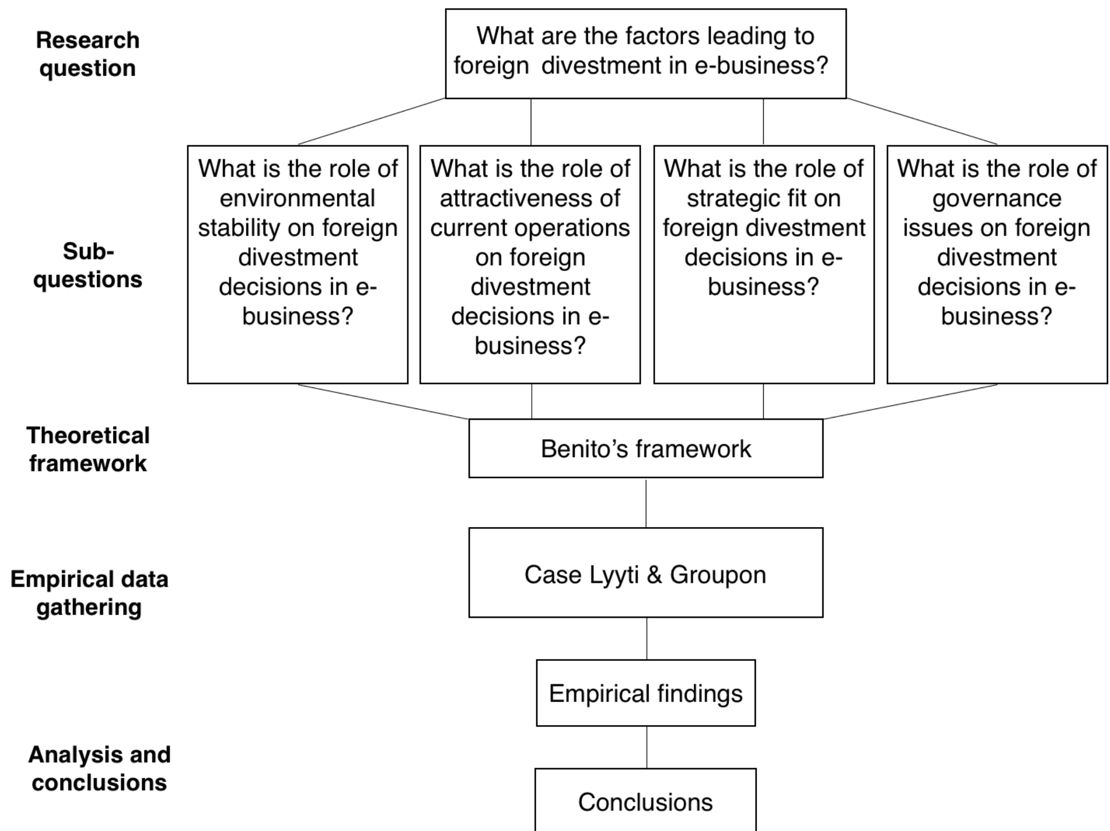
Benito's (1997b) model of divestment determinants is used as the theoretical framework for this research. Following his model, the research question is divided into four sub-questions, i.e. what is the role of the following factors on foreign divestment in e-business:

1. Environmental stability
2. Attractiveness of current operations
3. Strategic fit
4. Governance issues

The empirical evidence will be presented in form of a case study. As Benito (1997b, 329) states in the conclusions of his article, "*empirical research is needed to assess the validity of the various propositions embedded in the framework*". The aim of this research is to examine whether Benito's framework is valid in the e-business sector as well as find out what is the importance of the various factors of his model.

Divestments are often associated with multiple issues around the phenomenon. These are for example the divestment process, consequences of foreign divestments, and the moderating effect of different factors on the decision to withdraw from a market. Furthermore, many earlier studies have examined market exits by using data from domestic divestments. However, the aim of this study is to focus solely on foreign divestments and the factors that lead to the decision to withdraw from a foreign market. Other aspects concerning divestments as well as domestic divestments are left out of the scope of this thesis. The structure of this thesis is presented in Figure 4.

Figure 4 Structure of the thesis



After providing an introduction to the research objectives in the first chapter, the next section will continue with presenting the theoretical framework. In the third chapter the research design will be described, i.e. the research approach, method of data collection, method of data analysis, as well as trustworthiness and limitations of the research. The fourth chapter follows with a description of the chosen case companies and the findings of the empirical data. To conclude, the last section discusses the theoretical contributions of the study, managerial implications, as well as suggestions for further research.

1.4 Definition of key concepts

In this thesis there are two important key concepts that need further introduction. First, this chapter will discuss the term e-business, after which the concept of foreign divestment will be presented in more detail.

Electronic business (e-business): The definitions of electronic business (often abbreviated as e-business) are many and diverse. The term 'e-business' is frequently used interchangeably with the term 'e-commerce' (Mazzarol 2015). There is an ongoing debate

on the similarities and differences of these two terms, which may be explained due to the lack of well-established literature. Furthermore, in their relatively short history the terms have generated a variety of different meanings for different people. (Xu & Quaddus 2009.)

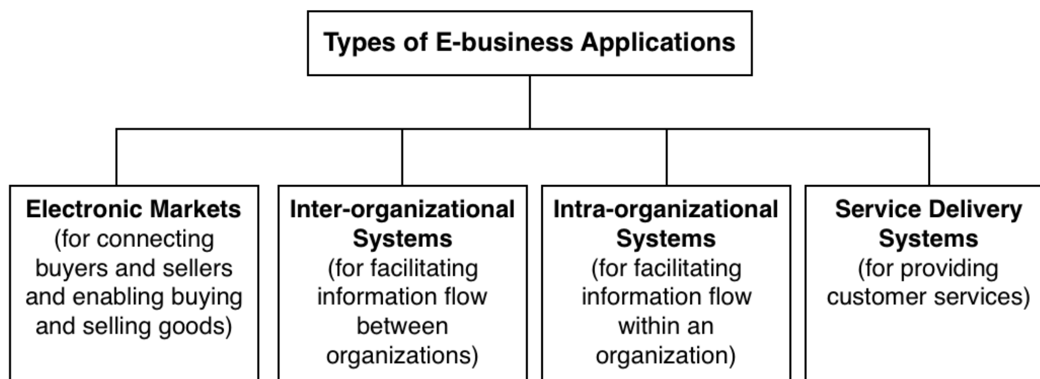
While Albaum et al. (2005) define electronic commerce as the sale, purchase, or exchange of goods, services, or information over the Internet, Holsapple and Singh (2000) consider electronic business as a broader concept that encompasses the buying and selling activities of electronic commerce. After examining multiple definitions of e-business in previous literature they advanced the following definition:

> *"Electronic business is an approach to achieving business goals in which technology for information exchange enables or facilitates execution of activities in and across value chains, as well as supporting decision making that underlies those activities."* (Holsapple & Singh 2000, 159.)

E-business comprises transactions and communication over the Internet, i.e. B2B, B2C, C2C, mobile commerce, e-government, e-learning, e-publishing, online communities, and social networks. Organizations can have a varying degree of e-business involvement, starting from no involvement at all (i.e. selling physical goods by using only brick and mortar premises), through partial involvement (i.e. using a mix of electronic and traditional distribution channels) to full involvement. (Xu & Quaddus 2009.)

E-business can be categorized in different ways. One of them is a classification according to the type of system involved. Based on Turban et al. (2008), Xu and Quaddus (2009) developed the following model of e-business application types:

Figure 5 Categorizing e-business according to type of application



Source: Xu & Quaddus (2009, 8–10).

The first type of application are electronic markets, which refer to a marketplace where buyers and sellers are connected. It enables the buying and selling of goods and services. In electronic markets it is likely that the participants do not know each other before the online transaction takes place. The deployed technology is usually an open system which allows anyone to gain access and participate in transactions. The second type of application are inter-organizational systems, which facilitate information flow between organizations. These include electronic data interchange and extranets. The third type are intra-organizational systems, such as intranets, which facilitate information flow within an organization. The last type of application are service delivery systems, which provide services for the customer. Online banking, online learning, and other online services belong to this category. (Xu & Quaddus 2009.)

Another way to categorize e-business is by the type of transaction taking place (Turban et al. 2006). This approach distinguishes between business-to-business transactions (i.e. transactions conducted among businesses), business-to-consumer transactions (i.e. transactions between an organization and its retail customers), intra-business transactions (i.e. transactions within an organization), and consumers-to-consumers transactions (i.e. transactions between consumers). Further types of transactions include mobile commerce, e-government, e-learning, e-publishing, peer-to-peer applications, social networks, and online communities, only to mention a few. (Xu & Quaddus 2009.)

An important concept of e-business is the business model used to generate revenue. Turban et al. (2006, 20) have identified the following types of e-business models:

- Sales generating revenue from selling merchandise or services online;
- Transaction fees: earning a commission based on the volume of transactions made or fees per transaction;
- Subscription fees: fixed amount, usually monthly for services provided;
- Advertising fees;
- Affiliate fees: receiving commissions for referring customers to others’ sites;
- Payment for usage; and
- Licensing fees.

In addition to generating revenue, the e-business should create value for customers, organizations, and other relevant parties. The business model is critical to the viability of an online business and its failure can lead to the failure of the whole business. (Xu & Quaddus 2009.)

Foreign divestment: Academic literature uses various terms to talk about foreign divestments and until today there seems to be no consensus about which is the right one. In addition to the frequently used ‘foreign divestment’ (e.g. Boddewyn 1979; Benito 1997b), other terms seen in the literature are ‘foreign market exit’ (e.g. Sousa & Tan

2015), and ‘de-internationalization’ (Benito & Welch 1997). Furthermore, ‘divestiture’ (Boddewyn 1979) is another, yet not so commonly used term for divestment.

Despite the variety in the terms being used, the definition remains broadly speaking the same. Chopra et al. (1978, 14) have defined foreign divestment as “*the reduction of ownership percentage in an active foreign operation, on either a voluntary or involuntary basis through complete or partial sale, liquidation, expropriation and/or nationalization*”. One year later Boddewyn (1979, 21) followed by defining divestment as “*the deliberate and voluntary liquidation or sale of all or of a major part of an active operation*”. Sousa and Tan (2015, 84) defined foreign market exit as a “*firm’s voluntary decision to liquidate or sell an active operation in a foreign market*”. In this thesis the definition of Benito and Welch (1997, 9) is used as the working definition for foreign divestment. It is the best fit when describing divestments in e-business where companies often do not have any physical entities in a foreign country that would have to be sold or liquidated. According to Benito and Welch (1997, 9), divestments can refer to “*any voluntary or forced actions that reduce a company’s engagement in or exposure to current cross-border activities*”.

Another aspect that should be noted when studying divestments, is whether it is a domestic or foreign divestment. Boddewyn (1983a) identified several differences between foreign and domestic divestment decisions. First, foreign discrepancy is harder to detect due to various economic, political, social, and cultural differences between the home and host country. Second, in foreign divestments the barriers to exit are lower due to the relatively small size of the foreign affiliate, the interrelatedness problems, and the lack of emotional involvement of managers. Moreover, in case of a ‘new man’, that is when a new manager is hired to provide the impetus to divestment, the foreign divestment decision is even easier because there is no commitment to any one investment in particular. Boddewyn further argued that persuasion of superiors is facilitated by cultural differences and emotional detachment between home and host country. Justification of the divestment decision was found to be more complex to host country nationals due to political and cultural dimensions involved. Finally, Boddewyn concluded that organizational learning is simpler in foreign divestment because the ‘victims’ are far away and the decision is thus more impersonal. Even if the foreign divestment was a bad experience for the firm and the people involved, there was still the opportunity to learn how to avoid it or how to do it better next time. As defined in the previous section, the objective of this research is to examine solely foreign divestments.

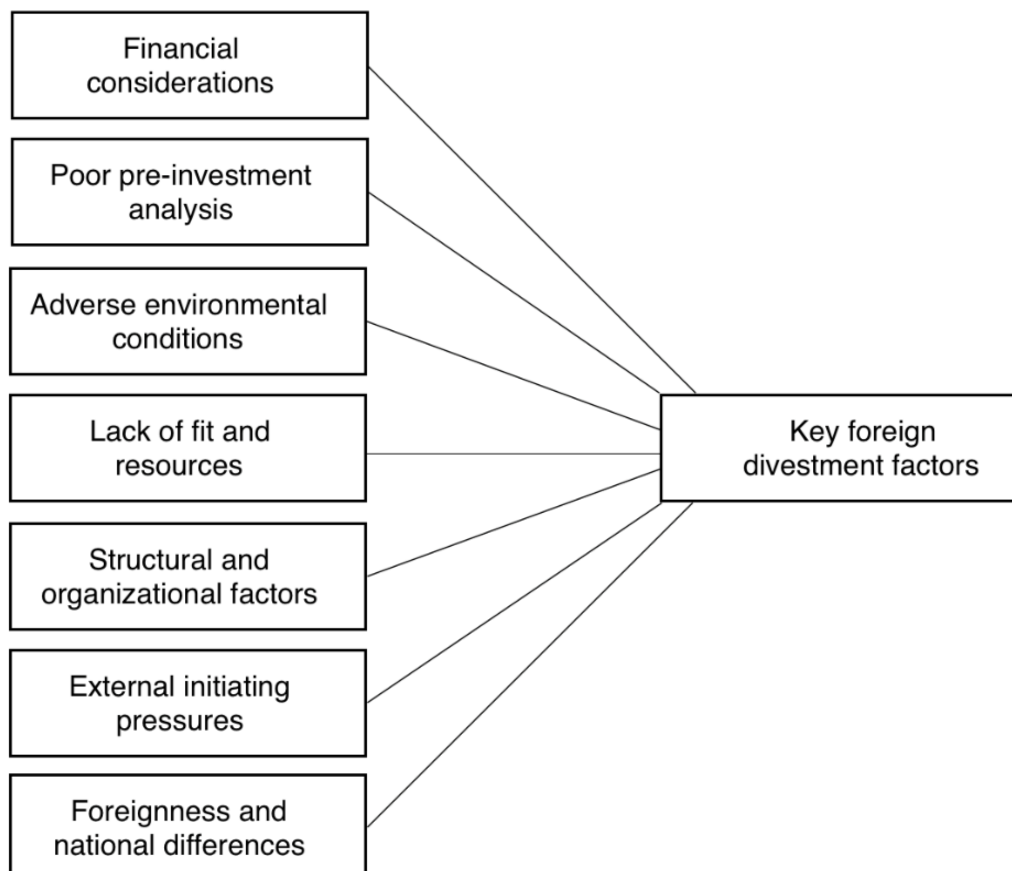
2 THEORIES ON FOREIGN DIVESTMENTS

2.1 An overview of theories on foreign divestment decisions

Over the years there has been a number of researchers attempting to explain the factors contributing to foreign divestment decisions. This chapter will provide an overview of the different frameworks after which the divestment model of Benito (1997b) is presented in more detail.

Boddewyn: In his article, Boddewyn (1979) integrated the findings of a number of U.S., European, and Japanese studies dealing with divestments. He was able to identify the following key foreign divestment factors: (1) financial considerations; (2) poor pre-investment analysis; (3) adverse environmental conditions; (4) lack of fit and resources; (5) structural and organizational factors; (6) external initiating pressures; and (7) foreignness and national differences (Figure 6).

Figure 6 Key foreign divestment factors



Source: Created by the author based on Boddewyn (1979, 22–26).

Financial factors were clearly found to be the predominating motivation of divestments. These were associated with prolonged poor performance of the foreign affiliate with bad future prospects, inability of the headquarters to sustain further losses, or lack of resources to finance the necessary modernization or expansion. Boddewyn argued that a common factor leading to bad financial performance is poor preparation. Foreign investments that were made without a sufficient pre-investment analysis often turned out to be failures and led to early divestments. However, Boddewyn stated that a poor financial situation alone was not sufficient to generate divestments and other factors and processes should be considered too.

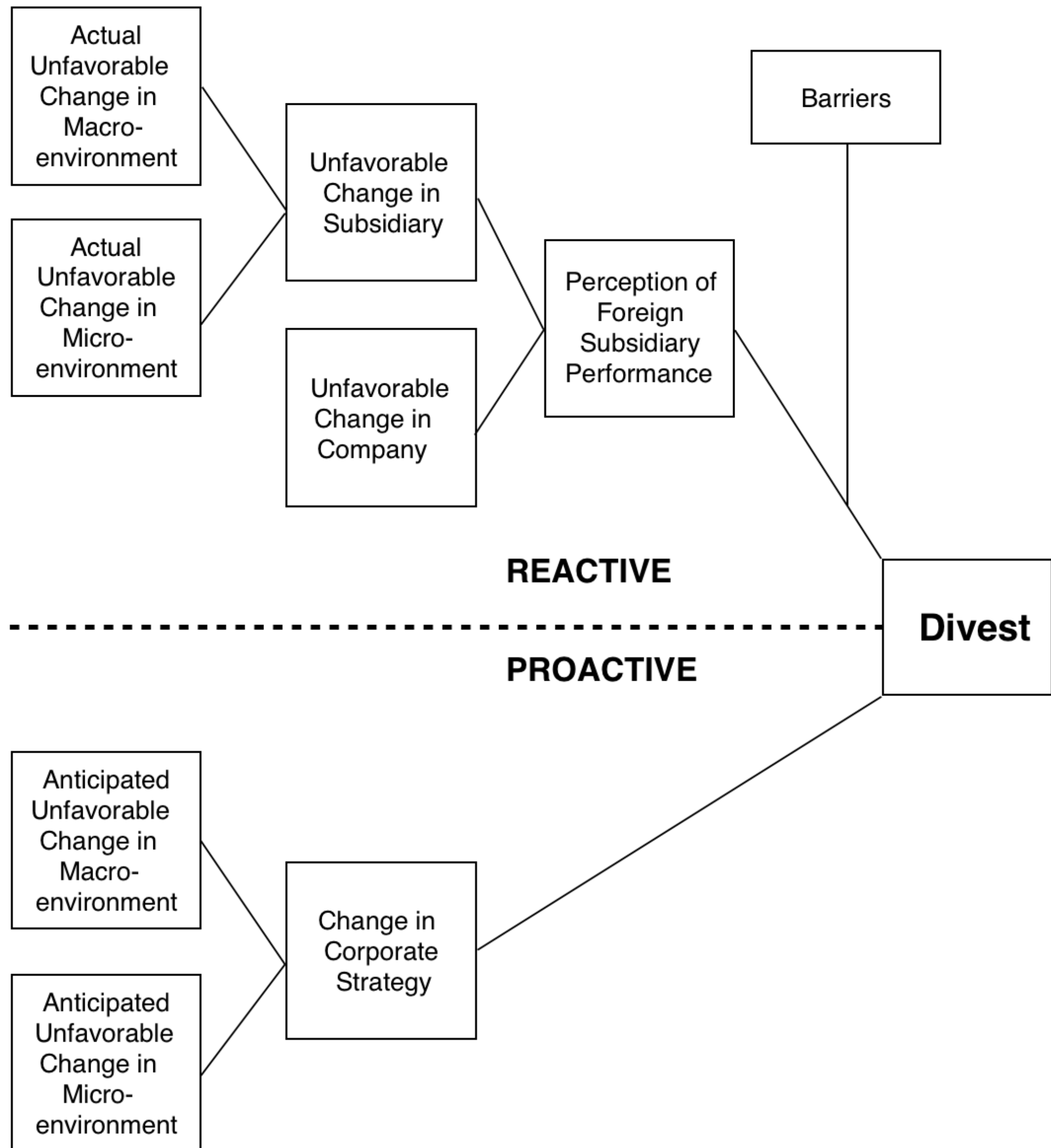
Economic, political, social, and cultural conditions in the home and host country were reported to affect the current performance of a firm. The findings implied that environmental factors cause risks and opportunities that can influence divestment decisions. What is more, a lack of fit and resources was found to contribute to foreign divestments. The article stated that companies have started to have a more explicit strategic view of their opportunities and resources which in turn has led to rationalization of their operations. Boddewyn further added the impact of the lack of managerial resources on divestments. Foreign operations require managers who are able to cope with size and complexity, and firms were found to be prone to underestimate the challenges of integrating foreign acquisitions.

Structural and organizational factors were also identified to explain divestments. Poor communication between a headquarters and its foreign affiliates, differing managerial styles, organizational changes, and bad organizational structures often generated disagreements and ultimately divestments. Moreover, Boddewyn found that in many cases restrictions of the government led to voluntary or semi voluntary divestments. External initiating pressures refer to growing national or regional policies that can affect the company's business in a foreign country.

Finally, foreign-owned multinational companies were discovered to be more likely to divest their foreign operations than locally owned firms in EEC countries. This was explained by the existence of national differences regarding legal restrictions, terminations costs, as well as union and employee opposition.

Godar: Drawing on existing literature, Godar (1997) developed a model to investigate foreign divestments driven by proactive versus reactive motives. Furthermore, she examined potential barriers to divestment in order to determine their impact on divestment decisions (Figure 7). Foreign investment theory provided the basis for reactive divestments, while proactive divestments were based on transaction cost theory. The concept of information filtering derived from agency theory and the perception of success or failure was added from failure literature. Finally, the barriers of divestment came from domestic divestment literature. The model was tested on 43 U.S. firms from varying industries.

Figure 7 Reactive vs. proactive divestment model



Source: Godar (1997, 31).

As illustrated in the model, reactive divestment-decisions are driven by unfavorable changes in the company's macro- and/or micro-environment. These changes lead to unfavorable changes at either the corporate or the subsidiary level, leading to a negative perception of the subsidiary's performance. If the company is able to overcome the barriers to divestment, this perception will lead to divestiture of the subsidiary. The drivers of proactive divestments are defined as potential changes in the macro- and/or micro-environment which lead to a change in corporate strategy.

When a company evaluates the divestment of a foreign unit it has to consider both macro- and micro-environmental issues in the host country. Macro-environmental issues

affect all firms that are operating in a given foreign country, but not equally. The degree of impact varies due to mitigating factors such as the company's ties to government officials. If unanticipated changes in the business environment affect the profitability of a foreign subsidiary the firm may start considering divesting it. However, divestment will only occur if the company perceives that the specific subsidiary operation will be affected by these changes. Micro-environmental issues that may lead to foreign divestment are market size (Torneden 1975), change in competition, and change in customer behavior. These changes are considered to threaten the continuous profitability of a given foreign unit (Godar 1997). When there are negative changes in either or both of the environments, the subsidiary performance may be negatively affected.

The perception of foreign subsidiary performance derives from the information that is received by the headquarters and the perceived significance of any negative information about the subsidiary. The model suggests that the perception of subsidiary performance is the outcome of both the subsidiary's actual performance as well as the company's overall situation. Earlier literature has suggested that financial performance of a subsidiary has an impact on how the unit is perceived by the company. The subsidiary is likely to become a divestment prospect when there is a perception of financial need, weak management, or decreased performance.

Another factor influencing divestment decisions is the overall situation of a company. If a company's performance changes in a negative manner it may re-evaluate its foreign investments. Declining profitability of a company will lead to cost reductions and rationalization of operations. This may result in a more rigorous evaluation of foreign subsidiary performance.

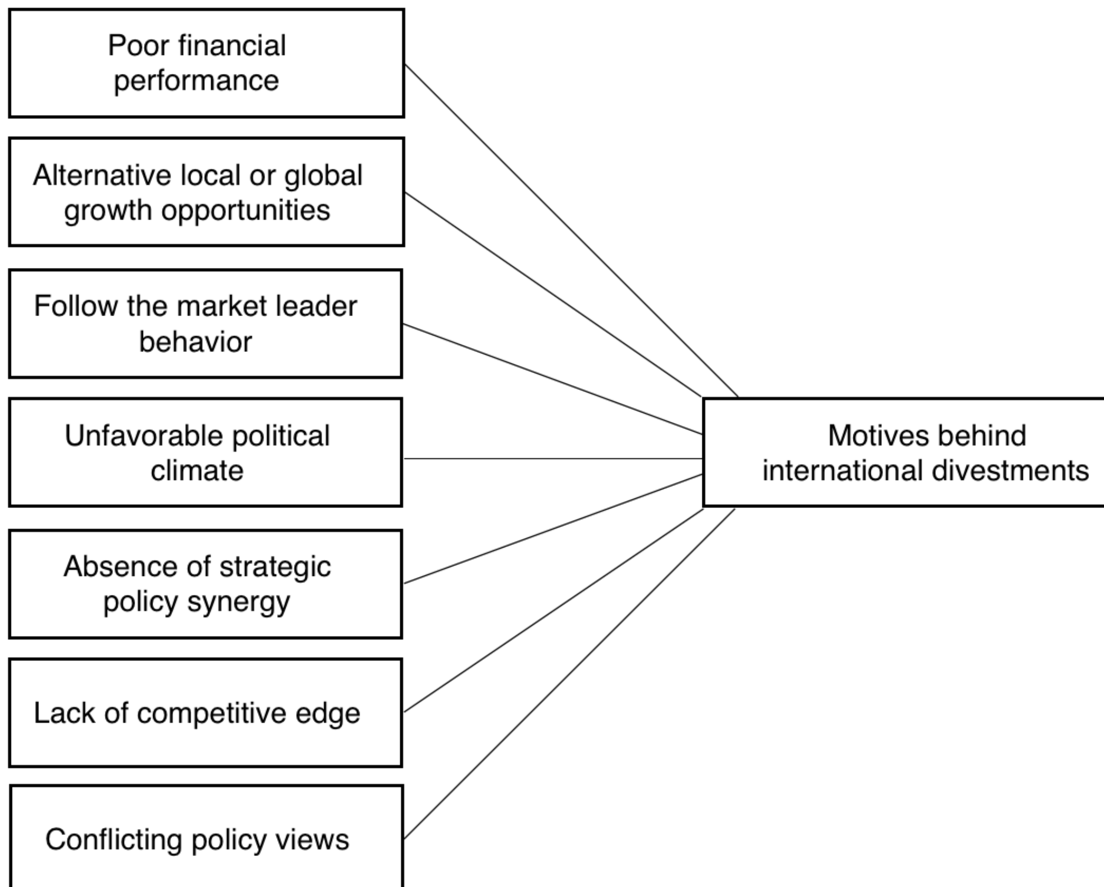
Godar proposes that barriers to withdraw from a market only exist in reactive divestments. In proactive divestments companies are less likely to consider barriers due to larger strategic changes. Decisions about individual subsidiaries may seem irrelevant when the focus is on broader issues.

According to the model, proactively motivated divestments are driven by anticipated unfavorable changes in the environment. These changes will lead the company to change its strategy and potentially reallocate its resources before the environment actually changes. The strategic change can be an entire elimination of the product line produced or serviced by the foreign subsidiary, moving the product line to another unit, or outsourcing the product. Any of these changes would lead to divestment of the foreign unit.

Jagersma and van Gorp: An extensive field study was made by Jagersma and van Gorp in 2003. It analyzes the motives behind Dutch multinational companies' international divestments and the following consequences. The study examined the following generic forces impacting international divestment decisions: (1) poor financial performance; (2) alternative local or global growth opportunities; (3) follow the market

leader behavior; (4) unfavorable political climate; (5) absence of strategic policy synergy; (6) lack of competitive edge; and (7) conflicting policy views. Figure 8 illustrates seven international divestment models that were reviewed and provided the framework for the empirical research.

Figure 8 Dominant causes leading to international divestments



Source: Created by the author based on Jagersma and van Gorp (2003, 51).

Jagersma and van Gorp stated that poor financial performance is often caused by lack of preparation. Enthusiastic managers who are driven by their personal ego or quarterly figures sometimes underestimate the importance of solid preparation. In addition, financial performance can be affected by difficulties in building up sales internationally. This may require substantial financial resources from a company and in some cases the disproportionate burdens become so high that a company decides to cease its foreign activities. Selling international loss-making activities can generate substantial funds. In order to achieve more profitable overall operations many multinational companies end up divesting their foreign activities.

More attractive growth opportunities elsewhere are another factor motivating companies to divest their foreign operations. Managers may decide to reallocate resources

when there is a chance to achieve higher profitability in other markets. The emergence of high growth geographic markets can be an example why a company decides to relocate its international activities (Porter 1990).

The third factor, following the market leader, is a common strategy in oligopolistic industries. Not only does this strategy apply to international expansion, but it can also be used in direct foreign divestments. When the market leader starts divesting foreign activities in a certain market, others in the industry may subsequently start divesting similar activities. This can be seen specifically in the phenomenon of 'multi-market competition' (Nalebuff & Brandenburger 1996).

Jagersma and van Gorp continued by explaining how political climate can play a significant role in the decision to discontinue foreign activities in a country. Local governments are in a position to impose restrictions on a foreign company's operations and to adversely influence cost levels. This may be done for example in order to favor local companies in the guest country. Moreover, a new regime or a change of attitude towards a multinational company may cause problems, especially in politically less stable countries.

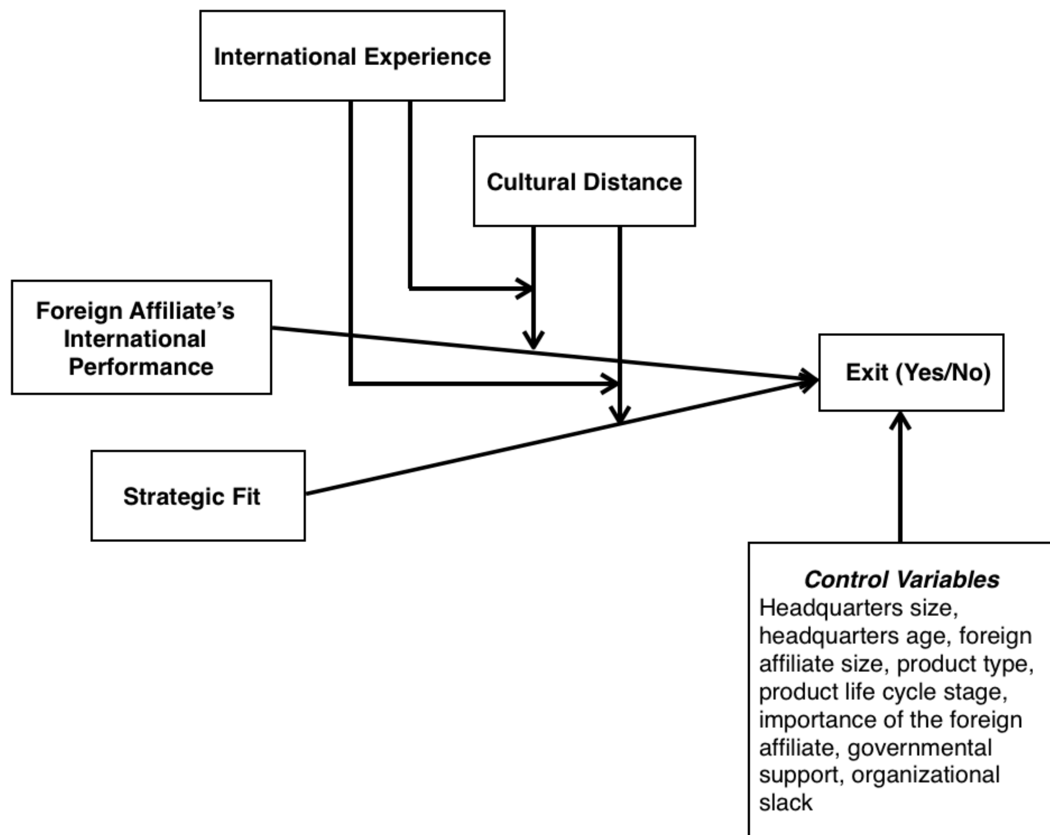
Furthermore, a change in strategic direction may cause that international activities no longer belong to the company's strategic core activity. In other words, there is a lack of strategic policy synergy. Many multinational companies decide to rationalize their international business scope (Hamel & Prahalad 1994) and create value for the shareholders by divesting foreign activities (Jagersma & van Gorp 2003).

The sixth divestment model is lacking competitive edge. Given the increasingly growing international competition as well as the ever more complex and rapidly changing international landscape, it is no surprise that companies are struggling to stay profitable. Many multinational companies must sell their products at lowest possible cost while still maintaining the highest possible quality. International activities that are not able to compete in a fierce market must be divested.

To conclude, Jagersma and van Gorp examined the effect of conflicting policy views on international divestments. Jagersma and van Gorp claimed that conflicting policy views apply only to international alliances, such as international distribution contracts or joint ventures. The relationship between a multinational company and its partner can often be more complicated than expected. Sometimes the partners' general views on how to run business diverge to the point where it is wiser for one of the parties to withdraw from the collaboration.

Sousa and Tan: Sousa and Tan (2015) focused specifically on the effects of strategic fit and international performance as well as the moderating impact of cultural distance and international experience on a company's decision to exit a foreign market. The model presented in their study is based on fit theory together with moderation contingent logic (Figure 9).

Figure 9 Conceptual model explaining the exit from a foreign market



Source: Sousa and Tan (2015, 85).

Sousa and Tan defined internal strategic fit as a coalignment or match between a foreign affiliate's strategy and the headquarters' strategy. When a foreign affiliate ceases to fit the overall strategy of a firm it is likely to be divested. This allows the headquarters to focus on its 'core' business and become more efficient by focusing resources on units with a better strategic fit.

Based on earlier studies, Sousa and Tan expected financial motives to be another crucial factor influencing a firm's divestment decision. Poor economic performance implies that a foreign affiliate's strategy has failed and that future performance will continue to be poor if no changes are made.

Furthermore, Sousa and Tan proposed that cultural distance plays a moderating role in a multinational company's foreign activities and can therefore affect the decision to exit a foreign market. Cultural distance is a widely used and recognized concept to assess the differences between countries. Common differences can be seen for example in customer preferences, competition patterns, and business rules (De Mooij & Hofstede 2002). Moreover, cultural distance implies differences in managerial values, mindsets, norms, and practices (Luo et al. 2001). A large cultural distance between the headquarters and

its foreign affiliate makes it difficult for managers to adapt to the local environment (Hultman et al. 2009). Therefore, managers are less motivated to change the strategy of a foreign affiliate and more likely to divest the foreign activities.

Finally, Sousa and Tan argued that international experience plays an important role in supporting a firm's international activities. Earlier overseas experience, professional foreign direct investment experience, and training in international business provide managers with a variety of insights leading to a more extensive knowledge base (Herrmann & Datta 2006). International expertise enables managers to be in a better position to deal with challenges caused by large cultural distance (Herrmann & Datta 2006) and to develop solutions for potential pitfalls (Dow & Larimo 2009). Moreover, managers with international experience are more confident in overcoming the uncertainty and risks associated with culturally distant markets. Therefore, international experience is expected to counteract the negative moderating effects of high cultural distance.

2.2 Divestment model by Benito

The theoretical framework by Benito (1997b) was chosen for this thesis because it incorporates all the most significant factors of the above discussed foreign divestment models. None of the other frameworks include all the factors that are presented in Benito's model but rather parts of it. The few factors that are presented in some of the other models but are missing in Benito's model were not found to be significant in explaining foreign divestment decisions. Thus, the simple and comprehensive model of Benito was a logical choice to provide the framework to guide this research.

As discussed before, earlier studies have suggested a number of factors that may trigger a divestment decision. The main streams in explaining these decisions have derived from economics, strategic management, and international business literature. The former, economics, focuses mainly on the performance of a foreign unit and on the competitive environment in which it operates. Economics literature suggests that adverse changes in these factors can lead to divestment of the operation. Strategic management literature focuses on the strategic relation between a foreign unit and the headquarters' core business. Diversification moves are suggested to have a greater risk to be divested in the future. Finally, international business literature considers the problems of doing business in a foreign country. Unfamiliar settings and/or a complex integration process of the chosen method of operation are likely to increase difficulties of running a foreign unit. However, international experience has been recognized to moderate the impact of these challenges.

Benito (1997b, 317–318) summarizes the findings from the literature in four main groups:

1. The competitive and political stability of the international environment.
2. The current and expected performance of a foreign affiliate, i.e. the attractiveness of current operations.
3. The governance problems associated with foreign operations. These depend on the chosen operation mode as well as the unfamiliarity of the foreign setting, and are moderated by the parent company's ability to deal with such problems.
4. The strategic fit between the parent company and a foreign unit, i.e. the degree to which a foreign subsidiary is related to its parent, and whether the parent has a well-defined core-business or not.

Benito further adds that when examining the influence of these factors on a firm's exit decision, incentives and barriers to exit should be considered too. They are expected to have a moderating effect and are therefore included in the framework as a moderator between the four factors and the probability of exit. The decision to stay or to exit is presented as a function of incentives and barriers to exit in Figure 10.

Figure 10 The decision to stay or to exit

Incentives to exit (I_{exit}) / Barriers to exit (B_{exit})	None	High
None	**Stay**	**Stay**
High	**Exit**	If $I_{exit} > B_{exit}$: **Exit** otherwise: **Stay**

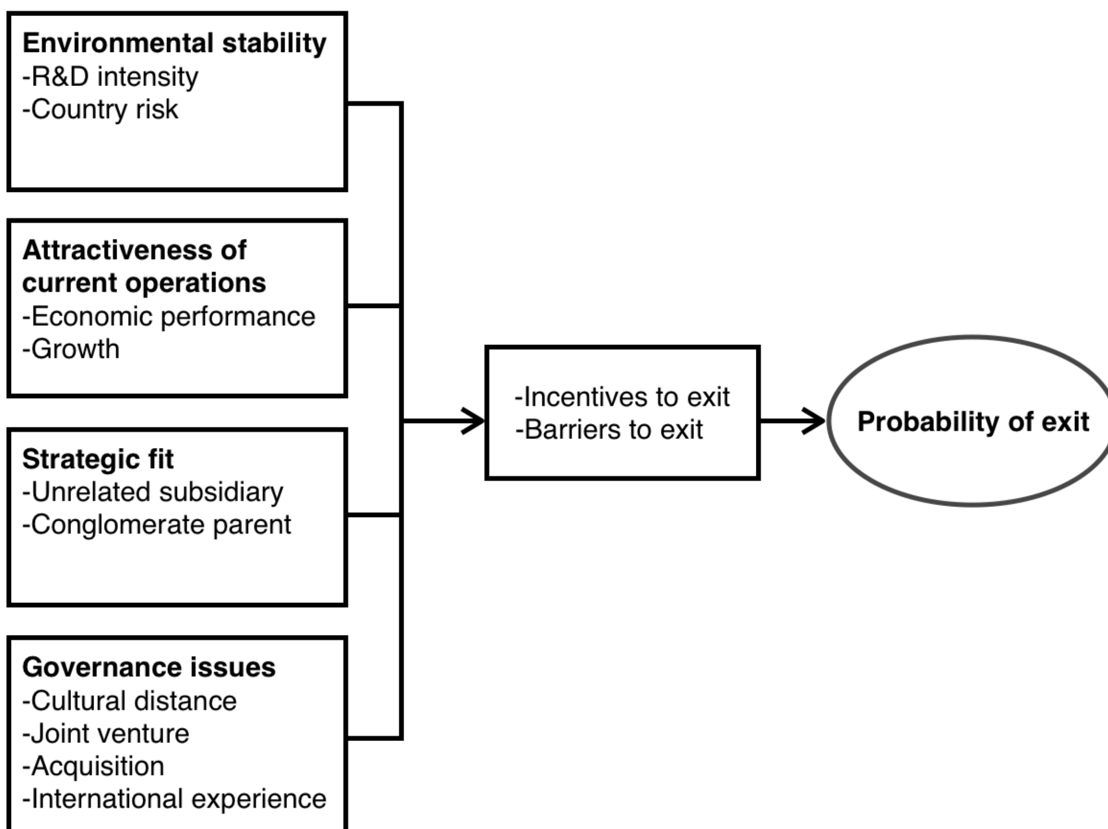
Source: Benito (1997b, 316).

For a company to consider divesting a foreign unit there must be a positive incentive to exit. Benito argues that positive incentives exist whenever current profits, or expected profits, over a relevant period of time fail to meet a satisfactory rate of return. However, even high incentives to exit will not lead to divestiture unless the magnitude of incentives

is larger than that of the barriers to exit. Barriers to exit derive primarily from the existence of assets that have a higher value in their current use than in their best alternative use. Benito (1997b, 317) states that "*in terms of their explanatory value* [notions of incentives and barriers to exit] *constitute rather 'empty' concepts*".

In his attempt to integrate the various contributions found in literature, Benito takes a relatively broad frame of reference and does not confine it to any particular field like economics, management, or strategy. The outcome is a simple and unifying framework, which aims to explain why and under which circumstances foreign market exit is likely to take place (Figure 11).

Figure 11 Divestment of foreign operations: A framework



Source: Benito (1997b, 318).

Benito's model presents four main factors that are likely to influence a firm's probability of divesting operations: environmental stability, attractiveness of current operations, strategic fit, and governmental issues. These factors are moderated by their respective effects on the firm's incentives and barriers to exit. Benito argues that his framework is rather general and may be used in both foreign and domestic contexts. The role of various factors in foreign divestments is presented in more detail below.

2.2.1 Environmental stability

The factors leading to foreign divestment can be seen as the reversal of FDI (Boddewyn 1983b). Changes in the environment of the foreign activity can affect the adequacy and profitability of FDI as an operation method (Benito 1997b). Using Dunning's (1979) 'eclectic theory of international production' as a foundation for his framework, Boddewyn contends that foreign divestment is likely to take place when Dunning's conditions for FDI cease to be present.

The central hypothesis in Dunning's theory is that "*a firm will engage in foreign direct investment if three conditions are satisfied* [simultaneously]" (Dunning 1979, 275):

1. The company possesses ownership-specific advantages.
2. Assuming that condition (1) is satisfied, the company must have an incentive to internalize its advantages, i.e. it must be more beneficial for the company to extend its own activities rather than externalizing its advantages.
3. Assuming that conditions (1) and (2) are satisfied, it must be more profitable for the company to exploit these advantages outside its home country.

Based on this theory, Boddewyn (1983b) translated Dunning's three conditions into a proto-theory of foreign divestment. According to his theory, foreign direct divestment takes place whenever (Boddewyn 1983b, 347–348):

1. A firm ceases to possess net competitive advantages over firms of other nationalities.
2. Or, even if the firm retains net competitive advantages, it no longer finds it beneficial to use them itself rather than sell or rent them to foreign firms – that is, the firm no longer considers it profitable to 'internalize' these advantages.
3. Or, the firm no longer finds it profitable to utilize its internalized net competitive advantage outside its home country – that is, it is now more advantageous to serve foreign markets by exports and the home market by home production, or to abandon foreign and/or home markets altogether.

The latter condition will be discussed later on. In this section the interest lies in the first two points, i.e. the erosion of ownership and internationalization advantages. These result from changes in the company's competitive and political environment. Benito argues that R&D intensity and country risk in particular can significantly impact the environmental stability of a foreign operation.

R&D intensity: Ownership advantages largely derive from investments in research and development as well as marketing activities. Industries that are research and

development intensive often constitute rapidly changing competitive environments (Audretsch 1994). This in turn can threaten the advantages gained from R&D (Shapiro 1983). What is more, due to the high risks associated with R&D investments, further investments may in fact increase the risk of subsequent failure. However, giving up on R&D projects is not a viable alternative either. Given the rapidly changing and technology intensive nature of such industries, this may lead to failure even faster.

Country risk: Foreign operations face a higher risk due to unexpected changes in the economic, social, and political environment of a host country. A firm's competitive ability is dependent on actions and events that it cannot control, such as the behavior of a given host country regarding the regulatory environment, economic policies, and discriminatory government actions.

Country risk may determine a divestment decision in several ways. Political risk can lead to adverse host country actions and leave the firm with no other option than to divest. Moreover, political risk may change in a negative direction and hence affect the perceived benefit of continuing foreign operations. Finally, in case that the company wants to retreat from a foreign market, country risk may heighten the barriers to exit by complicating the sale of the foreign affiliate. Even at a low price there is likely to be a lack of interest.

2.2.2 Attractiveness of current operations

Economic performance of the foreign unit: The profitability of a foreign affiliate plays an important role in the decision of whether it should be retained or not. It is perhaps the most obvious factor leading to foreign divestments. However, Benito notes that foreign units with high productivity are the ones most likely to be sold off. This can be explained due to the interest of potential acquirers who may be willing to pay a good price for the unit while it is performing well.

Economic growth in the host country: Another factor affecting the attractiveness of a particular location is the more general economic situation. As the 'eclectic theory' of international production indicates, a host country needs to have specific location advantages that make it interesting for firms to invest in that country. Trade barriers and transport costs can give rise to country or location specific advantages that lead firms to favor FDI. In addition, countries with favorable economic conditions are likely to attract more inward FDI. Particularly market size and market growth can have a significant impact on international investment location decisions.

Moreover, the ability of a host country to remain attractive for FDI can be expected to be dependent on the growth of its economy. Given that host countries are competing with each other for FDI, it is necessary for a host country to obtain growth rates that are sufficiently high compared to other potential locations.

2.2.3 Strategic fit

Literature has pointed out that diversification, particularly into unrelated industries, often increases the risk of divestment (Pennings et al. 1994). Various explanations have been offered for this phenomenon. First, unrelated moves seldom support economies of scale and scope (Lecraw 1984). Second, diversification exposes the firm to an unfamiliar context, which in turn increases the likelihood of mistakes (Pennings et al. 1994). Moreover, unrelated expansion makes it difficult to build inter-firm linkages (Pennings et al. 1994), and finally it increases the company's governance cost without necessarily leading to lower production costs or higher returns (Reve 1990).

Another stream of literature argues that diversification by itself increases the propensity to divest. The emotional attachment is less strong in diversified than in single-industry companies, which lowers the barriers to exit a market. What is more, Caves and Porter (1976) suggest that diversified companies are more flexible and can thus demand for a higher rate of return. If a foreign affiliate fails to achieve the target, it may be divested quickly and the cash reinvested in other operations. Single-industry companies, however, often accept lower rates of returns, given that they face significantly higher exit barriers due to sunk costs in specific assets.

2.2.4 Governance issues

Foreign operations take place in cultures which are lesser known to the company. This requires internationalizing companies to learn about and adjust to foreign cultures and can increase their risk of failure (Barkema et al. 1996). Literature indicates that problems associated with acculturation depend principally on cultural distance, the mode of operation, and the international experience of the company.

Cultural distance: Challenges caused by cultural distance vary considerably depending whether the company enters a neighboring country or a culturally distant country located far away. Cultural similarity between the home and the host country is expected to increase the probability of FDI. Furthermore, closeness between the countries may facilitate monitoring and coordination of production and marketing activities and thus alleviate problems at later operative stages. Consequently, the incidence of problems that may motivate divestment of a foreign operation is likely to be higher in culturally distant host countries.

According to Boddewyn (1983a), foreign divestment appears to be an easier decision when compared with domestic divestment. The headquarters' managers are both physically and emotionally more detached from foreign units, hence making the decision to divest more impersonal. Drawing upon Boddewyn's conclusions, Benito argues that if

perceived barriers to exit depend on distance, exit barriers would be expected to be lower for remote foreign affiliates than for units that are located in neighboring and/or culturally close countries.

Operation method: Foreign market entries often involve a joint venture with a foreign partner or the acquisition of an existing operation in the host country. The integration of different corporate cultures can already be challenging in a purely domestic context, but even more so when integrating foreign cultures. Barkema et al. (1996) point out that both national and corporate cultures have an impact on the international venture.

Using a foreign partner when entering a new market is a double-edged sword: while it may help reduce entry barriers for the company, it can also lead to problems associated with the integration process. The parent company is likely to face challenges when reconciling institutionalized organizational practices, such as decision-making procedures and corporate policies (Barkema et al. 1996). As a result, international joint ventures are often unstable or perceived as unsuccessful by the partners involved (Harrigan 1988; Kogut 1988).

Furthermore, foreign affiliates often face a lack of commitment from managers of the parent company. Managerial attachment takes time to build and may not yet be there in the critical initial phases of the integration process. On the contrary, internal start-ups often get considerably more support – even when less successful – from managers who are reluctant to divest what they have created themselves (Li 1995).

International experience: Problems associated with the lack of knowledge about foreign locations, cultural distance, and the integration process itself, are not always constant. Studies have shown that when expanding abroad, firms acquire knowledge about foreign markets and about how to deal with partners from a different cultural background. International experience can be measured as the number of prior foreign investments undertaken by the firm, or as the firm's prior experience in the same foreign country. It provides positive learning effects and thus improves the longevity of ventures. (Barkema et al. 1996.)

Firms with international experience are likely to be better in evaluating potential sites and cooperation partners for a FDI, which in turn reduces the risk for subsequent divestment. Moreover, as experience is accumulated it becomes easier for a firm to avoid common problems associated with foreign affiliates and to come up with workable solutions for potential pitfalls.

Finally, experienced firms know how to correctly respond to changes in the foreign environment, such as changes in exchange rates and pricing. They are better in estimating whether a change can be interpreted as being normal fluctuation in the market or if it is a problem that can be solved if appropriate action is taken. Thus, firms with higher levels of experience are likely to have a more tolerant approach to deviations from the expected.

Benito further adds that factors other than those discussed before may also have an impact on the exit decision. First, he suggests that the size of the parent company may have an impact. However, previous research has found mixed results regarding how size affects the probability of divestment (Li 1995). Another potentially significant control variable is the age of the foreign affiliate. The period of time until a start-up becomes profitable can be long, which sometimes leads impatient investors to prematurely terminate the operation. Furthermore, new operations are often perceived as 'risky' and may therefore have difficulties in obtaining the resources they need to survive. On the organizational side, it can be argued that old subsidiaries have closer linkages to the headquarters which makes dissolution more difficult (Hannan & Freeman 1984). However, older units are likely to use less efficient technology, and to produce products that are in the mature and declining phases of their life cycle. This would support the divestment of these operations (Harrigan 1980). This study will only consider the factors described in the theoretical model, given that these additional factors have been found to have mixed results on divestments.

3 RESEARCH DESIGN

3.1 Research approach

Merriam (2014, 3–4) describes research as "*a systematic process by which we know more about something than we did before engaging in the process*". It can be divided into the categories of basic and applied research. While applied research focuses on a particular discipline, basic research is interested in a phenomenon and aims to know more about it. Thus, this research can be qualified as basic research.

The chosen research approach is a qualitative case study. A qualitative research aims to discover how things actually are (Gillham 2000). The research objective as well as the research questions strive for a deeper understanding about the phenomenon which could not be achieved by quantitative means. Qualitative research is needed to understand the phenomenon and to leave room for possible unexpected information.

There are various types of qualitative research strategies. The most commonly used approaches are basic qualitative research, phenomenology, grounded theory, ethnography, narrative analysis, critical qualitative research, and case study. (Merriam 2014.) Again, the chosen approach was determined by the research objective and research questions. Case study was seen as the best fit for this research because of its distinctive features. Merriam (2014, 40) defines case study as "*an in-depth description and analysis of a bounded system*". The end product is explanatory in nature and provides a holistic description of the studied phenomenon. As Bromley (1986) points out, case studies get the researcher as close to the subject of interest as they possible can. A case study can be seen more as "*a choice of what is to be studied*" rather than a methodological choice (Stake 2005). Here the 'what' refers to a bounded system (Smith 1978), in this study specifically to foreign divestments of e-business companies. Merriam (2014, 42–44) explains that by concentrating on a single situation, event, or phenomenon, the researcher "*aims to uncover the interaction of significant factors characteristic of the phenomenon*". The cases in this study are important for what they will reveal about foreign divestments in the e-business sector. As noted in Chapter 1.2., there have been only few case studies on foreign divestments, and none on foreign divestments in the e-business sector specifically.

Stake (1981) claims that previously unknown relationships and variables are likely to emerge from case studies and will thus lead to a rethinking of the phenomenon being studied. He continues by arguing that case study knowledge differentiates from other research knowledge in the following four ways: (1) it is more concrete and resonates with our own experience; (2) it is more contextual as our experiences and case study knowledge are rooted in context; (3) it is more developed by reader interpretation, as

readers bring their own experience and understanding to a case study; and (4) it is based more on reference populations determined by the reader.

As this study focuses on the characteristics of foreign divestments, a descriptive study is in order. Merriam emphasizes that here the results are limited to describing the phenomenon rather than predicting how it will behave in the future. Case study offers a means to examine the multiple potentially important variables explaining foreign divestments. Erickson (1986) argues that since the general lies in the particular, the findings of a particular case can be transferred to other similar situations.

3.2 Data collection

The method of choice in this research was non-probability sampling. As Honigmann (1982) describes, non-probability sampling methods are logical when the researcher aims to solve qualitative problems, such as discovering what occurs, the implications of what occurs, and the relationships linking occurrences. The most common form of non-probability sampling is purposeful sampling, which is used when the objective is to discover, understand, and gain insight into a phenomenon. Hence, the investigator has to select a sample from which the most can be learned. (Merriam 2014.)

As an alternative for the term purposeful sampling, LeCompte and Preissle (1993) suggest the term 'criterion-based selection'. Here the idea is to create a list of the essential attributes for the study and to proceed to find a case that will match the list. In this research, the criteria were chosen to be as follows:

1. The company is an e-business company.
2. The company has expanded to foreign markets.
3. The company has deliberately divested operations from at least one foreign market.

The search for eligible case companies included various methods, such as contacting numerous experts in the field as well as university professors, approaching e-business companies directly, doing online research, and reading news articles. Potential case companies were evaluated based on their ability to match the predetermined profile. The original idea was to interview several companies and to make an extensive case study, i.e. creating generalizable theoretical constructs by comparing a number of cases (Eriksson & Kovalainen 2008). However, some difficulties arose from the topic of research as it turned out that there was not much public information about e-business companies that had divested foreign operations. Moreover, the companies that were found to have divested operations seemed to be reluctant to talk about the reasons that had led

to their foreign market exit. All these companies were contacted and asked to participate in an interview. Only two of them answered to the request, Lyyti and Groupon. Due to these boundaries the scope of this research was narrowed down to two case examples. Both companies were active in the e-business sector, had expanded to foreign markets, and had deliberately divested operations from at least one foreign market. Lyyti and Groupon differed from each other in many aspects such as size, pace of internationalization, business model, and customers. Thus, the results were expected to provide information about foreign divestments from two different perspectives.

The second step in purposeful sampling in qualitative case studies is to do sampling within the case (Merriam 2014). Here the method of choice was again purposeful sampling, more specifically snowball, chain, or network sampling. Citing Merriam, this strategy involves identifying the key participants in the case and asking each one to refer to other participants.

After identifying Lyyti as a potential case company, the CEO of the company was contacted and asked to participate in an interview. As the CEO of the company, Petri Hollmén was a logical first choice to interview about the case. He had been the one making the final decisions when it came to Lyyti's foreign operations in Germany. When Hollmén agreed to an interview, he was asked who else had been involved in Lyyti's German operations. He then recommended to interview Antti Vaahtoranta, who had been in charge of the German market from which Lyyti had divested its operations. Vaahtoranta had been working at Lyyti since 2012 and his current responsibilities included customer training, distribution, and for some parts also customer service.

In Groupon Finland's case the procedure was similar. However, as Groupon was no longer active in Finland and there was no direct contact information available for the headquarters of Groupon in the U.S., the situation was more complicated. First, the customer service of Groupon U.S. was contacted and asked to forward the interview request to the headquarters or to give out their direct contact information. The answer was that they could not help with this issue. The next step was contacting the previous country manager of Groupon Finland, Risto Juntunen, and he agreed to an interview. Juntunen started at Groupon Finland in January 2011 as a sales manager. Six months later he became country manager and was responsible for Groupon's operations in Finland. This included managing sales, sales targets, and sales growth. Many of Groupon's operations were managed internationally and Juntunen's role was to ensure that everything was done correctly in Finland.

When asked for further key participants in Groupon Finland's divestment case Juntunen referred me to Hannu Säkkinen, prior head of HR of Groupon Finland and member of the board. Säkkinen replied in a phone conversation that he would not be able to participate in an interview because he had signed a contract with an obligation of confidentiality when Groupon divested operations from Finland. Furthermore, Säkkinen

was confident that other key participants who had worked for Groupon Finland had also signed a similar contract. When asked for key participants outside of Finland, Säkkinen referred me to Emma Coleman, head of communications in Groupon's EMEA segment (consisting of Europe, the Middle East and Africa). Coleman was situated in London and was first approached via email. The reply was that she would not be participating in an interview regarding Groupon Finland's divestment: "*I am sorry but we have made our public statements on this and there is nothing else I can share.*" Based on this reply the decision was made to gather the empirical data in Groupon's case from Juntunen's interview as well as from the public statements that had been made on Groupon's foreign market exit.

Apart from the public statements in Groupon's case the empirical data was collected through expert interviews. Interviews were considered to be the best method as detailed information regarding divestments was found to be difficult to obtain in written form or from public sources. Furthermore, interviews were hoped to result in a rich and comprehensive data set that would be hard to achieve with other methods.

Eriksson and Kovalainen (2015) describe three different kinds of interviews: (1) structured and standardized interviews; (2) guided and semi structured interviews; and (3) unstructured, informal, open and narrative interviews. In structured and standardized interviews, the interviewer has a pre-designed script that determines how the interview is done and there is little or no possibility to respond to any particular concerns of the interviewee. The major disadvantage of standardized interviews is the lack of flexibility. Eriksson and Kovalainen argue that these kinds of interviews may be too restrictive to be used as the main source of data in qualitative research. In guided and semi structured interviews the interviewer uses a pre-designed outline of topics or themes, but still has the possibility to make some changes to the questions during the interview. The method of a semi structured interview allows the interviewer to adapt to the situation at hand and to follow up with more questions when needed. The tone of the interview is usually conversational and relatively informal. The third group of interviews are unstructured, narrative, informal and open interviews. Here the interviewer does not use a formal interview protocol and is free to move the conversation in any direction of interest. This type of interview is often used when the aim is to examine the topic of research in depth and from the interviewees point of view.

In this thesis the chosen method was a semi structured interview. The interviews were guided by a predetermined list of open-ended questions based on the theoretical framework of Benito (1997b). The interview themes are presented in the operationalization chart (Table 1) as well as in Appendix 2.

Table 1 Operationalization chart

Research question	Sub-questions	Theoretical framework		Interview themes
What are the factors leading to foreign divestment in e-business?	What is the role of environmental stability on foreign divestment in e-business?	Environmental stability	R&D and Competition	-Investments in R&D -Competitive environment
			Country risks	-Country risks -Political environment -Changes in the business environment
	What is the role of attractiveness of current operations on foreign divestment in e-business?	Attractiveness of current operations	Economic performance	-Economic goals -Economic performance of the foreign unit
			Economic growth of the host market	-General economic situation in the host country -Location specific (dis)advantages
	What is the role of strategic fit on foreign divestment in e-business?	Strategic fit	Strategic relatedness of the foreign unit	-Diversification of the foreign unit -Strategic fit -Strategic goals -Changes in strategy
	What is the role of governance issues on foreign divestment in e-business?	Governance issues	Cultural distance	-Cultural distance -Effects of cultural distance
			Operation mode in a foreign market	-Entry mode -Integration problems -Relationship with the foreign partner
			International experience	-Earlier international experience -Usefulness of prior experience

The operationalization chart presents the objective of this research and the linkages between the sub-questions and the theoretical framework. As seen in the chart, the interview themes derive directly from the theoretical framework. Benito's notion of barriers and incentives to exit is not included in this thesis as it is not relevant in explaining which factors lead to foreign divestment in e-business.

The interviews were done face-to-face. After being in contact with Vaahtoranta beforehand via email, a personal appointment was scheduled. The interview themes were sent to Vaahtoranta via email one week before the interview so that he could get familiar with them. The interview was done on March 21st 2016 in Lyyti's office in Turku. As

Vaahtoranta had requested beforehand, the interview was done in German. German is Vaahtoranta's first language and thus the bias from speaking in a foreign language could be minimized. Furthermore, when speaking in their first language interviewees usually feel more comfortable and give more detailed answers to questions. The interview lasted approximately one hour and was recorded with the phone. The transcription was done on the same day as the interview. The quality of the recording was very good and thus the transcription was easy to make. Vaahtoranta was clearly an expert when it came to Lyyti's operations in Germany and was very capable in answering all the questions.

Two days later, on March 23rd 2016, the interview with Hollmén was done also in Lyyti's office. As with Vaahtoranta, the interview had been scheduled via email and the interview themes had been sent to Hollmén one week before. This time the interview was done in Finnish as this was Hollmén's native language. The interview was a little shorter than the first one and lasted less than one hour. Still, there was enough time to go through all the interview themes and Hollmén gave detailed answers to each question. The recording was again done with the phone and the quality was very good. The transcription was done one day after the interview.

Similar to the first two interviews, the interview with Juntunen was also scheduled via email and the interview themes were sent to him one week in advance. The interview was done on April 1st 2016 in Juntunen's office in Helsinki and lasted approximately 30 minutes. The chosen language was Juntunen's native language Finnish. Due to Groupon's strict confidentiality regulations Juntunen was not allowed to comment on all the questions. Furthermore, as Juntunen had not participated in the decision making regarding the divestment of operations in Finland he did not have all the information concerning the case. The decision had come from the highest management level at Groupon's headquarters in Chicago without much further explanation. Nevertheless, Juntunen was able to answer most of the questions and make some own conclusions what may have been affecting Groupon's decision to divest from Finland. The interview remained relatively short as many of the themes in Benito's divestment model did not apply to Groupon Finland's case and were therefore not discussed in more detail. In 30 minutes Juntunen had shared all the information he could concerning the factors that had contributed to Groupon Finland's divestment. The recording quality of the phone was again very good and the transcription was done two days after the interview.

To complement the data from the interview with Juntunen, public data and statements of Groupon were used as another source of information. As Groupon is a large multinational company that is listed on the stock exchange there was a fair amount of public information available. Sources of information included the company's own website, the company's blog, as well as news articles on trustworthy websites.

At the end of the research process the results and conclusions were sent to the participants for inspection. This was particularly asked for from the participants as they wanted to verify that the information given by them was interpreted correctly.

3.3 Data analysis

According to Merriam (2014), data analysis is the process where the researcher makes sense out of the data and finds answers to the research questions. In a multiple case study, such as this one, data is analyzed in two stages. The first step is a within-case analysis, where each individual case is analyzed separately and treated as a comprehensive case in and of itself. This stage is followed by a cross-case analysis, where the cases are compared with each other to identify similarities and differences across cases and in contrast to theory. (Eriksson & Kovalainen 2008; Merriam 2014.)

The chosen approach for this thesis was a deductive content analysis which is based on a theoretical framework (Tuomi & Sarajärvi 2002). Tuomi and Sarajärvi describe three main phases of content analysis in qualitative research: (1) reducing the data; (2) categorizing the data; and (3) abstraction. Following these instructions, the interviews were first transcribed from the recordings and the transcriptions were read and re-read in order to create an understanding of the data. Important parts of the interviews were underlined and subsequently listed in a separate document. This way unimportant information was removed from the data set. A simplified description of the content was marked next to the original expressions.

In the second phase the coded data was evaluated in detail in order to identify to which theme of the theoretical framework the expressions belonged to. This was simple because the main categories were already predetermined from the theoretical framework and the interview questions were grouped according to these categories. The information from the three interviews and the public statements was first organized together according to the four themes of Benito's (1997b) framework. After this the information was further divided into the respective subcategories of the framework.

The last phase was about abstraction. In a deductive content analysis, the theoretical concepts are already given and the inquirer simply has to connect the empirical data to these concepts. In this thesis, the concepts were presented in Benito's framework of foreign divestment. The empirical data was coded open and presented in a categorization matrix (Table 2).

Table 2 Categorization matrix

What are the factors leading to foreign divestment in e-business?	Case Lyyti	Case Groupon
Environmental stability		
Attractiveness of current operations		
Strategic fit		
Governance issues		

The categorization matrix has one paragraph for each case, Lyyti and Groupon. The findings of the two cases were analyzed individually and categorized based on their correspondence with Benito's four divestment factors: (1) environmental stability; (2) attractiveness of current operations; (3) strategic fit; and (4) governance issues. To conclude, the findings of the cases were summarized and compared with each other.

3.4 Evaluation of the study

The basic concept of trustworthiness is simple: the researcher has to persuade the reader that the findings of his or her study are worth taking account of. Traditionally, a research has been evaluated based on the following criteria: (1) internal validity; (2) external validity; (3) reliability; and (4) objectivity (Merriam 2014). As these criteria have been found to be inappropriate for naturalistic research, Lincoln and Guba (1985) have proposed and defended four alternative dimensions of a trustworthy study: (1) credibility; (2) transferability; (3) dependability; and (4) confirmability. These are the criteria that are also used to evaluate the trustworthiness of this research.

Credibility, alternative for internal validity, refers to how research findings match the reality (Merriam 2014). How credible are the findings given the data presented? "*Because human beings are the primary instrument of data collection and analysis in qualitative research, interpretations of reality are accessed directly through their observations and interviews*" (Merriam 2014, 214). When evaluating the credibility of a research, one must ask how familiar the researcher is with the topic and if the data is sufficient to justify the claims. Moreover, are the links between observations and categories strong and logical? For a research to be credible, any other researcher should be able to come relatively close to the same interpretations based on the materials used in the research. (Eriksson & Kovalainen 2008.)

To increase the credibility of this research, I first familiarized myself with the topic by reading numerous academic articles and studies about foreign divestments as well as theories related to the topic. Next, I conducted three comprehensive interviews with people who had own real life experience about the phenomenon. The interviews were recorded so that any other researcher could use the material to conduct the same research again. Furthermore, the empirical findings were clearly linked to the theoretical framework and the linkages were illustrated in the operationalization chart. At the end of the research process the findings and conclusions were sent to the participants for inspection. This way they could confirm whether the data from the interviews had been interpreted correctly. Moreover, this allowed me to identify my own biases and misunderstandings and mistakes could be avoided. Still, one may question whether the amount of data was sufficient enough. A higher number of interviews and the usage of multiple sources of data and/or multiple inquirers would have made the study more credible.

External validity deals with the question of how generalizable the results of a research are. That is, to which extent can the findings of the study be applied to other situations. In a qualitative study, findings cannot be generalized in the statistical sense. (Merriam 2014.) Therefore, Lincoln and Guba (1985, 298) suggest the term 'transferability', in which "*the burden of proof lies less with the original investigator than with the person seeking to make an application elsewhere*". Transferability refers to the similarity between a given research and any other research. It is not concerned with the replication of the research but the inquirer should be able to show to some extent similarities in other contexts. (Eriksson & Kovalainen 2008.) Furthermore, Lincoln and Guba argue that the causal relationships found in the research should be transferable to other theoretical contexts. This would establish a connection between the research and earlier studies on the subject (Eriksson & Kovalainen 2008).

The transferability of this research was increased by linking it strongly to earlier academic studies. Moreover, the chosen case companies resembled many other companies in the e-business sector regarding their size, customer base, and business model. Hence, it can be argued that the results can be applied to other similar companies with similar cases of foreign divestments. However, it should be noted that every divestment case is unique in its nature.

Merriam describes reliability as the extent to which research findings can be replicated. As the replication of a qualitative study will not yield the same results, the more important question when evaluating qualitative research is whether the findings are consistent with the data collected. Lincoln and Guba suggest the term 'dependability' to describe reliability in qualitative studies. Here the idea is that a research with the same or similar respondents in a same or similar context would lead to the same findings. By describing the interviews accurately, the inquirer can increase the dependability of the research.

Eriksson and Kovalainen describe dependability as to how logical, traceable and documented the research process has been. The researcher's responsibility is to offer enough information to the reader in order to make the research trustworthy. The research process of this study has been described in detail to make it as logical, traceable and documented as possible. Furthermore, the interviews have been recorded so that the any other researcher could analyze the data again if needed.

Objectivity is typically judged based on the criterion of intersubjective agreement. What a number of individuals experiences is considered objective, and what a single individual experiences is subjective. In a qualitative definition of objectivity, the emphasis is no longer on the investigator but on the data themselves. The question to be asked is now: Are the characteristics of the data confirmable or not? (Lincoln & Guba 1985.) Confirmability is concerned with linking findings and interpretations to the data in a way that can be easily understood by the reader. The inquirer has to show that the findings of a research are not just imagination. (Eriksson & Kovalainen 2008.) Lincoln and Guba describe confirmability as the extent to which the findings of a study depend on the topic and the conditions of the research, and how dependable they are on the biases, motivations, interests, and perspectives of the inquirer. It is the responsibility of the researcher to make sure that the findings are grounded in the collected data and that conclusions drawn from the data are logical.

To make this study more confirmable, the research process has been described as detailed as possible to the reader. However, certain issues may have affected the confirmability of this research. As the interviews were done in another language than English, the data had to be translated afterwards and may have caused some decrease in confirmability. Furthermore, as the theoretical framework was used as the basis for the interview themes, the questions asked in the interview may have been leading and causing the participants to answer differently than without any leading questions. It should also be noted that information from individuals is always subjective. In order to get a more objective picture of the phenomenon, multiple interviews were conducted but perhaps there should have been even more interviews to ensure a better confirmability of the research. Moreover, the special features of a case study presented certain limitations in its usage. Although the desired outcome was a rich and holistic description and analysis of the phenomenon, there were limitations regarding the length of this study and the time and resources I could devote to it. All the desired information and contacts were not available to me. This is partly due to the sensitive nature of the topic, as divestments are often considered as failures and companies tend to be unwilling to talk about them. Furthermore, as in qualitative case studies the researcher is the primary instrument of data collection and analysis, my limited expertise as a researcher may have affected the confirmability of this research.

4 EMPIRICAL FINDINGS

4.1 Case Lyyti

4.1.1 Background

Lyyti Oy is a Finnish online company offering a web-based software for managing events efficiently. Lyyti was founded in 2006 by Hollmén and Peltonen, who had been working in the travel and restaurant business for more than ten years and had organized hundreds of events during this time. Hollmén and Peltonen got tired of handling tasks manually and decided to create a service that would do these tasks for them. The outcome was Lyyti, a web-based software that contains all the tools that are needed for managing events efficiently: automatic invitations and registrations, online payment services, communication, and feedback collection. Furthermore, Lyyti is available as a mobile application for Android and iOS devices. (Lyyti 2016.)

Lyyti is characterized by six distinct features: (1) easy to use; (2) web-based; (3) available 24h; (4) inexpensive; (5) efficient; and (6) personal. By making event management more efficient Lyyti is able to save valuable working time of event managers. Lyyti is a software that is provided as a licensed service model with a monthly fee. Firms can choose between different pricing plans including various features depending on the chosen model.

The customer base of Lyyti Oy varies from small companies to large, multinational corporations, public organizations, and government bodies. The service is used for a wide range of different events, such as internal trainings and meetings as well as seminars, conferences, and customer events. Lyyti is a scalable and flexible service that can be tailored to suit all kinds of event management needs. Every year Lyyti is used at more than 40,000 events, mainly B2B events.

The headquarters of the company is located in Turku (Finland), but Lyyti also has employees in Helsinki (Finland) and Stockholm (Sweden). The total number of employees is at the moment 25, soon to be 27. Two of them are working in Sweden. Lyyti Oy aims to become market leader in event management in Europe. Today Lyyti has around 600–700 companies as customers. About 500 of them are license customers who are actively using Lyyti and the rest is customers that are only using Lyyti for one or two events per year. (Hollmén, interview 23.3.2016.)

Lyyti’s strategy was from the beginning on to become an international company. Due to the small size of the Finnish market it was clear that if Lyyti wants to expand it can only be done internationally.

> *"We knew that this is a niche product and the market is not endless in Finland. And we thought that if we have a solution that is working in one country it can be easily exported to other countries."* (Hollmén, interview 23.3.2016.)

The management was aware that the internationalization had to be started somewhere. Lyyti had internal German language resources, and Germany was seen as a country where Finnish technology know-how was traditionally appreciated and quality was valued. Furthermore, the idea was that the German market is large and not so unfamiliar. Lyyti already had some ties to Germany through existing customers who had subsidiaries or customers there. These were hoped to help in the internationalization of the service. Lyyti did not want to take the risk of opening a subsidiary in Germany and decided that it would be best to enter the market through a local partner.

In 2013 Lyyti Oy entered the German market with its web-based Software-as-a-Service (SaaS) solution (Grohmann 2013). Before entering the market Lyyti had done some market research but the knowledge that was acquired was still very superficial. At the same time the management had been trying to find companies that would take over the distribution and sales of the service for them in Germany. A Finnish consulting agency with a German manager was hired to find a retailer but without success. There seemed to be no such company that could have taken Lyyti in their product portfolio and start selling the service through their own channels and networks in Germany. As Hollmén stated, Lyyti went through many different stages before the business in Germany started.

> *"First we were trying to find a retailer* [in Germany] *and that took some time. Later we came to the conclusion that there is no suitable retailer. We tried out some things by ourselves but then we realized that we need a local salesperson. --- We understood that selling the service from Turku to Germany is not a working concept. So we started looking for a company that would do the sales for us."* (Hollmén, interview 23.3.2016.)

In 2013 Lyyti found a suitable company in Berlin that was specialized in the distribution of SaaS solutions as well as in helping foreign start-ups to sell their products in Germany. The company sounded promising as the manager had already earlier sales experience in both large and small companies. Lyyti's management believed that this partner would have an understanding of the German culture, of B2B sales in Germany, as well as certain limitations of a start-up. Lyyti did not have an endless amount of money and expected the activities in Germany to be financed through the revenue from sales.

The collaboration started out well and two employees were recruited to work for Lyyti. However, one of the employees turned out not to be the right person to sell the service and thus Lyyti continued with only one full time employee in Germany. She was very motivated and hardworking, and did everything Lyyti thought that should be done in order to sell the service.

Lyyti was trying to duplicate the same sales strategy that had been found to be successful in Finland: cold calling all potential customers and arranging meetings with them. As it turned out this strategy was not working at all. Hollmén stated that challenges were there since the beginning of the German operations. It became clear that even though there was interest towards the service the decision making processes were extremely long in Germany. Thus, the sales process in total was long. This was different to Finland where the salespeople get an answer much faster. Even at the assistant level employees are able to tell if there is interest towards the product and if someone can come to introduce it personally. In Germany, however, there were a lot of gatekeepers. Assistants were not able to tell anything because the decisions were made at the management level, but managers were very hard to reach or make appointments with.

> *"Often they* [the managers] *asked us to send an info mail where we would tell about the company and the product and our references etc. Then they would consider it in the management group or somewhere, but only three months later. And after this we could get back to it and ask if they were interested in a meeting. In other words, the sales process became very long."* (Hollmén, interview 23.3.2016.)

As the partner company began to grow the manager did not have time anymore to focus on Lyyti and its German employee. The help from the manager was constantly getting weaker until Lyyti reached the point that it had to cut the working hours of the sales manager. Hollmén argues that it was pointless to pay a full monthly salary to the German employee because the sales strategy simply was not working. Even with the help of a new contact person in Germany, who had managed sales of another large online company, the results did not get better.

Even though Lyyti did finally win some good customers in Germany the business was still not financially profitable. With Lyyti's pricing model it was not profitable to use six months in the sales process. As the number of potential customers was so small to begin with, the outcome could not have been positive no matter how hard Lyyti tried.

In the end the German employee was only responsible for managing new contact requests but not making any outward calls anymore. Lyyti had been considering the option to divest operations from Germany for quite some time until the final decision was made in spring 2015. Vaahtoranta got the last email from the German sales manager in

May 2015. This was the end of the partnership with the German company as well as Lyyti's active operations in Germany. Later on the German sales manager changed to another company and was thus not responsible for new contact requests either.

After Lyyti had ceased the most expensive part of its German operations it still continued with some small marketing activities. The few leads that now come from Lyyti's content marketing are managed by Vaahtoranta, centralized from the office in Turku. After the collaboration with the German partner had ended Lyyti has been able to get almost as many new customers as with active sales activities. As Lyyti is not investing money in Germany anymore the business is now much more profitable.

> *"Now we are only trying to pick the so called 'low hanging fruits', i.e. the customers that are truly interested in us and contact us. They are clearly the ones that are already willing to make a change and are looking for a solution. It is easier to sell to them."* (Hollmén, interview 23.3.2016.)

Lyyti's software is now sold online to Germany and not via phone calls and meetings. The training can also be done online. Lyyti has not turned down the German market but the right operating model still has to be found. Having a local sales manager with an expensive monthly salary simply was not profitable for Lyyti. In addition to online sales, Hollmén implied that having an own company in Germany selling the service is still an option. Lyyti continues on the path of internationalization and is still actively investing in becoming international, but Sweden is now the country where Lyyti is really established in and where it has its own employees.

4.1.2 Empirical findings

Environmental stability: Lyyti is operating in the software industry which is generally a very R&D intensive industry. Lyyti itself is investing a lot in R&D. The company has a R&D team of five, soon to be six people, and approximately one third of the company's expenses are going in R&D.

When it comes to competition, the market in Germany is divided in two. There is simultaneously a well-developed market with a few large companies that have been already many years on the market. On the other hand, there are companies that are still very old fashioned and far behind of development. There were two large competitors in Germany and multiple smaller companies in the same business as Lyyti. However, the competitors often had tools that were not very flexible and did not offer a completely web-based solution. Their focus was somewhat different than Lyyti's. As Hollmén states,

Lyyti did not lose against other competitors but they did not even make it to the point of a sales meeting.

As for country risks, Vaahtoranta argues that inside of the European Union this factor can be left out when considering determinants of foreign divestment decisions. Lyyti did not face any problems in Germany's political environment and the interviewees did not feel that there would have been any country risks affecting their business. The time that Lyyti was active in Germany was too short to notice any changes in the environment. The only concern regarding the political environment in a larger sense was the financial office in Germany. Because of the bureaucracy Lyyti was not able to offer all the online payment methods it would have wanted to in Germany. In order to be more flexible when it comes to payments, Lyyti would have had to have a branch in Germany as well as a German bank account.

Attractiveness of current operations: When Lyyti entered Germany the goals were more so called learning goals. Lyyti wanted to learn how to be successful in the German market and accepted that this would also include learning from mistakes. A meeting where a customer would not buy the service but would give a good explanation why they did not want it, would at this stage have been almost as valuable as a sale. However, Lyyti was hoping to at least break even with its investments to Germany, i.e. earn as much as they were spending for the service. Even though Lyyti's financial goals were very modest, these goals were not met during the time that Lyyti was active in Germany.

> *"We thought that we would have a faster cash flow from there* [Germany] *but we ended up spending our own money and getting nothing in return. We started pretty soon getting second thoughts if this was making any sense."* (Hollmén, interview 23.3.2016.)

Lyyti's German unit was performing very poorly and the operations were financially not profitable at all. Hollmén wondered if with more resources and some external investors Lyyti would have succeeded better.

> *"We probably would have done the same in the beginning but with a greater volume and would have spent the money faster. On the other hand, we would have had the strength to continue longer, and this was required in the sales process* [in Germany]. *This could have maybe worked."* (Hollmén, interview 23.3.2016.)

The German economy was growing but this did not have any impact on Lyyti's business. As Vaahtoranta notes, for the economy to have an impact on the business the

company would have to be quite large. Lyyti was just a very small firm on the German market and thus it was completely insignificant if the economy was growing or not.

The growth opportunities in both Sweden as well as in Lyyti's home country Finland seemed better than in Germany. Lyyti had entered the Swedish market approximately at the same time as the German market. Even though Sweden was in the beginning a tough market for Lyyti as well, the business was going better there as in Germany. This was supporting the decision to divest operations in Germany and rather reallocate resources on marketing in Sweden.

For Lyyti's customers it is important to be able to manage their financial transactions through Lyyti's software but this turned out to be challenging in Germany. The financial services provided in Germany were different than in Finland and for example the use of online banks was not very common. In Germany customers were used to other payment methods that Lyyti was not able to provide. The investments in product development concerning financial transactions remained small because it did not feel like it would have made a difference when it came to winning new customers.

Before entering the German market Lyyti had an intern who did some market research, but as Vaahtoranta stated, this research was not systematic and the knowledge that was acquired was still very superficial. When Lyyti entered the German market it was hoping to enter an existing system where the distribution and sales would already work and Lyyti would simply be a new product in the portfolio. This turned out to be not the case.

> *"All in all, it* [the failure] *had to do with the fact that Lyyti did not know the market well enough and the sales and distribution model was wrong."* (Vaahtoranta, interview 21.3.2016.)

This lack of knowledge and misjudgment of the German system can be summarized to be a consequence of insufficient pre-investment analysis.

Foreignness was another factor complicating Lyyti's German activities. As mentioned before, Lyyti was trying to duplicate its Finnish sales and distribution model in Germany and this did not work. Vaahtoranta explained that in Finland this model was working because Lyyti was already established on the Finnish market. It was a well-known company in Finland and had already existing contacts there. Moreover, as Lyyti was a local service it may have felt more trustworthy to Finnish customers. In Germany, however, Lyyti was a small and foreign company that was new in the country and nobody had heard about it before.

Vaahtoranta further pointed out that the distribution and sales of Software-as-a-Service solutions has changed a lot in recent years. Cold calling and meeting customers does not work anymore, and the focus is now more on content marketing. When a customer starts looking for a software they will first examine which company looks professional and has

for example good references. For this, the company has to be first established on the market. In Lyyti's case it did not matter that it was market leader in Finland, as it was still too unknown in Germany. This was the reason that the same business strategy as in Finland did not work at all in Germany. Lyyti learned that before entering a foreign market you have to first find the right contacts there.

Strategic fit: The path towards becoming international started with operations in Germany and Sweden. However, in Germany Lyyti had to realize that the sales and distribution model would have to look completely different in order to succeed. Using an external company to sell Lyyti was not working, especially since the management of the partner company did not seem to be committed to the business. During the time that Lyyti was active in Germany Vaahtoranta did not realize immediately that changes in strategy were needed. Lyyti was always just changing small details instead of setting up the complete system new. This would have been necessary for Lyyti to meet the strategic goals.

When entering Germany, the product had to be localized and some changes regarding for example the language and payment methods were made. As the changes remained small Vaahtoranta states that the factor of strategic relatedness does not fit the case. However, the lack of diversification may have actually harmed Lyyti's operations in Germany. A point that came up in the interview was that Lyyti was reluctant to make extensive changes in the beginning of its international expansion. Since Lyyti was successful in Finland with its original strategy the management did not think they would need to change the strategy when going to Germany. Some things that Vaahtoranta sees nowadays as self-evident for many born global companies, he thought would be unnecessary in Lyyti's case. This included for example a free trial period of the service before buying it. Furthermore, Hollmén noted that if Lyyti would have decided to continue active operations in Germany the payment methods should have been developed further and localized to German preferences. Also, the communication was an issue in the German software version as it was not formal enough for the German culture. Hollmén believes that small things have an impact and that limitations in the service may have harmed the business.

Governance issues: Vaahtoranta gave his admittedly very biased opinion about how the mentality in Berlin specifically may have had an influence on why Lyyti was not succeeding in Germany. Lyyti's partner was trying to win customers all over Germany but was doing this centralized from Berlin. Vaahtoranta thought at first that the event business would be very large in Berlin, but he soon realized that even if this was true, nobody in Berlin wants to spend money in the event industry. This may have been another case if the partner would have worked centralized from another city. All in all, the business culture was very different which is why the strategy that Lyyti used in Germany was completely wrong.

The hierarchy is much higher in Germany compared to Finland and the culture is very formal. The sales strategy in Finland was to directly meet the final user of the service who was often a secretary or an assistant. They would then forward the information within the company and recommend the manager to buy the service. In Germany, however, this was not working. The assistants made it clear that they were not the ones making any decisions and if Lyyti wanted to sell its product they would have to schedule a meeting with the management. This in turn was very difficult.

Lyyti was struggling with the issue of how to go around the slow decision making processes of customers in Germany. The problem in Germany was that people cannot make decisions. Furthermore, they are not willing to take even the smallest risk and go out of their comfort zone. Vaahtoranta thinks that in Finland people are much more spontaneous when it comes to trying out new services. Hollmén supported this by telling how in Germany people are often stuck with old operating models.

> *"I guess that the price was not the issue why the sales process was so long but it was the culture. It is a very inflexible culture where new things change slowly. For some parts it was surprising that the operating models are still very old fashioned in some aspects. For example, fax registration is completely acceptable, and sometimes even required. So there were some issues related to how willing people were to use new technologies and operating models."* (Hollmén, interview 23.3.2016.)

Lyyti's operation mode in Germany was using a local sales company. The relationship to the employee of the German partner company was very good. Vaahtoranta was almost in daily contact with the sales manager in Berlin and there were no problems with her. However, the management of the partner company was disappointing. Vaahtoranta felt like they did not really care if Lyyti was doing business or not. The service was bad and the management did not show any initiative to improve it. The management never gave an explanation for this but Vaahtoranta suspects that Lyyti may have been too small of a customer for them. Vaahtoranta and Hollmén were very unsatisfied with the situation. When asked why they did not change the partner, Vaahtoranta answered that there were very few other firms that would offer the service Lyyti needed in Germany. Moreover, the fact that Lyyti had already invested so much time in that partner and had trained the employee in Germany, made it difficult for Lyyti to change. Vaahtoranta admits that Lyyti was trying for too long with the same strategy. In retrospect he sees that Lyyti should have continued the first strategy only for a couple of months and if it did not work out, try out something new.

Lyyti did not have much earlier international experience before expanding to Germany. There were some customers abroad who had been acquired through existing

Finnish customers. Thus, Lyyti did have some experience in serving foreign customers but it had not done any active sales activities outside of Finland.

The lack of international experience was surely linked to the decision to divest, but in Lyyti's case this was a greater issue. This did not only have to do with the fact that Lyyti did not know how to sell the service in another country, but the complete strategy of the company had to develop first. Since Germany Lyyti has learned a lot and the strategy is constantly being developed further. Vaahtoranta pointed out that these things cannot be considered separately, but everything is linked to everything in a small firm such as Lyyti.

4.2 Case Groupon

4.2.1 Background

Groupon operates online local commerce marketplaces worldwide that connect merchants to consumers by offering goods and services at a discounted price. The mission statement is "*to connect local commerce, increasing consumer buying power while driving more business to local merchants through price and discovery*". Groupon is available both online and as a mobile application. (Groupon Press 2016.)

Groupon has redefined how companies attract, retain and interact with customers. The firm provides merchants a selection of products and services, including customizable deal campaigns that help firms to grow and operate more effectively. The goal is to connect local trade with an increase in consumer purchasing power, which will lead to increased sales of local distributors. Groupon's business model is to charge a marketing fee for advertising and promoting the merchants' offers. In most cases, that fee is a percentage of the revenue that the merchant has generated by selling on Groupon. (Groupon Works 2016.)

Groupon offers deals in three main categories. *Groupon Featured Deals* are meant to reach out for customers and boost brand awareness of local and national merchants. *Groupon Getaways* features travel offers, including hotels, airfare and package deals. *Groupon Shopping* refers to deals across multiple product lines, such as electronics, jewelry, or toys.

Groupon was founded in 2008 by Mason, Lefkofsky and Keywell (CNN Money 2016). After the first deal, other firms caught on quickly and Groupon started running deals for increasingly larger businesses. By the end of 2009 Groupon had spread to 28 U.S. cities. The following spring Groupon began its international expansion. Today Groupon operates through three geographical segments: North America representing the U.S. and Canada, EMEA consisting of Europe, the Middle East and Africa, as well as international

operations comprising the rest of the world. (Groupon Works 2016.) Europe is further divided in four segments that each have their own headquarters. Finland belonged to the Northern Europe segment that had its headquarters in London. (Juntunen, interview 1.4.2016.)

Europe was Groupon's first international market outside of the U.S. (Ecommerce News 2015). The business started successfully after acquiring CityDeal from Rocket Internet Group in 2010 (Williams 2015b). Rocket Internet had brought Groupon's business idea to Europe and was at the time of the acquisition already operating in 16 European countries under the brand CityDeal, including Finland. CityDeal came to Finland in the beginning of 2010 and opened officially in May 2010. The business in Finland started out very strong and the growth was fast. The whole industry Groupon was operating in was completely new back then and very hyped and popular at the time. It was somewhat challenging to control the extremely fast growth of the company in Finland. Technology had to be developed simultaneously as the company was growing and in a new industry it was hard to predict what issues would come up next. The service was constantly being developed in the right direction based on the wishes of consumers and business partners. Groupon invested a lot of time in controlling the satisfaction of consumers and partners. In the beginning the technology was not as developed as what it should have been but this was normal as the industry was still so new. (Juntunen, interview 1.4.2016.)

Groupon has 570,000 active deals and more than 3.5 million Groupon Pages. The customer base counts for 48.6 million active customers. (Groupon Works 2016) Despite the growing business in North America, high competition in local markets abroad has led to a decline in Groupon's international business. In the third quarter of 2015 Groupon reported billings of $414 million and revenues of $199 million for EMEA, reflecting a respective decline of 15% and 13%. (Lunden 2015.)

News have reported about several closures in Groupon's international business. In September 2015 Groupon laid off 1,100 employees and divested operations in Morocco, Panama, the Philippines, Puerto Rico, Taiwan, Thailand, and Uruguay. Before that, operations were shut down in Greece and Turkey and the controlling stakes in Groupon India and TicketMonster were sold off. (Lunden 2015.)

In November 2015 it was announced that Groupon would cease operations in four more countries: Finland, Denmark, Norway, and Sweden. A spokesperson confirmed in an emailed statement: "*After careful consideration Groupon will discontinue its operations in Sweden, Denmark, Norway and Finland as of 16 November 2015*." (see Lunden 2015.) Juntunen got the notification from Groupon's headquarters in Chicago. The decision came from the highest management level without further explanations. After this the operations in Finland were closed down.

4.2.2 Empirical findings

Environmental stability: Groupon invested a lot in R&D in different areas in order to improve the service. The service was constantly being developed to serve customers and business partners better. The industry that Groupon was operating in was very R&D intensive in general. However, the competition in Finland was not strong. As Groupon held a market share of nearly 90% in Finland, it was a very tough business field for competitors. Even though some competitors did show up, they all had to quit finally. Groupon was dominating the field with much greater resources. The service was constantly being improved in the U.S. headquarters and was thus developing faster than the competitors. Moreover, Groupon Finland had more people working for them and could therefore serve more partners and more customers. All of the competitors in Finland had been local firms and not international companies like Groupon. Thus, their resources had been small in comparison.

Country risks had not had an impact on Groupon's operations in Finland. There had been no governmental actions or other changes in the business environment that would have affected the business.

Attractiveness of current operations: Groupon Finland had the advantage of being the only large company in its industry in Finland. All the other companies that tried to challenge Groupon in Finland failed, and finally Groupon was the only one left on the market. However, as for any company in the IT industry the number of potential customers in Finland was small. The market in Finland was merely one tenth compared to Groupon's other markets such as France, Germany, Italy, and the UK. This was a clear disadvantage for Finland as Juntunen points out that in larger countries a company can achieve stronger growth.

> *"This surely was the most significant reason* [for divestment of Groupon Finland]. *When the return on investment is higher in some countries, surely all global companies will focus on those."* (Juntunen, interview 1.4.2016.)

In November 2015 Groupon's new CEO Williams wrote in the company's blog that Groupon would further simplify and streamline its business, in particular its international segments. This included focusing on countries where Groupon could identify better growth opportunities.

> *"This means moving to more shared services for economies of scale, and it means better picking our battles – exiting or partnering in countries where we don't believe we can win or where winning will require more time, technology and investment than we should manage. And, in some*

> *markets where we're seeing results — Australia, France, Germany, Italy and UK, to name a few — it means increasing our investment to better capitalize on the opportunity."* (Williams 2015c.)

Juntunen was not allowed to comment on Groupon Finland's financial performance. However, as the value of Groupon's share had dropped 90% over the last years it was clear that something radical had to be done to get the business growing again. Williams (2015a) stated in a blog post on the company's website that it was not profitable for Groupon to bring its technology, tools, and marketplace to every one of its 40+ countries. The investment simply did not commensurate with the return.

> *"We believe that in order for our geographic footprint to be an even bigger advantage, we need to focus our energy and dollars on fewer countries. So, we decided to exit a number of countries where the required investment and market potential don't align."* (Williams 2015a.)

From the interview with Juntunen and the public statements it became evident that one of the main reasons that had led to Groupon Finland's divestment was the parent company's weak overall performance. When Groupon first was listed on the stock market its value was very high. However, over the last five years 90% of the stock value had dropped (Figure 12).

Figure 12 Stock value development of Groupon Inc (NASDAQ:GRPN)

Source: Google Finance (2016).

The stock value reached its peak in November 2011 when the trading price was $ 26.19 per share. In February 2016 the stock had dropped to its all-time bottom with a trading

price of only $ 2.45. The negative trend had been visible already since 2012, even though there had been some signs of recovery. However, when the stock started sinking again in 2015 Groupon's management decided to draw some radical measures.

Strategic fit: After Groupon's value on the stock market started falling significantly, some changes in the strategy had to be made. A broad downsizing and restructuring strategy was hoped to lead to recovery (Williams 2015b). According to an emailed statement of a spokesman, Groupon would cease its international assets that did not comply with its vision:

> *"As we continue our operational and strategic focus to simplify and streamline our international business, we are assessing our international portfolio to determine which assets can contribute to our long-term vision of aggressive, profitable growth."* (see Lunden 2015.)

Furthermore, Williams (2015a) wrote in the company's blog that Groupon was now in a position to realize the efficiencies they had been working so hard to gain, to further improve the way Groupon operates around the world and to continue channel more and more of their resources toward long-term growth.

Governance issues: Groupon Finland was directly reporting to the headquarters of the Northern Europe segment in London. Juntunen's relationship with the management in London was good. There were no issues caused by cultural distance between Finland and the UK. Due to the nature of Groupon's business, Groupon Finland was cooperating with several partners and marketing companies. However, as all of Groupon Finland's local business partners were managed through local employees there were no cultural issues in this sense either. Everything was handled within Finland.

Juntunen did not have much earlier international experience when he started as the country manager for Groupon Finland. At the time that Groupon started in Finland the headquarters did not have much international experience either. The international expansion had only started in Europe. However, five years later when Groupon Finland was divested the company had already acquired plenty of international experience having operations in 40+ different countries.

Groupon was trying to adapt its business to each country's culture as well as possible. Due to cultural differences there had to be some small changes, but all in all Groupon was operating in a similar way in all of its countries. Finland was here no exception, i.e. Groupon Finland was not differentiating much from the headquarters.

4.3 A summary of the main empirical findings

The empirical part of this thesis has focused on examining the foreign divestments of the two chosen case companies, Lyyti and Groupon. In Lyyti's case the divestment from Germany was examined and in Groupon's case the divestment from Finland. The empirical findings were obtained by conducting three interviews and in Groupon's case complementing the interview with public data and statements. The interviews were done with experts from both companies who had been in a key role in the divested operations. Following the theoretical framework of this thesis, the interview themes were based on the four factors of Benito's divestment model, presented in Chapter 2. Barriers and incentives to exit were not considered in this thesis as they were not perceived to have any explanatory value when examining the drivers of foreign divestment. Table 3 provides an overview of the main empirical findings regarding what was the role of the different factors in Lyyti's and Groupon's foreign divestment cases.

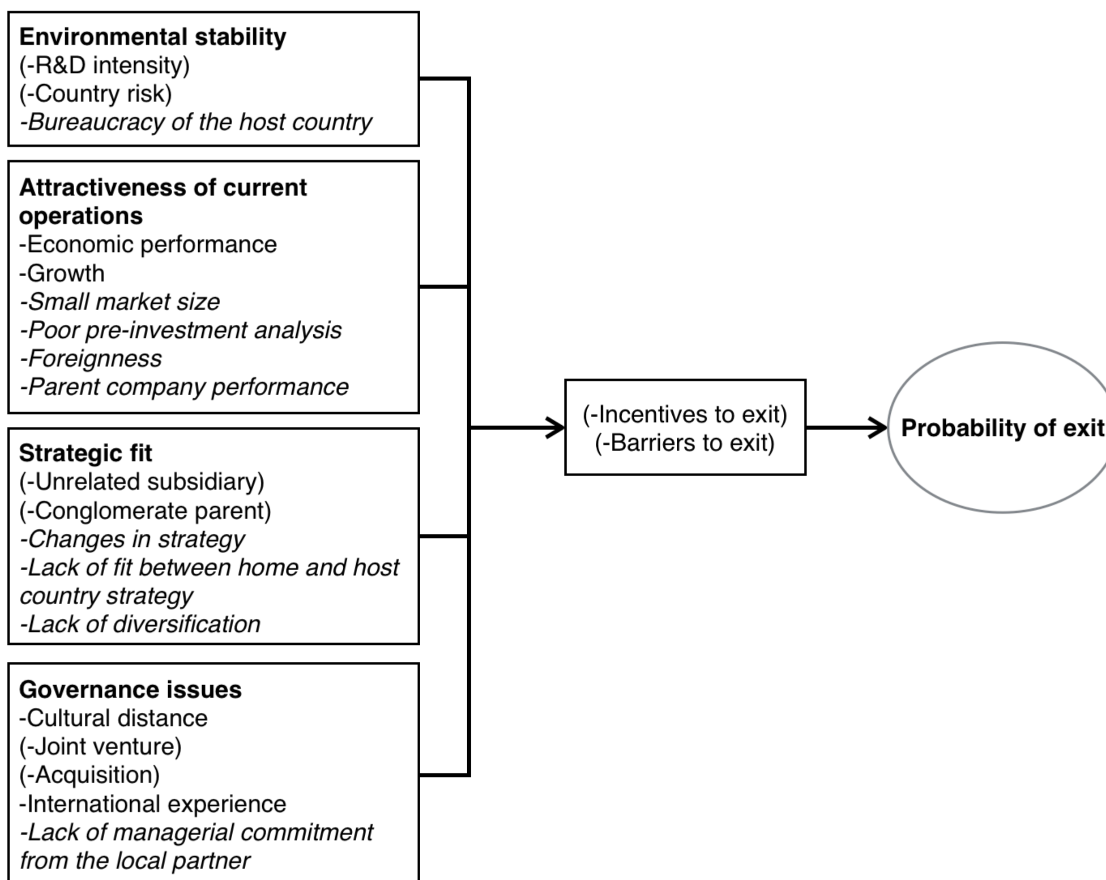
Table 3 Overview of the findings

What are the factors leading to foreign divestment in e-business?	Case Lyyti	Case Groupon
Environmental stability	-Some issues due to the bureaucracy in the host country	Not applicable
Attractiveness of current operations	-Weak performance of the German operations -Better growth opportunities in Sweden -Insufficient pre-investment analysis and lack of knowledge of the German market -Foreignness and lack of right contacts in Germany	-Small market compared to the other markets Groupon was operating in -Better growth opportunities in other markets -Weak performance of the parent company: the stock value had dropped 90% over the last five years
Strategic fit	-The German operations failed to meet the strategic goals -The sales and distribution strategy was wrong -Lack of diversification	-Change of strategy: a broad downsizing and restructuring strategy was implemented in 2015
Governance issues	-Differences in business culture: high hierarchy and long decision making processes -Lack of international experience of case company -Lack of managerial commitment of the foreign partner	Not applicable

As seen in Table 3, the interviewees in Lyyti's case were able to identify issues related to each of these themes. In Groupon's case the findings were limited to the factors 'Attractiveness of current operations' and 'Strategic fit'. 'Environmental stability' and 'Governance issues' were not found to have any impact on Groupon Finland's divestment.

Figure 13 demonstrates how Benito's (1997b) framework could be modified based on the combined empirical findings of this thesis. While some of the factors of the original framework proved to be valid in this research, other factors were found to be not relevant. Furthermore, new factors that were not mentioned in Benito's framework were found to have influenced the exit decision of the studied cases.

Figure 13 Benito's framework on divestment of foreign operations (1997b) complemented with the empirical findings of this research



Note: Factors that were not found to be relevant in the context of this research are marked in brackets and additional empirical observations are marked in italics.

In both Lyyti's and Groupon's case some of the factors had clearly a more dominant role in the divestment decision while others had a less significant impact. In Lyyti's case the most dominant factors that contributed to the divestment decision were: (1) financial considerations; (2) wrong sales and distribution strategy; and (3) cultural differences. The

decision to divest from Germany was above all made due to challenges in selling the service and creating sufficient cash flow to finance the foreign operations. This could be followed back to a wrong sales and distribution strategy that had been duplicated from the Finnish strategy and was clearly not working as well in Germany. Differences in the business culture such as long decision making processes and high hierarchy made the sales process so long that it did not commensurate the investment anymore.

In addition, there were also smaller issues that were found to have had an impact on the decision to divest. The strong bureaucracy in Germany was complicating the localization of the software, and both the product as well as the strategy should have been adapted better to the German market. Furthermore, the management of the local partner company was not committed to Lyyti's operations in Germany and did not show any initiative to improve the strategy when the business was not running well. Another factor was that Lyyti's management did not have much earlier international experience and had not made a sufficient pre-investment analysis of the German market before entering it. This led to unexpected challenges which were strengthened by the fact that Lyyti was a small and foreign company that was still very unknown in Germany. Without the right contacts Lyyti was relatively alone on the market and finally came to the conclusion that it would be easier to focus on the international expansion in the neighboring country. There were better growth opportunities in Sweden as the business was going better, and thus the reallocation of resources appealed tempting.

For Groupon the triggering divestment factor was undoubtedly the weak overall performance of the parent company. The stock value had been falling significantly over the last five years, and in 2015 the trading price of a share was only ten per cent of what it used to be when Groupon was listed. Something radical had to be done and the management decided to start a broad downsizing and restructuring strategy hoping that the company would recover again. The change in strategy led to a reevaluation of Groupon's international markets and to the divestiture of operations that were not seen to support the vision of long-term growth. Resources were reallocated to countries with better future prospects and higher return of investment. As the market in Finland was very small, it was among the many other countries that Groupon divested from in the end of 2015. Environmental stability as well as governance issues were not considered influential regarding the divestment decision.

As this chapter has demonstrated, the factors leading to foreign divestments in case Lyyti and case Groupon Finland were very different from each other but there were some similarities as well. In both cases environmental factors did not contribute significantly to the decision to divest, even though in Lyyti's case the strong bureaucracy in Germany did cause some challenges.

As part of a large multinational company with substantial resources, Groupon Finland was able to establish itself on the Finnish market and quickly become market leader with

a 90 per cent share of the market. Lyyti, on the other hand, was not known on the German market and had difficulties to establish itself there without good references and enough resources. In Lyyti's case it was the weak performance of the German operations that made the Swedish market appear more promising, whereas in case Groupon Finland it was the small size of the Finnish market that motivated the management to reallocate their resources elsewhere.

Regarding strategic considerations, Lyyti and Groupon Finland differed again completely from each other. For Lyyti the international strategy was still under development and when expanding to Germany, the chosen strategy turned out to be a failure. For Groupon Finland choosing the right strategy was not an issue as it was part of a large multinational company with clear directions on how to operate. In this case, however, the headquarters' change of strategy led to the divestiture of the unit.

According to the empirical findings, governance issues did not contribute to Groupon Finland's divestment but had an impact on Lyyti's decision to exit the German market. Groupon Finland did not face problems related to cultural differences, lack of international experience, or issues concerning its mode of operation. All these factors did however contribute to Lyyti's decision to divest its activities from Germany.

5 CONCLUSIONS

5.1 Theoretical contributions

Benito's (1997b) theoretical model on divestment decisions was found to be accurate in both divestment cases studied in this thesis. In Lyyti's case there was evidence found for all the main factors of the framework, and in Groupon's case the findings were related to the factors 'Attractiveness of current operations' and 'Strategic fit'. Even though not all the findings of the two cases were directly discussed in Benito's framework, they still clearly fell under the four groups of the divestment model.

Environmental stability was found to be a minor factor explaining foreign divestment decisions in the e-business sector. Benito (1997b) suggests that environmental stability is often connected with the R&D intensity of the industry the company is operating in. He argues that R&D intensive industries often constitute competitive environments as other companies in the industry are also investing heavily in R&D. However, this notion did not find support in the empirical findings of this thesis. Even though both case companies were operating in a R&D intensive industry, it did not increase the competitiveness of the business environment in a way that would have affected the business.

As both divestments took place in countries inside of the European Union it can be argued that the political environment was relatively stable and that country risks were minor. In Lyyti's case there were some issues related to the strong bureaucracy in Germany, whereas in case Groupon Finland environmental factors were not found to have any effect. The small impact of country risks can be interpreted as being a consequence of the chosen cases. If another case had been chosen where the divestment would have taken place in a more turbulent and unstable environment, country risks may have been found to have a much stronger impact.

Earlier academic studies have found that attractiveness of current operations can significantly contribute to a firm's foreign divestment decision (see e.g. Boddewyn & Business International 1976; Sachdev 1976; Boddewyn 1979; Benito 1997b; Jagersma & van Gorp 2003; Song 2014a; Sousa & Tan 2015). Case Lyyti demonstrated that challenges in meeting financial goals and unsatisfactory economic performance of foreign operations can be a dominant cause leading to foreign divestment. On the other hand, case Groupon Finland did not support the notion of financial considerations. This may be explained by the limited information that was available due to Groupon's strict confidentiality policy. However, attractiveness of current operations did have an impact on case Groupon Finland as well. Supporting the findings of Godar (1997), Benito (1997b), and Jagersma and van Gorp (2003), both Groupon and Lyyti had identified better

growth opportunities in other markets which made the current markets seem less attractive.

In Lyyti's case poor pre-investment analysis and foreignness of the company were also found to contribute to the decision to divest from Germany. Even though not being discussed in Benito's (1997b) framework, these two issues could still be classified under the factor 'Attractiveness of current operations'. Boddewyn (1979) and Jagersma and van Gorp (2003) have reported in their studies that poor preparation is a common factor leading to bad financial performance of foreign operations. Furthermore, Jagersma and van Gorp (2003) have argued that financial performance may be affected by difficulties in building up sales internationally. Foreignness was found to be a major cause why Lyyti did not succeed in selling its software in Germany. As a small and unknown company without sufficient references Lyyti was not able to establish itself on the market and this finally contributed to the decision to divest.

The findings of case Groupon Finland support the results of earlier academic studies that have found that weak performance of the parent company increases the risk of foreign divestment (Hryckiewicz & Kowalewski 2010; Hryckiewicz & Kowalewski 2011). The weak overall performance of Groupon Finland's parent company affected the attractiveness of its current operations and was therefore a dominant factor contributing to the divestment of operations in Finland.

Supporting earlier academic studies on the subject, the findings of this thesis indicate that strategic considerations were a significant factor explaining foreign divestment decisions (see e.g. Boddewyn & Torneden 1974; Boddewyn & Business International 1976; Godar 1997; Benito 1997b; Jagersma & van Gorp 2003; Sousa & Tan 2015). Benito (1997b) and Jagersma and van Gorp (2003) have noted that a change in strategy may cause previously interesting foreign operations seem less attractive and lead to divestment. Moreover, Sousa and Tan (2015) have found that foreign divestment is likely to occur when a foreign unit ceases to fit the parent company's overall strategy. This kind of strategic change occurred also in case Groupon Finland. A broad downsizing and restructuring strategy was implemented where units with less potential were closed down. Groupon had decided to streamline its business and focus its resources on fewer countries.

In addition to a change in strategy, Boddewyn and Torneden (1974) have found that divestments can also be caused by a lack of clear international strategy. This statement found support in Lyyti's case where the international strategy was still under development and a simple duplication of the home country strategy did not work in the foreign market.

Benito argues in his framework that foreign units are divested because of their unrelatedness to their parent company. This remark did not find any evidence in this study as in both cases the divested units had not diversified considerably from their parent company. In case Lyyti the result was contradictory to Benito's theory. The foreign

operations had faced challenges because they had been too related to the home country operations.

The empirical findings of this thesis related to the effect of cultural distance on foreign divestments support earlier studies on the subject. Barkema et al. (1996), Pattnaik and Lee (2014) and Sousa and Tan (2015) found that cultural differences between the home and host country are connected with foreign divestments. In Lyyti's case one of the factors contributing to the company's divestment decision were the differences in the foreign country's business culture and the customers' behavior that made sales and distribution of the service challenging.

Benito (1997b) further continues that foreign divestments may be caused by problems associated with a company's operation mode in a foreign country. The findings of this thesis support this notion as in Lyyti's case the operation mode turned out to be not successful and problems with the foreign partner had an impact on the company's divestment decision. However, contrary to earlier literature that has suggested that divestment may be driven by uncommitted managers in the home country (see e.g. Boddewyn 1983a; Alexander & Quinn 2002), Lyyti's case indicated that the lack of managerial commitment derived from the partner's side.

Li (1995), Barkema et al. (1996), Leung et al. (2008) and Sousa and Tan (2015) have noticed that firms can benefit from earlier international experience in their foreign operations. Respectively, firms with less experience are more likely to divest from a foreign market. The findings of this thesis support these statements as the lack of earlier international experience was found to have an impact on Lyyti's divestment from Germany.

The findings of this thesis have proved that even within the same industry the factors contributing to foreign divestment are not always the same. Moreover, the importance of the given factors was found to vary greatly. The results indicated that the causes leading to a firm's decision to divest are very company specific. Factors such as company size, access to resources, scope of internationalization, international experience, knowledge of the market, and whether the company is listed or not all have to be considered. The complemented framework presented in the beginning of this chapter was created based on the empirical findings of the cases Lyyti and Groupon. It should be noted that this framework is not universally applicable and that the factors leading to foreign divestment may vary considerably in other contexts.

The notion of barriers and incentives to exit was considered as not relevant in the context of this thesis. As both case companies had already decided to divest operations from a foreign country it could be concluded that the incentives to exit had been stronger than the barriers to exit.

5.2 Managerial implications

Along with the theoretical contributions discussed above, this thesis also provides some insights that can be useful especially for managers of e-business companies. Four managerial recommendations can be drawn from the empirical findings of this thesis: (1) the company's overall performance can be improved by reallocating resources to markets with better potential; (2) if a strategy appears to be bad, it should be changed already at an early stage; (3) a careful pre-investment analysis can help to avoid foreign divestments later on; and (4) a good contact in a foreign country can be the key to success.

As earlier academic studies have argued, divestment decisions are often based on companies' strategic considerations. The results of this thesis suggest that divestments are not always caused by failure of the foreign unit but may be in fact a strategic decision of the parent company. Resources should be focused on those markets where the growth potential is highest. Divestment can be a financially profitable choice when a company can identify markets with better future prospects and decides to reallocate its resources there.

Furthermore, if a strategy appears to be unsuccessful it should be changed at an early stage instead of continuing to invest in something that is not working. Managers should not take it for granted that if a strategy or a business model has proved to be successful in the home country, it will work in a foreign market. The duplication of online business models to foreign countries has become widely popular in the e-business industry but managers should keep in mind that cultural and environmental differences can cause unexpected challenges.

This leads to the third implication of this thesis. A careful pre-investment analysis is important before entering a foreign market. With sufficient preparation the company can avoid several mistakes and pitfalls which may lead to foreign divestment. Knowledge about local culture, customer preferences, customer behavior, and distribution channels, are only a few factors that should be included in the pre-investment analysis. The more throughout the analysis is, the better the company is prepared when entering a foreign market.

Finally, the results show that it is important for a company to first find the right contacts before starting its international expansion. With the help of a good partner or good references in the foreign country it is significantly easier for a new company to establish itself and to win new customers.

5.3 Suggestions for further research

Foreign divestments still remain a neglected topic in academic literature compared to other areas of international business, such as foreign direct investments. Even though the number of studies on foreign divestments has already been rising in recent years, this trend should be further continued. Divestments are becoming an increasingly common part of multinational companies' strategy and managers need more information about this phenomenon.

In addition, when writing this thesis, it became evident that there is hardly any official data available related to world divestment activity. It would be useful to have more information about the scale and frequency of divestments in general, as well as divestments in specific countries or industries. For example, there were no public statistics available on divestment activity in the e-business sector even though this is a very contemporary phenomenon that is affecting companies all over the world.

This thesis has attempted to examine the factors leading to foreign divestment decisions in e-business. Until today there have been no prior studies focusing on divestments in this specific sector. Therefore, it could be recommended to conduct further research related to foreign divestments within the e-business industry. For example, it would be interesting to examine divestments of e-business companies operating in unstable environments or developing countries. The results may be somewhat different as in this thesis, where environmental factors were found to play only a minor role in the divestment decision of the two cases. Both qualitative and quantitative studies are required in order to provide a more holistic picture of divestments in this field. As the importance of e-business will only grow in the future it can be expected that the importance of this topic will grow respectively.

Due to the nature of a case study, the findings of this thesis are not universally applicable information. In order to create generalizations about the phenomenon it would be useful to conduct a multiple case study related to factors contributing to foreign divestment decisions in e-business.

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APPENDICES

Appendix 1: Earlier empirical studies on factors leading to foreign divestments

Author & Year	Research objective	Methodology	Main findings
Boddewyn & Torneden (1974)	Foreign divestments	-Study of 53 U.S. MNCs with divested international operations	-FDI decisions are made top-down -Many firms do not have a clear international strategy and their foreign operations lack clear operational definitions -Parent companies have poor external relations with the host country -Divestments often happen after a significant organizational change
Torneden (1975)	Factors behind the divestment decision and how the decision is made	-Intensive case study including 8 case studies & responses by 38 companies to a survey	-New senior management and a lack of commitment of the senior executive are the strongest determinants for international exits
Boddewyn & Business International (1976)	Factors behind foreign divestment decisions	-Survey of 32 international companies with a total of 69 divestments	-Companies consider divestment decisions as failures -Dominating factors triggering divestment decisions are profitability considerations and strategic thinking
Sachdev (1976)	Foreign divestments	-Study of 21 cases of foreign divestments by British MNCs	-Financial considerations are dominating in explaining divestments -Low profitability has the highest impact
Li (1995)	Effects of entry modes on the survival of foreign subsidiaries	-Quantitative study -Sample of all the foreign firms that entered the U.S. computer and pharmaceutical industries in 1974-89	-Exit rates are higher for foreign acquisitions and joint ventures than for greenfield investments -Unrelated subsidiaries have a higher risk of divestment -International experience improves the chances of success
Barkema, Bell & Pennings (1996)	Longevity of foreign entries	-Data on 225 entries of 13 Dutch firms from 1966 onwards	-Firms entering foreign countries face cultural adjustment costs -Longevity decreases in cases of double layered acculturations (e.g. joint ventures and acquisitions) -Firms can benefit from prior experience in the same country
Godar (1997)	Foreign divestments	-Survey on U.S. firms from various industries	-The key driver for divestments is a firm's strategy -Divestments are often made proactively, i.e. when the firm

			finds it better to reallocate its resources
Benito (1997a)	Divestments of foreign subsidiaries	-Longitudinal study -Divestments of 93 Norwegian companies, sample of 208 FDIs -Two surveys: one in 1982 and another in 1992	-Divestments are inversely related to the host country's economic growth -Acquired subsidiaries are more likely to be divested than greenfield investments -Unrelated subsidiaries have a higher risk of being divested
Mata & Portugal (2000)	Longevity of foreign entries	-Quantitative study -Longitudinal research based on data from a survey conducted every year since 1982	-Greenfield entries are less likely to be divested than firms with limited liability -Firms with large human capital are less likely to exit
Shin (2000)	Factors affecting foreign divestments in the trading sector	-Quantitative study -Analysis of 378 companies that had invested in or divested from South Korea from 1993 onwards	The size of a foreign affiliate is negatively related to foreign divestment in the Korean trading sector
Alexander & Quinn (2002)	International market withdrawal in the retailing industry	-Case study on two prominent case companies	-Main reasons for divestment were found to be (1) trading conditions in the domestic market; (2) changes in top management; (3) lack of integration between home and host country operations; (4) lack of managerial commitment; (5) independence of international operations; (6) relative size of international operations; and (7) disproportionate resource allocation to international operations
Jagersma & van Gorp (2003)	Motives behind Dutch MNCs international divestments	-Qualitative methods -Extensive field study -Data from 868 international divestments between 1981 and 2000	-Absence of strategic policy synergy and poor performance of the foreign affiliate are dominant causes for international divestment
Leung, Young & Fung (2008)	Divestment decisions of foreign banks in Hong Kong	-Data was collected from the period of 1981 to 2001, using a sample of 157 banks from 35 different countries -Analyzed through a theoretical framework	-Non-Asian banks with less international experience, and whose home country is experiencing slower trade growth with Hong Kong, are more likely to exit the market
Cairns, Quinn, Alexander & Doherty (2010)	The role of leadership in divestment decisions	-Multiple case approach -Cases selected from a database of international retail divestment activity over the period of 1987 to 2008	-All of the divestment cases could be classified as a result of a corporate crisis or as a proactive action, i.e. positive restructuring

Hryckiewicz & Kowalewski (2010)	Foreign bank exits	-Quantitative study -81 closed foreign bank subsidiaries across 37 countries during 1999–2006	-Multinational bank's decision to divest a foreign unit is caused by problems in the home country rather than the underperformance of the subsidiary
Hryckiewicz & Kowalewski (2011)	Foreign bank exits	-Quantitative study -Panel data for 149 closed or divested foreign bank subsidiaries across 54 countries from the period of 1997 to 2009	-Foreign subsidiaries are mainly closed because of problems in the home country -Weak financial performance of the parent company increases the risk of foreign divestment -The likelihood of divestment is highest when the profitability of the parent bank and its foreign affiliate decrease at the same time
Jackowicz & Kowalewski (2011)	External factors on divestments in the banking industry	-Quantitative study -313 divestment transactions between 1997 and 2010	-Parent companies of divested units often originate from countries with relatively high accumulated wealth, slow GDP growth, stable macroeconomic situation and dominant bank intermediation in financial system
Ketkar & Ali Saleem (2012)	The impact of a firm's home country institutional quality on its international divestment decisions and the effects of these factors on developed and developing host countries during normal and crises years	-Quantitative study -Sample of 85 divestments in 42 countries from the period of 2000 to 2008	-The home country's institutional quality explains divestments from developed countries, but not from emerging markets
Berry (2013)	The moderating effect of product and market characteristics on divestment decisions	-Analysis of the divestment decisions of a comprehensive panel of U.S. MNCs across their international operations from 1989 to 2004	-In countries characterized by high growth, policy instability, and exchange rate volatility, there seem to be significant differences across the divestment decisions of companies for their related and unrelated foreign units
Nyuur & Debrah (2014)	Factors influencing foreign firms' strategic decisions in a host country regarding expansion, downsizing, relocation and termination of their operations	-Quantitative study -Questionnaire survey of 92 foreign companies operating in Ghana between 2009 and 2010	-Host countries' business environments have a significant impact on foreign firms' subsequent strategic decisions -Unfavorable conditions regarding government regulations, cost factors, and infrastructure increase the probability of strategic divestment

Pattnaik & Lee (2014)	The moderating effect of entry mode and experience on foreign divestments	-Quantitative study -Sample of 1697 multinational corporations headquartered in Korea and their 2435 affiliates in 67 host countries between 2000 and 2010	-Distance created by economic, financial, political, administrative, cultural, demographic, knowledge and global connectedness increases the likelihood of international divestment -The impact of cross-national distance is stronger when entering the market through a joint venture and weaker for affiliates with international experience
Song (2014a)	Conditions affecting foreign manufacturing survival in labor-intensive industries	-Quantitative study -Sample of 1560 foreign subsidiaries of 101 Korean MNCs in 31 host countries -The companies were all publicly listed on the Korean stock exchange from 1990 to 2008	-Underperforming, smaller, and stand-alone units, especially in riskier countries, have a higher risk of being divested
Song (2014b)	The impact of different entry modes and environmental uncertainty in host countries on MNCs foreign market exit	-Quantitative study -Large sample of FDIs by Korean manufacturing MNCs from 1990 to 2007	-Partially-owned subsidiaries are more likely to exit the market than fully-owned ones that have greater irreversibility -Environmental uncertainty was strengthens the impact of irreversible entry modes on the likelihood of a subsidiary exit
Soule, Swaminathan & Tihanyi (2014)	Diffusion of foreign divestments by MNCs from Burma	-Quantitative study -Sample of 449 firms from 32 countries, all of which had business ties to Burma in the period of 1996 to 2002	-Firms divest in response to the political conditions of their home country, pressures by their different stakeholders, and actions of members in their relevant reference groups
Sousa & Tan (2015)	Effects of strategic fit and international performance on foreign exits as well as the moderating impact of cultural distance and international experience	-Quantitative study -Questionnaire survey from 180 outward foreign investment firms -Analysis through a framework created by the authors	-Strategic misfit and poor international performance have a detrimental impact on the firm's survival in the foreign market -Cultural distance and international experience moderate the impact of strategic fit and international performance

Appendix 2: Interview themes

Environmental stability

- R&D investments in the host country
- Competitive environment of the host country
- Country risks in the host country
- Political environment of the host country
- Changes in the business environment

Attractiveness of current operations

- Economic goals
- Economic performance of the foreign unit
- General economic situation in the host country
- Location specific (dis)advantages of the host country

Strategic fit

- Diversification of the foreign unit
- Strategic fit between the headquarters and its foreign affiliate
- Strategic goals
- Changes in strategy

Governance issues

- Cultural distance and its effects
- Entry mode
- Integration problems
- Relationship with the foreign partner
- Earlier international experience
- Usefulness of experience in international operations