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Multinational enterprise FDI exits from geopolitically volatile countries

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Bachelor's thesis

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Bachelor's thesis**Subject:** International Business**Author(s):** Jetro Kallio**Title:** Multinational enterprise FDI exits from geopolitically volatile countries**Supervisor:** D. Sc. Henna Leino**Number of pages:** 25 pages**Date:** 19.12.2025**Abstract**

Geopolitical armed conflicts have increasingly become part of the environment that multinational enterprises (MNEs) operate in. Events, like the Russo-Ukrainian war, create situations where foreign direct investments (FDIs) might need to be divested on short notice, despite the profitability or height of exit barriers of these FDIs. This thesis examines how the decision of FDI market exit mode is affected by internal and external contributors after an eruption of geopolitical conflict. The two sub-questions are “What type of market entry- and exit modes do FDIs have and how do they create exit barriers”, and “How do FDI entry modes and managerial decisions have impact on the exit modes”? Timeframe and anticipation of market exit were examined as managerial decisions.

FDI market entry modes were found to have significant impact on exit mode decision through exit barriers. Acquisitions, franchises and joint ventures (JVs) had potential to be more straightforward to divest. JVs simultaneously had an inherent risk to become very difficult to exit from due to initial binding commitment. Greenfield and brownfield FDIs were found to have potential for high exit barriers, depending on uniqueness of assets. Under the time pressure caused by conflict, anticipation of the exit had the potential to enable more time-consuming exit mode options for MNEs. The lack of anticipation, or the desire for a quick market exit could lead to financial losses. In these cases, liquidation or closure could have been likely exit mode options.

This thesis contributes to the understudied field of exit strategies in conflict environments. It offers a theoretical framework that combines market entry modes, exit barriers and decision-making attributes. The framework aims to help understand their combinatory impact on market exit modes. The results show that due to their significance, divestment and exit strategies should be integrated into MNE's core strategy. Further empirical research is needed in the future to support and confirm the theoretical findings of this thesis.

Keywords: multinational enterprise (MNE), foreign direct investment (FDI), market exit, divestment, geopolitical armed conflict, market entry modes, market exit modes, exit barriers, exit strategies, exit timing.

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Tiivistelmä

Geopoliittiset aseelliset konfliktit ovat tulleet kasvavasti osaksi monikansallisten yritysten toimintaympäristöä. Ukrainan sodan kaltaiset tapahtumat voivat luoda tilanteita, joissa suorista ulkomaisista investoinneista joudutaan luopumaan lyhyellä varoitusajalla, huolimatta niiden tuottavuudesta tai poistumisesteiden suuruudesta. Tämä tutkielma tarkastelee, miten suoran ulkomaisen investoinnin markkinoilta poistumisen tavan päättämiseen vaikuttavat sisäiset ja ulkoiset tekijät geopolittisen konfliktin alettua. Tutkielman osakysymykset ovat: ”Millaisia markkinoille tulon ja poistumisen tapoja suorilla ulkomaisilla investoinneilla on ja miten ne luovat poistumisesteitä”, sekä ”Miten suorien ulkomaisien investoinnin markkinoille tulon tavat ja yrityksen johdon päätökset vaikuttavat markkinoilta poistumisen tapoihin?” Yrityksen johdon päätöksistä tarkasteltiin poistumisen aikataulua ja ennakoitua.

Suoran ulkomaisen investoinnin markkinoille tulon tapojen huomattiin vaikuttavan merkittävästi markkinoilta poistumisen tapaan poistumisesteiden kautta. Yrityskaupoilla, franchising-sopimuksilla ja yhteisyrityksillä mahdollistivat yksinkertaisen divestoinnin. Toisaalta yhteisyrityksiin liittyi myös vaikean markkinoilta poistumisen riski investoinnin sitoutumisen suuruuden takia. Greenfield ja brownfield -investoinneilla huomattiin olevan mahdollisuus korkeisiin poistumisesteisiin, riippuen investointien omaisuuden yksilöllisyydestä ja jälleenmyytävyydestä. Poistumisen ennakoinnilla saatettiin mahdollistaa enemmän aikaa vievien markkinoilta poistumistapojen käyttö. Ennakoinnin puute ja tarve nopeaan markkinoilta poistumiseen sen sijaan saattoi johtaa taloudellisiin tappioihin. Näissä tilanteissa poistumistavat olivat todennäköisesti varojen likvidatio tai toiminnan lopettaminen.

Tämä tutkielma tukee harvemmin tutkittua alaa poistumisstrategioista konfliktiympäristöissä. Tutkielma yhdistää markkinoille tulon tapoja, poistumisesteitä ja päätöksenteon ominaisuuksia. Näistä syntyvä teoreettinen kehys auttaa ymmärtämään niiden yhteisvaikutusta markkinoilta poistumisen tapoihin. Tulokset osoittavat, että divestointi ja poistumisstrategiat tulisi ottaa osaksi monikansallisten yritysten ydinstrategiaa. Tulevaisuudessa tarvitaan empiiristä jatkotutkimusta todentamaan tämän tutkielman teoreettisia löydöksiä.

Avainsanat: monikansallinen yritys, suora ulkomainen investointi, markkinoilta poistuminen, divestointi, geopolittinen aseellinen konflikti, markkinoille tulon tapa, markkinoilta poistumisen tapa, poistumiseste, poistumisstrategia, poistumisen ajoitus.

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1 Introduction

In the past, market exits have been seen as consequences of failure (Kong Chow & Hamilton, 1993, 9; McDermott, 2010, 39). In today's world however, there might be other explanations besides unsuccessfulness for multinational enterprises (MNEs) to divest their foreign direct investments (FDIs) from certain markets. Reasoning can lean more into ethical rather than economical standpoints, and stakeholders can pressure companies to act in certain ways. Some MNEs are willing to exit profitable foreign markets despite the possible losses and sunk cost to protest indefensible actions of nations, such as waging war against other nations. One such occasion was Russia's unprovoked escalation of war against Ukraine in 2022. From EU member states and G7 countries, 5-13% of the MNEs had divested at least one of their equity investments from Russia by late November 2022 (Evenett & Pisani, 2023, 513). Dai et al. (2024, 133) argue that conflict zones are nowadays commonplace in economic world, and while their probability is still low, the consequences are high. It could be argued that not recognising the dangers involved in operating in a geopolitically volatile area could be a massive black hole in an MNEs global strategy.

War as a conflict can affect the local market laws regulations, and is connected to the decrease in economic freedom (O'Reilly & Powell, 2015, 40). Dranikoff et al. (2002, 76) claimed that corporations divest "too little too late" as their study found that divestment was usually only done after delays and when it became unavoidable, sometimes taking years. This type of indecisiveness is not an option in the face of erupted geopolitical conflicts if the MNE's goal is to send a message on where the company stands on geopolitical matters and to avoid negative effects that armed conflicts can bring in the future.

One definition of armed conflict is "a contested incompatibility that concerns government or territory or both where the use of armed force between two parties results in at least 25 battle-related deaths in a year. Of these two parties, at least one has to be the government of a state" (Themnér & Wallensteen, 2013, 509). In the context of this thesis, the conflict instigating or aggressor nation is considered the host country for the MNE FDIs, and the home country of the MNE has condemned the instigation of conflict. The home country is assumed to take political action, such as sanctioning against host country. This creates a unique environment, where MNEs are motivated to divest FDIs regardless of profitability and pressured to act fast. The physical threat of conflict is not discussed or considered to have a direct impact on the exit process, but it is assumed to contribute indirectly to the overall uncertainty of the host country market.

MNE FDI exit strategies have not been studied in abundance in the context geopolitical armed conflicts (Liu et al., 2024, p. 261), and prior studies mainly focus on whether the MNE should exit the conflict country or not, and not the factors affecting the exiting itself (Dai et al., 2023, 1091). There are countless different factors affecting MNEs market exit, and it would be near impossible to differentiate how much each of them have impact in any given case. Nevertheless, combining theory with studies of exit strategies can help us recognize certain emerging patterns. This thesis' purpose is to find out how different nominators have an impact on how an MNE conducts the choice of exit mode in practice after the FDI host country shifts into geopolitical armed conflict. The goal is to contribute by creating applicable information from existing theories that can be used to analyse MNE market exits and modes in similar situations in the future. While the reasonings behind foreign market exit, whether they are ethical or other, are important, they are not discussed in this thesis: the presumption is that the MNE has made the decision to exit host country market as a reaction to geopolitical conflict.

The main research question presented in this thesis is **How is the decision of FDI market exit mode affected by internal and external contributors after an eruption of geopolitical conflict?** To better answer this main question, it has been divided into two sub questions: **What type of market entry- and exit modes do FDIs have and how do they create exit barriers,** and **How do FDI entry modes and managerial decisions have impact on the exit modes?** These questions have been chosen to define a finite subject of study, that can contribute new information while being rooted to proven theories. Section 2 of the thesis will introduce theories that are important to the subject, while section 3 will combine and apply different theories to create more profound analysis on the synergy of different attributors.

2 FDI entry and exit modes and divestment exit barriers

Both MNE FDI entry- and exit strategies have been categorized into modes by their notable characteristics. When analysing something as complex as MNE FDI or foreign market exits it is important to recognise that in practice it may be difficult to define theoretical standards. Theories and categorization are important however, to give concrete context to which real life examples can be compared to. MNE FDI entry- and exit modes and divestment exit barriers have been chosen as they are considered to have major effect on the process of FDI market exit, and they can emphasise the unique setting of geopolitical conflict and off-putting nature of the host country market.

2.1 FDI market entry modes

To better understand the process of exiting a market, it is important to understand how an MNE has entered said market. The MNEs mode of entry defines many factors that are important in the exiting phase, such as balance between tangible and intangible assets ownership. In reality, FDI market entries are multifaceted projects and entry modes can be combined to create an infinite number of ways to enter a foreign market. This is not necessarily a complete list of FDI market entry modes, but it does define the ones that are widely used and significant for the purpose of this thesis.

2.1.1 Greenfield

An international greenfield investment (IGI) happens when an MNE creates an affiliate in the target country in order to produce the MNEs products or services (Newburry & Zeira, 1997, 89). A greenfield entry or a merger and acquisition can also be restricted by the host country governmental FDI policy, given one might not be as beneficial for the host country welfare as the other (Qiu & Wang, 2011, 848).

IGI gives an MNE freedom to create unique resources like factories or service centres to suit its exact needs. However, creating custom solutions can be more expensive and time consuming compared to other entry strategies. It would seem that in some cases greenfield entry strategy is favoured when entering markets with low competition pressure (Klimek, 2011, 69). The low pressure from competition gives the investing MNE time to for example set up operations and build plants and assembly lines.

2.1.2 Brownfield

Brownfield can be seen as sort of a hybrid between acquisition and greenfield investment. Technically it is an acquisition, but it differentiates itself in the management of assets. Brownfield

entry focuses on the material assets of the host country entity, like production lines, equipment and plants. As an entry mode, it provides the level of company integration closer to a greenfield entry, while maintaining some of the local resources more akin to an acquisition. (Cheng, 2006, 203.)

A brownfield FDI could be an attractive entry option for an MNE with high competitive resources or organizational integration, looking for important local assets (Meyer & Estrin, 2001, 582). This entry mode can be a cost-effective option that combines positive aspects of both greenfield and acquisition, but market options naturally limit how optimal a brownfield entry can be for an MNE.

2.1.3 Acquisition

In an international acquisition (IA) or merger and acquisition (M&A) an MNE purchases another company from the target country. With acquisition, an MNE gains control of the acquired company and its assets. (Newburry & Zeira, 1997, 89.) Compared to greenfield investment, M&A is chosen more often if the market has more competition (Klimek, 2011, 69–70). This could be due to time advantage acquisition can give over other entry modes.

An international acquisition is one of the tools to access another organizations resources (Meyer et al., 2008, 4). They can give an MNE a relatively easy access to the foreign market: many aspects like production lines and infrastructure, supply chains, company structure and employees might already exist and be ready for operation. On the other hand, an MNE does not have the same type of freedom to create these aspects to their own needs and specifications since many of them might already exist.

2.1.4 International joint venture

Equity international joint venture or IJV is a collaboration between (at least) two companies to co-own a company in the market country. At least the other partner is an MNE that's headquarters are in a different country. The parent companies share control over the subsidiary in varying sizes, depending on the size of ownership. (Newburry & Zeira, 1997, 89.) In some circumstances, foreign control of a JV gives an opportunity for the MNE to contribute its firm-specific assets, leading to high productivity (Ge & Chen, 2008, 917).

An international joint venture can have many benefits to the MNE. If the other party is local to the market, it can have helpful resources, such as networks, that the MNE might not have (Delios & Beamish, 1999, p. 929). Also, the MNE shares risks with the collaborating company, which can

make market entry more accessible or at least less unsafe. Similarly, the profits are also shared between the parties.

2.1.5 Franchising

Franchising is a collaboration between two companies, where the franchisor sells the right to use its business practises and use of brand name to a franchisee to sell franchisors goods or services (Combs et al., 2004, 907). When entering a new host country, an MNE could use franchising to gain better capital and expansion rate than it could alone, and to maintain the competitive advantage by providing other resources like knowledge and reputation (Alon et al., 2021, 54–55). Since growth is not as limited by tangible and economical assets of the MNE, expansion can be more dependent on the non-tangible assets and co-operational abilities.

On the other hand, franchiser needs to be desirable enough to attract franchisees, which would require at least some level of brand recognition and reputation in the host country. This can hinder smaller and lesser-known business's ability to enter a market via franchising. Furthermore, Buckley & Casson (1998, 556) observed that additional transaction costs from using an external market for wholesale products discourage franchising, making JV a viable choice instead. Since MNEs are likely separated from franchisees by country borders and distance, transaction costs and costs associated with supply chains may be higher than in domestic franchise arrangements.

2.2 Exit strategy modes

Divestment of an MNE FDI can be a highly complex operation that can be difficult to categorize into different types. In reality, different strategies can be combined to create an enormous number of unique combinations. Furthermore, practical applications can differ from theory, and every observed case can have individual characteristics. Theory of exit strategies can give us the tools to help us understand individual cases better and is crucial in tying individual occurrences into understandable phenomenon that can be used to predict what is to come.

This is not necessarily a listing on all the different types an MNE can divest and exit from a given market. The exit strategies listed do give a comprehensive overview of the most common exit strategies used and their characteristics relevant to the topic.

2.2.1 Spin-off and carve-out strategy

A spin-off strategy is used when a parent company sells off its subsidiaries stock (typically 80% or more) on a stock exchange, creating a separate company. Usually the “spun-off” company becomes a self-reliant and independent entity operating on its own, but depending on the case the subsidiary can give a varying amount of control to the parent company. (Kotabe & Helsen, 2009, 247.) It could be debated that a spin-off strategy does not mean completely exiting the market. The defining factor could be who is making the decisions and the true independence of the former subsidiary.

Similarly to the spin-off strategy, carve-out strategy sees a company selling the stock of its subsidiary in the open market, only in lesser quantities. Commonly less than 40% of the parent company’s ownership is divested, and the subsidiary remains a supportive relation to the parent company. (Kotabe & Helsen, 2009, 247.) Carve-out describes only a partial exit from market. Furthermore, it is shown that carve-outs usually develop into spin-offs or buy-backs from the parent company and therefore has been described as “a temporary financial arrangement” by many experts (Kotabe & Ketkar, 2009, 247).

The carve-out strategy is favoured by larger, more profitable companies that are not as easily leveraged. Carve-out “parent” companies also show better performance in the stock market compared to spin-off “parents”, and carve-out companies themselves are more profitable than spin-offs in the long run. (Michaely & Shaw, 1995, 18–19.) Considering this, the carve-out strategy seems vastly favourable over the spin-off strategy. However, staying more involved in the host country market might not be preferable to those deciding on the exit, even when it makes sense from economic standpoint.

2.2.2 Merger and acquisition as an exit strategy

Just like mergers and acquisitions can be used to enter a new market, they can be used to exit one by reversing the roles. Merger and acquisition or M&A happen when another company buys out another company (Thelisson, 2022, 301), like when an MNE sells its subsidiary to another company. A merger describes more of an equal setting between seller and buyer, and the outcome aims to create a new entity, while an acquisition sees the acquired company dissolved into the acquirer (Thelisson, 2022, 301).

The valuation of a subsidiary can be difficult, and there is possibly no correct way to do it. The accuracy of pricing can only be seen after the purchase (Ghosh, 2022, 96). There are many reasons outside of pure asset value that can affect M&A’s pricing. A buyer might be ready to pay more for

an M&A, if for example it can provide more market share, eliminate competitors or add new products for vertical-horizontal integration (Ghosh, 2022, 96).

2.2.3 Voluntary Liquidation Strategy

In voluntary liquidation company stops ongoing operations, sells its assets and uses the profits to pay off existing debt, and distribute possible surplus to stockholders in a form of liquidating dividends. Voluntary liquidation is usually only used when it is profitable to shareholders. Liquidation makes it possible to distribute assets to several buyers and can be more lucrative compared to selling the company if circumstances happen to favour the seller. (Kim & Schatzberg, 1987, 311–312.)

According to one study, companies with greater human capital and those that have executed organisational innovations are less likely to liquidate foreign subsidiaries in Spain (Konara & Ganotakis, 2020, 430). This could indicate that with liquidation, human capital is not as easily capitalized. Exiting from a market by the means of liquidation could be a brownfield entry for another company concentrating on tangible assets.

2.2.4 Closure

A simple exit strategy, where operations are shut down or the assets are moved elsewhere if possible, terminating the subsidiary (Kotabe & Ketkar, 2009, 248). It is estimated that Greenfield FDI subsidiaries are 30% more likely to be divested by closure compared to acquired subsidiaries (Mata & Portugal, 2000, 558). This could indicate that finding a suitable divestment and exit mode is more difficult for greenfield FDI, leading to assumably unfavoured choice of closure.

Closure can seem like a poor choice when compared to other exit strategies. It is important to remember however, that “extreme environmental turbulence” can cause quick divestments (Jacque & Lorange, 1984, 185–186). Sometimes options can be limited, and “cutting one’s losses” might be the right call considering all the factors.

2.3 Exit barriers

Exit barriers are factors that could make exiting a market inadvisable and make a decision to not exit more enticing for companies. Porter (1976, 21) divided exit barriers into three classes: structural (or economic) exit barriers, corporate strategy exit barriers and managerial exit barriers.. Exit barriers are naturally an important part to the MNE FDI market exit process, and their effects should be considered to get a more accurate picture on FDI market exits.

2.3.1 Structural exit barriers

Structural (or economic) exit barriers describe situations, where it is likely more profitable to stay operational even with a low capital return than exiting a market. Investments such as plants and equipment and severance agreements of labour can create structural exit barriers. Poor resale value of assets makes this situation more likely, especially if the assets are specific and potential buyers are scarce. (Porter, 1976, 22–23.) Matured companies with high level of process and product R&D and considerable investments in plants and equipment have higher exit barriers than others (Hoyt & Sherman, 2004, 243) Finding a buyer can be increasingly difficult in a conflict-driven exit: mass exit of MNEs can possibly create a vacuum to the market, decreasing potential investors. When facing a structural exit barrier, an MNE may have to be ready to accept that economic losses are imminent and carefully evaluate if exiting a market is worth it.

2.3.2 Corporate strategy exit barriers

Corporate strategy exit barriers are mainly created by relationships between and inside companies. Solid relationships in the business can mean better prices, more effective co-operations etc. The interrelatedness to other companies is one factor that affects MNEs image. Even if a certain market is not otherwise favourable, these factors can make them a better choice compared to other options, thus creating a barrier to exit. (Porter, 1976, 23.) On the other hand, the ethical choice of exiting a market can shape the image of an MNE. If the host country has become ethically controversial, the setting can almost be seen as reversed into a structural exit (or in this context perhaps a more accurately “staying”) barrier: economically FDI could be profitable and show no reason to exit the market, but by doing so the MNE could hurt its image in the customers eyes, thus jeopardising profitability in other markets. The question about MNE image and ethical standpoints could be among deciding factors when considering leaving a profitable market in this context. Some argue that in today’s geopolitically volatile world MNEs should not focus as much on the outputs of risks, and instead concentrate on the inputs of geopolitics and diplomacy (Hartwell & Ursprung, 2024, 235). This strategy aims to turn corporate strategy exit barriers into enablers that instead of barring widen strategy possibilities.

2.3.3 Managerial exit barriers

Managerial exit barriers emerge, when despite economic reasons to exit, management is reluctant to make the exit decision. Porter has divided managerial exit barriers into two separate categories: information related barriers and conflicting goal. Information related barriers happen when

management is not aware that exiting a market may be in their interest. Conflicting goals means that management's personal goals are not aligned with company goals, creating a barrier to exit despite it being a reasonable choice from the company's perspective. Managers might take personal pride or responsibility, or see exiting as a failure that might affect their career. (Porter, 1976, 23–27.) It has been studied that the self-interest of the managers of the foreign entity has no effect on the exit decision, and foreign entity managers have only little effect on the exit decisions (Tan & Sousa, 2023, 6). It's possible that in many cases managers jobs rely on whether the FDI is sustained or not, which naturally affects their stand on the matter. It also cannot be underestimated how social connections and friendships can impact decision making. Ethical factors can be difficult to measure in these kinds of situations, further complicating matters.

3 Analytical construction of the exit mode decision

The goal of this section is to analyse information and topics covered earlier and how do they affect the process of MNE FDI market exits in geopolitically uncertain countries and markets. These topics are also analysed through a lens of managerial decision making and timing, since they are increasingly important for MNEs and FDI market exits in an uncertain global politic landscape (Dai et al., 2023, 1090).

The unique setting of a geopolitically volatile country can create some circumstances where some factors are more or less consistent regardless of other elements. One such element is sanctions to host country by MNE home countries. For example, sanctions imposed on Russia by western countries after the Crimean annexation in 2014 increased the probability of MNE divesting (Panibratov & Chen, 2022, 173). The unpredictability of future almost certainly adds an atmosphere of insecurity, that possibly affects the behaviour of companies. These types of similarities are acknowledged but not necessarily brought up every time unless they are particularly significant.

3.1 Managerial decision's effect on exit strategies

Managerial strategies and decisions are crucial to any MNE strategy, including exit strategies and their implementation. They are naturally not isolated occurrences, and other variables, such as FDI entry mode and exit barriers affect them tremendously. Therefore, it is difficult to measure how much managerial decisions alone influence market exit processes. Nevertheless, we can draw some conclusions on how managerial decisions can impact outcomes and be part of the bigger picture.

3.1.1 Influence of timing and managerial decisions in FDI exit strategy modes

Decision makers responses to disruptive or “shock” events have been studied to depend on impact (event's impact on goals and outcomes, low or high), time (how long there is to make the decision, short or long), and surprise (how anticipated the event is, low or high). An event becomes a crisis when its impact is highly negative, time for decision making is short and highly unanticipated. (Eden et al., 2021, 164–165.) On the other hand, correctly anticipating outcomes of shock events correlated positively with the policymakers' ability to create positive suitable strategies (Dai et al., 2024, 134). While it is not free to collect the data to correctly anticipate events such as geopolitical conflicts, it would seem to be a useful part of an MNEs strategy in the increasingly volatile global scene.

During 2022, after the invasion to Ukraine, Russia had adopted procedures that limit the sales of assets by MNEs with headquarters in “unfriendly nations” (Evenett & Pisani, 2023, 515).

Depending on the industry MNEs operate in, the nationalization of the subsidiary might also be a plausible threat. It would be logical for an MNE willing to exit a market such as Russia to want to divest as soon as possible, since complications and complexity related to the process can increase over time. Additionally, peer companies exiting a market can create pressure for other companies to exit wholly and as fast as possible at the cost of abandoning assets. (Dai et al., 2023b, 1100.) With uncertain geopolitical environment, escalation can happen quickly as wars in Ukraine and Gaza have shown us. Unprepared companies can be left in situations, where their options of exit mode are limited due to the urgency of action.

Spin-offs and carve-outs might not need as much asset valuation and preparation as an M&A or liquidation and can therefore be an option for unprepared MNEs looking for a fast exit. Indeed it has been observed that equity valuations before divestment are significantly lower with spin-offs than sell-offs, including liquidation and M&A (Prezas & Simonyan, 2015, 91). For a prepared MNE that would prioritize fast response the market exit would likely be whole instead of partial. This means the used exit strategy could be a spin-off, liquidation or an M&A, depending on factors such as exit barriers or asset types.

Dai et al (2024, 139–142) suggest that “A firm that anticipates a violent conflict is more likely to exit early than late from the host country”. A company anticipating a violent conflict is more likely to exit only partially, since it might have deeper knowledge about host country’s situation, and would make re-entry easier in case of a positive change in geopolitical climate. Busse and Hefeker (2007, 409) also recognized that MNEs might only respond partially in short term when faced with political and economic variables. However, in a later study Dai et al. (2023, 1099) compared the exit timing’s and mode’s (partial or whole) influence on each other when the other is prioritized. Their study claims that in a conflict zone, prioritizing early departure is linked with whole exit, and companies are likely ready to cut their losses and move on quickly.

Based on this information it could be deduced that if an MNE is anticipating a violent conflict, its course of action after escalation would be put into action quickly. The MNE would also possibly choose to exit the market wholly. The risks associated with the situation can be too menacing to stay in the host country, and the MNE has had an opportunity to strategize the exit at least in some capacity, giving more options to develop the most efficient exit strategy.

3.1.2 Influence of exit barriers and managerial decisions in FDI exit strategy modes

Exit barriers play a major role in the process of MNE foreign market exit, from the initial decision to exit, to planning the exit timing, exit mode and so on. The absence of exit barriers can support divesting (Gómez-Plana & Latorre, 2014, 1), so minimizing them should be a goal for any MNE considering market exit. MNEs exit barriers are created and affected by decision making process, strategy and industry environment (Porter, 1976, 21). Exit barriers can be examined and conclusions can be drawn from them on a general level, but it is important to remember that every MNE is unique, and therefore the possible exit barriers they face can vary immensely. Despite this, general conclusions are useful and can at the very least steer researchers in the right direction when studying individual cases. Cross-analysing exit barriers with FDI exit modes can help us differentiate characteristics between the exit modes to understand better, why one might be chosen over the other. This kind of analysis can be helpful in the future, when trying to predict outcomes and make exit decisions.

Both spin-off and carve-out exits differ from other exit strategies, since the sale of the subsidiary (whole or partial) happens publicly. According to Prezas and Simonyan (2015, 104), companies are more likely to sell off (with liquidation or M&A) assets rather than use spin-off during a time of investor pessimism. It might be difficult to find investors that are willing to accept the risks affiliated with a country going through conflict. Additionally, structural barriers can cause public markets to under value assets during conflict. As a result, spin-off and carve-out could face high structural exit barriers, that may lead to high sunk cost. From a corporate strategy barrier point of view, carve-out strategy can also present a problem: whether an MNE is trying to exit a foreign market due to image or ethical reasons, carve-out strategy may be seen as lacking the full commitment to the policies and values of the MNE. Because of this, carve-out might not even be a valid option for everyone. Public ownership can also create uncertainty among manager level, which could create conflicting goals. The loss of control created by selling to public market can create high exit barriers that might make these exit strategies unattractive to some companies.

Similarly, but maybe even more problematically, M&A exit strategy needs a buyer for the exit to happen. This can create high exit barriers. Corporate strategy exit barriers can depend on how well the local market can provide potential buyers. Balcaen et al. (2012, 969) claim that M&A exit efficiency is better for larger firms. On the other hand, firm size can also limit potential buyers capable of purchase. Structural exit barriers may arise, if purchasing power of the local companies is low (which very well may be the case in geopolitically unstable areas). M&A usually needs a

single buyer that's able to buy out the whole subsidiary, which naturally limits potential buyer pool. Depending on the severity of conflict, other MNEs that have not decided to exit the market might have interest purchasing competitors' subsidiaries and other assets. This again creates a difficult decision for the exiting MNE: if selling a profitable package to the direct competitor is the only way of exiting the host country with at least some sort of monetary return. In this light, it would be arguable that host country's local companies would be preferable buyers in the MNE sellers' eyes. In fact, a study has found that MNEs are especially disinterested in selling their FDIs with innovation capabilities to other foreign companies (Konara & Ganotakis, 2020, 429). Experience as well as business links and networks decrease complexity and increase the probability of completed sale (Kumar & Sengupta, 2021, 1395). These actions most probably decrease the aforementioned exit barriers and help alleviate the biggest threats of M&A exit. All in all, M&A as an exit strategy mode can be one of the more satisfactory ones for the exiting MNE, on condition that exit barriers are managed properly.

The amount and quality of exit barriers with liquidation exit strategy depend on many factors. In liquidation intangible assets, like reputation or knowledge of employees are lost (Balcaen et al., 2012, 953), adding to the sunk cost and structural barriers. Another important factor to consider regarding structural barriers is how divisible the assets are. The liquidation may also conflict with the brand and overall image of the MNE, which could be seen as a corporate strategy barrier. However, in this context the reasons for the market exit and in extension the liquidation is for many to particularly avoid the negative image associated with operating in an ethically questionable environment. Therefore, it could be argued that these types of corporate strategy barriers are negligible in the context of this study. Managerial exit barriers can arise if the management is uncertain of the asset value and potential market of buyers, which can lead to wrongful evaluations of the situation. Extremely high exit barriers can lead to non-desirable outcomes and strategies when exiting. Liquidation can already be some MNEs' "plan B", if the selling of subsidiary as a whole unit is not possible for some reason. If even the liquidation is not successful, closure remains as the last exit mode option for many.

Closure as an exit strategy faces high structural exit barriers, as assets are somewhat abandoned and sunk costs can be undoubtedly high. Apart from the obvious loss of tangible assets, subjects regarding intangible assets like contract terminations and employee rights, such as severance payments, can create considerable barriers. Intangible sunk cost is economically important, because when intangible sunk cost increase the height of the exit barriers, they behave like economic sunk cost (Harrigan, 1985, 693). Managerial barriers can also be very high for several reasons.

Information related barriers can happen when other possible exit modes are not discovered, or the need of exiting the market is not anticipated as mentioned before. Conflicting goals are also prone to happen, as managers can see closure as an epitome of failure and the worst possible outcome of the situation (regardless of whether it is that or not) and might want to avoid it until the end. While the inevitable losses connected to closure would make it the least preferable exit mode to an MNE in many cases, it does have a few points that make it a viable option for some. Firstly, it can be the only option to an MNE due to high exit barriers hindering other market exit modes. Secondly, it can provide a fast exit from the market, especially for MNEs with little preplanning. And thirdly, it can send a clear message on commitment to company policies and ethical standpoints. Closure can provide a chance for MNEs to “cut their losses” and move on, reinvest assets. It can also avoid sunk cost fallacy, if prolonging the market exit would cause more harm to the MNE than the harm caused by closure (Walton, 2011, 473).

3.2 FDI entry mode's effect on exit strategies

It has been said that market entry and exit are “the two sides of the same coin” (Xie et al., 2016, 2002; Biscaglia et al., 2024, 1). FDI Entry mode lays a base which has an influence on many variables during the exit phase and is therefore important when analysing a potential outcome of an MNE market exit. When comparing with other important variables regarding FDI market exit, their characteristics and influence in the larger process becomes more distinguished and meaningful.

3.2.1 Exiting from greenfield and brownfield

For a greenfield entry FDI, options are fairly open when it comes to exit mode. For a well prepared MNE, M&A could be a feasible option. In other cases, liquidation could be a more probable outcome. The uniqueness of assets may present the greenfield FDI with high structural exit barriers: MNEs may need to divest despite poor resale value of assets due to problems caused by asset specificity and liquidity in the second-hand market (Filatotchev & Toms, 2006, 425).

Greenfields are less likely to be divested than both acquisitions and joint ventures (Schmid & Morschett, 2020, 7). Perhaps this could be because greenfield FDIs have a more specific role in the MNE strategy and structure, and because of this the exit barriers become much higher than with acquisitions and JVs. Liquidation would offer the most flexible options for the seller and could therefore be a popular exit strategy. If selling assets with any strategy proves difficult, and exiting the market is a must, closure would be the last option for an MNE.

Exit strategy for a brownfield FDI would be similar to a greenfield FDI. In comparison, a brownfield FDI might have less unique characteristics, like assembly lines or other tangible assets originally gained in the brownfield entry. Because of this, the potential buyer pool might also be larger, making the exit process relatively easier. M&A, spin-off and carve-out can suffer from exit barrier, where the conflict might make finding buyers more difficult compared to time before the start of conflict. Brownfield FDIs usually have high integration costs, since acquired assets need to be integrated and restructured under new ownership (Meyer & Estrin, 2001, 581), and these costs might be difficult to get back in divestment phase. Liquidation benefits from the possible commonality of assets being sold, lowering exit barriers compared to greenfield liquidations in this case.

3.2.2 Exiting from acquisition

Acquisition as an entry mode can also be divested in several ways. As the acquisition probably has had operational independency or autonomy before the original purchase, it might be more self-dependent compared to greenfield FDIs or other entry mode subsidiaries. Acquired subsidiaries may also possess more knowledge on local host country market compared to greenfield investments. In fact, acquired subsidiaries have been said to be easier to re-sell compared to greenfield subsidiaries (Schmid & Morschett, 2020, 4).

These points would give acquisition FDIs more value as a whole, operational unit compared to value of individual assets. Considering this, M&A would most probably be the preferred exit mode. If the market exit is anticipated, and management has done precautionary actions like potential buyer scouting, exit can be a relatively fast one. There is a possibility that the M&A buyer needs to be found inside the host country: unfavourable political changes in a country can affect cross-border acquisitions because of indifferences in the countries' regulatory systems (Li et al., 2020, 308) . Liquidation and spin-off/carve-out are also possible, but might diminish offered value, leading to reduced return of interest.

3.2.3 Exiting from joint venture

Joint venture can provide a ready buyer for the selling partner (Dai et al., 2023a, 1099). If the company has entered the host country via a JV, an M&A could be a preferable option for a company trying to exit from the market. Factors regarding the selling process, like value assessment could be easier and quicker with a buyer who's already invested in the subsidiary. This flexibility advantage depends heavily on the partners ability to buy the equity (Reuer & Leiblein, 2000, 205).

International joint ventures have been studied to have much larger probability to be divested than wholly owned subsidiaries (Schmid & Morschett, 2020, 7). If the partner company is unwilling to buy, a JV can create a tricky situation: the party willing to exit is bound by a contract. In this case the only possible solutions for market exit might be an M&A offer to the JV partner they simply cannot refuse, or closure of some sort if possible. Either way, considerable losses would be inevitable.

3.2.4 Exiting from franchising

Franchising could seem as an easy FDI to exit from since tangible assets might be smaller than in other investments. In the US hotel industry for example, international franchising is seen as a risk mitigating entry strategy, where responsibility is taken by franchisees (Ge & Chen, 2008, 545). It might be difficult to ensure that intangible assets are being secured when exiting the market. The study conducted by Al bakri and Kisswani (2024, 315) claim that intellectual property is related negatively to international franchising and licensing. Especially in quick market exits it might be difficult to protect intellectual property. There is no way to remove the operating routines and know-how an MNE has given to franchisee, and an exit creates a possibility for assets like these to spread out of the MNEs control. It depends on the MNE and its assets whether this is a problem or not. More secretive and unique information on core operations is arguably more valuable and advantageous than common knowledge. For example, it would not matter as much if McDonalds's hygiene upkeep routines became common knowledge, but the leaking of the exact recipe for the Big Mac could be disastrous.

Franchisors rights to intangible assets can be threatened when governmental policies attitude suddenly change to "hostile". Franchising MNEs in service industries can face restrictions relating to ownership and control of corporate assets as well as repatriation of profits, royalties and interests as well as principal repayments. (Fladmoe-Lindquist & Jacque, 1995, 1241) Depending on the situation, these can be minor or substantial setbacks to an MNE.

3.3 Summary on combined effects on exit mode decision as result of geopolitical conflict

Exit barriers could vary on type and intensity depending on the exit mode. Spin-off and carve-out could suffer from investor pessimism lowering valuations. M&A can be highly dependent on finding a buyer. Combining this with the uncertainty created by the geopolitical conflict could mean that buyer scarcity and low purchasing power. If barriers are managed M&A can be beneficial exit

mode for some MNEs. Liquidation can have very high exit barriers, especially structural barriers are prone to be high, if assets are not easily divisible or value of intangible assets are high. Closure is likely the exit mode with the highest exit barriers for almost any MNE due to the nature of abandoning the FDI. Structural barriers are created by sunk costs, and possible severance payments, and managerial barriers are created by strong perception of failure. Exit by closure is probably often the MNE's last chance to exit the market.

FDI entry modes we're important determinators of possible and preferable exit modes. They also had a play in defining exit barriers.

Greenfield FDI's most notable exit barriers are asset speciality and probable sunk cost. They can be divested fast, but in that case anticipation is most likely needed. High exit barriers can prolong selling process, which predicts slower exit. All exit modes are possible, but liquidation, spin-off or carve-out have the potential to be fastest options that might not need as much asset valuation. Possible advantages in this situation could be visible signalling of exit to show commitment and responsibility. Possible disadvantages include high sunk cost on investment.

Brownfield FDI's have similar traits than greenfield FDI's, but also some differences. Asset speciality might not be as significant to brownfield FDI's, but buyer scarcity can still have significance. Lack of anticipation of exit means likely slower exit. All exit modes are in theory possible, and liquidation, spin-off or carve-out being again fastest. Brownfield FDI exits generally have an advantage against the greenfield ones due to lower exit barriers but suffer from same disadvantage of high sunk cost.

Acquisition FDI's can suffer from undervaluation exit barrier. They benefit significantly from exit anticipation. Lack of anticipation or poor buyers slow the exit process. M&As are optimal to be sold forward as M&As, as IP value and local integration are best kept this way. M&As usually have an advantage of having relatively low exit barriers. On the other hand, M&A as an FDI exit requires more asset valuation as some other exit modes.

Joint venture has limited exit modes available. If the JV partner is willing to M&A the MNE's share, exit can be effective with low exit barriers and fast process. However, if the JV partner is not willing to buy, MNE can have large exit barrier in the form of contract obligations. In this case, closure might be the only option to exit, or the MNE is forced to stay in the market.

Franchising may differ from other entry modes in that it can have more intangible assets in comparison to other modes. Because of this, contract obligations and IP leakage can act as exit

barriers. Exit can be very fast if the exit barriers are not too significant. Franchising is generally the only FDI mode that could choose closure as an exit mode, thanks to how fast and straight forward it is. Advantages can include simplicity and low sunk cost. Possible disadvantages include contract termination penalties and the risk of IP leakage.

Table 1 shows the general characteristics of different variables together to illustrate their effects as a part of a possible exit mode selection process.

Table 1 Variable combinatory effect on FDI exit modes as a result of geopolitical conflict

FDI Entry Mode	Probable Exit Barriers	Exit timeframe	Probable Exit mode	Possible advantages	Possible disadvantages
Greenfield	- Asset speciality - sunk cost	Fast: possible if anticipated	- Liquidation - Spin-off - Carve-out - M&A - Closure	- Visibility & Signal - Less asset valuation	- High sunk cost
		Slow: more probable due to high exit barriers			
Brownfield	- Buyer scarcity	Fast: possible if anticipated	- Liquidation - Spin-off - Carve-out - M&A - Closure	- Smaller exit barriers compared to Greenfield - less asset valuation	Poor return of interest
		Slow: probable if unexpected			
Acquisition	- Undervaluation	Fast: possible if anticipated	- M&A	- IP value preservation - locally integrated - low exit barriers	- Asset valuation
		Slow: Possible if unexpected or poor buyer pool			
Joint venture	- Contract obligations	Fast: JV partner co-operative	- M&A - Closure	- value preservation - can be relatively straight forward	- Risk of being “stuck “ on the market or high sunk cost to get out
		Slow: JV partner unco-operative			
Franchising	- Contract obligations - IP leakage	Fast: Probable if low exit barriers	- Closure	- can be straight forward - low sunk cost	- Contract termination penalties - IP leakage
		Slow: Probable if high exit barriers			

4 Summary and conclusions

This thesis aimed to answer how are FDI market exits affected by internal and external contributors after an eruption of geopolitical conflict. It was found that FDI entry mode, exit barriers and timeframe of the exit all have significance when an MNE is deciding on the exit mode. The level of significance can depend on the combined effect of the other variables.

Timeframe was recognized as a limiting factor when choosing exit modes. Due to pressure and benefits of a fast exit, anticipation of exit can give MNEs more exit options and support optimized outcomes. M&A as an exit mode was recognized as especially benefitting from anticipation, as it may require knowledge of buyer pools and value assessments. MNEs who have not anticipated the need to exit the market might have limited practical exit mode options, if fast exit is preferred. Spin-off and carve-out had possibly more streamlined processes due to public market purchases not needing as thorough of an asset valuation.

Common exit barriers differ by FDI entry- and exit modes. Greenfield and brownfield FDIIs can face poor return of invest, especially if the exit is not anticipated and is executed fast with liquidation, spin-off, carve-out or closure. Acquisitions can have relatively low exit barriers and may benefit from being acquired again but have a risk of undervaluation. JVs face high volatility in the exit phase compared to other entry modes: depending on JV partner, exit can be easy and fast with low exit barriers by M&A as exit mode, or difficult and slow with high exit barriers by possible closure. Franchising can be simple to divest by closure, but contract termination penalties and IP protection issues can increase exit barriers.

It would seem that divestments and market exits are not yet commonly part of MNE strategies. As the world gets more volatile and uncertain, preparing for the worst and staying flexible could give an advantage for MNEs. MNE divestment and foreign market exit need to be seen as proactive part of MNE strategy, not a sign of failure.

It is important to remember that MNE FDI market exits can be incredibly complicated matters, and forces affecting them are possibly too much and too many to be able to understand in their entirety by single individuals. This thesis gives a glimpse into the process of FDI market exit by a narrow view, explaining only some part of the whole phenomenon. Therefore, this thesis has limitations. Many variables, that might influence exit mode consideration have not been covered. For example, the MNE's willingness of re-entering the market in some point in the future after geopolitical changes is not considered. Additionally, sanctions are not considered except as a force that drives

MNEs to make fast decision on market exit. As mentioned in the introduction, the risk of asset damage due to armed conflict is practically left out of this thesis. Also, this thesis only considers MNEs with home countries who have condemned the aggressor nation and leaves out MNEs with home countries that might have more friendly relationships with the aggressor host country. MNE specific variables, like field of operation, service as product, MNE size have also been left out of consideration to keep the size of the topic manageable.

As said before, MNE FDI divestment as a whole has been understudied. Future research should broaden the understanding of divestments as part of the core strategy of the MNEs. Quantitative studies of covered topics could create validity and solid base for future studies, and simulating potential scenarios of different geopolitical risk levels could also give valuable information. Lastly, industry specific studies could narrow the topic to a manageable size, while also creating valuable information to be applied into practical use by actual MNEs.

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