

The Interplay of Knowledge Distance, Linguistic Distance, and Industry Relatedness in Foreign Divestment

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Abstract: This paper extends our understanding of the link between foreign divestment and knowledge distance between the home and host countries. We consider how knowledge distance affects the MNEs decision to divest their foreign operations. We theorize and find evidence that, given the embedded nature of knowledge in a given context, MNEs aiming to source knowledge in a foreign country characterised by a high level of knowledge distance will be less likely to divest their operations in these countries. Elaborating on a firm's ability to leverage knowledge distance, we also consider how linguistic distance positively moderates the relationship between knowledge distance and foreign divestment. Results from a comprehensive panel of 1,718 foreign subsidiaries made by 255 manufacturing Finnish MNEs operating in 70 host countries reveal robust support for these arguments.

Keywords: knowledge distances, MNEs, foreign divestment, industry relatedness, linguistic proximity.

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INTRODUCTION

Foreign divestment—the complete withdrawal of foreign subsidiaries through sell-off or liquidation—has long been a central concern in international business research (Boddewyn, 1979; Berry, 2013; Sethuram & Gaur, 2024). As multinational enterprises (MNEs) expand their global footprints, they must continuously reassess whether foreign subsidiaries continue to generate sufficient strategic value to justify ongoing resource commitments and managerial attention. Accordingly, foreign divestment represents not merely an outcome of failure, but a strategic decision reflecting firms' evaluations of learning opportunities, competitive positioning, and long-term value creation (Belderbos and Zou, 2009; Boeh and Beamish, 2015; Mariotti et al., 2023).

A critical yet underexplored driver of these stay-or-exit decisions is cross-national knowledge acquisition. The acquisition of foreign knowledge remains a strategic priority for MNEs seeking innovation and competitive advantage (Asakawa et al., 2018; Berry, 2020; Nachum et al., 2008; Santangelo & Phene, 2022). Prior studies show that MNEs access host-country knowledge networks to enhance innovation performance and build firm-specific advantages (Berry, 2014; 2018; Gassmann and Von Zedtwitz, 1999; Niosi, 1999). However, while firms invest substantially in acquiring location-specific knowledge, they often struggle to integrate it across dispersed subsidiaries—particularly when knowledge distance, defined as disparities in scientific output and innovation capacity between home and host countries (Berry et al., 2010), is pronounced (Kostova et al., 2020; Pattnaik and Lee, 2014). Such variation in national innovation systems and technological strengths has been shown to shape knowledge integration and firm performance in complex ways (Ambos and Ambos, 2009; Berry et al., 2010).

These challenges are especially salient in the context of international R&D strategies, which are difficult to coordinate and highly dependent on effective knowledge transfer between headquarters and subsidiaries (Berry, 2006; Pearce, 1999). As a result, prior research has focused on integration mechanisms and contextual conditions that shape cross-border knowledge transfer

success (Berry and Kaul, 2015; López-Sáez et al., 2021; Reilly et al., 2023). Among these conditions, country-level knowledge distance captures differences in national knowledge ecosystems—such as innovation systems, scientific capabilities, and technological infrastructures—between home and host countries. Owing to the “sticky” nature of knowledge, greater knowledge distance is typically assumed to hinder transfer, increase uncertainty, and weaken innovation outcomes, reinforcing the dominant view that distance is largely detrimental for MNEs.

At the same time, emerging evidence challenges this uniformly negative perspective (Pinkham and Peng, 2017; Perkmann, Phillips and Greenwood, 2022; Wu and Deng, 2020). Studies show that cross-country differences in knowledge development can generate strategic benefits by fostering innovation collaboration and enabling both exploration and exploitation (Berry, 2014; 2020; Kang et al., 2017; Patnaik and Lee, 2014). These findings suggest that greater country-level knowledge distance can, under certain conditions, function as a strategic asset rather than a liability. Importantly, these benefits extend beyond performance or entry decisions and directly inform foreign divestment choices, which require firms to reassess whether subsidiaries continue to deliver learning and strategic value (Benito, 1997; Belderbos and Zou, 2009; Boeh and Beamish, 2015).

Consistent with this view, MNEs increasingly expand into host countries with more advanced or distinct national knowledge systems, and such expansions are associated with lower rates of foreign divestment (Boddewyn, 1979). Knowledge distance shapes divestment decisions by influencing whether subsidiaries provide access to unique and valuable knowledge that cannot be sourced elsewhere. When country-level knowledge distance creates meaningful learning opportunities, subsidiaries generate sustained strategic value, reducing the likelihood of divestment. Conversely, minimal knowledge distance limits differentiation and learning, increasing subsidiaries’ vulnerability to exit. Yet, despite its importance, the process through which country-level knowledge distance affects long-term subsidiary retention remains insufficiently examined in

the foreign divestment literature (Boeh and Beamish, 2015; Kang et al., 2017; Pattnaik and Lee, 2014). Addressing this gap is essential for advancing theory on foreign divestment by clarifying when and why distance undermines or supports subsidiary survival.

Hence, the first purpose of this study is to examine how knowledge distance between home and host countries affects MNE's foreign subsidiary divestment. Elaborating on the knowledge-based view, we argue that country-level knowledge distance between home and host economies can serve as a strategic asset, enabling MNEs to enhance subsidiary survival through knowledge acquisition and internal transfer. When host countries possess more advanced national knowledge systems than the home country, subsidiaries function as innovation nodes, strengthening absorptive capacity and global integration. Conversely, when the home country's knowledge system is more advanced, MNEs leverage superior country-originated capabilities to adapt to local markets, optimize operations, and establish competitive barriers. In both cases, country-level knowledge distance fosters strategic opportunities that reduce divestment risk (Song, 2015). In contrast, minimal knowledge distance between home and host countries limits differentiation and learning, increasing subsidiaries' vulnerability to divestment.

Prior research has examined a range of contextual factors that facilitate or hinder knowledge transfer, including cultural differences, institutional structures (Martinez et al., 2024) and firms' absorptive capacity (Keller, 2012, Rammal et al., 2023). Other studies show that geographic distance and trust deficits exacerbate knowledge transfer challenges, reducing transfer efficacy and threatening subsidiary viability (Boeh and Beamish, 2015, Pattnaik and Lee, 2014, Reilly et al., 2023). Building on the knowledge-based view, we focus on moderators that shape how country-level knowledge distance is translated into subsidiary-relevant knowledge within the MNE. From this perspective, two interunit conditions are central for understanding how knowledge distance is leveraged across borders. One concerns the extent to which the knowledge bases of the parent and subsidiary overlap and are complementary. The other concerns the ease with which knowledge can

be communicated and recombined across units. We capture these two conditions through the concepts of industry relatedness and linguistic distance, which together describe how conducive the interunit context is to transforming country-level knowledge distance into subsidiary-level advantage.

Greater business relatedness at the industry level between a subsidiary and its parent facilitates knowledge transfer by increasing the comparability of knowledge bases and the alignment of core competencies (Berry, 2020; Pehrsson, 2012). Similarly, linguistic distance between geographic locations, referring to the degree of structural difference between the languages spoken in home and host countries, has been shown to impede effective knowledge transfer because linguistic dissimilarity increases communication friction and interpretation difficulty (Schomaker and Zaheer, 2014; Sena et al., 2021). In knowledge-based view terms, industry relatedness shapes how readily non-redundant knowledge can be integrated into existing firm capabilities, while linguistic distance determines how easily this knowledge can be articulated, interpreted and recombined across units. However, it remains unclear whether and how these contextual conditions shape the effect of country-level knowledge distance on foreign divestment, which leaves open the question of when knowledge distance serves as a source of advantage or becomes difficult to convert into useful knowledge.

We therefore examine how industry relatedness and linguistic distance moderate the relationship between knowledge distance and divestment. When subsidiaries operate in industries that are related to the parent MNE's core industry, country-level knowledge distance can be more readily converted into useful knowledge because the underlying knowledge structures are more compatible. This relatedness makes it easier to identify, absorb and apply non-redundant knowledge from the host country, which in turn reduces the likelihood of divestment. When subsidiaries operate in industries that are unrelated to the parent's core industry, these benefits are much harder to realise, and knowledge distance is less likely to translate into subsidiary-level advantage. In

addition, lower linguistic distance is expected to enhance the transfer and interpretation of distant knowledge, which strengthens the beneficial effect of knowledge distance on subsidiary retention. Although linguistic distance may be correlated with cultural distance, the two constructs capture different sources of cross-border frictions. Cultural distance reflects differences in societal values and norms that matter for legitimacy and social integration, whereas linguistic distance reflects communication-based barriers that influence how knowledge is expressed, interpreted and recombined across units (Luo and Shenkar, 2011). We focus on the moderating role of linguistic distance in shaping how country-level knowledge distance affects divestment outcomes. Hence, the second aim of our study is to clarify how industry relatedness and linguistic distance, as relevant features of the interunit context, condition the knowledge integration process that underpins foreign divestment decisions.

Our study contributes to the literature on foreign divestment in two ways. First, we challenge the prevailing assumption that all dimensions of institutional distance increase the likelihood of foreign divestment (e.g., Kang et al., 2017; Pattnaik and Lee, 2014) by highlighting an overlooked dimension—knowledge distance—which may operate differently. We argue that MNEs may enter host countries with varying knowledge development levels either to transfer their own knowledge and expand market share or to acquire local knowledge and enhance innovation. In both cases, knowledge distance can reduce foreign subsidiary divestment by either contributing to the firm's global knowledge base or enabling it to source critical knowledge abroad. Second, we explore the contextual mechanisms linking knowledge distance to foreign divestment by examining the roles of industry relatedness and linguistic proximity. We propose that high relatedness and linguistic proximity facilitate knowledge transfer and acquisition, particularly when the knowledge gap between the home and host countries is large, thereby reducing subsidiary divestment. To test our hypotheses, we analyse Finnish MNEs' foreign subsidiary divestment from 1995 to 2015, assessing their survival status in 2019.

THEORY AND HYPOTHESIS DEVELOPMENT

Foreign divestment is a critical strategic decision with long-term implications for MNE performance (Benito, 1997; Boeh and Beamish, 2015). Prior research identifies institutional distance as a key antecedent, showing that greater cross-national differences between home and host countries, for example cultural, economic, and political differences, increase uncertainty and coordination costs and thereby raise divestment risk (Kostova and Zaheer, 1999; Peng and Beamish, 2014). This dominant view treats all dimensions of institutional distance as uniformly harmful, even though empirical findings across dimensions are mixed (Berry et al., 2010; Nguyen et al., 2022). In contrast, studies focusing on knowledge distance, understood as cross-national differences in national knowledge systems and innovation capabilities, find that it can reduce divestment risk by fostering exploration, learning, and capability upgrading (Kang et al., 2017; Pattnaik and Lee, 2014). This tension reveals a theoretical misalignment, because institutional perspectives predict that greater distance should systematically increase divestment, whereas knowledge-based arguments suggest that certain forms of distance may create strategic advantages. As a result, the role of country-level knowledge distance in foreign divestment remains insufficiently theorised and clarifying when and how this specific dimension of institutional distance functions as a strategic asset rather than a liability is essential for advancing theory on foreign divestment decisions.

To resolve this tension, we draw on the knowledge-based (KBV) view of the firm, which conceptualizes MNEs as organizations whose primary strategic role is to create, integrate, and leverage knowledge across geographically dispersed units (Kogut and Zander, 1992; Grant, 1996). From this perspective, foreign subsidiaries are not only production or market-serving entities but also potential sources of knowledge that contribute to the firm's global capability base (Cantwell and Mudambi, 2005; Berry, 2020). Importantly, the KBV shifts attention from the short-term coordination costs emphasized by institutional perspectives to the longer-term strategic value of learning, knowledge recombination, and capability development. Divestment decisions therefore

hinge on both institutional frictions and the knowledge value generated by subsidiaries. As a result, divestment represents a strategic reassessment of the knowledge value embedded in foreign operations rather than merely a response to distance-induced challenges.

Foreign Divestment Literature

Research on foreign divestment has been ongoing for several decades (Berry, 2013; Schmid and Morschett, 2020) and is still emerging as a central topic in different research fields (Hu et al., 2023; Mariotti et al., 2023; Sethuram and Gaur, 2024). Previous scholars have identified various factors influencing foreign divestment, which can be categorized into country factors (Gaur and Lu, 2007; Nguyen et al., 2024), suggesting that foreign subsidiaries located in distant countries are more likely to be divested, parent factors (Sartor and Beamish, 2018), focusing on corporate performance and strategic changes, subsidiary factors (Berry, 2013; Peng and Beamish, 2019), examining how subsidiary characteristics influence divestment propensities, and top management team levels (Nguyen and Strange, 2025; Tan and Sousa, 2019; Thams and Dau, 2023), discussing managerial roles in making foreign divestments.

Traditionally, foreign divestment has been viewed as a passive retreat driven by poor subsidiary performance, hostile environments, and institutional challenges (see Arte and Larimo, 2019; Coudounaris et al., 2020; Schmid and Morschett, 2020 for reviews). However, emerging research suggests that divestment can also be a proactive strategic decision aimed at better aligning with corporate objectives (Belderbos and Zou, 2009; Iurkov and Benito, 2020; Sethuram and Gaur, 2024). From this perspective, firms actively divest foreign units when they no longer yield strategic benefits. Divestment therefore reflects a reassessment of whether the expected value and strategic contribution of a subsidiary continue to justify resource commitment in the face of changing conditions.

More precisely, prior scholars have devoted growing attention to country level institutional factors due to their significant influence on corporate strategies and specifically foreign divestment

(e.g., Dai et al., 2023; Nguyen et al., 2024; Liu et al., 2022; Sethuram and Gaur, 2024). In general, the extant literature assumes that institutional differences between countries lead to higher levels of divestment due to higher levels of uncertainties and liability of foreignness (Kostova and Zaheer, 1999; Gaur and Lu, 2007; Schmid and Morschett, 2020). In other words, when operating in distant countries, MNEs face more challenges in achieving local legitimacy which may result in higher rates of divestment. However, recent research challenges this predominantly negative view and argues that institutional differences can also provide opportunity enhancing advantages related to resource access, learning and institutional arbitrage (Edman, 2016; Pinkham and Peng, 2017; Perkmann, Phillips and Greenwood, 2022; Wu and Deng, 2020). From this perspective, firms may intentionally invest in more distant contexts to capture institutional diversity that can improve competitiveness, creating incentives to remain engaged rather than exit (Kang et al., 2017; Nguyen et al., 2022; 2024). These contrasting arguments indicate that the effects of institutional distance on foreign divestment are not uniform and depend on the specific institutional dimension being examined. This highlights a need to clarify how particular dimensions of distance shape divestment outcomes.

While previous research has focused predominantly on cultural or regulatory institutional distance (e.g., Davis, Desai and Francis, 2000; Lu, 2002; Meyer, Estrin, Bhaumik and Peng, 2009), this study examines knowledge distance, defined as variation in knowledge production levels between home and host countries (Berry et al., 2010). Knowledge distance is theoretically distinctive because it directly affects the learning conditions and innovation potential available to MNEs and therefore may have unique implications for strategic persistence or withdrawal. Berry (2020) highlights that knowledge transfer from parent companies to foreign subsidiaries can help overcome the liability of foreignness and improve performance. MNEs from developed countries also expand into less developed host countries to enhance local innovation and performance (Qu et al., 2013; 2024). Although a few foreign divestment studies have empirically reported that

knowledge distance can decrease the likelihood of divestment (Kang et al., 2017; Pattnaik and Lee, 2014), these findings do not explain the underlying theoretical mechanisms that produce these effects. In other words, we know that knowledge distance matters, but we do not yet understand why or how it influences foreign divestment decisions. Divestment is a particularly meaningful outcome in this context because it captures whether MNEs perceive the knowledge opportunities in a host country as sufficient to justify continued commitment in the face of challenges created by distance (Benito, 1997; Mariotti et al., 2023).

Building on this perspective, we propose that knowledge distance benefits—the advantages firms gain from exploiting and exploring knowledge across home and host countries—enhance innovation and competitiveness. We specifically argue that knowledge distance shapes MNEs' entry motivations, learning trajectories and governance choices, which together influence the probability of foreign subsidiary divestment by altering the perceived strategic value of continued foreign presence. Accordingly, knowledge distance plays a crucial role in divestment decisions, as subsidiaries with limited knowledge transfer potential are more likely to be divested. In other words, we argue that higher levels of knowledge distance reduce the likelihood of foreign divestment because they enhance the perceived learning value and potential innovation benefits associated with maintaining a foreign subsidiary. When knowledge distance provides unique knowledge access that cannot be replicated domestically or in other locations, firms have stronger incentives to retain rather than divest the operation, despite the challenges created by distance. By clarifying these mechanisms, our research advances foreign divestment literature and provides a more nuanced understanding of how specific institutional dimensions affect divestment decisions.

Knowledge Distance and Foreign Divestment

MNEs face substantial transaction costs and disadvantages in foreign environments due to the liability of foreignness (Mezias, 2002; Nachum, 2003). Consistent with this view, prior research shows that greater institutional distance increases uncertainty and coordination costs and thereby

elevates the likelihood of foreign divestment (Gaur & Lu, 2007; Kang et al., 2017; Peng & Beamish, 2014). Yet institutions are multidimensional, and different forms of distance do not exert uniform negative effects on international operations (Berry et al., 2010; Edman, 2016; Nguyen et al., 2022). Knowledge distance represents a distinctive dimension of institutional difference that shapes learning opportunities and capability development. For this reason, it may influence divestment decisions in ways that depart from the dominant expectation that distance inevitably increases the risk of withdrawal. Although empirical findings report that knowledge distance can reduce divestment (Kang et al., 2017; Pattnaik & Lee, 2014), the theoretical mechanism that explains why higher knowledge distance leads to lower divestment likelihood remains underdeveloped.

Traditional perspectives emphasize the challenges created by knowledge distance. Communication frictions, coordination difficulties and slower learning progress can hinder knowledge transfer and increase integration costs (Baumard & Starbuck, 2005; Frost & Zhou, 2005; Ambos & Ambos, 2009; Schomaker & Zaheer, 2014). These challenges suggest that knowledge distance might increase the likelihood of divestment. However, knowledge related activities such as innovation, research collaboration and scientific development are deeply embedded in local ecosystems and talent pools. Because knowledge is difficult to separate from its context, MNEs entering knowledge distant environments typically commit substantial resources to building local relationships and developing R&D and innovation capabilities that cannot be easily relocated (Singh, 2007; Almeida & Phene, 2004; Röell et al., 2024). These commitments result in sunk knowledge investments and create irreversibility that increases the cost of divestment and strengthens incentives to continue operating rather than withdraw.

Entry motivations help to clarify how knowledge distance shapes subsequent divestment decisions. When the host country possesses a more advanced knowledge base than the home country, firms enter in order to access nonredundant knowledge that enhances innovation and global competitiveness (Berry et al., 2010; Berry, 2020; Cantwell & Mudambi, 2005; Geleilate et al.,

2020). In these contexts, subsidiaries function as platforms that offer strong expected learning value and unique knowledge benefits that cannot be replicated elsewhere. Divestment would require abandoning access to these location specific knowledge advantages and would involve substantial opportunity costs. When the home country holds more advanced knowledge resources than the host country, MNEs often enter to exploit their superior internal knowledge while pursuing complementary benefits such as market access, cost efficiencies or production scale (Berry, 2020; Qu et al., 2013; 2024). Even in these cases, firms accumulate embedded relationships and adaptation-based knowledge that is costly to unwind. These commitments reinforce incentives to retain operations and reduce the attractiveness of divestment.

Taken together, knowledge distance affects divestment because it increases the strategic value associated with maintaining foreign operations and heightens the irreversibility of knowledge-based commitments. The potential for long term learning and competitive advantage and the sunk knowledge investments required to build local capabilities raise the option value of remaining and make divestment less desirable. When the strategic benefits of knowledge acquisition or exploitation outweigh the frictions associated with distance, divestment becomes a less attractive choice. Consequently, higher knowledge distance reduces the likelihood that MNEs will divest foreign subsidiaries. Thus, we propose the following:

Hypothesis H₁: Higher levels of knowledge distance between home and host countries decrease the likelihood of foreign divestment.

Industry Relatedness, Knowledge Distance, and Foreign Divestment

Industry relatedness conditions whether country-level knowledge distance can be transformed into subsidiary-level strategic value that justifies continued foreign commitment. When a subsidiary operates in an industry closely related to that of the parent MNE, the underlying knowledge structures, problem-solving approaches, and evaluative criteria are more compatible, which

becomes particularly consequential when home–host knowledge distance is high. Under such conditions, distant knowledge is more likely to be non-redundant and complex, increasing both its potential value and the difficulty of assessing and integrating it (Almeida and Phene, 2004; Berry et al., 2010).

From a strategic perspective, industry relatedness influences divestment decisions by shaping how parent firms recognize, evaluate, and appropriate knowledge sourced from knowledge-distant environments. Related subsidiaries are better positioned to translate host-country knowledge into contributions that are intelligible and valuable to the parent organization, increasing the likelihood that the learning benefits associated with knowledge distance are internalized within the MNE (Berry, 2020; Pehrsson, 2012). As a result, knowledge distance is more likely to enhance subsidiary value and support continued commitment rather than exit. In contrast, when subsidiaries operate in unrelated industries, the knowledge they generate or access may be difficult for the parent to interpret or recombine with existing capabilities, weakening the strategic case for retention despite the presence of advanced host-country knowledge systems.

Industry relatedness therefore acts as a boundary condition that determines whether the strategic benefits of knowledge distance outweigh the coordination and integration challenges associated with operating across distant national knowledge systems. When relatedness is high, compatibility between parent and subsidiary knowledge domains enables meaningful recombination and increases the option value of maintaining foreign operations (Cantwell and Mudambi, 2005; Geleilate et al., 2020). When relatedness is low, knowledge distance is less likely to translate into firm-level advantage, as incompatibilities between knowledge domains limit the MNE’s ability to leverage foreign learning opportunities, increasing the likelihood of divestment (Meyer et al., 2011).

In addition, industry relatedness influences internal attention allocation within the MNE. Subsidiaries operating in industries aligned with the parent’s core activities are more likely to

receive sustained managerial attention, coordination effort, and integration support, which amplifies the perceived strategic value of knowledge-intensive subsidiaries in knowledge-distant environments (Ocasio, 1997; Szulanski et al., 2016). Unrelated subsidiaries, by contrast, may struggle to attract attention and integration resources, reducing the likelihood that knowledge distance is perceived as strategically beneficial and increasing vulnerability to divestment (Kang et al., 2017; Peng and Beamish, 2014). Taken together, industry relatedness strengthens the divestment-reducing effect of knowledge distance by increasing the compatibility, visibility, and strategic relevance of knowledge sourced from distant national knowledge systems. Accordingly, we propose:

Hypothesis H2: Industry relatedness positively moderates the negative relationship between home–host knowledge distance and foreign divestment, such that the divestment-reducing effect of knowledge distance is stronger for subsidiaries operating in industries related to the parent MNE’s core industry.

Linguistic distance, Knowledge Distance, and Foreign Divestment

In the context of interunit knowledge transfer, the primary objective is the close replication and effective internalization of headquarters’ knowledge at recipient units. A critical and still underexplored factor shaping this process is linguistic similarity—the structural and syntactic proximity between home- and host-country native languages—which has recently attracted increasing scholarly interest (Schomaker and Zaheer, 2014; Sena et al., 2021). Although prior research on distance has emphasized cultural, institutional, and geographic attributes, linguistic distance remains comparatively overlooked, despite its foundational role in communication, a central mechanism enabling coordination and knowledge transfer across MNE networks (Bresman et al., 1999; Cuypers et al., 2015; Kogut and Zander, 1992). Transfer difficulties arise from characteristics of the knowledge, sender, recipient, and surrounding context (Szulanski, 1996), and become more pronounced as home–host knowledge distance increases, given that more distant

knowledge tends to be novel, complex, and tacit. However, such distant knowledge also creates greater opportunities for value creation, complementary capability development, and innovation access, which reduces the likelihood of foreign divestment by making subsidiaries strategically more important within the MNE network.

Linguistic similarity plays a critical role in enabling MNEs to realize the strategic value embedded in distant knowledge, because it reduces cognitive and semantic barriers, enhances comprehension accuracy, and facilitates second-language acquisition (Kaushanskaya, 2007). These mechanisms strengthen subsidiaries' absorptive capacity (Gupta and Govindarajan, 2000), which is especially important when integrating non-redundant knowledge. Thus, when knowledge distance is high, linguistic similarity strengthens the MNE's ability to appropriate and internalize the benefits arising from unique knowledge complementarities, thereby reinforcing the negative relationship between knowledge distance and the likelihood of foreign divestment. In contrast, linguistic distance impairs coordination and knowledge sharing (Ambos and Ambos, 2009), limiting the ability to utilize distant knowledge and weakening its value-creating potential, which reduces the strategic benefits that typically protect subsidiaries from divestment.

Even when MNEs adopt a shared corporate lingua franca, typically English (Cao et al., 2024; Cuypers et al., 2015), linguistic distance between native languages still shapes communication effectiveness, because underlying language structures influence cognitive processing, fluency, comprehension, and interpretation of meaning (Tenzer et al., 2014; Harzing and Pudelko, 2013). Accordingly, linguistic similarity enhances the effectiveness of knowledge exchange through the lingua franca, enabling richer sensemaking interactions and more accurate articulation of tacit and context-specific knowledge—capabilities that are particularly critical when knowledge distance is high. Thus, linguistic similarity strengthens the strategic advantages gained from diverse knowledge resources (Luo & Shenkar, 2011), whereas linguistic distance constrains the MNE's ability to unlock such value (Cuypers et al., 2015; Cao et al., 2024). It is also worth

noting that linguistic similarity improves knowledge transfer independently of cultural distance, although the two may be correlated (Dow & Karunaratna, 2006; Luo & Shenkar, 2011). Linguistic similarity concerns the structural relatedness of languages and thus directly affects encoding and decoding of messages, whereas cultural distance captures differences in values and norms; as a result, linguistic proximity can facilitate accurate knowledge exchange even when cultural distance is high, and linguistic distance can hinder it even when cultures are relatively similar.

Furthermore, linguistic similarity facilitates the development of relational capital, enabling informal communication, interpersonal trust, and strong cross-unit social ties (Mäkelä and Brewster, 2009; Mäkelä, Kalla, and Piekkari, 2007). These relational mechanisms are especially vital under high knowledge distance because the interpretation and mutual adjustment required to combine dissimilar knowledge bases depend on trust-based interaction and psychological safety (Noorderhaven and Harzing, 2009; Reiche et al., 2015; Zeng et al., 2022). Linguistic distance increases information asymmetries and inhibits opportunity recognition and knowledge utilization (Joshi and Lahiri, 2015; Peltokorpi and Vaara, 2012; Welch and Welch, 2008; Ly et al., 2018; Rauch and Trindade, 2002). Additionally, linguistic similarity lowers translation, training, and staffing costs (Argote, McEvily, and Reagans, 2003) and preserves key contextual meanings essential for transferring tacit knowledge (Schomaker and Zaheer, 2014; Hsu, Iriyama, and Prescott, 2016). Therefore, by enabling the effective transfer and appropriation of unique and complementary knowledge resources, linguistic similarity strengthens the negative relationship between knowledge distance and foreign divestment, while linguistic distance weakens it (Peltokorpi and Yamao, 2017; Reiche et al., 2015; Harzing et al., 2015). Collectively, we propose the following:

Hypothesis H₃: Linguistic proximity positively moderates the negative relationship between home–host knowledge distance and foreign divestment, such that the negative effect of knowledge distance on foreign divestment is stronger when linguistic proximity is high and weaker when linguistic proximity is low.

RESEARCH METHODOLOGY

Sample

We test our hypotheses using data on Finnish MNEs and their foreign direct investments (FDIs) between 1995 and 2015 and observe their divestment status in 2019. Although Finland is a relatively small economy, Finnish MNEs have expanded significantly over recent decades and operate in highly knowledge-intensive industries. Finland is consistently ranked among the world's leading innovation economies, placing 6th globally in the Global Innovation Index (WIPO, 2023), and is characterized by high R&D intensity and a strong national innovation system. This positioning creates strong incentives for Finnish firms to engage in international knowledge sourcing and provides meaningful variation in knowledge distance when investing across a diverse set of host countries.

Information on FDIs was collected from publicly available sources, including annual reports and press releases, and supplemented with Thomson One Banker and Orbis data. To verify divestment events, we cross-checked records with major Finnish business periodicals (Kauppalehti and Talouselämä) and confirmed select cases through direct contact with acquiring firms. We track investments until 2015 and use 2019 as the cut-off year to minimize potential honeymoon effects (Hennart et al., 2002; Wang & Larimo, 2019) and avoid distortions from global shocks such as natural disasters and geopolitical crises.

Our final sample consists of 1,718 foreign subsidiaries established by 255 Finnish manufacturing MNEs operating in 70 host countries, of which 902 subsidiaries were divested (52.47 percent). The geographic footprint reflects a broad international presence: 66.51 percent of subsidiaries are located in Europe (1,134), 15.07 percent in Asia (257), 13.61 percent in North America (232), and 4.81 percent in other regions including South America, Africa and Oceania (82). The most common host countries are Sweden (204), the United States (191), China (130), Germany (122) and Russia (114). This distribution indicates that Finnish MNEs invest in both

advanced knowledge economies such as the United States and Germany and rapidly developing markets including China and Russia. Such variation across host-country knowledge environments generates strong empirical variation in knowledge distance, enhancing the suitability of Finnish FDI as a context for examining how knowledge distance shapes divestment decisions.

Dependent Variable

Our dependent variable is foreign subsidiary divestment, defined as the complete sale or closure of a subsidiary that results in the focal MNE relinquishing ownership and control. A divestment event is coded as 1 when a subsidiary disappears from the ownership records due to sell-off or liquidation by the cut-off year (2019), and 0 otherwise (Getachew & Beamish, 2017; Kang et al., 2017; Peng & Beamish, 2019). In line with this subsidiary-level focus, divestment does not require full exit from the host country; after an individual divestment, an MNE may still retain other subsidiaries in the same market. Subsidiaries that remain active beyond 2019 are treated as right-censored observations. We verified divestment events to ensure that disappearance reflects an ownership change rather than internal restructuring or data reclassification.

Independent Variables

Our main predictors are the (i) knowledge distance between home and host countries, (ii) the industry relatedness with its parent MNE and (iii) the linguistic distance between home and host countries.

- (i) We measure knowledge distance following Berry, Guillén, and Zhou (2010), consistent with the national innovation systems literature that operationalises a country's knowledge base using patents per capita and scientific publications per capita (Furman, Porter, & Stern, 2002; Nelson & Rosenberg, 1993). We use the 2023 update of these indicators provided by Berry and co-authors via the Penn Lauder CIBER (Lauder Institute, University of Pennsylvania). We adopt the national (home–host) level because

subsidiaries draw on the broader country innovation ecosystem—universities, laboratories, skilled talent, and codified knowledge stocks—that shapes absorptive capacity and cross-border knowledge transfer, and because cross-country differences in innovative capacity and proximity to knowledge are linked to multinational location choices (Berry, 2006; Cohen & Levinthal, 1990; Gupta & Govindarajan, 2000; Guler & Guillén, 2010; Zahra & George, 2002).

- (ii) Industry relatedness refers to the similarities in business industries between parent MNEs and their foreign operations, following the 4-digit SIC codes. The relatedness is a dummy variable. It has a value of 1 if the subsidiary operates in a similar industry to its parent (e.g., sharing the same SIC codes with MNE's SIC codes), otherwise 0.
- (iii) Linguistic distance is measured followed Dow and Karunaratna's (2006) score. This score can be used to measure linguistic distance as part of their broader concept of psychic distance stimuli. This country-pair measure captures cross-language communication difficulty; higher values denote greater distance. We standardize the index (mean = 0, SD = 1). They include language differences as one of the key factors in their multidimensional measure. Thus, this score can help assess the impact of linguistic distance on international business decisions, such as trade flows and market selection as existing research show (Cuyper et al., 2015; Dow et al., 2020).

Control Variables

Elaborating on extant literature on foreign divestment, we control for several variables belonging to a subsidiary, parent, and country levels. At the subsidiary level, we control for: age (years from establishment), equity ownership level (wholly owned subsidiaries WOSs vs. joint ventures IJVs). At the parent level, we control for parents' size (total sales), R&D intensity, product diversification, prior international and host country experience, and divestment experience. At the country level, our testing models control the host country's economic development and GDP growth, political

risks, and the increase in a country's risk measured as the differences in Euromoney Country Risk (ECR) score between the year of divestment and the year of investment (Benito, 1997; Wang and Larimo, 2020). Following Berry et al. (2010)'s framework, which comprises nine dimensions, we incorporate some as key variables—specifically, knowledge distance and linguistic distance (linked to administrative distance)—while others, such as political, economic, and financial distance, are controlled using alternative measures to better align with the foreign divestment literature. To mitigate potential multicollinearity in our models and ensure a comprehensive testing framework, we further control for cultural distance, geographic distance, demographic distance, and global connectedness distance. We also control for the host country's human development index (HDI). All time-varying control variables are measured annually and are lagged by one year relative to the divestment event. We present our variables with their definitions and key literature in Table 1.

*** *Insert Table 1 about here* ***

Analytical Strategy

We examine the foreign divestment rate using Cox's proportional hazards model (Kang et al., 2017; Park and Chung, 2019). Survival analysis is popular among the extant literature because of its suitability for the modelling of different forms of event history data, that the model needs no assumption of any functional form for the underlying hazard function relative to parametric models (Song, 2014; Lee, Chung and Beamish, 2019). The model also allows for various types of underlying survival functions because the baseline function is not specified in the model (Berry, 2013). As such, the hazard rate can be presented as log-linear functions of the various firm- and subsidiary-level covariates (Kang et al., 2017).

Importantly, in this research, we adopted the frailty survival analysis to treat the nested nature among variables (Lee, Chung and Beamish, 2019; Nguyen et al., 2022). Prior scholars (i.e., Arregle, Hébert and Beamish, 2006; Nielsen and Nielsen, 2011) have argued that FDI strategies, including foreign divestment, are influenced by various variables belonging to FDI-, firm-, country-

levels and the interactions among them (Berry, 2013; Kang et al., 2017; Song, 2015). In other words, evaluating the hazard ratio without considering the complex interactions among variables across different levels may result in biased interpretations of the statistical outcomes. Hence, ignoring the nested structure of data would potentially increase methodological errors (Arregle et al., 2006). Nested models also incorporate random effects to account for cluster-specific homogeneities of the outcome (Lee et al., 2019; Osborne, 2000). Accordingly, we argue that applying frailty survival analysis is more appropriate to examine foreign divestment probability.

Our empirical analyses use a subsidiary–year panel structure (Lee et al., 2019; Peng & Beamish, 2019). The baseline specifications include parent fixed effects, year fixed effects, and industry–year fixed effects. Time-varying variables (e.g., host-country political risk, and peer divestment behaviour) are measured annually. Time-invariant predictors, such as geographic distance, are measured at the parent–host dyad level. Because these variables vary across host-country subsidiaries within the same parent firm, they are identifiable in models with parent fixed effects and are not absorbed (Lee et al., 2019; Peng & Beamish, 2019).

FINDINGS

We follow different steps to check the validity of the hierarchical model analysis. First, we examined potential problems related to the variables' distribution and checked if the assumptions for running these analyses were violated. Second, we computed the log of *total sales* used to measure parent (MNE) size to avoid a potentially significant level of skewness of this variable. We keep the original operationalisation of others because they were distributed normally. Third, we checked the outlier's problems among variables using Mahalanobis' distance and Cook's distance measure, the results showed that there are no outliers in our sample. Hence, the results confirmed the validity of running the frailty survival analyses. Table 2 provides descriptive statistics and correlations among the different variables. We assessed multicollinearity using variance inflation

factors. All VIFs were below 2, with a maximum of 1.81 for firm size, which is well under the conventional threshold of 10 and indicates that multicollinearity is not a concern in our analysis.

**** Insert Table 2 about here ****

Our main results related to the MNE-subsidary divestment probabilities are reported in Table 3. In Model 1, we included all control variables. In general, we found that all the control variables significantly influence foreign subsidiary divestment probabilities, except for the cultural and geographical distance. Precisely, we found that the parent size, host country experience, R&D intensity, subsidiary age, equity ownership, host country economic development, global connectedness distance, and HDI significantly and positively decrease the propensities of foreign divestment. This aligns with previous research (e.g., Kim et al., 2012; Getachew and Beamish, 2021). In contrast, parent product diversification, international experience, divestment experience, GDP growth, the host country's political risks, changes in political risks and demographic distance increase divestment rates among foreign subsidiaries. It is worth noting that the dimensions within the institutional distance framework—cultural distance, geographic distance, demographic distance, and global connectedness distance—exhibit heterogeneous effects on the probability of foreign divestment. This heterogeneity aligns with prior research (Getachew and Beamish, 2017; Kang et al., 2017) and provides initial support for our core argument that distinct dimensions of institutional difference are likely to influence divestment probability in different ways. Therefore, assuming uniform effects or a single direction across these dimensions is unwarranted.

**** Insert Table 3 about here ****

In hypothesis 1, we had predicted that higher levels of knowledge distance led to a lower propensity of subsidiary divestment. In Model 2, we found that knowledge distance decreases the propensity of subsidiary divestment ($\beta = -0.032$ with p-value at 0.001 level); thus, strongly supporting our Hypothesis 1. The empirics confirm our proposal that high levels of knowledge distance between home and host countries potentially increase the likelihood of knowledge transfer

and exploitation, thereby increasing the motivation to remain and reducing the chances of subsidiary divestment.

Further, to examine the underlying mechanism we look at the moderating effect of industry relatedness on the knowledge distance– divestment relationship (i.e., Hypothesis 2), and we added industry relatedness and its interaction with knowledge distance in models 3 and 4, respectively. To mitigate the risk of spurious significance in the interaction results, we initially assessed whether there was a statistically significant overall change in the fit of each model in comparison to their respective baseline full main-effect models, after the incorporation of each interaction term. A noteworthy change in chi-square indicates that the introduction of an interaction term significantly enhances the model in contrast to the baseline. Our empirical findings in Model 4 showed a significant incremental chi-square. However, the interaction between industry relatedness and knowledge distance does not significantly influence the subsidiary divestment rate, indicating that while industry relatedness and knowledge distance both decrease foreign divestment, their interaction is not critical to foreign divestment, thus, our Hypothesis 2 is not supported.

In Hypothesis 3, we expected that the influence of knowledge distance on subsidiary divestment propensities would be moderated by the linguistic distance between the home and host countries. Following the previous procedure, before testing this moderating effect, we first examine the direct influence of linguistic distance on subsidiary divestment propensities (Model 5). We found that linguistic distance increases its subsidiary mortality propensity ($\beta = 0.054$ with p-value at 0.05 level), showing that MNEs are more likely to divest foreign subsidiaries located in countries with greater linguistic differences. Next, we examined the moderating effect of linguistic distance on the knowledge distance – subsidiary divestment relationship by adding the interaction of linguistic distance and knowledge distance in Model 6. Specifically, Model 6 has significant incremental chi-square. Correspondingly, we found that the coefficient estimates of the interaction term of knowledge distance and the linguistic distance is significantly negative ($\beta = -0.030$ with p-

value at 0.01 level), indicating that subsidiary mortality propensities decrease when higher levels of knowledge distance are coupled with the linguistic distance, supporting our Hypothesis 3.

We further visualised the effect of knowledge distance on subsidiary mortality, considering the moderating effect of the linguistic distance. Figure 2 shows that while high levels of knowledge distance decrease subsidiary mortality propensities, the effect will be moderated by linguistic distance. Following Meyer et al. (2017), we further visualise the interaction between knowledge distance and linguistic distance on the effect of foreign divestment on Figure 3. More specifically, Figure 3 illustrates that the two outer lines represent the 95% confidence interval for the interaction line, which depicts the marginal effect of knowledge distance on the dependent variable—foreign divestment rate—across the full range of possible scores for the moderating factor, linguistic distance. The small dots indicate all observed values of linguistic distance within the sample, rather than just those one standard deviation below and above the mean. Following Meyer et al. (2017)'s recommendation, since the confidence interval lines extend below the horizontal zero line, the interaction effect between knowledge distance and linguistic distance is significant, providing further support for our hypothesis 3.

****Insert Figures 2 and 3 about here****

Checks for endogeneity issues

To address potential endogeneity concerns in modelling foreign subsidiary divestment, we employed a two-stage residual inclusion approach within our survival analyses. Specifically, building on prior work that highlights possible endogeneity in the use of knowledge distance in divestment models, we implemented an instrumental variable strategy using temporal distance (i.e., time zone separation between home and host countries) as an instrument for knowledge distance. Prior research shows that temporal distance hampers real-time communication, coordination, and knowledge transfer within MNEs, suggesting a strong link between temporal and knowledge-related frictions (Bahar, 2019; Chauvin, Choudhury, & Fang, 2024; Nachum & Buckley, 2023;

Yang et al., 2022). At the same time, existing work largely associates time zone differences with location and organization of international activities rather than with exit or divestment decisions per se, and even points to offsetting benefits such as “around-the-clock” operations in some contexts (Bahar, 2019; Nachum & Buckley, 2023), implying no clear direct theoretical effect on divestment. Accordingly, in Model 8 of Table 4 we estimate a first-stage OLS regression in which we found that temporal distance significantly predicts knowledge distance (i.e., knowledge distance is a dependent variable in this model) ($\beta = 0.543$ with p-value at 0.001 level). In Model 9, we use the fitted values of knowledge distance in a survival model (i.e., foreign divestment is a dependent variable in this model) and find a negative and significant effect on divestment, consistent with our main results ($\beta = -0.024$ with p-value at 0.05 level). Moreover, in Model 10, when temporal distance is directly included in the divestment equation as an additional robustness test, its coefficient is statistically insignificant, empirically confirming that temporal distance influences divestment only indirectly through its effect on knowledge distance.

****Insert Table 4 about here****

A few studies have raised similar endogeneity concerns regarding the use of relatedness in models of foreign divestment. In response, we applied the same instrumental-variable procedure, using geographical distance as an instrument for relatedness. Accordingly, in the first stage, we used a Probit regression model with industry relatedness as the dependent variable. Following existing studies, we employ geographic distance as an instrumental variable (e.g., Kang et al., 2017; Nguyen et al., 2022; 2024), the underlying logic supported by these studies is that geographical distance does not significantly influence foreign divestment propensities. The results indicate that all control variables have statistically significant coefficients in the first-stage model. Crucially, both knowledge distance and the instrumental variable exhibit statistically significant coefficients (p-value < 0.01). In the second-stage model, we analyzed foreign divestment probability as the dependent variable, incorporating the residuals from the first stage (rather than

industry relatedness itself) to test our hypotheses and the moderating effect of industry relatedness. The results demonstrate that all models are highly significant. While most control variables have statistically significant coefficients, host country economic development is an exception. Importantly, the findings remain consistent with our main analysis. For brevity, these results are not reported here but are available upon request.

Post hoc Tests

To consolidate further our results, we conduct several post hoc tests to examine the factors influencing the probability of foreign divestment. Specifically, we revisit our first hypothesis, which posited that parent MNEs are more likely to retain their foreign subsidiaries in host countries with greater knowledge development distance from the home country. Our findings confirmed this hypothesis, revealing that knowledge distance decreases the divestment probability of subsidiaries. As a few research highlight a potential curvilinear effect of institutional distance metrics, we examined this curvilinear effect by adding the knowledge distance squared in Model 11. The finding shows that knowledge distance remains a significantly negative effect on foreign divestment, while its curvilinear effect is not supported. To deepen further our analysis, we incorporate changes in knowledge distance over time into Model 2 and present the outcomes in Model 12. The empirical results indicate that both the level of knowledge distance and its temporal changes contribute to subsidiary divestment, effectively reducing divestment probability. This evidence suggests that knowledge distance creates opportunities for MNEs to transfer and generate knowledge, aligning with their strategic pursuit of innovation and competitive advantage.

We further examine industry specificity within our national-level knowledge distance measure by testing interactions between knowledge distance and firm R&D intensity. The results show that the negative effect of knowledge distance on foreign investment propensity remains robust, while the interaction terms are not statistically significant. This pattern supports the validity

of capturing knowledge distance at the country level for our purposes. The results are reported in Table 5, Model 13.

Our main specification models linguistic distance as a continuous predictor. To examine whether benefits arise only for very similar or identical languages, we estimate specifications with a quadratic term and restricted cubic splines (Models 14-15). Across all forms, the coefficient on linguistic distance remains positive and statistically significant, indicating that incremental similarity—short of identical language—reduces divestment hazard, while its quadratic and cubic terms are not significant. Results are reported in Table 5. Conceptually, cultural distance reflects legitimacy pressures, whereas linguistic distance captures the information-processing costs of coordination and knowledge transfer. Our testing models provide empirical evidence for this distinction, that we included cultural distance (Hofstede’s six dimensions) alongside linguistic distance in all models. The estimated effect of linguistic distance on divestment remains significant and stable, while cultural distance does not significantly influence foreign divestment, supporting linguistic role as a communication- and knowledge-transfer-related driver rather than a proxy for culture.

Prior research suggests that subsidiaries’ entry motivations may evolve over time, potentially moderating the effect of knowledge distance. To assess this possibility, we test interactions between knowledge distance and subsidiary age (Model 16). The results show that the negative effect of knowledge distance on foreign investment propensity remains robust, with no statistically significant interaction effects. This evidence indicates that knowledge distance consistently increases divestment likelihood, irrespective of the target subsidiary’s age. To provide deeper insight into how the specific strategic roles of foreign subsidiaries shape divestment outcomes, we examine whether subsidiary role moderates the impact of knowledge distance on foreign divestment. The notion of subsidiary role is closely related to subsidiary mandates, which capture the activities for which a subsidiary is responsible and around which it develops distinctive

competences and allocates resources (Dörrenbächer & Gammelgaard, 2010; Lee et al., 2019). However, roles are typically broader and multidimensional, whereas mandates refer to more narrowly defined tasks within particular product or functional domains (Gillmore, 2022). For example, subsidiaries may act as “local implementers” that adapt headquarters’ products for local markets or as “global innovators” that generate new knowledge for the entire MNE (Barakat et al., 2025), or they may be positioned as horizontal, vertical, upstream, or downstream units along the value chain (Wu et al., 2021). Following Wu et al. (2021), we distinguish horizontal from vertical subsidiaries and, within vertical units, classify subsidiaries as upstream or downstream. Horizontal subsidiaries operate in the same 3-digit SIC industry as their parent firm, upstream subsidiaries (e.g., R&D units) supply key inputs or technological knowledge to the MNE, and downstream subsidiaries focus on activities such as retail, wholesale, advertising, and market research. Building on this classification, our post hoc analysis tests whether the effect of knowledge distance on foreign divestment differs across these subsidiary roles, thereby illuminating how a subsidiary’s strategic position within the MNE’s value chain conditions the knowledge distance–divestment relationship. Although our operationalisation is role-based rather than mandate-based, value-chain position serves as a meaningful proxy for strategic importance, as upstream units tend to be more knowledge-intensive and central to innovation, while downstream units are more market-oriented. For brevity, we do not report the results, but available upon request.

Finally, prior research on foreign divestment has employed a variety of analytical approaches to test theoretical predictions. Consistent with recent methodological advances in the literature, we adopt a frailty survival model as our primary analytical framework. To ensure the robustness and comparability of our results, we complement this approach with alternative specifications, including discrete-time hazard models and Weibull survival models. The results of these additional analyses are reported in the web appendix. Across all model specifications, our findings remain substantively and statistically consistent, indicating that the effects of knowledge

distance and linguistic distance on foreign divestment are robust to alternative econometric approaches.

**** Insert Table 5 about here ****

DISCUSSION AND CONCLUSIONS

Previous scholars have underscored the significant role of institutional distance in foreign divestment and generally argue that greater institutional distance increases uncertainty and coordination challenges that elevate the likelihood of divestment (Kostova and Zaheer, 1999; Gaur and Lu, 2007; Kang et al., 2017). However, research increasingly recognizes institutional distance as a multidimensional construct whose distinct dimensions may influence divestment in different ways (Berry et al., 2010; Edman, 2016; Nguyen et al., 2022; 2024). In particular, the effect of knowledge distance on divestment remains theoretically underexplored, despite initial empirical findings suggesting that greater knowledge distance can reduce the likelihood of divestment (Kang et al., 2017; Pattnaik and Lee, 2014).

From a knowledge-based view, MNEs are organizations that create, integrate, and leverage knowledge across geographically dispersed subsidiaries. This study focuses on knowledge distance as a distinct dimension of institutional difference and shows that it can reduce foreign divestment rates by enhancing the learning value and embedded knowledge commitments of foreign subsidiaries. We distinguish between institutional distance in general and knowledge distance in particular and theorize that knowledge distance affects divestment decisions because it shapes both the strategic learning value of foreign subsidiaries and the extent of sunk knowledge commitments required to operate in knowledge distant environments. These commitments include investments in local R&D collaboration, talent, and innovation networks, which are difficult to relocate and raise the cost of divestment. To better understand this relationship, we further examine the roles of

industry relatedness and linguistic distance as moderators of the knowledge distance–divestment relationship. Accordingly, our research contributes foreign divestment literature in different ways.

Theoretical Contribution

First, we address the gap in foreign divestment research regarding how specific dimensions of institutional distance influence divestment outcomes. Prior studies tend to treat distance as uniformly detrimental and do not explain why knowledge distance might reduce divestment. We contribute by theorizing the mechanism through which knowledge distance decreases divestment likelihood. We argue that knowledge distance increases strategic learning value and creates irreversible knowledge investments that heighten the cost of withdrawal and strengthen the option value of continued operation. This perspective reframes knowledge distance as a potential strategic asset when learning value and embedded commitments outweigh integration challenges.

Second, we explain how entry motivations differ across directional cases of knowledge distance and how these motivations shape subsequent divestment outcomes. When host country knowledge development exceeds that of the home country, firms enter to access advanced, nonredundant knowledge and enhance innovation. When home country capabilities exceed host country capabilities, firms enter to exploit proprietary knowledge while benefiting from market, efficiency or resource advantages. In both scenarios, firms develop embedded relationships and sunk knowledge commitments that reduce the attractiveness of divestment. This mechanism extends the knowledge-based view by showing how learning and commitment logic informs divestment decisions rather than only entry or performance outcomes.

Third, we contribute by identifying boundary conditions that shape the relationship between knowledge distance and divestment. We theorize and find that linguistic distance moderates this relationship by impeding the ability to transfer and integrate knowledge, thereby weakening the benefits of knowledge distance and increasing divestment likelihood. Although industry relatedness has a direct negative effect on divestment, it does not significantly strengthen the effect of

knowledge distance, suggesting that knowledge integration benefits do not depend solely on similarity in business activities or knowledge domains. These findings refine understanding of how country level differences in national knowledge systems are converted into subsidiary level outcomes. Together, these contributions advance research on foreign divestment by demonstrating that the effects of institutional distance depend on its specific dimension, by clarifying when and why knowledge distance reduces divestment, and by highlighting contextual conditions that shape the conversion of country level knowledge distance into firm level strategic outcomes.

Managerial Implications

Consistent with our theoretical contributions, our study offers valuable insights for business practitioners. First, we confirmed that MNEs can reduce their divestment rates in foreign markets by leveraging knowledge distances between home and host countries through effective knowledge transfer processes. We encourage MNEs and their managers to actively seek out markets that exhibit varying levels of knowledge development to capitalize on these differences and reduce their divestment prospects.

Second, our findings underscore the role of linguistic distance in facilitating the knowledge transfer process, thereby weakening the negative impact of knowledge distance on foreign divestment. This finding underscores the importance of addressing linguistic gaps when operating in foreign markets, emphasizing the need for strategies such as investing in bilingual talent, tailoring knowledge for local use, and leveraging technologies to facilitate smoother communication and collaboration. Such efforts are vital for MNEs to thrive in environments where varying levels of knowledge development and language barriers exist. While our study did not directly test these factors, our findings suggest that they could bolster the effectiveness of linguistic proximity in facilitating knowledge transfer between HQs and subsidiaries, ultimately leading to lower divestment rates.

Policy Implications

Our findings have several implications for policymakers seeking to design long-term strategies that enhance the resilience and strategic value of foreign subsidiaries, particularly in knowledge-intensive industries. First, by demonstrating that knowledge distance reduces divestment likelihood, our study highlights the importance of investing in national innovation systems as a mechanism to attract and retain foreign MNE activity over the long term. Policies that strengthen local R&D capabilities, foster university–industry collaboration, and enhance talent mobility not only make a host country more attractive for knowledge-seeking MNEs but also increase the strategic stickiness of foreign subsidiaries. Such investments create a sustainable knowledge ecosystem, generating enduring competitive advantage for the economy.

Second, the moderating role of linguistic distance underscores the value of policies that enhance cross-border communication and absorptive capacity. Initiatives such as multilingual education, targeted language training for both local talent and expatriates, and enhanced administrative transparency can reduce knowledge transfer frictions and enable foreign subsidiaries to integrate into the domestic knowledge base more effectively. This highlights that long-term FDI retention is not solely a matter of financial incentives but depends on the country’s ability to facilitate strategic knowledge integration between foreign firms and local actors.

Third, while industry relatedness alone was not a significant moderator, it points to the need for policies that promote cross-sectoral collaboration rather than purely sector-specific clustering. Programs encouraging joint innovation projects, talent exchanges, and inter-firm networks across industries can increase the absorptive capacity of local firms and strengthen the knowledge-based strategic value of MNEs operating in diverse sectors. From a long-term planning perspective, this approach helps ensure that foreign subsidiaries become embedded contributors to a national innovation trajectory, rather than transient market participants.

Finally, our findings suggest that evaluating FDI policies through a knowledge lens can improve their long-term effectiveness. Rather than measuring success only by immediate investment inflows or employment figures, policymakers should consider the strategic contribution of foreign subsidiaries to knowledge creation, innovation, and capability development. This helps building sustainable competitive advantage and resilience in the face of evolving global knowledge networks and technological change.

Limitations and Future Directions

In investigating the impact of knowledge distance, industry relatedness, and linguistic distance on foreign divestment, we acknowledge several limitations. First, we rely on Berry et al.'s (2010) national-level knowledge distance measure to test our main hypotheses. Yet our theorizing suggests that knowledge transfer processes may differ depending on the direction and nature of the distance, which calls for more fine-grained measures that can better capture these nuances. Data limitations prevent us from implementing such measures or incorporating industry-level indicators of innovation, which may mask within-country heterogeneity. Future research should employ more specific and multi-level measures of knowledge distance to assess whether finer-grained operationalizations alter the observed relationships.

Second, although we examine how knowledge distance shapes foreign divestment through its influence on learning benefits, sunk knowledge investments, and local embeddedness, our empirical tests can only indirectly account for firms' entry motivations. We control for multiple firm-, subsidiary-, and country-level characteristics and conduct post hoc analyses on the moderating role of subsidiary mandates, which together provide some insight into underlying strategic intentions. However, we cannot directly observe whether investments are primarily knowledge-seeking or market-seeking. We acknowledge that divestment is not necessarily a failure; in knowledge-seeking FDI, exit may indicate successful knowledge acquisition. This highlights the

value of future research that explicitly measures and compares entry motivations—such as knowledge-seeking versus market-seeking FDI—to more directly examine how they condition the relationship between knowledge distance and foreign divestment.

Thirdly, we posited industry relatedness as a moderating factor in the knowledge distance – foreign divestment relationship. However, our empirical testing did not find significant support for this effect. Despite this, we argued that the exploitation of knowledge distances by MNEs does not hinge on business relatedness but rather on active engagement with knowledge disparities across different industries. Although our proposal lacked empirical backing, we contend that subsidiary characteristics could still influence the knowledge transfer process. Thus, we encourage future research to explore various subsidiary-level factors such as the degree of HQ embeddedness and attention, which may affect the levels of knowledge exchange between headquarters and subsidiaries.

Additionally, we proposed and confirmed the moderating effect of linguistic distance on the knowledge distance – foreign divestment relationship. This finding underscores the significance of country-specific factors that facilitate the knowledge transfer process. Accordingly, we call for future research to delve into different national factors that influence knowledge transfer to expand our conceptual framework. For instance, investigating moderating factors like cultural or global connectedness distance could be promising, as these factors interact with communication levels between countries.

Finally, although we focus on Finnish MNEs, our empirical analysis is also worth re-examining in a variety of countries to achieve better generalizability of our findings. We also encourage future research to focus on regional borders, i.e., MNEs exit all their foreign subsidiaries from a region or a sub-region because MNEs make decisions at the cluster level.

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LIST OF TABLES

Table 1: List of variables and definitions

Variables	Definitions and measures	References
1. Subsidiary divestment	Instant hazard ratio based on event dummy (1: divested, 0: not divested)	Pattnaik & Lee (2014); Kang et al. (2017); Wang & Larimo (2020)
2. Knowledge distance	Berry et al. (2010)'s score for knowledge development between countries based on number of patents and scientific papers, updated in 2023.	Berry et al. (2010); Kang et al. (2017).
3. Subsidiary Relatedness	A dummy variable which has a value of 1 (0 otherwise) when the investment is not in the same industry as one of the parent firm's existing businesses. This is based on the 4-digit SIC codes	Tsang & Yip (2007); Berry (2013); Song (2014)
4. Linguistic Distance	Dow and Karunaratna's (2006) score comprises three components: (1) a 5-point scale measuring syntactic distance between home and host country languages, based on Grimes and Grimes' (1996) classification of 6,609 languages; (2) the presence of the home country's language in the host country; and (3) the presence of the host country's language in the home country.	Cuyper et al., (2015); Dow et al. (2020)
5. Firm size	Natural logarithm of worldwide annual sales of the parent company (in mil euros), measured annually and lagged on year relative to the divestment event.	Kang et al. (2017); Wang & Larimo (2020); Liu & Li (2020)
6. R&D Intensity	A count of the number of 4-digit SIC codes in which the parent company was operating, measured annually and lagged one year relative to the divestment event.	Hennart & Park (1993); Dow & Larimo (2011)
7. Product Diversification	A four-category classification of industry level research and development intensity based on 4-digit SIC codes using their associated value-added figures (High technology=4; Medium-High technology=3; Medium-Low technology=2; Low technology=1), measured annually and lagged on year relative to the divestment event.	Hennart & Park (1993); Dow & Larimo (2011)
8. International experience	Number of years that MNEs have operated their activities abroad, measured annually and lagged on year relative to the divestment event.	Gaur & Lu (2007); Tan & Sousa (2019)
9. Host country experience	Number of years that MNEs have operated their activities in specific host countries, measured annually and lagged on year relative to the divestment event.	Gaur & Lu (2007); Wang & Larimo (2020)
10. Divestment Experience	Number of divestments that MNEs have made in previous years, measured annually and lagged on year relative to the divestment event.	Yasuda & Mitsuhashi, (2017)
11. Subsidiaries' age	The years the foreign affiliate is present in the foreign market	Kang et al. (2017); Tan & Sousa (2019)
12. WOS	Dummy variable, 1: if the subsidiary is established as a wholly owned subsidiary (at least 95% equity ownership), 0 otherwise	Gaur & Lu (2007); Nguyen et al. (2022)
13. Host country economic development	GDP in year, measured annually and lagged on year relative to the divestment event. Data sources: IMF Annual Report	Dow & Larimo (2011); Peng & Beamish (2019)
14. Host country GDP growth	GDP growth rate, measured annually and lagged on year relative to the divestment event. Data sources: IMF Report	Peng & Beamish (2014; 2019)
15. Host political risk in investment year	ECR country scores, measured annually and lagged on year relative to the divestment event.	Wang & Larimo (2020)
16. Change in host political risks	Changes in ECR country scores between the investment year and the observation or divestment year.	Nguyen et al. (2022); Nguyen et al. (2024)
17. Cultural distance	Cultural distance's Hofstede framework	Hennart et at. (1998); Kang et al. (2017)
18. Demographic distance	Differences between home and host countries in demographic characteristics (Berry et al. (2010)'s score, updated in 2023)	Berry et al. (2010); Kang et al. (2017)
19. Global connectedness distance	Differences between home and host countries in tourism and Internet use (Berry et al. (2010)'s score, updated in 2023)	Berry et al. (2010); Kang et al. (2017)
20. Geographical distance	Great circle distance between geographic center of countries (Berry et al. (2010)'s score, updated in 2023)	Berry et al. (2010); Boeh & Beamish (2015)
21. Human development index	A composite measure reflecting the average achievement across key dimensions of human development in host countries. Data source: Human Development Report)	Chung & Beamish (2010; 2012)

Table 2: Descriptive and correlation matrix

Variables	Mean	S.D	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
1.Subsidiary divestment	0.53	0.50	1.00																				
2.Knowledge distance	11.68	11.38	-0.34	1.00																			
3.Relatedness	0.98	0.14	-0.03	0.01	1.00																		
4.Linguistic Distance	8.60	1.74	0.08	0.31	0.01	1.00																	
5.Firm size	8.35	1.91	0.12	-0.04	0.04	0.09	1.00																
6.R&D Intensity	2.35	1.03	0.03	0.07	-0.01	0.07	-0.10	1.00															
7.Product Diversification	8.59	6.13	0.07	-0.04	-0.02	0.06	0.55	-0.07	1.00														
8.International experience	29.64	29.44	0.00	0.07	0.03	0.11	0.67	-0.04	0.57	1.00													
9.Host country experience	0.11	0.15	-0.19	0.27	0.01	-0.17	0.34	-0.10	0.27	0.44	1.00												
10.Divestment Experience	20.37	29.31	0.05	0.06	0.06	0.13	0.68	-0.02	0.55	0.65	0.39	1.00											
11.Subsidiaries' age	11.42	7.43	-0.72	0.29	0.08	-0.06	-0.03	-0.10	0.00	0.06	0.24	0.02	1.00										
12.WOS	0.72	0.45	-0.05	0.02	0.00	-0.05	-0.02	0.12	-0.04	0.02	0.10	0.01	-0.03	1.00									
13.Host country economic development	10.06	1.03	-0.21	-0.06	0.00	-0.36	0.00	0.03	0.02	0.03	0.32	0.02	0.21	0.25	1.00								
14.Host country GDP growth	3.38	2.45	-0.06	0.08	0.00	0.14	-0.06	0.03	-0.09	-0.02	-0.10	-0.05	0.00	-0.14	-0.48	1.00							
15.Host political risk in investment year	76.22	21.08	0.04	-0.15	-0.04	-0.20	0.05	0.04	0.10	0.07	0.24	0.05	-0.04	0.18	0.62	-0.27	1.00						
16.Change in host political risks	4.26	12.16	0.28	-0.12	0.02	0.00	-0.01	-0.06	-0.03	-0.05	-0.15	-0.04	-0.18	-0.11	-0.22	0.10	-0.51	1.00					
17.Cultural distance	10.38	7.10	-0.17	0.21	0.02	0.34	0.03	0.02	0.00	0.05	-0.03	0.06	0.18	-0.04	-0.16	0.01	-0.15	-0.05	1.00				
18.Demographic distance	5.26	7.92	-0.24	0.37	0.04	0.25	-0.03	0.05	-0.02	0.01	-0.11	0.02	0.17	-0.16	-0.48	0.28	-0.37	0.03	0.49	1.00			
19.Global connectedness distance	1.18	1.84	0.10	0.05	0.04	0.21	0.06	-0.03	0.02	0.05	-0.12	0.05	-0.10	-0.12	-0.45	0.21	-0.29	0.03	0.08	0.28	1.00		
20.Geographical distance	7.79	0.95	0.01	0.54	0.00	0.63	0.11	0.15	0.05	0.17	0.05	0.19	-0.03	-0.02	-0.32	0.14	-0.15	-0.06	0.37	0.48	0.20	1.00	
21. Human Development Index	0.86	0.09	-0.12	-0.16	-0.01	-0.39	-0.01	-0.03	0.03	0.00	0.27	-0.01	0.14	0.24	0.42	-0.52	0.57	-0.18	-0.21	-0.58	-0.44	-0.47	1.00
Min.			0.00	0.02	0.00	4.15	1.41	1.00	1.00	0.00	0.00	0.00	0.00	0.00	6.02	-14.40	17.10	-47.67	1.66	0.01	0.00	6.32	0.46
Max.			1.00	50.54	1.00	10.00	12.13	4.00	33.00	109.00	1.00	94.00	27.00	1.00	11.55	14.30	100.00	40.24	85.66	75.09	31.57	9.73	0.96

Table 3: Survival analyses of the foreign exit probability for main hypotheses

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Firm size	-0.194** (0.075)	-0.216** (0.076)	-0.207** (0.076)	-0.205** (0.076)	-0.214** (0.076)	-0.219** (0.076)	-0.207** (0.076)
R&D Intensity	-0.087* (0.043)	-0.092* (0.044)	-0.092* (0.044)	-0.092* (0.044)	-0.091* (0.044)	-0.086+ (0.044)	-0.086+ (0.044)
Product Diversification	0.025* (0.01)	0.025* (0.01)	0.024* (0.01)	0.025* (0.01)	0.025* (0.01)	0.025* (0.01)	0.025* (0.01)
International experience	0.057*** (0.005)	0.057*** (0.005)	0.057*** (0.005)	0.057*** (0.005)	0.056*** (0.005)	0.056*** (0.005)	0.056*** (0.005)
Host country experience	-0.461*** (0.066)	-0.438*** (0.067)	-0.438*** (0.067)	-0.440*** (0.067)	-0.436*** (0.067)	-0.443*** (0.067)	-0.445*** (0.067)
Divestment Experience	0.232*** (0.044)	0.231*** (0.044)	0.231*** (0.044)	0.232*** (0.044)	0.237*** (0.045)	0.242*** (0.045)	0.244*** (0.045)
Subsidiaries' age	-0.011*** (0.001)	-0.009*** (0.001)	-0.009*** (0.001)	-0.009*** (0.001)	-0.009*** (0.001)	-0.009*** (0.001)	-0.009*** (0.001)
WOS	-0.245** (0.085)	-0.235** (0.085)	-0.234** (0.085)	-0.233** (0.085)	-0.236** (0.085)	-0.248** (0.085)	-0.245** (0.085)
Host country economic development	-0.160*** (0.042)	-0.164*** (0.042)	-0.163*** (0.042)	-0.164*** (0.042)	-0.164*** (0.042)	-0.160*** (0.042)	-0.160*** (0.042)
Host country GDP growth	0.028*** (0.005)	0.029*** (0.005)	0.029*** (0.005)	0.029*** (0.005)	0.030*** (0.005)	0.028*** (0.005)	0.028*** (0.005)
Host political risk in investment year	0.164*** (0.028)	0.151*** (0.028)	0.153*** (0.028)	0.153*** (0.028)	0.152*** (0.028)	0.157*** (0.028)	0.158*** (0.028)
Change in host political risks	0.242*** (0.057)	0.230*** (0.057)	0.230*** (0.057)	0.232*** (0.057)	0.232*** (0.058)	0.241*** (0.058)	0.243*** (0.058)
Cultural distance	-0.010 (0.008)	-0.009 (0.008)	-0.008 (0.008)	-0.008 (0.008)	-0.011 (0.008)	-0.014+ (0.008)	-0.012 (0.008)
Demographic distance	0.371*** (0.095)	0.396*** (0.098)	0.396*** (0.098)	0.400*** (0.098)	0.378*** (0.099)	0.360*** (0.099)	0.363*** (0.099)
Global connectedness distance	-0.223** (0.07)	-0.251*** (0.072)	-0.251*** (0.072)	-0.252*** (0.072)	-0.251*** (0.072)	-0.262*** (0.072)	-0.263*** (0.072)
Geographical distance	-0.405 (0.242)	-0.259 (0.237)	-0.305 (0.237)	-0.297 (0.237)	-0.325 (0.247)	-0.295 (0.247)	-0.343 (0.248)
Human Development Index	-0.539*** (0.073)	-0.565*** (0.073)	-0.570*** (0.073)	-0.571*** (0.073)	-0.562*** (0.073)	-0.573*** (0.073)	-0.578*** (0.073)
Knowledge distance		-0.032*** (0.007)	-0.033*** (0.007)	-0.034*** (0.008)	-0.033*** (0.008)	-0.034*** (0.008)	-0.035*** (0.008)
Relatedness			-0.093*** (0.028)	-0.117*** (0.032)			-0.116*** (0.032)
Linguistic Distance					0.054* (0.027)	0.068* (0.028)	0.071* (0.028)
Knowledge distances x Relatedness Distance				0.010 (0.009)			0.010 (0.009)
Knowledge distances x Linguistic Distance						-0.030** (0.010)	-0.029** (0.010)
AIC	1024.30	1042.42	1050.02	1050.10	1041.66	1043.95	1051.42
Log-likelihood	-5587.487	-5577.425	-5572.627	-5571.586	-5576.808	-5574.661	-5568.924
Probability	p < 0.001	p < 0.001	p < 0.001	p < 0.001	p < 0.001	p < 0.001	p < 0.001

Robust standard errors shown in parentheses, *** p-value < 0.001; ** p-value < 0.01; * p-value < 0.05; + p-value < 0.1, fixed-effect for parent firms, years and industry. Each model has 1720 observations, of which 903 were divested by 2021.

Table 4: Endogeneity Tests for Knowledge Distance Using Temporal Distance as Instrumental Variable

Variables	Model 8	Model 9	Model 10
Firm size	-0.087 (0.246)	-0.189* (0.075)	-0.187* (0.075)
R&D Intensity	0.331* (0.154)	-0.091* (0.048)	-0.089* (0.043)
Product Diversification	-0.041 (0.032)	0.024* (0.010)	0.025* (0.01)
International experience	-0.005 (0.013)	0.057*** (0.005)	0.057*** (0.005)
Host country experience	1.143*** (0.207)	-0.422*** (0.104)	-0.450*** (0.066)
Divestment Experience	-0.294* (0.147)	0.218*** (0.048)	0.225*** (0.044)
Subsidiaries' age	0.048*** (0.003)	-0.010** (0.003)	-0.011*** (0.001)
WOS	0.256 (0.357)	-0.246** (0.087)	-0.252** (0.085)
Host country economic development	-5.198* (2.285)	-0.168*** (0.046)	-0.155*** (0.045)
Host country GDP growth	0.055** (0.02)	0.029*** (0.006)	0.028*** (0.005)
Host political risk in investment year	-0.685*** (0.117)	0.151** (0.047)	0.167*** (0.028)
Change in host political risks	-1.001*** (0.226)	0.215* (0.085)	0.239*** (0.057)
Cultural distance	0.070** (0.026)	-0.010 (0.009)	-0.011 (0.008)
Demographic distance	-0.600* (0.244)	0.401*** (0.108)	0.387*** (0.097)
Global connectedness distance	-0.572** (0.213)	-0.271*** (0.083)	-0.257*** (0.070)
Geographical distance	7.042*** (1.881)	-0.057 (0.903)	-0.227 (0.482)
Human Development Index	-0.646* (0.324)	-0.531*** (0.083)	-0.515*** (0.073)
Temporal distance	0.543*** (0.138)		0.013 (0.035)
Knowledge distance'		-0.173*** (0.034)	-0.187*** (0.028)
AIC	11268.27	11095.29	11095.29
Log-likelihood	-5613.135	-5409.247	-5409.247
Probability	p < 0.001	p < 0.001	p < 0.001

Robust standard errors shown in parentheses, *** p-value < 0.001; ** p-value < 0.01; * p-value < 0.05; + p-value < 0.1, fixed-effect for parent firms, years and industry. Model 8 reports the first-stage OLS regression using temporal distance as an instrument for knowledge distance. Model 9 uses the fitted values of knowledge distance in a survival model to estimate its effect on divestment. Model 10 shows that temporal distance has no significant direct effect on divestment, supporting its validity as an instrument.

Table 5: Post hoc analysis

Variables	Model 2	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16
Firm size	-0.194** (0.075)	-0.202** (0.076)	-0.218** (0.075)	-0.216** (0.076)	-0.230** (0.076)	-0.207** (0.076)	-0.222** (0.076)
R&D Intensity	-0.087* (0.043)	-0.083* (0.043)	-0.104* (0.043)	-0.154** (0.048)	-0.092* (0.044)	-0.094* (0.043)	-0.099* (0.043)
Product Diversification	0.025* (0.010)	0.025* (0.010)	0.026** (0.010)	0.025* (0.010)	0.027** (0.010)	0.025* (0.01)	0.025** (0.01)
International experience	0.057*** (0.005)	0.056*** (0.005)	0.050*** (0.005)	0.056*** (0.005)	0.054*** (0.005)	0.056*** (0.005)	0.049*** (0.005)
Host country experience	-0.461*** (0.066)	-0.431*** (0.067)	-0.402*** (0.065)	-0.435*** (0.066)	-0.416*** (0.066)	-0.429*** (0.067)	-0.402*** (0.065)
Divestment Experience	0.232*** (0.044)	0.256*** (0.044)	0.292*** (0.043)	0.226*** (0.044)	0.217*** (0.045)	0.230*** (0.045)	0.291*** (0.043)
Subsidiaries' age	-0.011*** (0.001)	-0.010*** (0.001)	-0.011*** (0.001)	-0.009** (0.001)	-0.008** (0.001)	-0.009** (0.001)	-0.009** (0.001)
WOS	-0.245** (0.085)	-0.248** (0.085)	-0.231** (0.084)	-0.245** (0.085)	-0.255** (0.085)	-0.243** (0.085)	-0.239** (0.084)
Host country economic development	-0.160*** (0.042)	-0.155*** (0.043)	-0.144*** (0.043)	-0.162*** (0.042)	-0.127** (0.044)	-0.165*** (0.042)	-0.140** (0.429)
Host country GDP growth	0.028*** (0.005)	0.032*** (0.005)	0.028*** (0.005)	0.029*** (0.005)	0.028*** (0.005)	0.029*** (0.005)	0.025*** (0.005)
Host political risk in investment year	0.164*** (0.028)	0.161** (0.028)	0.128*** (0.028)	0.149*** (0.028)	0.143*** (0.028)	0.153*** (0.028)	0.127*** (0.028)
Change in host political risks	0.242*** (0.057)	0.227*** (0.056)	0.218*** (0.057)	0.216*** (0.057)	0.226*** (0.057)	0.229*** (0.058)	0.226*** (0.057)
Cultural distance	-0.010 (0.008)	-0.011 (0.008)	-0.008 (0.007)	-0.010 (0.008)	-0.011 (0.008)	-0.012 (0.008)	-0.009 (0.007)
Demographic distance	0.371*** (0.095)	0.484*** (0.104)	-0.438*** (0.103)	-0.414*** (0.099)	-0.365*** (0.096)	-0.389*** (0.100)	-0.421*** (0.105)
Global connectedness distance	-0.223** (0.070)	-0.283** (0.071)	-0.158* (0.071)	-0.189** (0.072)	-0.240** (0.075)	-0.181* (0.071)	-0.177* (0.072)
Geographical distance	-0.405 (0.242)	-0.111 (0.237)	-0.103 (0.237)	-0.274 (0.237)	-0.345 (0.244)	-0.304 (0.246)	-0.302 (0.245)
Human Development Index	-0.539*** (0.073)	-0.500*** (0.073)	-0.601*** (0.072)	-0.535*** (0.073)	-0.631*** (0.078)	-0.538*** (0.073)	-0.588*** (0.073)
Knowledge distance	-0.032*** (0.007)	-0.039* (0.015)	-0.034*** (0.007)	-0.076*** (0.018)	-0.033*** (0.008)	-0.033*** (0.008)	-0.088*** (0.013)
Knowledge distance squared		0.0012 (0.0014)					
Changes in Knowledge distance			-0.033*** (0.003)				
Knowledge distance x R&D intensity				0.022 (0.020)			
Linguistic distance					0.056+ (0.037)	0.057+ (0.040)	
Linguistic distance squared					-0.046 (0.056)	-0.012 (0.129)	
Linguistic distance cube					0.002 (0.002)	0.001 (0.004)	
Knowledge distance x Linguistic distance						-0.017 (0.122)	
Knowledge distance x Linguistic distance squared						0.035 (0.035)	
Knowledge distance x Linguistic distance cubed						-0.001 (0.002)	

Knowledge distance x Subsidiary age								-0.002 (0.003)
AIC	1024.30	1073.61	1140.17	1011.98	1008.12	970.50	1137.98	
Log-likelihood	-5587.487	-5560.833	-5528.552	-5596.646	-5661.577	-5692.388	-5542.647	
Probability	p < 0.001	p < 0.001	p < 0.001	p < 0.001	p < 0.001	p < 0.001	p < 0.001	

Robust standard errors shown in parentheses, *** p-value < 0.001; ** p-value < 0.01; * p-value < 0.05; + p-value < 0.1, fixed-effect for parent firms, years and industry. Each model has 1720 observations, of which 903 were divested by 2021.

LIST OF FIGURES

Figure 1: Theoretical framework

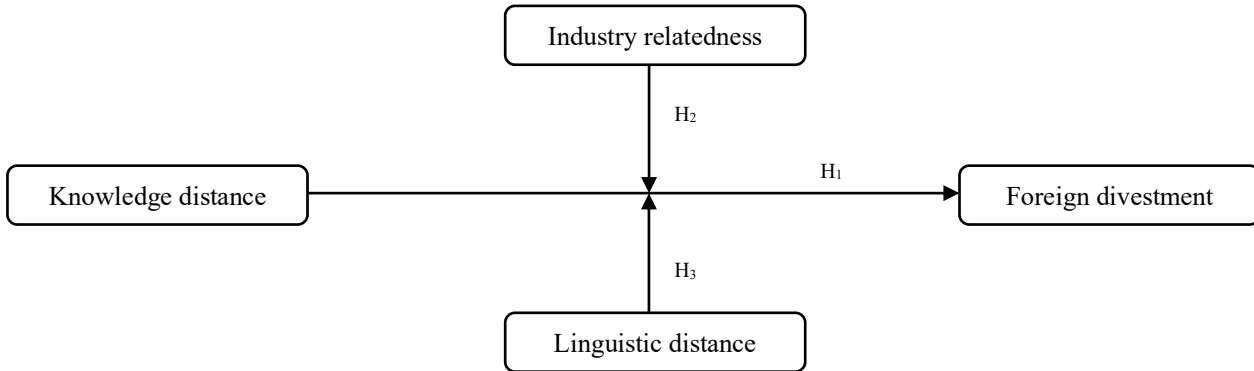


Figure 2: The effect of knowledge distance, linguistic distance and foreign survival

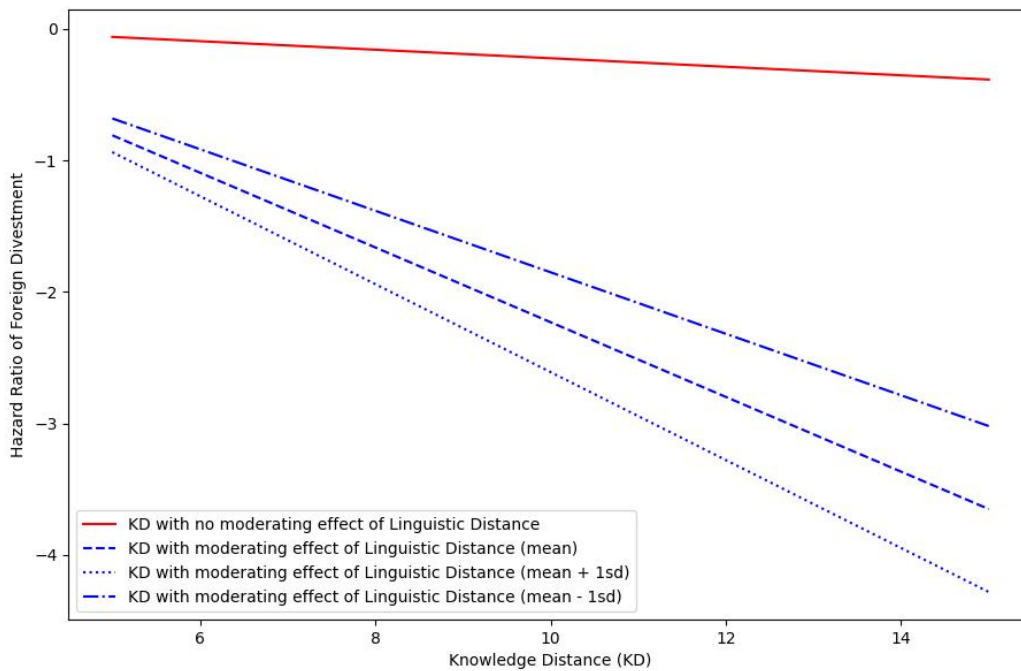


Figure 3: The moderating effect of linguistic distance on the knowledge distance-foreign survival relationship.

