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Political and Institutional Drivers of International Divestments by
Russian MNEs and its Effect on Financial Performance

Master's Thesis by the 2nd year student
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ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

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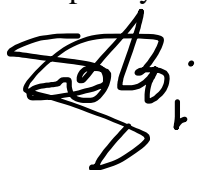
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АННОТАЦИЯ

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Название ВКР	Политические и институциональные драйверы международных дивестиций и их влияние на финансовые показатели российских МНК
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Описание цели, задач и основных результатов	<p>Цель данного исследования - оценить роль институциональных и политических факторов на процесс международных дивестиций, а также их влияние на пост-дивестиционные финансовые показатели российских МНК. Для достижения этой цели был проведен количественный анализ 165 зарубежных сделок, 83 из которых завершились дивестициями для 20 крупных российских компаний, которые хоть раз дивестировали свои зарубежные активы в период 2010-2019. Исследование привело к выявлению значительного положительного эффекта отсутствия санкций в принимающей стране, ее членства в региональных интеграционных объединениях вместе с Россией и меньшая дистанция экономической свободы между странами на вероятность выживания зарубежных дочерних компаний российских МНК. Также был статистически обнаружен значительный негативный эффект на пост-дивестиционные финансовые показатели российских компаний дистанции экономической свободы и политической стабильности между странами, как и фактора санкций.</p>
Ключевые слова	Международные дивестиции, институциональная дистанция, российские ТНК, санкции, анализ выживаемости, модель пропорциональных рисков Кокса

ABSTRACT

Master Student's Name	Solovev Vladislav
Master Thesis Title	Political and institutional drivers of international divestments and its effect on the financial performance of Russian MNEs
Faculty	Graduate School of Management
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Description of the goal, tasks and main results	The aim of the work is to assess explanatory power of the institutional and political factors in the process of foreign divestment made by Russian MNEs as well as its effect on the post-divestment financial performance of the corresponding companies. To achieve this goal, a quantitative analysis was conducted with a sample comprising of 165 Russian OFDI deals, where 83 of them were divested by 20 Russian MNEs that at least once divested their foreign units in the 2010-2019 period. The study identified a significantly positive effect of the sanction's absence in a host country, its membership in the same regional integration blocks along with Russia and a lower economic freedom distance between the countries on a higher survivability likelihood of foreign subsidiaries owned by Russian MNEs. It was established as well that the post-divestment financial performance of the Russian companies is negatively influenced by the economic freedom distance, political stability distance and sanctions.
Keywords	Foreign divestments, institutional distance, Russian MNEs, sanctions, survival analysis, Cox proportional-hazards model

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Introduction

In a turbulent business world, it is a common occurrence that companies withdraw their operations and subsidiaries either partially or even fully due to a great number of reasons, thus rebalancing their portfolios and adapting strategies to new realities. This process is known as divestment that implies business structure reduction, once a company gets rid of its part, subsidiary, unit or equity. There may be used words “divestiture”, “exit”, “closure”, “liquidation”, “sell-off”, “disposal” and others (Panibratov & Brown, 2018) as well referring to the divestment process. Generally, there are two types of investments and correspondingly divestments: portfolio and foreign direct investments (FDI). Portfolio divestment implies a disposal of a passively held financial asset such as stocks or bonds without a significant controlling stake in the hands of a retail investor driven mostly by short-term benefits, while FDI relates to investments in real producing operation facilities set up abroad with an ownership stake and voting power of at least 10% pursuing a lasting long-term interest (World Bank, 2020). The present study is solely concerned with the foreign direct divestments, whereas portfolio divestments are not included.

The topic's relevance is especially growing concerning withdrawals from the foreign markets, where the level of uncertainty is much higher compared to the familiar domestic market environment. According to the most recent “2020 Global Corporate Divestment Study” conducted by Ernst & Young, 78% of respondent companies plan to reshape their asset portfolios in the upcoming 12 months implying divestments, what has been undoubtedly affected by the COVID-19 breakout, however the preceding year 2019 showed an alarmingly high result as well – 63% (Ernst & Young, 2020). Mostly the divestments are driven by poor economic performance at a subsidiary or parent-level, as the majority of the existent literature suggests. For example, one of the first researchers of the topic Jagdish Sachdev (1976) in his study of the foreign divestment experience of the British MNEs concluded that financial factors, especially low profitability, commercial difficulties and fund transfer restrictions are the strongest ones in explaining the divestment decisions. Besides, Roger Torneden (1975) and Jean Boddewyn (1979) listed the importance of poor performance of international subsidiaries as a condition pushing the companies to abandon some of their foreign-based units thus optimizing their portfolios and business operations. What is more, later works emphasized the significance of poor economic results of foreign subsidiaries as the major driving factor for divestment as well (Berry, 2010; Sousa & Tan, 2015; Wu, Strange, & Shirodkar, 2021).

However, other non-economic factors are as much important as the economic ones. To all appearances, attention given to the political and institutional factors affecting foreign divestments (FD) is increasingly growing, especially concerning those that cover the institutional differences between the home and host markets (Kostova , et al., 2020). Its effect in terms of both a home and a host country on the divestment decision is still understudied, since most of the previous literature was mostly concerned with the internal firm-level factors, rather than country-level ones (Borga, Ibarlucea Flores, & Sztajerowska, 2020). However even among those few papers dedicated to studying the effect of institutional and political antecedents on the FD likelihood, the authors mostly tend to focus on the general macroeconomic level, rather than narrowing down to the specific institutional and political contributing determinants of the environmental uncertainty (Boddeyn, 1979; Benito, 1997; Henisz & Delios, 2004; Moschieri & Mair, 2008; McDermott, 2011; Berry, 2013). For example, Dhanaraj and Beamish (2009) in their paper on the foreign subsidiary survivability under the host country's institutional environment pressures employ quite discrete variables as well and conclude that a lower political and social openness of the host country leads to higher mortality rates of the foreign business units, especially with regards to JVs where a partner's commitment is much looser than in a wholly owned subsidiary (WOS).

The most recent works try to fill the gap and suggest elaborated variables to measure political risk and institutional uncertainty, as in the example of frictions number that a company has with a local host government (Blake & Moschieri, 2017), changes in the home country, political singular features such as democratic protests, political freedom, level of transparency in public transactions (Soule, Swaminathan, & Tihanyi, 2014) or political capabilities that companies develop over time (Schnyder & Sallai, 2020). Nevertheless, most of the studies yielded very ambiguous results with regards to the impact of political and institutional factors on the divestment phenomena, that is why it needs to be studied further with different samples and approaches. The prior research concentrated primarily on the divesting experience of MNEs from the developed home countries, such as the USA, Japan, Korea and some European countries, so creating a bias against the MNEs from emerging markets (Arte & Larimo, 2019). That is quite understandable and logical, since the companies from the developed economies started the internationalization process much earlier than the emerging ones. Besides, many developing countries have long been under the Soviet influence, battling against the capitalist West and having no possibility to grow beyond their regions. As a result, the MNEs from the West as well as Japan and South Korea were expanding significantly abroad till the 1990-s,

while the newly appeared countries on the post-Soviet territory were just beginning their independent existence, making first steps towards international expansion and acquiring new experience. Now we can clearly observe, that the MNEs from developing countries embark on the same path of their international business structure reshuffling as well under the influence of many determinants.

This study is primarily based on the institutional theory, since the political and institutional factors are playing an increasingly bigger role in the business world nowadays, pushing many MNEs to divest their foreign subsidiaries or units due to unfavorable changes in political landscape or deteriorated quality of institutions (World Investment Report, 2019). In this regard, the case of the Russian MNEs is especially relevant these days, because the Russian business must operate in the international markets under the effect of sanctions levied since 2014 that deteriorated drastically the international expansionary potential of both the Russian companies and the Russian national economy to grow. The sanctions happen to be a watershed moment and a distinguishing feature of the Russian case compared with the rest of the emerging markets, especially BRIC countries, making it worth studying separately (Liuhto, 2015; Andreff, 2016). Besides, the case of the Russian MNEs divesting their foreign subsidiaries is still the least studied among BRIC and other relatively big emerging markets, because there are already some academic studies of the institutional and political factors effect on Chinese (Bai, Jin, & Qi, 2013), Indian (Das, 2021) MNEs FD, but none yet comprehensive research on Russian companies (Arte & Larimo, 2019).

As a result of the politically motivated sanctions, leading major Russian MNEs have had to either fully sell or partially reduce stakes in their assets located abroad due to increased uncertainty and decreased access to the international capital markets, thus losing strongholds and production facilities in some key markets such as neighboring Ukraine, European Union and the USA (Brown, Pantich, & Baranovskiy, 2017). However, it is not that simple to establish a straight strong correlation between the introduction of sanctions and the divestment event, since there are many other factors affecting the decision to exit the market, above all the institutional distances existing between the home and a host country. And therefore, we can observe that the same Russian MNEs that decide to sell-off their assets in some foreign markets, carry on owning other international assets and facilities abroad regardless of the sanctions (Zagashvili, 2017). That logically leads the researcher to a question: what are the main institutional and political drivers for the decision to divest foreign units or subsidiaries

by Russian MNEs and how powerful they are in explaining FDs? Besides, here arises another justified question: what is the effect of the FDs on the financial performance and healthiness of the Russian MNEs, whether that entails improvement of the balance sheet after getting rid of some sunk troubled assets or on the contrary, brings more issues?

Chapter 1. Foreign divestment phenomenon in the academic literature

1.1 FD definition and its characteristics

Foreign divestment (FD) is a complex multi-faceted process that is opposite to FDI. Instead of being a buying side in cross-border M&A deals or setting up a brand-new greenfield project abroad from scratch, a company, involved into FD, reduces its ownership stake or disposes completely of its subsidiaries, affiliates, units or parts of its international-based business. There are many ways how to carry out the FD, among the most common ones are sell-off, liquidation, closure and carve-out which is a partial equity reduction (Feldman & McGrath, 2016). Such organizational modifications may significantly reshape the business' structure, serving company's strategic objectives by exiting some assets that are either exposed to certain risks or cannot be maintained at the operational level any longer due to the prolonged unfavorable market conjuncture (Benito, 1997; Berry, 2013). What is more, the divestment can bring about greater efficiency and increase the overall value for the faithful shareholders by disposing of some inappropriately related or unmatching units (Ezekoye & Luu, 2020). However, there are certain impediments on the way of a divestment option fulfillment. According to the latest executives' survey conducted by McKinsey in 2020, it was found that among the most cited and thus deemed to be significant deterring factors for implementing, let alone initiating the divestment process, are the inadequate market prices for an asset, time-consuming procedures, possible infliction of damage on the whole company if something goes wrong, emotional attachment of stakeholders and unrecoverable sunk costs (Finck, Koenig, Krause, & Silberstein, 2020).

The phenomenon of FD attracts an increasing attention nowadays, since the frequency of divestments has only been growing over the recent years both in absolute numbers and volume (Borga, Ibarlucea Flores, & Sztajerowska, 2020). In some years the FD number was even slightly bigger than the number of acquisitions, which is the case for the world economic crisis that erupted in 2008 with its drastic recessionary slump consequences of the following years.

Thus, the most intensive years for the FD activity were 2008, 2011 and 2013, what is in line with the yearly volumes, showing that 30-50% of all deals were divested. Empirical studies find more modest results at the national level with regards to the FD magnitude, asserting that approximately each fifth internationally located subsidiary is divested on average, which is supported by US and Swedish MNEs samples (Berry, 2013; Norbäck, Tekin-Koru, & Waldkirch, 2015).

The existing literature base on FDs started to appear in the 1970-s and has been steadily growing ever since, however it still lacks an explicit universal theoretical framework, even though Jean Boddewyn (1983) attempted to suggest one reversing the John Dunning's OLI model of FDI for foreign divestment framework. But still its viability needs to be proven by further empirical research, since we cannot claim that the same variables used in the OLI model are as much explanatory in the case of FD without proper studies. So far, the scholars studying the FD phenomenon have accumulated much of the knowledge over the recent decades and tried to analyze this complex trend from different perspectives. There are six major theoretical frameworks that the academicians applied in their studies, explaining the reasons for FD, listed below in accordance with its historical appearance in the related literature by order (Arte & Larimo, 2019; Schmid & Morschett, 2020; Coudounaris, Orero-Blat, & Rodríguez-García, 2020):

1. Knowledge-based theory of the firm
2. Transaction cost theory
3. Cultural dimensions approach
4. Reversed eclectic paradigm
5. Institution based view
6. Real options theory

The four theoretical paradigms are covered below within this chapter, while the institutional and cultural dimensions approaches are addressed fully in the second chapter that is dedicated to the institutional and political antecedents of FD.

1.2 Liability of foreignness

Before going any further, one thing needs to be clarified. All the above-mentioned perspectives share at least one common underlying concept which is the liability of foreignness that implies that a company while internationalizing incurs additional extra costs for doing business abroad, since the process of entering foreign unknown markets is fraught with many uncontrollable and unpredictable risk-factors. It was introduced by Stephan Hymer (1976), who categorized these extra costs of doing business abroad into four major groups. According to him, the risks may come from the host government's hostile or unfavorable policies towards MNEs thus impeding its growth potential, foreign exchange currency fluctuation risk affecting the operations and trade, asymmetry or lack of information in comparison with local companies, or the home country's government restrictive policies with regards to internationalization imposing restraints on capital outflow from the country. However, the liability of foreignness diminishes as the time goes by, while the company acquires knowledge and adapts to an unknown environment. Other authors contribute to the concept claiming that even though some economic and cultural issues for the MNEs working abroad can be reduced, changes in governmental attitude and feasible discrimination are much harder to deal with (Eden & Miller, 2004).

1.3 Knowledge-based theory

The first theoretical framework used in studying FD is the knowledge-based theory of the firm, that has been intensively used in many internationalization theories such as the Dunning's eclectic paradigm and the Uppsala model. The approach is premised on the assumption that knowledge is the most important and valuable resource for any business, determining its success. It depends on the efficiency of knowledge transfer among the business units for creation sustainable competitive advantages that are extremely hard to imitate or copy, so bringing additional value to its shareholders and leading to better financial performance compared to its competitors (Kengatharan, 2019). Within the knowledge-based theory there are two main strands of research, namely focusing on the knowledge acquired through experiential learning in the process of actually doing business abroad, facing and managing the difficulties first-hand, and the knowledge attained thanks to larger R&D expenditures, more active marketing and advertising campaigns. The scholars that support the first strand claim that once a company gets operational experience in the international markets, it becomes more

resilient and prepared to deal with manifestations of the liability of foreignness, thus resulting in higher likelihood for maintaining and saving operations abroad (Zeng, Shenkar, Song, & Lee, 2013). The greater the international experience of a company is, as well as the understanding of local features, both formal and informal rules of the game in the host country market, the higher chances are that the foreign subsidiary will survive and not be divested (Delios & Beamish, 2001; Norbäck, Tekin-Koru, & Waldkirch, 2015; Wang & Larimo, 2020). For example, Barkema's (1996) research on Dutch foreign subsidiaries survivability posits that, if a MNE had already previous foreign experience entering the host country, it is more likely that thanks to the experiential learning the company will be more successful and less prone to divest in case of both JVs and acquisitions. Nearly the same result was yielded in a work of Li (1995), who studied the FD on the US home market and found that acquisitions are much more probable to end up in a divestment rather than greenfield projects. The second strand of the knowledge-based view pays more attention to the role of knowledge and innovative capabilities acquired through R&D, advertising and marketing before going to the foreign markets, that may be used eventually by its foreign subsidiaries, so giving it a competitive advantage over the other firms and thus increasing the probability of its survival. However, the likelihood of foreign divestment increases if a company falls into the category of latecomers, even though it may have a significant R&D expenditure budget (Park, Lee, & Hong, 2011).

Nevertheless, the study on the sample of 137 West-European MNEs (Peruffo, Marchegiani, & Vicenti, 2018) revealed that prior FD experience of a company can be transformed into intra-firm's knowledge and can be later used during upcoming divestiture deals, thus increasing the FD likelihood. Besides, FD can be contagious for a particular company due to a specific environment exacerbated by unfavorable policy measures applied against it and spread across other neighboring host countries with similar political and economic background, thereby leading to a sequence of FDs (Blake & Moschieri, 2017). What is more, according to the latest meta-analysis study conducted by Schmid and Morschett (2020), the researchers found quite unexpectedly a significantly positive link between the international experience of a company in a particular host country at a parent-level and the likelihood of affiliates located over there to be divested, if operationalized through a number of years that a foreign-based subsidiary functioned before being divested.

Here we could provide certain cases of the Russian MNEs divesting their assets from both culturally similar and distant host countries given their previous FD experience. The current study is limited by the time framework covering deals that took place only within 2010-2019 period. The first example that is worth attention is one of the largest Russian steel companies – Severstal, that gained its first FD experience in 2010 in the culturally distant United Kingdom closing a local small wire producer Carrington Wire that was acquired in 2006. On the following year 2011 Severstal disposed of three US subsidiaries – Sparrows Point, Warren and Wheeling involved in production of flat-rolled steel after three years of ownership, having acquired the assets at the very peak of the market prices on steel in 2008 (Kommersant, 2014). However, we should be mindful of the business cycle stages and corresponding metals price fluctuations, since the commodity-based companies are heavily dependent on the market conjuncture (Fama & French, 1988). Besides, it should be considered as a healthy business optimization due to low margins and even operational losses at certain plants, since other Severstal's US factories such as PBS Coals, Dearborn and a promising greenfield project Columbus remained operating regardless of unfavorable market conditions. Nevertheless, the rest of the US subsidiaries were divested with arrival of sanctions in 2014, as well as from other culturally distant locations such as Italy, with only one exception of a Ukrainian subsidiary Dneprometiz being divested in 2017 from a culturally close neighboring country (Vedomosti, 2017). Thus, we can observe that Severstal divested predominantly from the culturally distant host countries and its accumulated experience did not help the company to avoid further FDs.

Another example illustrating the opposite side of the coin may be shown in the cases of Inter RAO and MTS, when the companies divested solely from the culturally close countries due to their previous internationalization experience. Inter RAO faced obstacles in two neighboring countries – Armenia and Georgia divesting almost simultaneously in 2016 under the new general corporate strategy of business optimization, since the company was exposed to lower state-regulated tariffs not being able to breakeven in these countries (Kommersant, 2016). MTS in its turn encountered another type of issues, namely was embroiled into a resonating corruption case related to bribing practices of Uzbekistani president's daughter in 2016, that ended up in an exit of a joint venture with the local government (Vedomosti, 2016). But this unpleasant FD experience did not save MTS from another deal that took place in Ukraine in 2019 based on exacerbated political risks, even though the MTS Ukrainian subsidiary operating under Vodafone brand was showing a growing performance (Vedomosti, 2019).

We clearly see, that even after obtaining some FD experience, the Russian MNEs carry on divesting from host countries that are somehow close culturally or politically to each other, thus this observation may find support of the previous findings in the literature (Blake & Moschieri, 2017; Schmid & Morschett, 2020). That is why in line with the knowledge-based logic and its inconclusive outcomes as well as descriptive cases of Russian MNEs' FDs, we may suggest the first proposition within the current study:

Proposition 1: The FD experience that the Russian MNEs had already obtained in the host country will affect their divestment likelihood in other host countries.

Proposition 1a: The previous FD experience of Russian MNEs will have a positive effect on the likelihood of further FDs in culturally similar countries.

Proposition 1b: The previous FD experience of Russian MNEs will have a negative effect on the likelihood of further FDs in culturally distant countries.

1.4 Transaction cost theory

The second theoretical perspective is the transaction cost theory that is used to explain and justify attractiveness of the foreign market, the entry mode and ownership structure for MNEs launching their units abroad. The researchers Williamson (1975), Buckley and Casson (1976) focused on internalization capabilities of the MNEs, especially what they lack on the imperfect domestic market and how that can be compensated through internationalization process, thus acquiring the badly needed missing competences and reducing transaction costs. All the transaction costs can be classified into three broad groups: search and information costs, bargaining and decision costs, policing and enforcement costs (Dahlman, 1979). But once the transaction costs increase, a company becomes more inclined to divest part of its business from abroad, so reducing and managing both the extra expenses and some plausible unexpected outcomes. However, this approach has certain overlapping with the real options and institutional theories as well, since a company may decide not to immediately divest from a foreign market in case of deteriorated circumstances, but rather stay awaiting in the foreign market till the political uncertainty dispels and potentially get even higher returns as a result of such patience. Anyway, the transaction cost approach logic is usually applied with regards to international joint-ventures (IJVs), studying the effect of entry mode and ownership structure

on the longevity and survival likelihood of the foreign-based subsidiaries (Hennart, Kim, & Zeng, 1998). Dhanaraj and Beamish (2004) elaborate on the previous works and point out the key difference between the foreign equity stakes in IJVs, since the results of their study showed that relatively insignificant ownership levels (less than 20% stake) are almost destined to be subsequently divested or exited, while a higher stake in the range 80-100% is much less prone to be closed and even comparable to the survivability rates of WOSs. These conclusions have found support in the more recent works with a significant negative impact of the WOS entry mode and therefore higher ownership level on the FD probability (Schmid & Morschett, 2020; Wang & Giouvriss, 2020; Silva & Moreira, 2021), thus strengthening the endorsement for our own proposition in relation to the Russian MNEs.

Given the Russian MNEs limited FD record, we can only examine 12 instances of failed JVs, while most of the divested assets were wholly owned subsidiaries (WOS), implying that the ownership stake was higher than 50%. This brief statistic shows us that according to the sample of 83 FD deals by Russian MNEs, the correlation of a majority controlling stake in a foreign unit and its likelihood to be divested is quite high. However we cannot claim that this observation has any predictive power, since the previous literature yielded opposite results (Wang & Giouvriss, 2020; Wang & Larimo, 2020), therefore a second proposition can be formulated in the following way:

Proposition 2: The ownership stake affects the Russian MNE FD likelihood.

Proposition 2a: International JVs and foreign acquisitions of Russian MNEs are positively related to a divestment likelihood.

Proposition 2b: Foreign-based WOSs or greenfield ventures abroad are negatively related to a divestment likelihood.

1.5 Reversed eclectic paradigm

The fourth theoretical approach in studying the foreign divestment is the reversed eclectic paradigm of Jean Boddewyn (1983) that he finalized in his paper, where he basically turned over the Dunning's eclectic paradigm (OLI model) of foreign direct investment (FDI). Boddewyn's theory assumes that foreign divestiture takes place in case, if at least one out of

the three Dunning's OLI model determining factors is not met any longer. Namely, if a company loses its competitive advantages in ownership, location or internalization, it becomes more inclined to be divested or withdrawn from a foreign market under the pressure of competitive market forces. Empirical studies prove those assumptions as well. For example, in terms of ownership perspective several studies have established that IJVs and outright acquisitions are more prone to divestments in comparison with more resilient greenfield projects and wholly owned foreign subsidiaries (Benito, 1997; Li, 1995; Mata & Portugal, 2000; Makino, Chan, Isobe, & Beamish, 2007; McDermott, 2011). In terms of location advantages, the cross-national distance that contains many factors, such as geography, politics, economics, culture and others may drive an increase in foreign divestment as well (Cassio-de-Souza & Ogasavara, 2018; Wang & Giouvriss, 2020). The companies tend to exit foreign markets when internalization advantages of their foreign entities disappear with increasing costs of labor, raw materials and decreasing product quality that becomes less competitive. As a result, the unused facilities are either closed or at best sold. That is why given the lost unique capabilities or unfavorable market situation, the MNEs leave foreign markets reallocating its assets more closely to the home country, what is known as a reshoring process, however it is extremely hard to restore a comparably valuable asset at home given constrained resources and lack of innovativeness (Oshri, Sidhu, & Kotlarsky, 2019; McIvor & Bals, 2021).

The Russian MNEs have experienced the reshoring trend recently with advent of sanctions in 2014, being forced to exit some foreign markets, not solely based on the politically motivated background, but due to deteriorated internalization opportunities and restricted potential of its international assets. Among Russian MNEs examples of such divesting practices can be named Nornickel, Severstal and Mechel to mention a few which embarked on active reshoring. One of the world's largest holders of non-ferrous metals (nickel, palladium and platinum) Nornickel withdrew all its operations from Australia and Botswana, while maintaining only one strategically important asset abroad Harjavalta in Finland that is located closely to both the Russian borders and one of Nornickel's major sales market – EU. The reason for that is the rapidly developing rich nickel and palladium deposits located in Russian Polar division, Kola peninsula and Trans-Baikal territory that constitute nowadays the core of the company's resource base (Vedomosti, 2020). Severstal in its turn disposed of all its foreign affiliates, expanding its producing facilities and optimizing its business operational margins in Russia, above all in its most important units located in Cherepovets and Saint-Petersburg (Izhora pipe mill), because of lower margins and poorer performance of foreign subsidiaries (Vedomosti,

2014). The coal producer Mechel has almost the same story, exiting all its unprofitable foreign subsidiaries in Romania, Bulgaria, Ukraine and the USA over 2012-2015 period, giving the utmost priority to the national assets located in Chelyabinsk, Yakutia, Kemerovo because of Mechel's enormous indebtedness level that reached 9 billion USD in 2013 forcing the company to sell off its assets almost for free in order to cut subsequent losses and prevent a feasible insolvency risk (Forbes, 2014).

1.6 Real options theory

The most recent theoretical approach to the topic of FD has been the real options theory used in strategic management and which is quite different in its essence from the rest, but at the same time may complement the institutional theory. It is concerned with long-term investments in real physical assets operated under conditions of environmental uncertainty that bring much higher benefits for the business once the unfavorable business situation characterized by ambiguity gets back to normality. Afterwards the investors may attain greater yields and thus rewarded for the patience and courage for taking on bigger risks entering the foreign unstable market at the first place. MNEs tend not to get rid of their foreign assets located in uncertain market conditions, but rather hold to them, because much of time and resources have been invested in the decision to enter a foreign market. On top of that, a new owner who would be willing to pay a reasonable price cannot be found instantly with approval from local authorities which is used against either monopolistic practices or in attempt to secure strategically important national sectors. Besides, as the studies show, a subsidiary's size matters given the uncertain and politically unstable milieu. It turns out that the smaller a unit is, then less likely it is to be divested under unfavorable conditions, since it does not constitute a significant value for the whole parent-company's organizational structure (Belberdos & Zou, 2009). What is more, relatedness of the foreign unit to the parent-firm plays a significant role as well. According to separate studies (Kumar & Cui, 2012; Wu, Strange, & Shirodkar, 2021), the closer it is to the core business, less likely it is to be divested, since considered valuable for maintaining advantages of the vertical integration. As the existent literature suggests, MNEs instead of rushing with a decision to exit the market either closing or selling the assets at a price far lower than it was acquired may actually opt for a status-quo preservation and managing their risks for some time (Damaraju, Barney, & Makhija, 2015). A company with a higher organizational flexibility and more alternative options may decide to remain a poorly

performing unit in times of economic uncertainty or crisis, if there is another one that can be closed or withdrawn so that more resources will be freed for the operations maintenance of the most valuable and prioritized subsidiary (Chung, Lee, & Lee, 2013; Wu, Strange, & Shirodkar, 2021)

With regards to some Russian MNEs we can observe a certain pattern that companies mostly dispose of the core foreign subsidiaries that are close to its main business activity what is due to its previous internationalization and strategic assets seeking approaches. For example, ten out of ten foreign divestments in the sample carried out by Evraz were directly related to its major mining business. Nor Nickel, Severstal and Mechel have approximately the same FD experience, implying that most of their foreign divested subsidiaries were related to its main business. However, as it was already mentioned previously, due to the limited sample size of the FDs we cannot affirm that the trend will be expanded in the upcoming divestiture deals of the Russian MNEs. In respect to the real options theory and its recent empirical findings, we may suggest the following proposition:

Proposition 3: Foreign subsidiary's relatedness to the main business of Russian MNEs is associated with the FD likelihood.

Proposition 3a: Foreign subsidiaries that operate in the non-core area for a Russian MNE are positively associated with the FD likelihood.

Proposition 3b: Foreign subsidiaries that operate in the core area for a Russian MNE are negatively associated with the FD likelihood.

Chapter 2. Institutional and political determinants of the foreign divestments.

2.1 Institutional theory background

This study is mainly premised on the institutional theory which has been widely used in explaining both foreign direct investments (FDI) and foreign divestments (FD). The fundamental basis of the institutional theory has evolved largely around two main strands of institutional studies in the area of international business that were spearheaded by the Nobel prize winner Douglass North (1990) and William Richard Scott (1995). According to North,

“theory of institutions is constructed from a theory of human behavior combined with a theory of transaction costs” (North, 1990). North attributed bigger importance to the formal or regulative institutions being prerequisites and determinants of a sustainable economic development. Formal institutions consist of legal structures governing practically all spheres of life at an official level, implying above all certain obliging rules of the game that are set in the socio-economic domain. They are designed to ensure predictability and fairness of business activities, guarantee that property rights are protected, public policies and contracts conditions are fulfilled properly, transparently and in due time. Thus, this aggregate of formal institutions leads to lower transaction costs and better functioning business relations. As a rule, sound formal institutions established and upheld by governments do attract foreign capital and bring about greater well-being for all, since decent officials in charge may introduce some clear rules that will bring about greater business confidence and accelerate growth (Sabir, Rafique, & Abbas, 2019). However, at the same time the role of informal institutions with specific national features, that have been developing throughout decades, should not be neglected as well. The informal institutions are composed of unwritten traditions, code of conduct, beliefs and norms that are hardly changeable, greatly influencing business practices in a particular country or a region of neighboring countries with quite similar historically inherited traditions (Fuentelsaza, Garrido, & Maicas, 2020).

William Richard Scott (1995) in his turn slightly changed the North’s model and prioritized more the sociological and informal aspects, since the regulative issues have already been considered within the transaction cost theory. But some informal factors were not yet sufficiently covered in the academic literature, namely the effect of diverging value systems containing deeply rooted religious inclinations or different mind-sets, that could potentially influence the business activities to a large extent. He tended to look at the three-dimensional approach that was made up of regulative, normative and cognitive pillars. Regulative is related to formal institutions that set the rules and observe that all the participants adhere to them. Normative pertains to unsaid traditions and norms that a society has been developing over a long period of time and that define business activities having a binding expectation in a country. With regards to cognitive, it refers to a cultural code of a particular nation that cannot be changed, it is just taken for granted as a set of socio-cultural values, with its characteristic inclinations, preferences, beliefs and shortcomings deeply embedded in the national culture at a subconscious emotional level. The meaning and essence of social interactions are formed exactly at this level. Once a company embarks on the internationalization path, it needs to

consider the host country in terms of these three dimensions, how well do they match with the home market institutions, or how familiar the business is with the foreign environment and rules of the game. As a result of complying with all three constituent pillars of the Scott's model, a foreign country can be legitimized in the eyes of investors and thus increase capital inflow and fuel sustainable economic growth (Scott, 1995; Kostova & Zaheer, 1999)

2.2 Institutional distance and internationalization of MNEs

Almost at the same time in the 90s appeared a new concept of the “institutional distance” that further contributed to the enrichment of institutional studies systemizing the multi-dimensional environmental differences between the home and host countries that MNEs are exposed to while internationalization process, facing as a result unique challenges and risks. Firstly, Johanson and Vahlne (1977) came up with “psychic distance” aimed at establishing a complex of many differences existing between countries coupled together that embody the distinguishing national characteristics leading to creation of impediments and points of conflictual tensions when it comes to business practices, knowledge transfer and communication between a home headquarters and a subsidiary based in a host-country. Later Kogut and Singh (1988) developed the concept further adding up the cultural perspective into the new paradigm based on four major Hofstede's cultural dimensions (uncertainty avoidance, masculinity/femininity, power distance, individualism/collectivism) that taken together may increase the liability of foreignness and transaction costs for MNEs. After a while the academic world has seen a refined version of “institutional distance” measured on a 7-point Likert scale introduced by Tatiana Kostova (1997) and based on the Scott's three pillars framework, claiming that a higher institutional distance between a home country and a host country perplexes the effective operational functioning for a MNE in the foreign market. Through proper assessment of each pillar – regulative (formal laws and regulations), normative (ideas and norms) and cognitive (values, beliefs, traditions), MNEs could grasp the existing distance between its home country and host market, so using this knowledge to ease their market entry by means of taking the best ownership mode and attaining legitimacy in the foreign host market, thus subsequently improving their performance. Without proper analysis of institutional foreign environment, MNEs will inevitably face external legitimacy issues and higher transaction costs, thus not being able to adopt best business practices from the host country as well as not ensuring a stable flow of knowledge transfer and communication

between a home-based parent-company and a partially isolated foreign subsidiary (Kostova, 1997).

As MNEs driven by appealing opportunities of globalization started to enter new completely unfamiliar markets with transitional and authoritarian regimes that emerged right after the Soviet Union collapse, there was a need to measure the potential risks coming from these business ventures. Following the North's logic, institutional regulations and norms are vitally important for decision-making process to take into consideration once internationalization process is concerned. Institutional contexts can impact a MNE's performance, since institutions influence its behavior either impeding or favoring a company's development by a series of regulatory and informal measures (He & Cui, 2012). However, the institutional rules enforcement and cultural maturity in transitional and authoritarian emerging countries are not as sophisticated and advanced as it is in the commonly perceived Western democracies that cherish liberal values and thus ensure economic stability (Rottig, 2016). That is why the institutional distance came in very handy becoming one of the most useful tools in gauging the existing differences between the MNE's home country and a host country with higher political hazards, institutional uncertainty and cultural remoteness. Since the emerging markets have historically been associated with institutional uncertainty and vulnerability, the institutional distance with such countries increases for the MNEs from developed home countries, bringing more risks and opacity for doing business abroad (Hoskisson, Eden, Lau, & Wright, 2000; Khanna, Palepu, & Sinha, 2005; Liu, Yang, Li, & Liu, 2021).

In a while MNEs from the home emerging markets started to expand internationally as well into the most competitive developed markets where they had to operate under fundamentally different rules and adjust to new institutional realities. With arrival of the new millennium the stock of literature related to the internationalization process of actively expanding MNEs from these developing home markets and how institutional distance impacts their decisions to enter foreign markets started to appear (Michailova & Hwee Ang, 2008; Newburry, McIntyre, & Xavier, 2016). The institutional distance and cultural differences have been studied in OFDI made by MNEs from the biggest developing countries forming BRIC, in relation to Chinese (Mohsin, Lei, Tushar, & Hossain, 2021), Brazilian (Chueke & Borini, 2014), Indian (Rienda, Claver, & Quer, 2018) and even Russian MNEs (Dikova, Panibratov, & Veselova, 2019). All the studies come to the same conclusion that the role of the institutional distance is significant, however there are some distinct surprising peculiarities. For example,

Chinese and Russian firms are negatively affected by cultural distance existent with a host country, while the institutional distance on the contrary contributes to OFDI expansion (Mohsin, Lei, Tushar, & Hossain, 2021; Dikova, Panibratov, & Veselova, 2019). Besides, we have to point out that the host countries tend to treat MNEs with the same origin differently, because governments apply various policy approaches to them, favoring some firms while discriminating the others (Dahan, 2005; Blake & Moschieri, 2017). Thus, we can make an inference that even though Russian MNEs can be treated differently by the regulative host institutions, especially in the developed markets with high institutional distance compared to Russia, they are nevertheless attracted by the institutionally strong and politically transparent countries, while the cultural aspect does not have a significant impact on the internationalization strategy.

Faced with increased institutional pressure and lack of political proximity from the recipient host governments, some of the MNEs partially or fully exited the markets, divesting some of their foreign based affiliates, while authors gave the relatively new topic of FD more academic scrutinized attention and elaborated on the institutional distance concept through different operationalizations. Usually, the few existing studies on FD exploited the same institutional variables used in the FDI research aimed at understanding factors of investment attraction and its retention, since the institutional strand of FD research is still scarcely studied and the FD in general does not have a comprehensive and commonly recognized theoretical framework to refer to (Borga, Ibarlucea Flores, & Sztajerowska, 2020). While using institutional distance as one of the independent variables influencing the FD outcome, the authors observed some mediating factors to the survival likelihood. Gaur and Lu in their paper (2007) studying Japanese affiliates, concluded that a foreign subsidiary's survival in institutionally distant host countries depends on the ownership mode and international experience of a company in a host country. It turns out that the more companies have ownership in their foreign units and the more they have foreign experience in the host market, the less prone they are to be divested and thus stop operating (Gaur & Lu, 2007; Dhanaraj & Beamish 2009). The same results have been observed in a couple of research related to the case of Korean MNEs divesting their subsidiaries from host countries that have a significant either institutional or cross-national distance, with one exception for previous international experience's role in the host country that was found to be significantly positive on the survivability odds (Pattnaik & Lee, 2014; Kang, Lee, & Ghauri, 2017).

We have to denote that practically all of the institutional and political variables have been borrowed from the studies of its effect on FDI attractiveness of a host country, which is in line with the Boddewyn's logic of the reversed eclectic paradigm and that is why it is justified to use the same variables in order to check the extant and upcoming assumptions (Bailey, 2018; Paul & Feliciano-Cestero, 2021; Buitrago & Barbosa Camarco, 2021). Among the most common institutional variables employed in the related studies to explain FD phenomenon are different types of institutional distance such as political stability (Benito, 1997; Dai, Eden L., & Beamish, 2013; Getachew & Beamish, 2017), economic freedom (Demirbag, Apaydin, & Tatoglu, 2011; Getachew & Beamish, 2017) and political freedom (Dhanaraj & Beamish, 2004; Soule, Swaminathan, & Tihanyi, 2014) as well as cultural remoteness (Pattnaik & Lee, 2014; Kang, Lee, & Ghauri, 2017). However, most of the studies on the institutional and political factors driving the FD have not yielded conclusive results, varying from study to study, since obviously there is a great plurality of circumstantial factors at play that cannot be easily systemized (Arte & Larimo, 2019; Schmid & Morschett, 2020). The key question that we need to address is what exactly stands behind a pervasive concept of institutional distance and explore the constituent parts of the benchmark. Next, we are about to consider the most influential political and institutional factors, derived from the findings in the previous literature, that affect FDs.

2.3 Political stability and sanctions effect

It is almost intuitively comprehensible that unstable political environment and abrupt changes in the political landscape shoo away the foreign investors and thus do not drive FDI inflows into the country. Political instability existent in the host countries is perceived as a threat to MNEs and their OFDI into the country coming from local governments' unsteadiness that can lose its power to opposition parties, rebels and even terrorists (Kaufmann, Kraay, & Mastruzzi, 2010). Among the most extreme displays of political instability are coup d'état, military violence, civil wars, terrorist attacks, expropriation and nationalization (Kobrin, 1979; Henisz, 2000). Besides, the incumbent authorities with their radically changing policies and opportunistic behavior in relation above all to the proprietary rights, especially in transitory economies with weak institutions, bring about lesser business and economic confidence with a subsequent retreat of MNEs and dire depression in the country (Buthe & Milner, 2008; Biglaiser, Lee, & Staats, 2016). This unstable and unfair environmental setting discourages

investors from staying in the country because of the volatile increasing transaction costs, inability to efficiently communicate and transfer knowledge to the other organizational units and headquarters, negatively influencing the business margins (Zhao, Parente, Song & Wenger, 2020). Continuity of policy direction brings stability, whereas political uncertainty leads to constant changes in economic policies in relation to tariffs, quotas and even outright ban on import thus affecting the business profitability (Evenett, 2019). However, some companies opt for risk-taking incurring additional expenses and decide to stay in an unclear political environment circumstances due to greater exit barriers or lack of alternative options (Damaraju, Barney, & Makhija, 2015).

Given the political risks and associated additional costs, MNEs prefer to allocate their investments in the countries with stable institutions and a predictable trustworthy government that has a good track record in the past (Globerman & Shapiro, 2002; Baek, Maskara, & Miller, 2019). Strong and credible institutions boost the country's legitimacy for foreign investors (Trevino, Thomas & Cullen 2008), since the government is supposed to be a guarantor of the properly functioning market relations, intervening occasionally to prevent socially dangerous disbalances such as monopolization and illegal hostile business takeovers by competitors or non-systemic actors (UNCTAD, 1999). Weak institutions and poor governance quality in its turn, on the contrary, are conducive to inefficiencies on the domestic market because of unstable environment, do not allow the MNEs to establish its production facilities and ensure supply chains efficiently in the long run, forcing them subsequently to conform to local chaotic rules and unfair practices (Bénassy-Quéré, Coupet, & Mayer, 2007; Ascani, Crescenzi, & Iammarino, 2016).

Political stability rests upon the governance factors, since without a strong and viable government there cannot be predictable economic and political environment. That is why the unsatisfactorily low economic growth pattern in a country is intertwined with inappropriately guaranteed proprietary rights, rampant corruption, arbitrariness of local government and regulative bodies as well as complexity of the bureaucratic system that hinder the business flourishing activity (Kaufmann, Hooghiemstra, & Feeney, 2018). There are 4 major governance indicators derived from the World Bank dataset designed to measure the country's overall institutional development and integrity. The first one is government effectiveness that captures the extent of bureaucratic complexity in the country and how accessible and well guaranteed public goods are (Contractor, Dangol, Nuruzzamana, & Raghunathc, 2020). The

second one is regulatory quality that assesses how regulated and open the domestic market is in terms of trade relations and capital movements (Zhao, Parente, Song, & Wenger, 2020). The third one is rule of law that measures the level of proprietary rights protection and how contracts are honored (Gutmann & Voigt, 2018). The fourth one is corruption control that checks whether the authorities abuse their plenary power and exploit it for the personal benefit taking and giving bribes, thus undermining the level playing field conditions and increasing expenses for the companies (Spencer & Gomez, 2011; Cavusgil, et al., 2020).

The home country perspective matters as well since unstable domestic institutions may force companies to seek greater stability in internationalization overseas pushing them out of the country (Feinberg & Gupta, 2009). Nevertheless, MNE's experience with home institutions can help to overcome challenges overseas (Holburn & Zelner, 2010). Companies from countries with fragile and vulnerable institutions already have understanding and experience how to manage political uncertainty and acquire bargaining power with local government. National companies from countries with strong institutions in its turn can more easily go abroad because of favoring policies and thus looking for better opportunities to allocate capital with higher returns and improving business operational efficiency (Paul & Feliciano-Cestero, 2021). However, MNEs can reduce its exposure to institutional risks regardless of their origin by an appropriate entry mode acquiring a minority stake in a JV with a local partner which already has proper political capabilities and competences to operate and can facilitate transfer of this operational knowledge in unstable background (King, Loncan, & Khan, 2021).

One of the first researchers who pointed out the importance of institutional and political factors as drivers for FDs by US MNEs was Roger Torneden (1975). His contemporaries Boddewyn (1979) and Sachdev (1976) also referred to a significant role of adverse environmental conditions and political uncertainty affecting the UK and a greater sample of US firm's decision to exit a foreign market. Besides, Stephen Cobrin (1980) in his study with a sample of 67 developing host countries covering the period 1960-1976 pointed out to the risk of forced divestments in the form of nationalization, confiscation, socialization or expropriation under hostile measures taken by local authorities that did not let the foreign business to take hold. However, the magnitude of forced divestitures is relatively small, making only around 4-8% of all the foreign divestments that was proved in another paper (Chopra, Boddewyn, & Torneden, 1978). And with arrival of improved institutions in the emerging markets intended to entice more foreign capital inflows through trade liberalization,

privatization policies and economic deregulation as well as greater experience of MNEs, the number of involuntary divestitures may be even lower today (Globerman & Shapiro, 2002).

Later works studying impact of political risk and instability on MNEs' FD experience appeared. Research conducted by Gabriel Benito (1997) on the Norwegian firms divesting their foreign manufacturing units from European markets did not show a strong correlation effect of political risk level in a host country on the probability of a firm's foreign divestment due to a low institutional distance between countries. Even though the effect was positive, but not statistically significant, so researchers could not rely on it trustfully requiring further studies. Even the government's reformatory attempts in the aftermath of a crisis aimed at FDI retention may not soften the uncertain political environment, thus causing FD growth and investment contraction, but the entry mode taken by MNEs could mitigate the survival rate, since it was found that WOS are more resilient than JVs under politically unstable situation (Chung & Beamish, 2005). Heather Berry (2013) came almost to the same conclusion as Benito, but she found a mediating effect of a unit's relatedness on the divestment likelihood in the politically unstable countries, claiming that unrelated subsidiaries will be divested first. Other works have managed to establish a positive strong link between political instability in a host country that is engulfed in conflict and the survivability of foreign subsidiaries. It was found that political openness of a host country, which characterizes environmental predictability, facilitates the MNEs operations because of a higher policy transparency and lesser government interference with the self-regulating market forces, showing a statistically mild negative effect on WOS exit and strong effect on IJV breakup (Dhanaraj & Beamish, 2009). Especially the divestment probability increases if there are no other companies in the host country which share the same origin and industry, implying that national peers either could not cope with the environmental externalities in the past or have not entered the market at all (Dai, Eden L., & Beamish, 2013). Besides, the home country political developments happen to be important factors influencing the FD decision as a responsive reflection on the political instability in the host country. Among the factors that were found significantly positive on the FD probability are protests taking place at home against offenses in the host country and level of institutional transparency that drive FDs, while political openness of a country has not been detected to play a statistically significant role (Soule, Swaminathan, & Tihanyi, 2014).

Nevertheless, according to the recent meta-analysis research on the FD antecedents (Schmid & Morschett, 2020), that is based on the aggregated results on 45 articles related to

FD, the authors found that the effect of the host country risk is positively associated with the FD and negatively with a subsidiary's longevity, however it is non-significant. The most recent relevant findings shed some light on the causal relationship, since only the medium level of political instability can provoke a significant wave of a foreign subsidiary's exit, while both extremes of political environment situation in the country – stability and chaos yield negligible impact on the affiliate's divestment (Lupton, Behnam, & Jiménez, 2021). The MNEs tend to develop a reference point for political risk measurement, considering a modestly low risk as a business opportunity staying in the host country, while leaving the market if the value goes above a certain threshold (Yasuda & Kotabe, 2020). That is why in line with the previous literature and empirical findings, we could develop the first hypothesis within the current research:

H1: Foreign subsidiaries of Russian MNEs located in host countries that have a higher political stability distance with Russia are more likely to be divested.

What is more, there has been observed a contagion effect of the FDs that can break out in politically and economically similar countries, if a company resorted once to FD in such host countries because of some disputes with the local government or increased institutional distance (Blake & Moschieri, 2017). The similar effect can be clearly observed in the Russian MNE's recent divesting experience of foreign subsidiaries triggered by the economic sanctions levied on Russia and companies affiliated with the government since 2014 (Brown, Pantich, & Baranovskiy, 2017). There has been a wave of exits by Russian companies in the aftermath from politically and economically close among each other host countries, mostly from the EU and the USA as well as from a neighboring Ukraine that joined the anti-Russian sanctions. It is no surprise that some of the foreign subsidiaries have been divested, since sanctions always disrupt the established political and trade relations, diminishing business confidence to a minimum and leading to MNE's withdrawals from places that are characterized by environmental uncertainty. As a result of sanctions, the policy regulations may be dramatically altered, thus putting extra costs of doing business abroad and undermining the ordinary business operations at the subsidiary level forcing a MNE to temporarily suspend or even eternally close the unit incurring losses for the firm (Weber & Stępień, 2020). Besides, the Russian MNEs have found themselves in a financially constrained position, since the most liquid international capital and credit markets for refinancing debt, fueling and maintaining company's growth have been almost completely cut off (Abramova & Garanina, 2017), thus

forcing the MNEs to quickly optimize their international operations and supply chains disposing of some foreign assets deemed to be inefficient, distant or no longer relevant for the strategic purposes.

Nevertheless, the sanctions effect usually negatively affects FDI only in the short-term, while being insignificant in the longer run due to a trust restoration and arrival of new actors over time (Mirkina, 2018). As we can judge from the present sample consisting of 83 FD deals, the most active years have been 2014 (13 cases) and 2015-2017 (11 cases each year) what can allude to a sharp momentary spike with a subsequent downward flattening trend, since as time goes by the Russian MNEs become less inclined to divest from the host countries due to acquired experience and vanished ambiguity. Besides, even though economic sanctions while considered to be producing more political uncertainty, can yield alternative economic opportunities, which is especially the case for some Russian companies that embarked on a new corporate strategy of reshoring, shifting their production assets more closely to the national borders trying to build up the vertical integration advantages fully either at home or in neighboring politically close countries such as Kazakhstan (Stepanyan, 2018).

With regards to examples of Russian MNEs divesting their foreign units from host countries that supported the anti-Russian sanctions regime, we can provide here some valuable observations to the domino effect. One of the most telling cases happens to be Lukoil which is the largest Russian privately-owned company in the oil and gas sector, that disposed of its refinery networks stations in the Eastern European countries after the sanctions breakout. Firstly, Lukoil divested from Hungary in 2014, then from Ukraine, USA, Estonia in 2015 that was followed by Poland in 2016, Ukraine and Bulgaria in 2017 (RBK, 2016). Besides, the case of the Russian national gas giant Gazprom can be serving as an example of the phenomenon as well, since it sold its foreign assets located in the Eastern European countries – Lietuvos Dujos and Amber Grid in 2014 (Lithuania), Vorguteenus Valdus (Estonia) and Verbundnetz Gas (Germany) in 2015 as well as a Finnish Gasum in 2016 (Vedomosti, 2015), thus proving the point that contagion effect pattern of sanctions takes place in the Russian MNEs foreign subsidiaries. Given the real case observations how Russian MNEs divested their foreign affiliates under sanctions effect and previous empirical findings in the relevant academic literature, we could develop the second hypothesis:

H2: Foreign subsidiaries of Russian MNEs located in host countries that supported the sanctions regime against Russia are more likely to be divested.

2.4 Economic freedom

Economic freedom is a concept that implies a voluntary exchange of any goods, services or capital among free-market participants based on personal choice without pressures or duress from other actors, above all government's intervention into the production, distribution and consumption processes imposed on its citizens against their will (Gwartney, Lawson, Hall, & Murphy, 2020). Thus, the key constituents of the economic freedom concept are freewill market engagement of agents, unconstrained level playing field for fair competition and guaranteed proprietary rights. Economic freedom, which usually accompanies political freedom, partly explains economic growth and national prosperity compared to other countries, since absence of policy restrictions and regulative limitations is conducive to greater exchange, trade and wealth creation under the market economy, rather than a planned socialist economy with bounded economic incentives (Heckelman, 2000). Economic freedom is responsible for FDI inflows attraction and retention as well due to better national policies that significantly promote and facilitate capital allocation with lesser risks and greater certainty (Canh, Binh, Thanh, & Schinckus, 2020). Among the policies that can stir up and boost investments are large scale privatization programs without backtracking on the part of the government, establishment of free trade zones, cutbacks on red tape complexity and unnecessary regulations for doing business in the country, introduction of lower tax rates and tax holidays as well as lifting restrictions on capital movement and trade. At the same time, a set of policies that demotivate and deter FDI are protectionist import tariffs and quotas, subsidization of national companies and regular market interventions of the government aimed at price control and insurance of national firms' monopolistic dominance (United Nations, 2019).

The economic freedom is related to the economic distance concept that measures differences between the nations in terms of technology innovativeness and labor costs, that significantly influence the MNEs decision about a host country entry selection (Ghemawat 2001). The free-market system is appealing for MNEs because of the underlying motivations that stimulate competition and drive for cutting-edge innovations, while in countries with a relatively low level of economic freedom the perspectives and opportunities for business expansion are shrouded in fog (Gwartney, Holcombe & Lawson, 2004). The economic freedom happens to be one of the major components of good institutions, however, it was inferred that FDI in the host countries that are inferior to home market in terms of institutions may be exposed to lesser risks (Tsang & Yip, 2007).

The Heritage Foundation annually ranks every country on six freedom components: business, labor, monetary, trade, investment and finance. The analysis of these factors may indicate the country's overall and its citizens economic freedom. Countries that are not overregulated can provide people, businesses and organizations with a predictably stable legal and policy framework for a dynamic labor market and business conditions for a robust organic and fast expansion, strong sound monetary and financial system that help bring foreign investments and favor trade relations (Hussain & Haque, 2016). Divergence of economic freedom extent between the countries may result in unexpected market outcomes for MNEs and lead to higher operational expenses, caused due to differences in how market institutions function. Lack of transparency and ambiguous regulative policies in relation to business can put some MNE's subsidiaries into a handicapped position with complicated possibilities for capital movement, unclear labor market laws and increasingly fluctuating tax burden that negatively affect the MNE's profitability (Mohr, Konara, & Ganotakis, 2020). Since MNEs may not be accustomed or prepared for such case scenarios as overly intrusive government interventions that disturb the company's ordinary operations, the MNEs may opt in a while for suspension or even complete indefinite closure of the foreign unit. However, such risks, as in the case of political instability can be mitigated by selection of a lower ownership entry mode in partnership with a local peer (Contractor, Lahiri, Elango, & Kundu, 2014; Arslan, Tarba, & Larimo, 2015).

There have been a few attempts to study the effect of economic freedom and some of its separate components on the FD probability, however they are limited. One of the few papers on survivability of Japanese foreign subsidiaries in the Middle Eastern countries has revealed that economic freedom distance is positively and significantly related to a subsequent FD of the units from the host markets (Demirbag, Apaydin, & Tatoglu, 2011). Among the other statistically significant antecedents of FD in relation to economic freedom were found to be the increasing unit labor costs and deteriorated state of labor market efficiency, decreased level of trade openness with imposed trade tariffs and wildly volatile real exchange rate (Borga, Ibarlucea Flores, & Sztajerowska, 2020). All the findings are consistent with the FDI literature. Firstly, the increasing labor costs in the host country reduce business margins and put strains on the subsidiary's operational efficiency, as a result MNEs attracted by the relatively cheap unskilled labor force could lose its competitive advantage that the market used to provide and be even forced to either reallocate or close their assets in a particular location (Huang, Sheng, & Wang, 2021). Besides, in line with the previous argument, implementation of labor market

reforms in the host country can bring a noticeable difference and be a sign for MNEs that the market is becoming more skilled and legally concerned with the labor rights protection, labor force flexibility and introduction of better incentives by employers increasing efficiency, what can altogether strengthen MNE's position maintaining its advantages in the host market and thus make it less willing to divest (Rong, Liu, Huang, & Zhang, 2020). Secondly, trade liberalization policies implying a significant reduction of tariffs and other favoring conditions yield greater FDI influx and increase the business confidence for long-term investments, thus making MNEs less reluctant to withdraw their foreign subsidiaries from the market that are supposed to have a longer longevity (Chen, Gao, & Wang, 2021). Thirdly, wild fluctuations in the foreign exchange rate volatility observed especially in transition economies may substantively impact the FDI activity, curbing its potential owing to higher currency risks and a necessity to hedge the potential difference, thus magnifying the FD likelihood, however its effect depends much on a sector (Balaban, Živkov, & Milenković, 2019). However, it was found in another research using the real options approach that an exchange rate volatility can create favorable arbitrage opportunities for MNEs thanks to cross-national cost differentials and even improve the foreign subsidiary's performance under currency depreciation in the host country, thus increasing its longevity (Song, 2015). Besides, an increase in corporate income tax taking place in the host country can lower chances of a foreign subsidiary's survival, since the units are becoming burdened with higher expenses and lower profitability putting under question its financial viability (Farah, Elias, Chakravarty, & Beamish, 2021). Given all the recent empirical findings in the academic literature related to the economic freedom concept and its constituent parts, we can formulate the third hypothesis:

H3: Foreign subsidiaries of Russian MNEs located in host countries that have a higher economic freedom distance with Russia are more likely to be divested.

2.5 Cultural distance

The cultural distance concept has been a widely used variable in studying and explanation of the cross-national differences that either favor or impede FDI inflows as well as lead to divestment of foreign subsidiaries belonging to MNEs (Arte & Larimo, 2019; Schmid & Morschett, 2020). The cultural distance has been usually measured through Hofstede's index consisting of four dimensions – power distance, individualism, masculinity and uncertainty

avoidance in order to capture the existing cross-national divergences and figure out how distant the countries are (Kostova , et al., 2020). It stipulates that greater cultural differences between a host and a home markets are more conducive to either MNE's abstention from investing into culturally distant countries or subsequent divestments, however it may be possible that the previous literature has exaggerated importance of the cultural distance on the MNE's decisions about the capital allocation (Kapás & Czeglédi, 2020).

Cultural distance between a MNE's country of origin and a host country may worsen the liability of foreignness for the company as well as causing higher transaction costs, complicating organizational, knowledge transfer and communication practices, so making it much more difficult for the company to stay competitive and carry on its operations in the foreign market (Barkema, Bell, & Pennings, 1996; Benito, 1997). As long as these cultural differences exist, it impedes a company in obtaining legitimacy and hinders a normal functioning in a foreign market (Kostova and Zaheer 1999), as a result negatively affecting a foreign subsidiary's performance (Beugelsdijk, Kostova, Kunst, Spadafora, & Essen, 2018). Unfortunately, the obstacles related to the cultural distance cannot be overcome easily and quickly, since it is a set of informal norms and beliefs determining the people's behavior and societal relationships that have been formed throughout decades or even centuries. The change of behavior and mindset is impossible to occur overnight because of people's inertia and resistance to novelties (Zárate , Reyna, & Alvarez, 2019).

Faced with the cultural distance in the host country while doing business, MNEs may decide to dispose of a foreign subsidiary because of the increased number of issues and frictions with the local market participants, above all regulative bodies. Separate studies on the Korean foreign subsidiaries revealed that a MNE's unit in a culturally different environment is more likely to fail and be closed, exacerbated by a lack of proper experience in the similar cultural setting (Zeng, Shenkar, Lee, & Song, 2013; Kang, Lee, & Ghauri, 2017). Besides, the effect of cultural differences has been studied in respect to IJVs and its longevity. As it turns out quite expectedly, lack of cultural similarities or overlapping characteristics leads with high probability to break-ups of IJVs, since partners have quite opposing stances on how a business should be organized and managed (Makino & Beamish, 1998; Tihanyi, Griffith, & Russell, 2005). According to results of the recent papers (Schmid & Morschett, 2020; Wang & Giouvriss, 2020) it was found that the cultural distance existent between a company's home

country and a host country, where a foreign affiliate is based, has a positive but insignificant impact on the divestment odds, that is why it needs further studies with different samples.

Some examples of Russian MNEs divesting their foreign units from host countries can shed some light on the phenomenon from the cultural distance point of view. For instance, the second largest state-controlled Russian bank VTB divested its Ukrainian subsidiary in 2018 after 12 years of establishment (Kommersant, 2018), while the Austrian and US units were divested after 3 and 6 years correspondingly at the background of sanctions (Vedomosti, 2018). Besides, in the case of Severstal, the only precedent of FD from a culturally close country – Ukrainian factory Dneprometiz that was divested in 2017 after 11 years of belonging to the company happens to be the major long-liver (RBK, 2017). However, the closest foreign divested unit of Severstal in terms of longevity was a US based factory Dearborn that was sold after 10 years in 2014 (KPMG, 2014). The opposite tendency can be highlighted in the case of another steel and mining company Evraz that divested from Italy in the very end of 2019 after 14 years of acquiring the steel factory Palini e Bertoli. In the same year Evraz disposed of the US located plant Stratcor after 13 years of owning it, while the Ukrainian assets were sold off earlier – Dnepr factory in 2018 after 11 years and Sukha Balka with Yuzkokhs in 2017 after 9 years both (Kommersant, 2018). Unfortunately, we cannot observe any strong correlation between the cultural distance and a foreign unit's longevity due to a small number of observations, besides there are some firm-level mediating factors such as state ownership or entry mode that influence the foreign unit's longevity. Given the real cases of Russian MNEs divesting their foreign affiliates as well as observations and results of the previous studies from the cultural dimensions perspective, we may suggest the fourth hypothesis:

H4: Foreign subsidiaries of Russian MNEs located in host countries that have a higher cultural distance with Russia are more likely to be divested.

2.6 Membership in regional integration projects

Over the recent decades both number and quality of international organizations in the world has been growing exponentially, driving mutually beneficial cooperation at the highest governmental level between the nations and bringing about more predictability for the business flourishing (OECD, 2019). MNEs that spearhead the economic growth by cross-border investments are especially concerned with the host country's membership in integration blocks

and projects, since it provides companies with better opportunities to invest irreversibly in the long-term in markets that have promising perspectives coupled with favoring investing conditions, implying property rights protection and political support (Bruno, Campos, Estrin, & Tian, 2017). Governments negotiate and establish strong linkages between each other based on trust and mutual respect by concluding multilateral political agreements that lay foundations for greater economic cooperation. That involves introduction of an investor-friendly regime, easier FDI and business regulations, trade liberalization with tariff and quota reductions that altogether facilitate the flow of goods, services, labor and capital across the borders between the nations participating in the block (Dreher, Mikosch, & Voigt, 2015). Being a member of such a regional organization implicates not only economic and political benefits, but the greater responsibility as well. Not adhering to the rules may entail sanctions against a violator, what disciplines all the members to comply with the expected behavior standards (Kelly, 2010).

Decreased country risks and enhanced policy certainty attract MNEs, since the local government's reckless behavior in relation to proprietary rights, that can be easily violated or completely abolished, is curbed by the intergovernmental responsibility and agreement's authority (Uttama, 2021). Besides, regulative bodies in the transitory and emerging economies with imperfect institutions, that are designed to guarantee a fair level playing field, tend to reduce discriminatory practices in relation to MNEs from the partnering countries, since they commence the common regulative framework harmonization (Galiakberov & Abdullin, 2014). As a result, MNEs from emerging home markets enjoy a higher governmental backing or at least non-interference on the part of indigenous regulatory agencies in the process of internationalization into the associated fellow host countries and thus can compete with local players on equal footing (Angulo-Ruiz, Pergelova, & Wei, 2019). What is more, countries that form integration blocks usually happen to be relatively of the same institutional development level (Koné, 2012), that is why MNEs from emerging home markets are already experienced and prepared for unpredictable environmental setting, because of approximately the same institutional conditions in a home country. These measures undertaken by the member-states of a regional organization reduce policy unpredictability for MNEs and thus diminish to a minimum a possible magnitude of foreign divestment cases and increase an average subsidiary's longevity, since it has been statistically proved that if MNEs operate in the host countries that participate in the same regional political and economic integration organizations as their home country does, likelihood of their foreign subsidiary's divestment goes down (Georgopoulos & Sogiakas, 2019; Borga, Ibarlucea Flores, & Sztajerowska, 2020).

Similar findings are expected to be received with regards to divesting experience of Russian MNEs from the host countries that participate in the same political organizations along with Russia. Among the regional integration organizations where Russia participates as a member-state under study are Eurasian Economic Union (EEU), Commonwealth of Independent States (CIS) and BRICS. These agreements can be classified by the integration level deepness from the highest (EEU) to the lowest (BRICS). Here we can provide the following observations concerning our sample of FD deals of the Russian MNEs. First, it needs to be stressed that only 15 out of 83 FD cases in the current paper's sample (18%) were made in the EEU, CIS or BRICS countries, what partially proves the point of political closeness and lower FD activity. What is more interesting is that a likelihood rate of FD in the sample varies between the neighboring EEU and CIS countries compared to the distant Brazil, India, China and South Africa that still belong to the same political block, but with a lower integration degree. Survivability of the Russian OFDI by the MNEs in the BRICS host countries is only 25% because 6 out of 8 deals were disposed, while in the EEU and CIS countries is 77% since only 9 out of 39 deals were divested within the studied period. With regards to longevity of the Russian foreign subsidiaries located in the politically close allying countries which is 8,2 years being higher than in those outside the organizations. However, if we further adjust the observations excluding two outstanding exceptions such a 2-year long Severstal's JV in Brazil and MTS's JV with the local Uzbekistan's government, involving a sounding corruption scandal linked to the Uzbek president's daughter that forced MTS to withdraw from the country only after 2 years of operations as well (Vedomosti, 2016), the longevity grows to 9,2 years. Thus, given the empirical findings and observations in relation to FD propensity and longevity of Russian MNEs foreign affiliates settled in the host partnering countries belonging to the same regional organizations along with Russia, we could suggest the fifth hypothesis:

H5: Foreign subsidiaries of Russian MNEs located in host countries that form part of EEU, CIS or BRICS are less likely to be divested.

Chapter 3. Post-divestment financial performance

3.1 Approaches to evaluating post-divestment performance

The divestment process, driven by a mismatch between expected returns and actual outcome due to unfavorable market conditions, government interference, strategic misfit or just lack of operational efficiency, is always a hard task to accomplish and kill two birds with one stone, while optimizing the business structure disposing of some units or affiliates. There may be loads of different reasons for the divestment to occur at the first place, but the poor financial performance of either a parent-company or its subsidiary is undoubtedly the dominant motivation for the disposal (Arte & Larimo, 2019; Coudounaris, Orero-Blat, & Rodríguez-García, 2020). High debt level, alarmingly low liquidity and efficiency ratios lead to a higher likelihood of divestment, since there are other better and more promising ways to allocate capital while strengthening the company's balance sheet (Sachdev, 1976; Brauer, 2006; Berry, 2010; Berry, 2013; Javorcik & Poelhekke, 2017; Borga, Ibarlucea Flores & Sztajerowska, 2020). The MNE's position can substantially be further deteriorated under the constrained conditions on the capital markets and inability to finance its operations (Abramova & Garanina, 2017), forcing it to resort to a divestiture option to obtain the badly needed funding, what has been exactly the case of the Russian MNEs working under economic sanctions since 2014 (Brown, Pantich, & Baranovskiy, 2017). The major goal of a divestment is not to lose the firm-specific competitive advantages, reducing impact on production output and financial performance as a result of business contraction. Even though many studies were dedicated to pre-divestment financial position of a firm, the post-divestment performance of a company is still a neglected area by researchers, since they focus mainly on the general strategy perspective and that is why little is known concerning the post-divestment effect on the financial performance and healthiness of a company (Zschoche, 2016; Coudounaris, Orero-Blat, & Rodríguez-García, 2020).

The studies about the divestment's effect on company's financial performance started to appear almost at the same time as the papers on the divestment phenomenon itself. The researchers were concerned with the short-term and long-term performance of companies after divestitures. They usually considered the financial effect from the three different levels, namely host country, subsidiary and parent-company, comparing a year of divestment with the following and previous years so to gauge the difference. According to some empirical studies

conducted in the mid of 1990-s, it was found that long-run performance can be significantly improved through restructuring, while almost none or negative effect was observed in the short-term (Chang, 1996; Bergh, 1998). Even though unanimity is yet to be reached in the academic world with regards to financial effect of post-divestment due to lack of commonly accepted meanings of such terms as restructuring, sell-off or spin-off, results across research designate that divestment positively influences company's ensuing performance (Lee & Madhavan, 2010; Coudounaris, Orero-Blat, & Rodríguez-García, 2020) not only in the long run, but also having an immediate positive effect on a following year since a divestiture takes place, given a size of divested assets (French, Fujitani, & Yasuda, 2020).

There are two major approaches in assessing the divestment-performance relationship: market-based and accounting-based. The first one is concerned with the reaction of stock market participants on the divestiture announcement as well as calculation of the expected future cash flows that may bring along the news (Boone & Mulherin, 2000; Davies & Dickersin Van Wesep, 2018), while the second one is more related to the real actual business processes and changes in the operational efficiency, measured by ROA, EBITDA, net debt and other financial metrics (Markides, 1995; Zschoche, 2016; Coudounaris, Orero-Blat, & Rodríguez-García, 2020). We are interested solely in the accounting-based framework, since it reflects the immediate performance effect on the physical business viability within a year after divestitures, but not the noise and messy manipulations around the stock market. Among the empirical studies on the post-divestment financial effect and its results there is no academic cohesion, since the papers yield quite opposing outcomes. Some authors (Markides, 1995; Bergh, 1998; Coudounaris, Orero-Blat & Rodriguez-Garcia, 2020) conclude that divestments positively affect the financial performance of companies that previously overdiversified their business activities, improving its efficiency operationalized through ROS, ROE and ROA as well as reducing the burden of indebtedness level. The authors find that through a business reduction, disposing of some overly diversified parts, the firms can improve ROA, ROE and other profitability ratios, what is in line with the two crucial business arguments related to the asset allocation and financing principles (Lee & Madhavan, 2010). The asset allocation reasoning posits that disposal of a poorly performing unproductive asset is supposed to be positively related with a subsequent company's performance (Yang, 2008), while the financing one asserts that companies resorting to a divestment option optimize its business structure and diminish economic expenses (Bates, 2005; Vidal & Mitchell, 2017). Business downsizing

tends to increase net cash positions, improve cash flows as well as diminishes a leverage level for the parent-company (Ernst & Young, 2020). Besides, divestiture may bring positive outcomes if overseas operations are shifted back home, while companies have not exited the foreign markets, serving them through an export mode, thus they do not significantly lose in sales (Engel & Procher, 2013). While other papers (Montgomery & Thomas, 1988; Bergh, 1995) with different samples show the opposite results that divestment negatively influences the financial performance of a company, namely debt level, ROA and current ratio. Besides, badly performing companies because of a divestiture, disposing of some assets, may even deteriorate its market position due to the decreased volume of production, correspondingly sales and profits (Vidal & Mitchell, 2017).

However, besides the direct divestment-performance relationship there are some mediating factors that can significantly impact the subsequent financial conditions of a company. Firstly, subsidiary's age mitigates negative performance outcome after a divestment for older and therefore more experienced units, rather than for the recently established ones (Mohr, Konara, & Ganotakis, 2020). That can be explained with the organizational learning perspective, since subsidiaries slowly but surely in their operational and business processes overseas acquire knowledge and network, developing in a while their own capabilities independently from the parent-company, while the newly created subsidiaries are still heavily dependent on the headquarters in the starting years of its operations in terms of resources and knowledge transfer. Secondly, in line with the previous point, a lack of the parent's international experience both in investment and divestment in the host country or broad technological backwardness may deteriorate the post-divestment financial performance (Brauer, Mammen, & Luger, 2017; Humphery-Jenner, Powell, & Zhang, 2019), since the extra costs needed to implement a divestment deal may significantly exceed the calculated expenses and lead to a delicately vulnerable MNE's financial position (Delios & Beamish, 2001; Coudounaris, Orero-Blat, & Rodríguez-García, 2020). Thirdly, relatedness of the unit plays an important role. The closer an affiliate under the divestment plan is to the main business activity of the company, then more negatively it affects the overall company's health posture, while divesting measures aimed at getting rid of some units that present excessive diversification for the company and rather shift focus to the core competences, may bring more positive outcome increasing the business efficiency level (Bergh, 1995). Fourthly, it has been established that an entry mode can influence a likelihood of a subsequent divestment and the company's performance as well. As JVs and acquired brownfields due to a limited control exerted over

the business operations are not able sometimes to reconcile arising tensions between the stakeholders, these entry modes are much more prone to divestment and subsequent negative impact on the company's financial performance, while greenfield projects and WOSs are more resilient and drive stable expected development, if not affected by unfavorable host country macroeconomic setting (Hennart, Kim, & Zeng, 1998; McCloughan & Stone, 1998; Ogasavara & Hoshino, 2008). Lastly, divestments can be linked to each other and considered as a chain of disposals under a business restructuring program bringing greater value for shareholders as compared to sporadic isolated divestitures (Brauer & Schimmer, 2010).

3.2 Impact of political and institutional factors on MNE's post-divestment financial performance

Since the previous research on foreign subsidiary' divestment has neglected a significant role of institutional and political drivers, giving more preference to purely economic reasoning, there are almost no papers analyzing its effect on the post-divestment financial performance (Trąpczyński, 2016; Zschoche, 2016; Mohr, Konara, & Ganotakis, 2020), that is why this study seeks to enrich the existing literature with new empirical findings. We take a sample consisting of 86 foreign divestitures implemented by Russian MNEs that at least once divested their foreign assets over a period of 2010-2019. As systemized in the second chapter of the current study, there are 5 major political and institutional drivers of divestment from a host country, namely political stability distance, economic freedom distance, cultural distance, membership in the same regional organizations and sanction's effect which is more related to the case of Russian companies. Next, we will explore how each of the variable impacts the financial performance of firms and based on the findings could develop hypotheses about its effect on the post-divestment financial performance of Russian MNEs.

3.2.1 Political stability distance

First, with regards to the political stability distance, environmental risks may pose a great threat to a foreign subsidiary's existence and subsequent MNE's financial performance. As a result of political turbulence, a MNE either observes a deterioration or even a loss of its business part because of unexpectedly changing rules of the game. Constant market disruptions and institutional hurdles under political instability lead to the increasing transactions costs and

lower operational efficiency for MNEs with suffering margins, lost profit, exhausted cash position and magnified leverage, what requires more extra expenses and support from a parent-firm to help the foreign subsidiary in maintaining its viability and survivability likelihood (Liu, Gao, Lu, & Lioliou, 2016). Absence or insignificant political risks coupled with strong legal institutions promote business relations and positively influence a company's performance (Chintakananda & Tan, 2015; Manolopoulos, Bitzenis, & Tatoğlu, 2020). As it was recently proved, a high level of political hazards in a host country is negatively associated with a parent-company profitability, thus increasing odds for an overseas subsidiary divestiture (Coudounaris, Orero-Blat, & Rodríguez-García, 2020). Hence, we could hypothesize:

H6: Higher political stability distance existent between a host country and Russia leads to a more negative short-term post-divestment parent-level financial performance of Russian MNEs.

3.2.2 Sanctions

Secondly, in relation to sanction's effect, it causes political strife, diplomatic ties cut-off, uncertainty for business operations disrupting supply chains and increasing transaction costs for companies, undermining its operations, and thus negatively influencing profits (Meyer, Li, & Schotter, 2020). Companies that experience sanction's effect undergo increasing transaction costs, restricted access to capital and limited growth opportunities (Gurvich & Prilepskiy, 2015). Countries that impose sanctions on companies may also restrict its relations with partners, suppliers and customers, thus significantly impacting its financial performance in a negative way, otherwise they will need to pay a premium to deal with companies that are beyond the law and considered risky (Jonas, 2017). The decision to divest a subsidiary under sanction's effect is reactive, since being caught unprepared, companies have to come up with an immediate solution, whether to divest or stay and incur extra expenses (Damaraju, Barney, & Makhija, 2015). Besides, finding a buying side requires much of time and negotiations, otherwise the assets will be sporadically sold-off in a hurry at a price much lower than either a buying or a market one, thus leading to negative post-divestment financial performance as a result of lost investments (Brauer, Mammen, & Luger, 2017; Weber & Stępień, 2020). That is why we could derive the following hypothesis:

H7: Imposition of sanctions by a host country is negatively associated with the short-term post-divestment parent-level financial performance of Russian MNEs.

3.2.3 Economic freedom distance

Thirdly, the economic freedom concept, which is closely related with a fair market competition principle, drives companies to develop its capabilities and innovate improving its financial performance to stay in the business. Lack of regulative restrictions is a crucial prerequisite for an active involvement of all actors to exchange anything of value on the market setting stage for business confidence (Mavrakana & Psillaki, 2019). Cross-national differences in terms of market institution's functions, implying the proprietary rights protection and market openness, affect the business performance. Authors established that a low regulatory quality incurs higher transaction costs on companies, negatively affecting growth prospects and thus profitability (Puffer & McCarthy, 2011). Better regulations and lesser governmental interference with regards to capital, taxes, liberalized trade and labor promote effective business activities, thus reducing expenses and increasing profits for participating companies (Bykova & Coates, 2020). Empirical findings in a banking sector show that a higher economic freedom is positively related to the bank's better financial performance, operationalized through ROA (Gropper, Jahera, & Park, 2015). Lack of transparency and ambiguous regulative policies in relation to business can put some MNE's subsidiaries into a handicapped position with complicated possibilities for capital movement, unclear labor market laws and increasingly fluctuating tax burden that negatively affect the MNE's profitability and overall financial healthiness (Mohr, Konara, & Ganotakis, 2020). Given the findings, we could hypothesize:

H8: Higher economic freedom distance existent between a host country and Russia leads to a more negative short-term post-divestment parent-level financial performance of Russian MNEs.

3.2.4 Cultural distance

Cross-national cultural differences can substantially impact performance of overseas subsidiaries in a distant unfamiliar environment due to liability of foreignness that increases costs for companies (Hsu, Chen, & Caskey, 2017) as well as causing detrimental issues with knowledge transfer and communication among a MNE's headquarters and a subsidiary, deteriorated coordination and control practices between partners in a JV. Besides, the process of adaption to new settings requires time and effort, implying that in the beginning a foreign unit may incur only expenses and losses. Altogether these impediments lead to business inefficiencies and lower profits exacerbated by lack of previous relevant experience in internationalization directly dealing with local government, regulative bodies, foreign partners, suppliers and clients. The effect of cultural distance was found to be negatively but insignificantly associated with the firm's performance (Majocchi, Dalla Valle, & D'Angelo, 2015). Other studies revealed as well that the cultural distance is negatively related to the subsidiary's performance, while a parent-company is not affected (Beugelsdijk, Kostova, Kunst, Spadafora, & Essen, 2018). Given the findings, we could hypothesize:

H9: Higher cultural distance existent between a host country and Russia leads to a more negative short-term post-divestment parent-level financial performance of Russian MNEs.

3.2.5 Membership in regional integration organizations

Political networking and trade agreements between nations within a regional integration project can influence the company's legitimacy and therefore operations of their corresponding subsidiaries in the host countries (Meyer, Li, & Schotter, 2020). Political connections at the governmental level provide benefits for MNEs from the partnering home countries, while companies originating from home countries that are outside of the organization compete on equal with others or could face unexpected externalities in the form of unpredictably changing regulator's behavior towards the alien companies, what is especially evident in transitory economies with weak institutions (Yu & Lee, 2021). Favoring conditions for companies from the partnering countries, that do not hinder the firm's operations, positively contribute to its performance and profitability (Bruno, Campos, Estrin, & Tian, 2017). Country risks are diminished under commonly ratified political and economic agreements, since governments become more responsible for maintaining good governance practices and avoiding

discrimination towards companies coming from an associate's home country (Kreinin & Plummer, 2007). Besides, the countries that form an integrative block embark on harmonization policies, making the existent legal differences between the nations less substantial (Galiakberov & Abdullin, 2014). What is more, since countries forming an integration community happen to be located geographically close to each other, the transaction costs and liability of foreignness due to cultural proximity tend to be lower than an average for MNEs, thus improving financial performance of companies (Hillemann, Verbeke, & Oh, 2019). Altogether, these policies and conditions favor normal functioning of a subsidiary yielding better financial performance. On top of that, as we observe from the sample's evidence, number of FD cases competed by Russian MNEs taking place in the host countries that have membership in EEU and CIS is low (only 5 cases) compared to the sample size (86 FD cases), thus partly proving the point that the foreign subsidiaries located in the partnering host countries perform better and do not need to be divested. Therefore, given the findings, we could hypothesize:

H10: Membership of a host country in EEU, CIS or BRICS is positively associated with the short-term post-divestment parent-level financial performance of Russian MNEs.

Chapter 4. Research methodology and organization of the study

4.1 Data source

The empirical part of the paper is a quantitative research premised on a deductive approach and using secondary panel data gathered from different sources with regards to survivability of the Russian OFDI made by its leading MNEs. The dataset includes information concerning the Russian OFDI and FD which was predominantly derived from financial yearly reports and press releases of the companies, since such international databases as Thompson Reuters Eikon and ZEPHYR Bureau van Dijk unfortunately lack in data on deals related to Russia and mostly yield an output of offshore deals. It is not surprising, that most of the recorded deals in these financial databases have to do with offshores, since according to the latest update of the Russian OFDI breakdown by host countries, provided by the Russian Central Bank, tax heavens attract most of the Russian capital outflow (Russian Central Bank, 2021). As it is seen in the Figure 1 below, its percentage has been historically high with an indisputably major tax haven being Cyprus, that attracted 62% of all the Russian OFDI in 2019, what may be alluding to one of

the main motivations of Russian business – tax burden minimization and property rights protection.

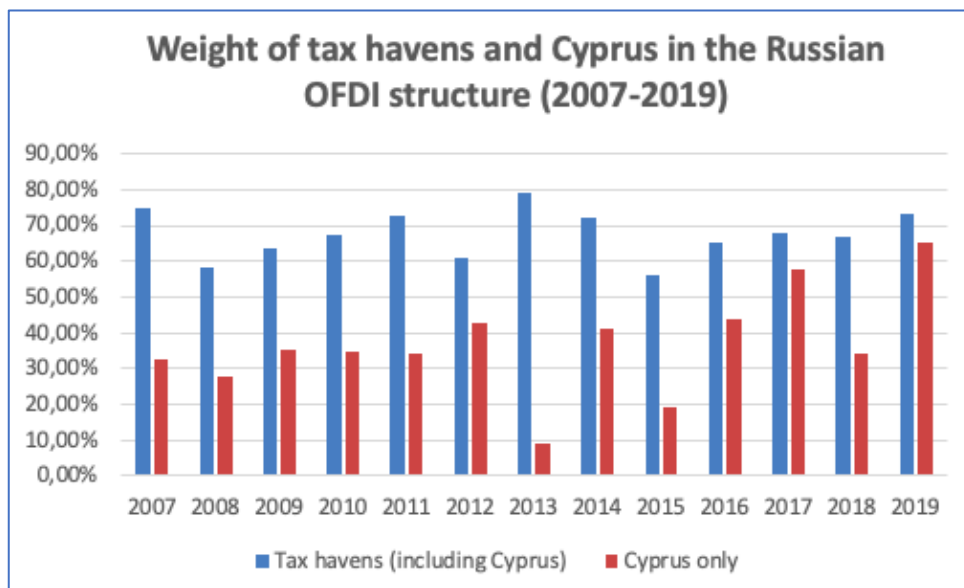


Figure 1. Weight of tax haven and Cyprus in the Russian OFDI structure, 2007-2019 (compiled by the author based on Russian Central Bank's data)

Even though the data on FD deals is hard to attain, since it is still predominantly kept under secret or at least not explicitly mentioned, the problem with data accessibility was solved through manual search for the FD deals a company by company in the corresponding financial statements and resorting to the leading business newspapers such as Vedomosti, RBK, Kommersant and Forbes to double-check.

The longitudinal data on institutional and political factors driving the FD as well as on macroeconomic control variables was taken mainly from three available databases. First, World Bank offers a free access to the plentiful systemized information on each country measuring its key governance indicators such as political stability, regulatory quality and control of corruption to name a few as well as macroeconomic components (GDP per capita and inflation, for example) in dynamics. Second, a US based think-tank the Heritage Foundation provides its annual assessments of the economic freedom index from multiple dimensions such as trade openness, tax burden, business confidence and others enabling the researchers to grasp both similarities and differences between the nations in terms of economic institutions. Third, Hofstede's index of cross-national cultural differences that constitute informal institutions gives an understanding of how distinct the countries are in terms of such

deep-seated national characteristics as masculinity, individualism, power distance, uncertainty avoidance, long-term orientation and indulgence based on a 0–100-point scale.

With regards to the impact of the institutional and political factors on the post-divestment short-term financial performance of the Russian MNEs, we must clarify, that very few companies disclose their units' operational information which a researcher can rely on, that is why the parent-company level of financial performance is taken for the analysis. Financial metrics needed to carry out the ultimate part of the empirical research were derived from Thompson Reuters Eikon platform that provides all the necessary information over a prolonged period. Overall, there were not any missing values within the dataset.

4.2 Sample characteristics

Time period selected for the present paper studying the FD phenomenon experienced by the Russian companies is limited to the range within 2010-2019 years because it is almost impossible to get any reliable and accurate information on overseas divestments prior to the period. Besides, the corporate culture of Russian companies was poor and not transparent before the period, while financial statements lacked in objectivity, not meeting international standards. What is more, the period of 2010-2019 coincided with a peak of foreign divestments in absolute numbers and volume, since in 2000-2010 Russian companies were dartingly expanding internationally and acquiring assets across the globe, however under world economic crisis and an ensuing declining stage in a commodity cycle (Erdem & Ünalmış, 2016) the Russian OFDI strong trend has halted (Liuhto & Majuri, 2014). The statistical evidence in relation to the Russian OFDI stock within 1999-2019 period is attached below (see Figure 2), which is based on data provided by UNCTAD and the Russian Central Bank, that can be used as a confirmation of the phenomenon.



Figure 2. Russian OFDI stock, 1999-2019 (compiled by the author based on Russian Central Bank’s data and UNCTAD World Investment Report 2019)

After excluding all the deals involving clandestine offshores from the output in the Thompson Reuters Eikon, we obtained the final sample containing 165 OFDI made by 20 biggest Russian MNEs over a period of 1992-2018. Out of 165 deals 83 were divested within 2010-2019, while 82 deals remained in place at the end of the observed period. The extract of the study’s dataset can be found in the Appendix 1. The companies under study operate in the following industries: oil and gas, metals and mining, banking, telecommunications, power and fertilizers, whereas other industries were either not presented at all or had inaccurate data. With regards to the industry distribution, 49% of FDs were carried out in the metals and mining industries, while 25% in oil and gas. Besides, the vast majority of the FDs (81%) were made by privately owned MNEs without government’s ownership. Concerning the time breakdown, the most frequent year for FDs was 2014 (13 deals) when the anti-Russian sanctions were imposed with a subsequent moderate downward trend of the divestiture’s reduction in numbers in the following years, getting down to 7 cases in 2019, for the last recorded year within the study. The sanctions’ effect has been detected in 48% of the cases. The Table 1 below gives an overall descriptive statistic of the FD sample.

Sector	№ of FD	Developed host countries	Developing host countries	Average longevity (in years)	Average % of divestment
Metals & mining	41	24	17	6,8	97
Oil & gas	21	9	12	10,9	84,3
Telecommunications	9	0	9	6,9	71,3
Banking	6	3	3	6	73,3
Power	3	0	3	8,7	96,7
Fertilizers	3	1	2	8,3	86
TOTAL	83	37	46	9,1	84,8

Table 1. Descriptive statistics of the sample with FDs (compiled by the author)

As shown in the Figure 3 below, the distribution of FD deals in the sample implemented over the period 2010-2019 is clearly dominant by the metals & mining and oil & gas sectors that constitute together 74% of all deals, which is not surprising due to the resource-oriented nature of the Russian economy. At the third place by frequency is placed the telecommunications sector which is mostly related to the failed attempts of MTS and VimpelCom to expand throughout the culturally close neighboring post-Soviet countries. The banking sector with two major state-owned players Sberbank and VTB is at the fourth place, since has not shown any drastic changes in its international strategy even after imposition of sanctions.

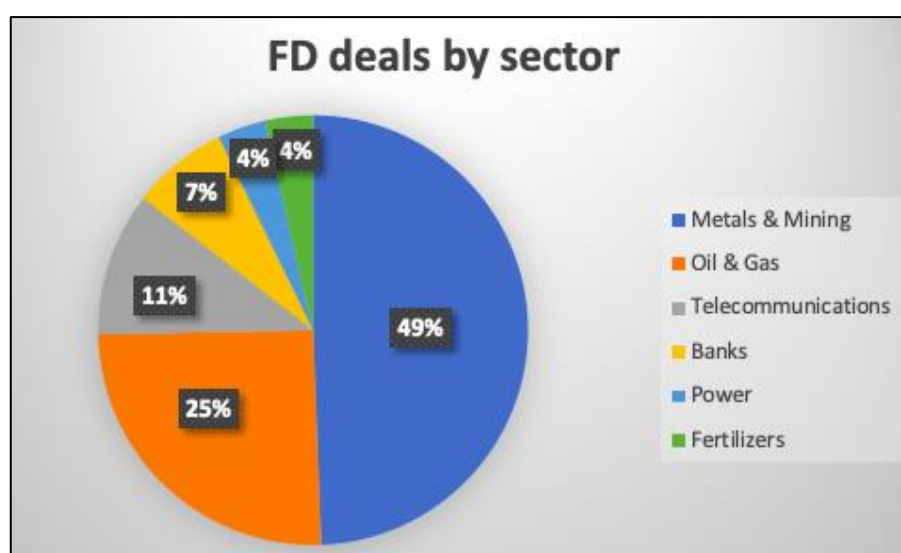


Figure 3. Sector-distribution of FD deals (compiled by the author)

Another descriptive observation concerning the current sample is that, as depicted in the Figure 4 below, the most saturated years for the FD activity of the Russian MNEs were post-sanctions 2014-2017 years with a subsequent slight downward trend. 2019 has seen a reduced number of FD deals (7 cases), what may be a good sign that first, companies got accustomed to new realities and second, they managed to transform their businesses and shift some capacities from the hostile host countries to either aligning neighbors by CIS and EEU or back home to Russia (Meyer, Li, & Schotter, 2020). Besides, it should be noted here that before 2014 there was FD activity as well, however 2-3 times lower on average than after the sanctions were imposed with a notable exception for 2013 which recorded 9 deals.



Figure 4. Time-distribution of FD deals (compiled by the author)

If seen from the absolute FD deals value by year perspective (see Figure 5), we can observe that 2014 has by far the largest volume with a following year 2015 reaching combined a value of divested foreign assets equivalent to more than 10 billion USD. An increased value in 2019 is mostly related to a mega deal when Sberbank sold its Turkish subsidiary bank Denizbank (Vedomosti, 2019). There should be noted 2011 year as well, since it is not related to the sanctions period, but had to do with a political quarrel between Hungarian government and Russian company Surgutneftegaz that acquired a stake in a Hungarian state-owned oil conglomerate MOL in 2009 and then was forced to sell its stake for approximately 2,6 billion USD given the Hungarian government's concerns over the country's energy security (Vedomosti, 2011). Besides, Severstal decided to exit some of its US based assets in 2011 due to inefficiency reasons, while remaining the most economically viable units such as a

modernized Dearborn and a greenfield factory Columbus that ensured full capacity and stable cash flows (Kommersant, 2014).



Figure 5. FD deals value by year in million USD (compiled by the author)

When it comes to the geographical distribution of the FD deals, we can point out that it is quite balanced with regards to both countries (Figure 6) and regions (Figure 7), however there are some exceptions that are worth mentioning. First, to all appearance, the USA and Ukraine happen to be the most frequent host countries for Russian MNEs divestment activity, which is reasonable due to the bilateral hostile political developments between Russia and the countries since 2014. Second, we can state that most of the FD deals took place in the post-Soviet host countries (Baltics included) and the EU, 55% combined.

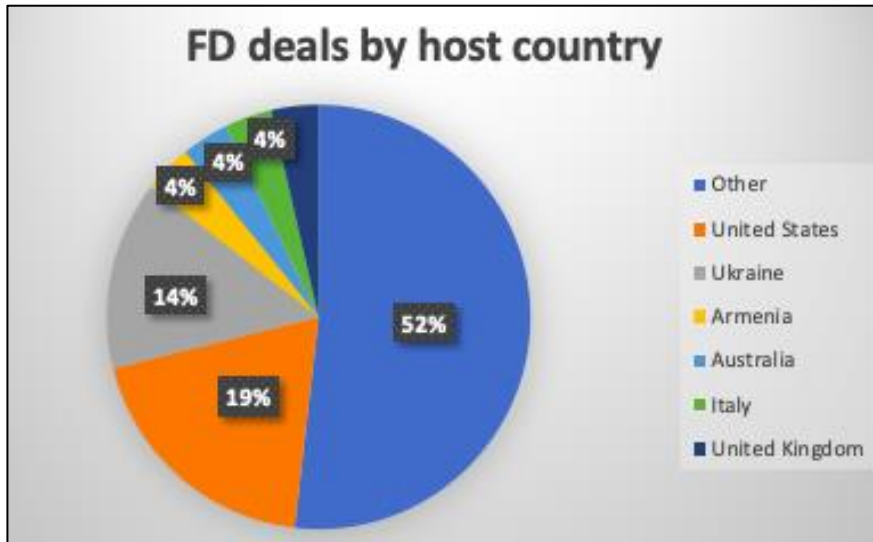


Figure 6. Host country distribution of FD deals (compiled by the author)

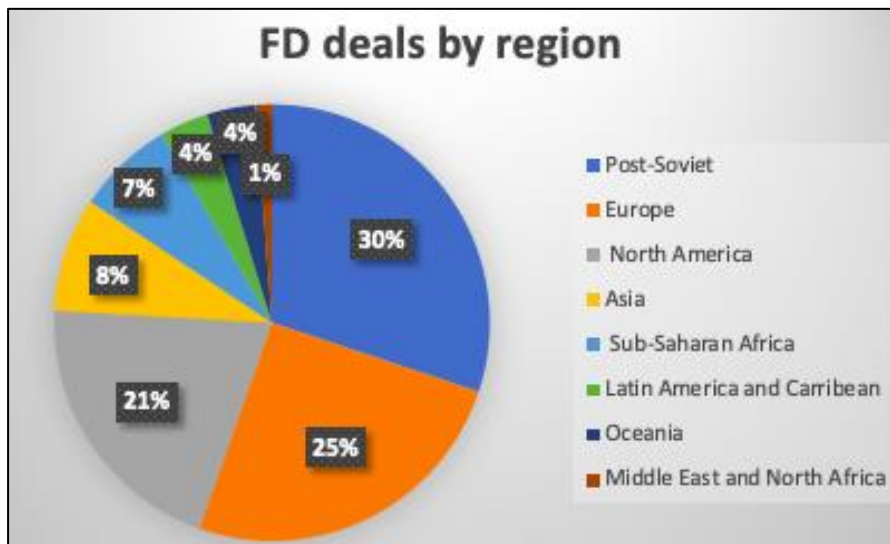


Figure 7. Geographical distribution of FD deals by region (compiled by the author)

4.3 Variable's operationalization

The present empirical study consists of two major parts and implemented in Stata software. The first one is dedicated to the analysis of the institutional and political factors' effect on the FD likelihood by the Russian MNEs, while the second part assesses the impact of these factors on the post-divestment short-term financial performance of the same 20 companies. We exploit the data from the above-mentioned resources to calculate the institutional distances between Russia and the host countries where the Russian MNEs are exposed to a feasible divestment risk. Thus, the research ends up counting with three institutional and two political variables that stay independent all the time throughout the study, what is in line with the preceding

research on the topic. The political variables – sanctions (Blake & Moschieri, 2017) and organizational membership (Borga, Ibarlucea Flores, & Sztajerowska, 2020) are computed as dummy ones, while two institutional factors – political stability (Schmid & Morschett, 2020) and economic freedom distances (Coudounaris, Orero-Blat, & Rodríguez-García, 2020) are calculated as differences in values between Russia and a host country in the following way:

$$\text{Distance} = |\text{IndexRussia} - \text{IndexHostCountry}|$$

Besides, the last third institutional variable which is the cultural distance is assessed according to a widely accepted formula suggested by authors Kogut and Singh (1988) and used in the previous academic works (Pattnaik & Lee, 2014; Kang, Lee, & Ghauri, 2017):

$$CD_j = \sum_{i=1}^6 \frac{(I_{ij} - I_{in})^2}{V_i} / 6$$

Where CD_j is the cultural distance between Russia (home country) and a host country j , whereas I indicate an index dimension and V its variance. Table 2 below provides a generalized view of all the five independent variables with its operationalizations under the study.

Variable	Operationalization
Foreign divestment (FD)	0=survival; 1=exit
Political stability distance (PSD)	Difference in values of the World Governance indicator
Sanctions	0=not imposed; 1=in effect
Economic freedom distance (EFD)	Difference in index's values
Cultural distance (CD)	Compounded difference of Hofstede's 6 indicators
Organizational membership (OM)	2=EEU or CIS; 1=BRICS; 0=none

Table 2. Operationalization of independent variables

Here we should stress that four macroeconomic control variables are used to check for external effects that may deter the companies from divestments and leaving a stable well-to-do market in accordance with the previous literature. First, GDP per capita signifies an overall attractiveness of a market in terms of purchasing power of its citizens what is supposed to be a driving factor for a divestment likelihood reduction (Borga, Ibarlucea Flores, & Sztajerowska, 2020). Second, inflation implies the macroeconomic stability both for a national currency and healthiness of an economy in general with a predictable development curve and cash flows for

the companies operating over there (Song, 2015; Coudounaris, Orero-Blat, & Rodríguez-García, 2020). Third, R&D expenditure as percentage of GDP refers to the level of innovative propensity which is inextricably connected with economic growth prospects and people's welfare which may persuade the companies to stay regardless of the political risks (Berry, 2013; World Bank, 2019). Fourth, oil rents as percentage of GDP are concerned with natural resources endowment of a country, what can be considered by the Russian companies specializing in raw materials or commodities as an appealing opportunity to carry on operations despite the existing institutional perils in a host country, thus decreasing the FD probability (Haque, 2021).

The second part of the empirical research is concerned with measurement of the political and institutional factors effect on short-term financial performance of the Russian MNEs parent-level. The data on the financial metrics is derived from Thompson Reuters Eikon which provides a systemized up-to-date information on thousands of companies across the globe. Post-divestment financial performance of the Russian MNEs is operationalized through five variables that measure profitability and a solvency status of a company, namely net profit, net margin, ROA, ROE, and net debt, following the findings and propositions in the previous literature (Coudounaris, Orero-Blat, & Rodríguez-García, 2020; Borga, Ibarlucea Flores, & Sztajerowska, 2020). The profitability is assessed from different angles such as absolute value of net profit, as percentage relative to revenue – net margin, relative to assets that consist of both borrowed and own capital – ROA (Norbäck, Tekin-Koru, & Waldkirch, 2015) as well as relative to only equity – ROE (Pattnaik & Lee, 2014; Schmid & Morschett, 2020), because the financial statements can be manipulated and thus we ensure a universal approach that will not lose anything important. The financial variables are used as the dependent ones, which are calculated according to a formula below by subtracting a year's value when a FD takes place (x_{t1}) from a value of the following year after the divestment deal (x_{t2}):

$$Y_i = x_{t2} - x_{t1}$$

4.4 Analysis procedure and results

4.4.1 Institutional and political factors affecting the FD probability

The most common statistical method used in studying the FD phenomenon over the last decades has been a Cox proportional-hazards model (CPHM) which is a semiparametric survival analysis measuring multiple factors that may influence the survival time or longevity of units under study (Arte & Larimo, 2019; Schmid & Morschett, 2020; Silva & Moreira, 2021). It is widely used in different academic fields such as medicine in analysis of antecedents leading to a faster patient's convalescence under effect of a drug as well as in finance and other economics related scientific domains assessing a company's probability to go bankrupt and not be able to pay down its debt obligations, for example. For the current study we exploit CPHM, since based on two interrelated dependent variables – event occurrence, which is in our case a divestment, and a subsidiary's longevity, it allows us to statistically prove under which conditions and at which time a unit is more probable to be divested compared to others. Besides, it uses panel data to capture cross-national differences that could significantly impact the survivability likelihood of a foreign subsidiary. The dependent variable is operationalized through computing two possible values, 0 for those observations that survived at the end of the recorded period, while attributing 1 to those units that were divested as well as analyzing its longevity. This approach and operationalization were widely exploited in the previous research on the topic (Pattnaik & Lee, 2014; Kang, Lee, & Ghauri, 2017; Silva & Moreira, 2021). In its final form the CPHM formula looks the following way:

$$H_i(t) = h_0(t) + b_1 * x_{i1} + b_2 * x_{i2} + b_3 * x_{i3} + b_4 * x_{i4} + b_5 * x_{i5}$$

Where $H_i(t)$ is the dependent variable which indicates a hazard rate or likelihood of an overseas subsidiary belonging to a Russian MNE to be divested at a particular time (t), while $x_{i1} - x_{i5}$ are predictive independent political and institutional variables with the corresponding coefficients ($b_1 - b_5$) influencing the hazard function that changes in time. Coefficient's value greater than 1 implies that the hazard rate for a divestment event increases with a foreign subsidiary's lifetime reduction. If the value is lower than 1, it means that likelihood of a divestment to occur diminishes, while increasing a unit's longevity.

Next, we move to the model's empirical testing using the sample of 165 Russian OFDI deals and subsequent 83 FDs that occurred within 2010-2019 years. There are three models being tested. First, the effect of institutional and political factors on FD likelihood only, then,

second, it is supplemented with macroeconomic variables and third, we add a grouping variable that divides the sample into the developing and developed host countries. But before running the CPHM survival analysis using three different models, correlation analysis should be performed. Its results in the Table 3 below show us that the five independent institutional and political variables, namely political stability distance, sanctions, economic freedom distance, cultural distance and organizational membership are correlated between each other either to a moderate or low degree, what is good for the study.

Matrix of correlations										
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Polit_stab dist	1.000									
(2) Sanctions	-0.231	1.000								
(3) Econ freed dist	0.284	-0.181	1.000							
(4) Cultural_dist	-0.135	0.241	-0.242	1.000						
(5) Org_memb	0.200	-0.259	0.184	-0.253	1.000					
(6) GDP per capita	-0.299	0.454	-0.267	0.390	-0.420	1.000				
(7) Inflation	0.499	-0.140	0.349	-0.432	0.057	-0.218	1.000			
(8) R&D%GDP	-0.498	0.386	-0.256	0.210	-0.267	0.285	-0.168	1.000		
(9) Oil rents %GDP	0.217	-0.301	0.208	-0.173	0.127	-0.021	0.083	-0.235	1.000	
(10) Type_of_country	-0.484	0.455	-0.480	0.382	-0.377	0.306	-0.497	0.324	-0.260	1.000

Table 3. Correlation matrix 1

The Cox Proportional-Hazards Model 1 yielded an output with five hazard ratios, coefficients, and significance levels for each independent variable as shown below in Table 4. The overall model fit is quite good, since Chi-square is 32,8 at a statistically significant level. When it comes to the coefficient's interpretation, a negative sign of coefficients indicates that hazards decrease, while survivability and thus longevity increases. A positive sign of coefficients, on the contrary, signifies that the hazards magnify putting at greater risks survival probability and reducing a subject's longevity.

Cox Proportional-Hazards Model (CPHM) Regression results								
_t	Coef.	Haz. Ratio	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
Polit_Stab dist	.007183	1.007	.202	0.04	.971	.68	1.491	
Sanctions	-.9678495	.38	.101	-3.64	0	.225	.64	***
Econ Freed dist	-.0315321	.969	.017	-1.81	.07	.936	1.003	*
Cultural_dist	.0009399	1.001	.002	0.53	.599	.997	1.004	
Org_memb	-.7208974	.486	.099	-3.53	0	.326	.726	***
Mean dependent var		9.982		SD dependent var		4.557		
Pseudo r-squared		0.044		Number of observations		165.000		
Chi-square		32.798		Prob > chi2		0.000		
Akaike crit. (AIC)		726.799		Bayesian crit. (BIC)		742.329		

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 4. Cox proportional-hazards model 1

The results of the Model 1 give three independent variables with negative coefficients demonstrating a decreasing risk of divestment. First, hazard ratio of 0,38 in relation to sanctions implies that foreign subsidiaries of the Russian MNEs located in the host countries that did not impose sanctions are by 62% less likely to be divested at a significant level. Second, hazard ratio of 0,97 yielded that a lower economic freedom distance existent between a host country and Russia reduces a risk of divestment for Russian companies by 3% at a significant level 0,07. Third, hazard ratio of 0,49 in relation to organizational membership means that belonging of a host country to the same organizations along with Russia reduces the risk of divestment by 51% at a significant level 0. We should mention here as well that the most powerful independent variables in terms of predictiveness are sanctions (-0,97) and organizational membership (-0,72), what can be proved as well graphically below in the Figures 8 and 9 correspondingly, whereas the economic freedom distance's impact is low (-0,03). At the same time, the other two variables, political stability distance and cultural distance, were not found to be significant and influential since the hazard ratios are very close to 1 and p-values much higher than 0,1.

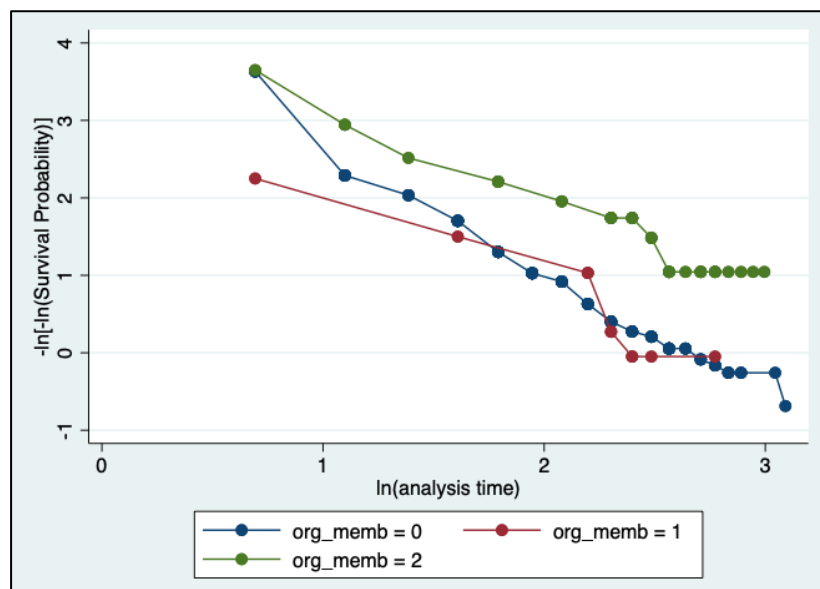


Figure 8. Better survival likelihood in the partnering host countries

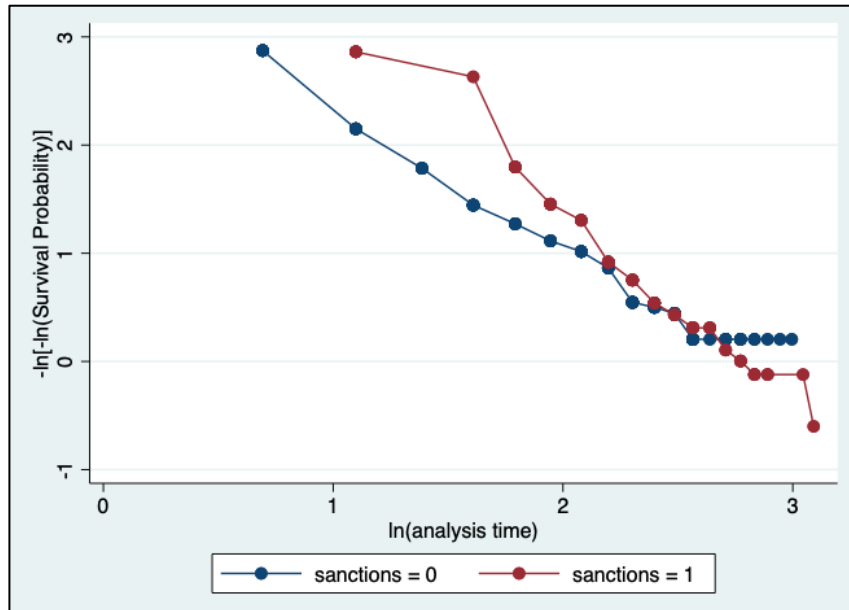


Figure 9 . Better survival likelihood without sanctions' effect

The Cox proportional-hazards model 2 that yields results presented in Table 5 controls for the market attractiveness using macroeconomic variables observed in the host country in terms of purchasing power of residents (GDP per capita), macroeconomic stability (inflation), innovation propensity (R&D expenditure as percentage of GDP) and natural resources endowment (oil rents as percentage of GDP), what altogether may deter the companies from divestments and leaving a stable well-to-do market. With regards to correlations between the variables, there were no detected high values that could distort the results (see Table 3). Besides, the overall model fit of the second model is even better than for the first one since Chi-square is 56,6 at a significant level 0. The second model, contrary to the expectations, gives us evidence that the macroeconomic factors do not happen to be important for the foreign divestment likelihood by Russian MNEs, with only two slight exceptions for inflation and oil rents percentage compared to GDP factors in the host country. Higher inflation increases likelihood of divestment and reduces longevity of foreign subsidiaries by 7,6% at a significant level 0,011, while oil rents on the contrary cuts the risk by 8% and thus improving longevity at a significant level 0,035. Here we can make an intermediate observation that the foreign assets of Russian companies are more resilient in the host countries that demonstrate greater macroeconomic stability with lower inflation rates and that are endowed with natural resources, what is not surprising, since the Russian economy is largely dependent on oil and gas thus giving it a higher priority both domestically and abroad (World Bank, 2020).

CPH Model 2 with macroeconomic control variables, regression results:								
_t	Coef.	Haz. Ratios	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
Polit_stab dist	-.2211479	.802	.172	-1.03	.302	.527	1.22	
Sanctions	-.7422285	.476	.141	-2.51	.012	.266	.851	**
Econ_freed dist	-.0477078	.953	.018	-2.49	.013	.918	.99	**
Cultural_dist	.0045242	1.005	.002	2.12	.034	1	1.009	**
Org_memb	-.4490113	.638	.145	-1.98	.048	.409	.995	**
GDP_per_capita	-.0192538	.981	.013	-1.51	.131	.957	1.006	
Inflation	.0729825	1.076	.031	2.55	.011	1.017	1.138	**
R&D%GDP	-.0204174	.98	.274	-0.07	.942	.566	1.696	
Oil_rents%GDP	-.0832983	.92	.036	-2.10	.035	.851	.994	**
Mean dependent var		9.982		SD dependent var		4.557		
Pseudo r-squared		0.075		Number of observations		165.000		
Chi-square		56.574		Prob > chi2		0.000		
Akaike crit. (AIC)		711.023		Bayesian crit. (BIC)		738.976		
*** $p < .01$, ** $p < .05$, * $p < .1$								

Table 5. Cox proportional-hazards model 2

What is more, peculiar observations are recorded in the independent variables. First, hazard ratio changes for political stability distance from 0% to 20% but remains insignificant. Second, the hazard ratio of sanctions reduces from 62% to 52%. Third, hazard ratio of the economic freedom distance did not change much with introduction of macroeconomic control variables from 3% up to 5%. Fourth, cultural distance variable becomes statistically significant at 0,034 level but has a very low predictive power (0,005). Fifth, hazard ratio of organizational membership fell two times from 52% to 26%.

Next, we need to adjust our model for the differences between developing and developed host countries running the model a third time, since their institutional quality and political background differs to a large extent (Rottig, 2016) and thus can bring significantly different results for two groups. The third model tests effects of institutional and political independent variables on a foreign subsidiary divestment likelihood and longevity both in developed and developing host markets. Our sample consists of 165 deals that occurred in 58 unique host countries, wherein 39 are developing nations and 19 are developed markets. 100 deals originated in emerging markets, while 65 deals occurred in developed countries. The classification of the countries is carried out and illustrated below in the Table 6 in accordance with the IMF definitions (IMF, 2021).

Emerging host markets	Developed host countries
-----------------------	--------------------------

Angola, Armenia, Azerbaijan, Belarus, Botswana, Brazil, Bulgaria, Cambodia, Cameroon, China, Colombia, Egypt, Georgia, Guinea, Guyana, India, Iraq, Jamaica, Kazakhstan, Kyrgyzstan, Laos, Libya, Moldova, Nigeria, Oman, Poland, Qatar, Romania, Saudi Arabia, Serbia, Sierra Leone, South Africa, Tajikistan, Turkey, Turkmenistan, Ukraine, United Arab Emirates, Uzbekistan, Vietnam	Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Italy, Latvia, Lithuania, Netherlands, Slovak Republic, Switzerland, United Kingdom, United States
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Table 6. Classification of countries under study according to IMF

After adding a new dummy variable “type_of_country” that computed 0 for an emerging host country and 1 for a developed host nation, the results presented in Table 7 indicate that survivability rate and longevity of foreign subsidiaries owned by Russian MNEs are higher in developing countries rather than in developed ones, because the coefficient is negative (-0,65) with a hazard ratio of 0,52, what can be interpreted as the divestment likelihood for Russian MNEs in the emerging markets is by 48% lower than in the developed countries. This observation can be clearly seen in the Kaplan-Meier survival estimates depicted in Figure 10 below with a better performing curve at least till the 0,5 line, which accounts for the first 50% of the observed time, for the foreign subsidiaries located in the emerging markets which are closer to Russia in terms of institutional and political development. However, the results are not significant since p-value is 0,128, that is why the researchers cannot rely on this finding so far.

CPH Model 3 adjusted for a type of country (developed or developing), regression results:

_t	Coef.	Haz. Ratio	St. Err.	t-value	p-value	[95% Conf	Interval]	Sig
Polit stab dist	-.1205468	.886	.187	-0.57	.568	.586	1.34	
Sanctions	-.7640092	.466	.14	-2.54	.011	.258	.84	**
Econ freed dist	-.0363514	.964	.017	-2.09	.037	.932	.998	**
Cultural_dist	.0021152	1.002	.002	1.09	.276	.998	1.006	
Org memb	-.7328382	.481	.098	-3.58	0	.322	.717	***
Type of country	-.6532454	.52	.223	-1.52	.128	.224	1.207	
Mean dependent var		9.982		SD dependent var		4.557		
Pseudo r-squared		0.047		Number of observations		165.000		
Chi-square		35.060		Prob > chi2		0.000		
Akaike crit. (AIC)		726.537		Bayesian crit. (BIC)		745.172		

*** $p < .01$, ** $p < .05$, * $p < .1$

Table 7. Cox proportional-hazards model 3

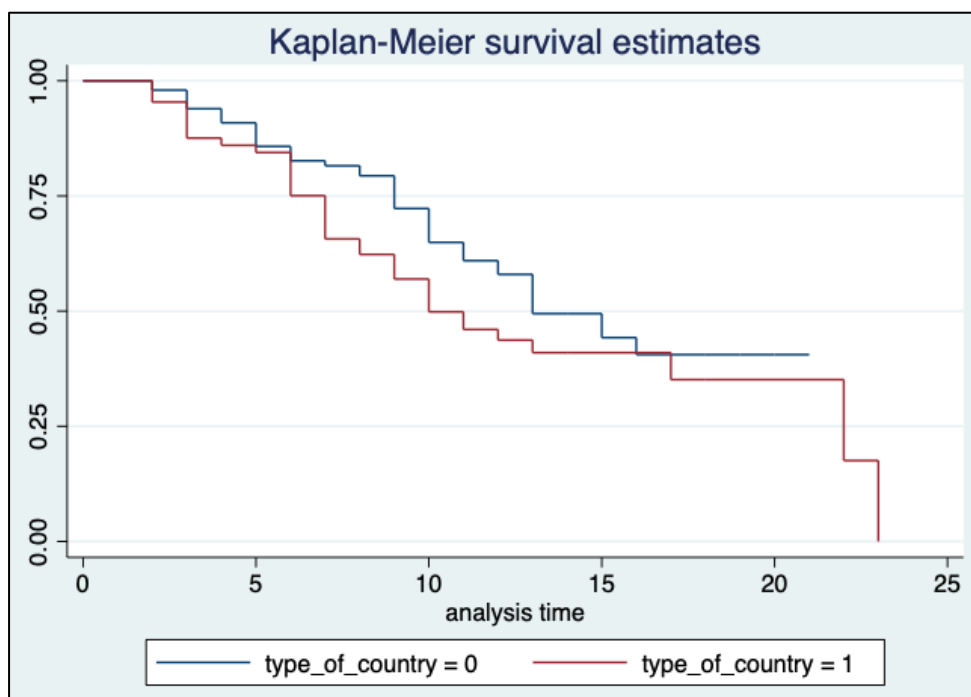


Figure 10. Survival curves for developed (1) and emerging (0) host countries, Model 3

Another way to look at this from a statistical point of view can be found in the Table 8, showing that the overall survivability rate of Russian OFDI is around 50%, since 83 cases were divested and 82 remained operating, whereas the average longevity of the divested assets across the sample is around 8 years. Survivability rate for deals taking place in the developed host countries is 45% (36 were divested out of 65) and the average longevity of divested units is around 8,25 years, while in relation to the emerging markets, it is 53% (since 47 deals were divested out of 100) and around 8 years correspondingly, thus not yielding any significant differences once two groups are compared.

	Number of OFDI deals	Number of divested assets	Average longevity (in years)
Emerging host countries	100	47	7,94
Developed host countries	65	36	8,25
Total	165	83	8,07

Table 8. OFDI and divestment statistics of the sample (compiled by the author)

Thus, summing up the empirical results, we can state that at least three out of five independent institutional and political variables were found to be statistically significant and

powerful in predicting the foreign divestment likelihood supporting our hypotheses. Foreign divestment probability decreases while an overseas subsidiary’s longevity enhances under the following conditions: without sanctions’ effect imposed by the host countries on Russia (H2), under lower economic freedom distance existent between Russia and a host market (H3) as well as if a recipient country belongs to the same integrational organization along with Russia (H5). In the meantime, political stability distance (H1) and cultural distance (H4) did not yield any significant results, thus not finding any statistical support for the hypotheses what may be improved in further studies exploiting a larger sample and controlling for more variables.

4.4.2 The effect on the post-divestment performance

After completing the Cox proportional-hazards regression analysis in relation to the institutional and political variables’ effect on the FD likelihood by the Russian companies, we can move forward to the final part of the empirical study to measure the effect of these five variables on the post-divestment financial performance of the Russian MNEs. For this type of analysis, we run a multivariate regression with five dependent financial variables, namely net margin, net profit, net debt, ROE and ROA, that are predicted by the five institutional and political independent variables studied and used previously within the present paper.

The sample of deals for the analysis is restricted only to those which were divested, resulting in 83 FDs over a period of 2010-2019. We assess the impact of a foreign divestiture on the financial post-performance in the short-term, calculating the difference between a year of divestment and the following one. As it is evident from the Table 9, correlations of the variables are within normal range that allows us to avoid any substantial distortions in the results and its interpretation.

Matrix of correlations										
Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) polit_stabdist	1.000									
(2) sanctions	0.016	1.000								
(3) econ_freeddist-e	0.213	-0.062	1.000							
(4) Cultural_dist	-0.376	0.046	-0.772	1.000						
(5) org_memb	0.179	-0.329	0.278	-0.371	1.000					
(6) netmargin	-0.288	0.177	-0.297	0.309	-0.129	1.000				
(7) netprofitbln	-0.300	0.370	-0.268	0.153	-0.163	0.327	1.000			
(8) netdebtbln	-0.049	-0.028	-0.101	0.081	-0.022	-0.011	-0.054	1.000		
(9) ROE	0.029	0.184	-0.020	0.170	-0.107	0.297	0.265	-0.081	1.000	
(10) ROA	-0.119	0.238	-0.210	0.289	-0.205	0.391	0.389	-0.094	0.810	1.000

Table 9. Correlation matrix 2

From the Table 10 with the regression output, that provides R-square and p-values for each independent variable, we can clearly observe that four out five variables have predictive power at a significant level. The only exception is the organizational membership variable that was not found to be both powerful and significant since it has R-square of 0,06 and p-value 0,42.

Equation	Observ.	Parameters	RMSE	"R-sq"	F	P
Polit_stab dist	83	6	.9617	0.1716	3.190349	0.0114
Sanctions	83	6	.4788	0.1483	2.680922	0.0275
Econ_freed dist	83	6	11.53	0.1919	3.657593	0.0051
Cultural dist	83	6	88.95	0.1501	2.719709	0.0257
Org_memb	83	6	.6336	0.0616	1.011702	0.4167

Table 10. Multivariate regression analysis on financial performance

Going deeper into the analysis of each variable's predictive power on financial metrics, we can infer the following observations from the generalized Table 11 below with all the coefficients and other properties. First, the political stability distance negatively affects net profit with the highest coefficient (-0,105) and net margin at a statistically significant level, while a positive effect on ROE is extremely low, even though it has a p-value of 0,08. Second, the sanctions happen to have only one significant relationship with net profit, which is negatively affected given a statistically significant coefficient (-0,07). Third, the economic freedom distance which has the greatest R-squared (0,1919), negatively influences three financial variables simultaneously at a significant level, namely net margin (-0,26), ROE (-0,17) and ROA (-0,64). Fourth, the cultural distance yielded quite ambiguous results, since it positively impacts net margin (2,14) while having a negative effect on ROA (-4,2) at a significant level. Besides, it should be noted that we have not managed to detect any significant relationship between the independent variables and net debt of the Russian companies, therefore we cannot claim any impact on it so far.

	Coef.	Std. Err.	t-value	p-value	[95%Conf. Interval]	Sig
Polit_stab dist						
Net_margin	-0.024	0.012	-1.970	0.052	-0.047 0.000	*
Net_profit	-0.105	0.052	-2.030	0.046	-0.208 -0.002	**
Net_debt	-0.022	0.039	-0.550	0.581	-0.100 0.056	
ROE	0.011	0.006	1.790	0.078	-0.001 0.024	*
ROA	-0.026	0.025	-1.060	0.292	-0.075 0.023	
cons	-0.646	0.116	-5.580	0.000	-0.877 -0.416	
Sanctions						
Net_margin	0.002	0.006	0.280	0.778	-0.010 0.014	
Net_profit	-0.071	0.026	-2.740	0.008	0.019 0.122	***
Net_debt	-0.000	0.019	0.000	0.996	-0.039 0.039	
ROE	0.000	0.003	0.130	0.900	-0.006 0.007	
ROA	0.005	0.012	0.420	0.675	-0.019 0.030	
cons	0.408	0.058	7.070	0.000	0.293 0.522	
Econ_freed dist						
Net_margin	-0.263	0.144	-1.830	0.070	-0.549 0.023	*
Net_profit	-0.847	0.622	-1.360	0.177	-2.085 0.391	
Net_debt	-0.534	0.469	-1.140	0.259	-1.467 0.400	
ROE	-0.172	0.075	-2.280	0.025	0.022 0.322	**
ROA	-0.635	0.296	-2.150	0.035	-1.224 -0.046	**
cons	-10.052	1.389	-7.240	0.000	-12.817 -7.287	
Cultural_dist						
Net_margin	2.138	1.108	1.930	0.057	-0.068 4.343	*
Net_profit	-0.288	4.795	-0.060	0.952	-9.836 9.260	
Net_debt	3.525	3.616	0.970	0.333	-3.675 10.725	
ROE	-0.564	0.581	-0.970	0.335	-1.721 0.593	
ROA	-4.214	2.281	-1.850	0.069	-0.328 8.756	*
Org_memb						
cons	145.978	10.708	13.630	0.000	124.656 167.301	
Net_margin	-0.002	0.008	-0.290	0.771	-0.019 0.014	
Net_profit	-0.024	0.035	-0.670	0.506	-0.094 0.047	
Net_debt	-0.010	0.027	-0.380	0.707	-0.063 0.043	
ROE	0.004	0.004	0.830	0.407	-0.005 0.012	
ROA	-0.024	0.017	-1.440	0.155	-0.057 0.009	
cons	0.358	0.079	4.550	0.000	0.201 0.514	

Table 11. The regression output

Thus, we can conclude that the empirical results establish a negative significant effect of the political stability distance, sanctions, and economic freedom distance on the financial short-term post-divestment performance of the Russian MNEs at a parent level thanks to the statistical evidence what is in line with the hypotheses (H1-H3). The effect of the cultural distance remains controversial due to opposite signs of the corresponding coefficients, not allowing us to claim any reliable support for the H4, while the influence of the organizational membership has not been found to be significant and strong at all, showing the weakest results, thus making us reject H5. However, it still requires further studies and larger samples exploiting more data from a subsidiary's level, since overall, the effect on the parent-level financial performance is quite negligible and small. Besides, there need to be adjustments for a subsidiary's size, the information on which is still very scarcely provided in the financial reports of the Russian companies, limiting a scope of the research.

4.5 Conclusions and discussion

The aim of the present study is two-fold. First, to assess the impact of both institutional and political antecedent factors that influence the FD activity of the Russian MNEs and second, to measure effect of these variables on the post-divestment short-run financial performance within a year after a divestment takes place at a parent-level. Specifically, we examine three institutional distances existing between Russia and host countries in terms of political stability, economic freedom and culture as well as two political factors – sanctions and organizational membership contributing to the topic's research by performing a quantitative survival analysis based on Cox proportional-hazards model and providing new statistical evidence.

Since both political and institutional factors are closely intertwined with economic growth prospects and business opportunities in a country, it greatly influences a company's decision-making process with regards to investing, staying or leaving a foreign market under unpredictably perilous conditions (Meyer, Li, & Schotter, 2020). Nowadays its effect increases even more with a return of mutually defensive protectionist policies and other hostile measures such as imposition of sanctions, what is especially relevant for the Russian MNEs (Telegina & Khalova, 2019). The first part of the conducted empirical analysis, which is concerned with the institutional and political factors' effect on FD likelihood of overseas subsidiaries owned by large Russian companies, suggests the following valuable findings.

First, out of the five independent variables, sanctions happen to be the most influential predictor of a foreign subsidiary's survivability likelihood, since it obtained the highest predictive power in the Cox proportional-hazards model output having a negative coefficient (-0,74) and a hazard ratio of 0,48 meaning that subsidiaries located in host countries that did not join the anti-Russian sanctions regime have been by 52% less inclined to be divested rather than in those countries that supported sanctions implementation. That is not surprising because sanctions have been a distinguishing feature of the Russian business after a political crisis breakout and deteriorated relations of Russia with both the Western countries and neighboring Ukraine since 2014 with detrimental consequences for the Russian firms. Apart from the worsened negative attitude towards business with a Russian origin on the part of the foreign partners, suppliers and clients, the Russian businesses faced a restricted access to the Western technologies and international capital markets to refinance its debt and drive economic growth, thus decreasing their business potential, experiencing declined revenues and plunging into a stagnating phase (Gould-Davies, 2018). Altogether, the effects of sanctions exacerbated the already existent political tensions and concerns, increasing liability of foreignness and transaction costs till an intolerably high level for some foreign subsidiaries owned by the Russian companies forcing them to be subsequently divested. As a result, we can safely state that the hypothesis №2 is clearly supported.

The second most powerful political predictor is the fact of a host country's belongingness to the same integration or political organizations along with Russia such as Eurasian Economic Union, Commonwealth of Independent States and to a lesser extent BRICS. Membership in the organizations implies political support, lesser risks and absence of deterrent impediments for doing business in the partnering host countries. According to the results of the analysis, this variable yielded a negative coefficient (-0,45) and a hazard ratio of 0,64 signifying that if a foreign unit of a Russian MNE is based in a host country that participates in either EEU, CIS or BRICS, its likelihood of being divested decreases by 36% and the longevity increases. As it was expected, the results indicate that existence of profound economic and political relationships between the countries at the highest official level can be a fertile soil for international business operations with higher odds for a subsidiary's survival and longer lifespan in a foreign host country (Georgopoulos & Sogiakas, 2019). So at least those political and institutional hazards typical for emerging countries are reduced to a minimum and can be controlled while having operations and capacities established in countries from the same

integration block. That is why the hypothesis №5 receives statistical evidence and can be supported.

Third institutional factor which is the economic freedom distance has a smaller effect on the FD likelihood given its negative coefficient (-0,05) and a hazard ratio of 0,95, however statistically significant at 99% probability level, meaning that a lower economic freedom distance existent between the countries reduces the odds of a FD by the Russian MNEs by 5% and prolongs functioning of the foreign affiliates in these host nations. It is supposed that companies from emerging markets are more accustomed to the institutional realities of their unperfect home markets, having more experience and knowledge in navigating and managing overseas operations under similar settings (Liu, Yang, Li, & Liu, 2021). In line with the previous literature (Mohr, Konara, & Ganotakis, 2020; Borga, Ibarlucea Flores, & Sztajerowska, 2020), we can conclude that the lower cross-national differences in terms of market institutions such as financial and monetary system, labor force market, trade openness, FDI regulations and tax policies, that altogether constitute the economic freedom distance, increase likelihood of a foreign subsidiary controlled by a Russian MNE to survive. If the aggregated distance in these dimensions is low between the countries, then it is more probable that companies will face lesser unpredictable issues and be more resilient to a FD outcome, therefore we can infer that based on the findings, the hypothesis №3 is supported.

As for the fourth informal institutional factor which is the cultural distance, even though it was found to be statistically significant, its effect on the FDs made by the Russian companies is negligible, because the models provide us with extremely low coefficients that are near 0 implying that it has almost no impact on the foreign assets divestiture, that is why the expected results are not met as well as the hypothesis №4 has not gained any statistical support, requiring further studies exploiting another operationalization through distinct variables. It is worth instead of carrying on with the Hofstede's cultural dimensions to try rather a factor of the common Soviet past background, grouping a sample into four categories such as USSR members, participants of the Warsaw pact, neutral countries and hostile capitalist nations, however it may be highly correlated with the sanctions or other variables.

With regards to the last fifth factor within the study which is the political stability distance, it did not produce any statistically significant or reliable results due to a high p-value (0,3), however judging from a negative coefficient (-0,22) and a hazard ratio (0,8) perspective it may give us some understanding of the factor's effect direction. The interpretation of its statistical

parameters shows us that a foreign affiliate of the Russian MNEs, based in a host country that has a low political stability distance with Russia, are by 20% less likely to be divested. Nevertheless, we believe that the paper's inability to establish a statically significant relationship can be partly explained by the most recent findings in the literature. It was revealed that the country's risk is perceived by companies not as an absolute measure but rather as a relative ratio that should be below or above a particular threshold, extreme scenarios of impeccable political stability or complete chaos do not tend to influence a company's decision to dispose or sell-off a foreign asset (Yasuda & Kotabe, 2020). Therefore, since we did not manage to find any evidence, the hypothesis №1 cannot be neither supported nor rejected, demanding further studies with an adjusted operationalized variable that would measure a relative political stability distance factor.

Another observation during the model's running is that there is no statistically significant difference of the FD likelihood by Russian companies of their overseas affiliates based either in developed or emerging host countries, even though the analysis yields a strong negative coefficient (-0,65) and a hazard ratio of 0,52, implying that Russian subsidiaries located in the emerging markets are by 48% less likely to be divested rather than form the developed host countries. That could be partially related to a lower number of developed countries (19) in the sample compared to the emerging markets (39).

In relation to the macroeconomic control variables, there were established statistically significant effects of an inflation rate and oil rents as a percentage to GDP in the host countries. It is believed that companies could be disenchanted with a rampant inflation and the currency devaluation that lead to impoverishment of the locals and lower demand for their products or services even despite the existing arbitrage opportunities (Balaban, Živkov, & Milenković, 2019; Borga, Ibarlucea Flores, & Sztajerowska, 2020). The present research finds that a higher inflation in a host country is positively related to the increasing likelihood of a Russian foreign affiliate divestment by 8 %, since it has a positive coefficient (0,073) and a hazard ratio of 1,08. Besides, oil rents as a percentage of a host country's GDP in its turn can deter the Russian OFDI from exiting a recipient country with a higher natural resource's deposits, what is statistically proven in the current paper, since it has a negative coefficient (-0,08) and a hazard ratio of 0,92 meaning that the FD likelihood diminishes for Russian companies in host countries that are greater endowed by nature with resources. It could be explained by the fact that the Russian companies are primarily working in the fossil fuels and

natural resources sectors thus being attracted to new mines, oil wells outside of Russia and therefore be less likely to embark on a FD.

The second part of the empirical study is concerned with the post-divestment short-term financial performance of Russian MNEs and as a result of the multivariate regression analysis on a sample of 83 FD deals, we can provide the following conclusions. Overall, as it was expected, the outcome of a FD for the Russian companies has a negative effect on its subsequent short-run parent-level financial performance above all in terms of profitability, however the net debt has been almost unaffected putting a question whether it needs to be measured at the parent-level, that is why we suggest for future research, if available, to use a subsidiary-level financial metrics. First, the factor that has the highest predictive power on the response financial variables is the economic freedom distance because it has R-square value of 0,19 and being statistically significant at 99% probability level. The freedom economic distance negatively impacts ROA (-0,64), net margin (-0,26) and ROE (-0,17) of the Russian companies at significant levels. The negative impact has been recorded on net debt (-0,53) and net profit (-0,85) as well, however it is not significant. The negative effect of the existent economic freedom distance between the countries is assumed to be explained by differences in market institutions that increase transaction costs and create impediments (Liao, 2018), especially in the short run, thus providing us with the statistical evidence necessary to support the hypothesis №8.

The second most powerful factor influencing the post-divestment financial performance is the political stability distance that yielded R-square value of 0,17 at 99% probability level. It negatively affects net profit (-0,1), while the rest variables have not been found to be both important and significant. It is no wonder that a higher level of political instability is closely associated with greater transaction costs and business interruptions, the Russian companies having part of its operational business located abroad in host countries that are distant from Russia in terms of political stability must incur additional expenses for a long time thus deteriorating its financial healthiness and eventually be forced to sell it off for a price far lower than a market fair one (Konara & Ganotakis, 2020). As a result, the Russian companies lose both producing facilities and possible capital by disposing of some units. However, most probably it has only a short-term negative effect, while in a longer period its profitability curve recovers and even exceeds a pre-divestment one thanks to business optimization. Besides, the sanctions effect has produced statistically significant negative effect (-0,07) on net profit as

well, which is not surprising given sporadic selloffs of the international assets by the Russian companies after the imposition of sanctions in 2014 forcing them to divest in a hurry without proper assessment of the situation leading to economic losses and business disorientation that was adversely reflected in the short-term financial performance. That is why we can confidently claim that the statistical arguments give us support for the hypothesis №6 and №7.

As for the cultural distance factor, even though it is statistically significant, but produced quite ambiguous results with two opposing effects, namely a negative effect on ROA, while positively impacting net margin what confuses the researchers, that is why we are not able yet to either support or reject the hypothesis №9. The last factor which is the organizational membership, unexpectedly has neither significance nor effect showing the weakest results, what can be explained by a limited number of FD taking place in EEU, CIS or BRICS countries, requiring further studies and making us reject the hypothesis №10 for now. Nevertheless, it is supposed that the FD from a partnering country should not substantially deteriorate a company's financial position since the political and institutional settings tend to be favoring, therefore we could expect a positive effect of this factor in the following research. Thus, we can conclude that the empirical results establish a negative significant effect of the political stability distance, sanctions, and economic freedom distance on the financial short-term post-divestment performance of the Russian MNEs at a parent level according to the statistical evidence.

Summing up the results, we manage to contribute to the field of foreign divestment research concerning companies from emerging home countries, especially studied on the peculiar case of 20 largest Russian MNEs whose international experience is characterized by sanction's effect what distinguishes it from the other BRICS countries. The study enriches the ongoing investigation of the FD phenomenon in terms of the institution-based theory providing the academic world with new up-to-date statistical evidence with regards to the effect of five institutional and political factors, namely political stability, economic freedom and cultural distances, sanctions and organizational membership on FD probability using a Cox proportional-hazards model. What is more, the research goes further and using the accounting-based approach we present insights about the negative effect of these factors on the post-divestment short run parent-level financial performance of the Russian MNEs thanks to a multivariate regression.

Theoretical contribution

The present research contributes to the institution-based approach in studying the foreign divestment likelihood under existence of institutional distances and political factors by providing new empirical evidence on the Russian MNEs. The study is one of the first attempts to present a generalized model explaining the FD phenomenon of the Russian MNEs using the institution-based theoretical framework, since previously the academics were primarily concerned with Chinese and to a lesser extent Indian companies among the powerful emerging markets, thus neglecting the distinct Russian case that is characterized by the sanctions effect. Besides, it enriches the ongoing research of FD, because prior the academics predominantly focused on the economic factors leading to a higher divestment probability, thus disregarding the institutional and political dimensions. What is more, the post-divestment financial performance has not been yet studied from an accounting-based approach on a sample of Russian MNEs, what is still scarcely investigated in other BRICS countries as well.

Managerial relevance

The generated insights and conclusions of the present research can be valuable to consider when strategically important decision-making processes on internationalization or business optimization are concerned, since the study yields clear causal relationships between the institutional and political factors on the FD likelihood given the corresponding hazard rates. These finding, if provided to the top-management of the Russian companies, could better inform both the managers and shareholders on the host country's prioritized list of political and institutional risks as well as bring better performance by a more conscious management of the distant foreign subsidiaries that can altogether improve the overall business positioning on the market.

Limitations

Among the major shortcomings that the researchers faced during the study can be named the following limitations. First, the data on the financial performance metrics at a subsidiary level are either poorly present or non-existent at all in the financial statements or yearly reports, let alone in the international datasets such as Thompson Reuters Eikon and Zephyr, thus reducing the scope of the research to the parent-level financials. Besides, it raises sometimes questions about the data objectiveness that is reflected even in the financial reports by the Russian companies themselves, since there is no clear division by assets, countries or

operations, therefore limiting a sample's size only to 20 Russian MNEs, however it could have been supplemented with a larger number of companies, if they were more transparent. Second, when it comes to operationalization of the variables under study, the first attempts to introduce all the constituent components of the indexes separately such as cultural distance or economic freedom failed because of high correlations, thus limiting the researcher's ability to grasp which parts of the indexes have a greater effect. Third, there were not included certain latent circumstantial factors in the models that could potentially influence the survivability of foreign subsidiaries, however these conditions can be very specific to each case and not be universally operationalized. What is more, we believe that a classification between a selloff and closure could bring more clarity to understanding of the FD phenomenon, since it may have a different effect whether an asset or a subsidiary is sold to another party, or it has been closed for eternity. And lastly, there needs to be a clear classification of the unit's relatedness to the main business of a company what could signify the importance of a subsidiary to an overall business model and thus impacting the decision-making process with regards to FD. Overall, these limitations and observations could be considered valuable for the upcoming research in the field.

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Appendix 1 Extract from research dataset

Company	Target	Start date	End date	Host country	V1	V2	V3	V4	V5	C1	C2	C3	C4	F1	F2	F3	F4	F5
Lukoil	Karpatneftchim	2004	2017	Ukraine	1,23	1	9	35	0	2,64	25,7	0,44	0,24	0,7	1,6	-4,35	3,2	2,8
Lukoil	Getty Petroleum	2001	2011	USA	-1,6	0	-27,3	283	0	49,9	2,5	2,76	0,46	0,5	2	-2,6	12	10
Gazprom	Bosphorus Gaz	2009	2018	Turkey	0,78	0	-7,2	122	0	9,4	11,75	0,96	0,11	-2	-1,5	11,2	-2,7	-1,6
Gazprom	Gasum	1994	2016	Finland	-1,94	1	-22	210	0	43,8	0,4	2,74	0	5	1	10	2	5
Nornickel	Stillwater Mining Co USA	2003	2010	UK	-1,37	0	-27,7	283	0	49,9	1,6	2,73	0,5	5	0,55	4,4	6	3
Nornickel	Lake Johnston	2007	2014	Australia	-1,97	1	-30,1	286	0	62,5	2,23	2,1	0,5	8	1	1,2	29	6
VimpelCom	Beeline Vietnam	2009	2012	Vietnam	-1,08	0	-0,8	144	0	1,7	12,3	0,32	5,3	-8,1	-5,4	1,5	-15,4	-5,6
Sberbank	Denizbank AS	2012	2019	Turkey	0,8	0	-5,7	122	0	9,13	14,2	0,96	0,112	-8,5	-3,4	0,01	-3,8	-0,7
EVRAZ	Dneprzavod	2007	2018	Ukraine	1,33	1	6,3	35	0	3	13,1	0,47	0,32	-16,1	-2,1	-0,05	-109	-22,6
Severstal	SPG Mineracao SA	2011	2013	Brazil	-0,48	0	-6,6	133	1	12,3	6	1,2	1,82	-6	-1,7	-2,2	-13	-4,6
Mechel	Bluestone Coal Corp	2009	2015	USA	-1,7	1	-24,1	283	0	53	2	2	0,74	47,3	1,7	0,3	-8	-2
MTS	Uzdunrobita	2007	2013	Uzbekistan	-0,2	0	5,1	51	2	7	8,1	0,3	4	-9,7	-1,5	-1,7	-23	-8,3
Inter RAO	North Razdan	2003	2016	Armenia	-0,28	0	-16,4	71	2	3,6	1,76	0,23	0	-0,7	-0,05	-1,3	-2,8	-2,2
Rusal	DeLong Holdings	2008	2018	China	-2,06	0	-30,6	172	1	10	1,1	3	0	-6,8	-0,7	-1	-18,4	-5,4
Acron	Hunji-Acron	2005	2016	China	-0,44	0	-1,4	137	1	8,1	1,78	2,11	0,26	5	-0,15	0,2	-13,7	-5,7
Alrosa	Sunland Minerals	2014	2018	Botswana	-1,5	0	-11,7	157	0	8,3	3,12	0,54	0	-4,2	-0,3	11,8	-11,8	-7,4

Source: created by the author

V1 – Political stability distance

V2 – Sanctions_dummy (0 = no effect; 1 = imposed sanctions)

V3 – Economic freedom distance

V4 – Cultural distance

V5 – Organizational membership_dummy (2 = EEU or CIS countries; 1 = BRICS countries; 0 = others)

C1 – GDP per capita; C2 – Inflation; C3 – R&D as % of GDP; C4 – oil rents as % of GDP

F1 – net margin; F2 – net profit; F3 – net debt; F4 – ROE; F5 – ROA