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Home-Country Institutional Pressure and Foreign Divestment: Evidence from Developed-Country Multinationals in China

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Abstract: In recent years, advanced economies have increasingly adopted restrictive outward-investment measures, creating unprecedented institutional pressures on developed-country multinational enterprises (DMNEs). Yet DMNEs' responses, particularly foreign divestment decisions, remain heterogeneous and underexplored. Building on the institution-based view and investment opportunity perspective, this study investigates how home-country institutional pressure influences DMNEs' divestment from China and how investment opportunities moderate this relationship. Using a panel dataset of DMNEs listed in China from 2018 to 2024, we find that home-country institutional pressure significantly increases foreign divestment, and that this effect is amplified when firms face abundant investment opportunities. These findings extend international business research by (1) positioning home-country institutional pressure as an active driver rather than a background condition of DMNE strategy, and (2) identifying investment opportunities as a critical boundary condition shaping firm responsiveness. The study also offers managerial and policy insights into managing strategic choices under rising geopolitical and institutional constraints.

Keywords: Home-country Institutional Pressure; Investment Opportunities; DMNEs; Institution-based View; Foreign Divestment

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1.Introduction

Fueled by escalating concerns over national and economic security, advanced economies have undergone a paradigmatic shift in their investment policy regimes—from market-oriented liberalism to intervention-oriented nationalism (Cui et al., 2023; Luo, 2022; Luo & Van Assche, 2023). Over the past decade, the incidence of outward foreign direct investment (OFDI)-specific restrictions has increased by nearly one third, with national security–based screening mechanisms becoming the most distinctive feature of the emerging regulatory landscape (UNCTAD, 2024). Since 2020, the United States has introduced a series of measures to monitor and regulate OFDI, culminating in an August 2023 executive order to review investments in sensitive national security–related technologies. In January 2024, the European Commission likewise proposed a framework to scrutinize OFDI in critical sectors such as advanced semiconductors and biotechnology. These institutional shifts carry profound implications for developed-country multinational enterprises (DMNEs), yet their strategic responses have been strikingly heterogeneous. For instance, Intel and Advanced Micro-Fabrication Equipment Inc. (AMEC), both operating in the advanced-semiconductor ecosystem and subject to similar U.S. OFDI scrutiny, pursued divergent strategies in China: Intel scaled down its Dalian packaging venture in 2020, whereas AMEC deepened its commitments by expanding its Shanghai headquarters and ramping up local etch-equipment capacity in 2025. Such divergence poses a salient theoretical puzzle: under comparable home-country institutional pressure, why do some DMNEs divest while others sustain or expand their foreign operations?

Existing research has sought to address this puzzle by drawing on institutional theory and related perspectives. Specifically, studies on DMNEs have predominantly examined how firms respond to host-country institutional pressures, emphasizing that heterogeneous firm characteristics—such as resource endowments, strategic intent, and experiential learning—are key drivers of divergent strategic outcomes (Kostova et al., 2008; Meyer & Peng, 2016; Oliver, 1991). Research on divestment further underscores the role of host-country conditions, including political risk, liability of foreignness, and economic growth, in shaping exit decisions (Benito, 2005; Berry, 2010; Schmid & Morschett, 2020). However, these studies largely treat DMNEs' home-country institutions as stable background conditions rather than dynamic forces directly influencing their OFDI choices. Moreover, the burgeoning literature on investment screening has concentrated primarily on inward FDI (Evenett, 2019; Chan & Meunier, 2022), leaving underexplored how recent home-country regulatory interventions affect DMNEs' strategies. This creates a critical gap: despite intensifying home-country institutional pressures, we lack a systematic understanding of why DMNEs facing comparable constraints display heterogeneous divestment behaviors abroad.

This study addresses this gap by integrating institutional pressure theory with the investment opportunity perspective. We argue that firms with abundant investment opportunities are more inclined to comply with home-country institutional pressures by choosing divestment or withdrawal, whereas firms with limited opportunities are more likely to resist and sustain their host-market presence. By testing this argument using DMNEs' divestment behavior in China, this research contributes to the international business literature in three ways. First, it addresses a critical gap in IB research on DMNEs: prior studies often treat home-country institutions as a stable background condition rather than an active driver of DMNEs' strategies (Peng, 2002; Peng et al., 2008). Our findings show that home-country institutional pressures can exert contingent and decisive effects on DMNEs' divestment decisions, thereby extending the application of the institution-based view in the study of DMNEs' internationalization. Second, it extends divestment research by identifying investment opportunities as a critical boundary condition (Benito, 2005; Dai et al., 2017). Third, it provides managerial and policy implications by explaining why firms like Apple diversify away while others like Intel deepen commitments under similar geopolitical tensions.

2.Theoretical Background and Hypotheses

2.1 Foreign Divestment and Antecedents

Foreign divestment has attracted growing scholarly attention in recent years, as firms increasingly reconfigure their global portfolios in response to both internal constraints and external shocks (Sethuram & Gaur, 2024). According to UNCTAD (2024), the incidence of OFDI-specific restrictions has risen by nearly one-third over the past decade across both developed and developing economies, intensifying pressures on multinational enterprises (MNEs) to reconsider their international presence. Although divestment is sometimes seen as the "mirror image" of foreign entry, scholars emphasize that it is not merely a reversal but a distinct strategic decision with its own antecedents (Benito, 2005; Ameyaw, Panibratov, & Ameyaw, 2023). This raises the question of what factors can determine firms' foreign divestment decisions.

Some scholars focus on firm-specific antecedents to explain why certain MNEs divest while others sustain their foreign subsidiaries. Empirical research shows that poor financial performance and low profitability increase the likelihood of divestment (Berry, 2013; Chung et al., 2010; Han, 2021). Organizational factors such as managerial decision-making, strategic misalignment, or lack of internal commitment have also been highlighted as triggers of divestment (Brauer, 2006). Collectively, these findings indicate that divestment is not simply a market-driven outcome but is strongly shaped by firm-level capabilities and constraints. Other scholars emphasize environmental factors that drive divestment decisions. Host-country political instability, policy unpredictability, and weak institutional environments substantially increase exit risks for foreign subsidiaries (Gonchar & Greve, 2022; Tang, 2023). Market-related conditions, such as economic downturns, shrinking demand, or intensified local competition, have also been identified as critical drivers of divestment (Berry, 2013; Dittmar & Shivdasani, 2003; Park et al., 2021; Tan, 2022). In emerging markets, in particular, foreign subsidiaries face greater institutional fragility and abrupt regulatory shifts, which exacerbate their vulnerability and shorten their life cycles

(Ameyaw et al., 2023). These studies underscore that divestment decisions are shaped not only by firm-level conditions but also by the turbulence of host-country environments. However, as Ameyaw et al. (2023) note, existing foreign divestment from emerging markets research has primarily concentrated on host-country antecedents of divestment, while the role of home-country factors remains comparatively underexplored.

Although both firm-specific and environmental factors help scholars identify the antecedents of foreign divestment, relying on only one of the two would be insufficient to capture the phenomenon's complexity (Schmid & Morschett, 2020). On the one hand, firm-level resources and strategies shape how MNEs perceive and respond to external shocks. On the other hand, environmental turbulence can amplify or attenuate firm-specific vulnerabilities, leading to divergent divestment outcomes under similar conditions. Thus, combining the insights of both perspectives can enhance our knowledge of the antecedents of foreign divestment (Sethuram & Gaur, 2024; Ameyaw et al., 2023). In this study, we integrate these two perspectives to examine how home-country institutional pressures and firm investment opportunities jointly influence DMNEs' divestment behavior in China.

2.2 Home-country Institutional Pressure and DMNEs' Foreign Divestment

The institution-based view (Peng et al., 2008) emphasizes that firms' international strategies are shaped not only by market considerations but also by institutional frameworks. Institutions can act as both enablers and constraints of cross-border investment, guiding the "rules of the game" that firms must comply with. While extant studies on foreign divestment have primarily highlighted host-country drivers (e.g., market downturns, institutional instability), emerging research underscores the growing role of home-country institutions in shaping firms' location strategies (Sethuram & Gaur, 2024). In particular, recent developments such as OFDI screening, export controls, and national security–driven industrial policies illustrate that home governments have become active players in regulating where and how DMNEs can operate abroad (Cui et al., 2023; Luo & Van Assche, 2023).

Home-country institutional pressure manifests through formal mechanisms such as legislation, sanctions, and investment restrictions, as well as informal political expectations that condition firms' strategic choices (Witt, 2019). These pressures increase the compliance costs and risks associated with maintaining foreign subsidiaries in politically sensitive host markets. For example, U.S. technology firms operating in China have faced increasing scrutiny under the CHIPS and Science Act, which restricts further expansion and incentivizes re-shoring (Luo, 2022). Such institutional constraints not only limit firms' operational autonomy but also alter their cost-benefit assessments of staying abroad versus divesting. As a result, DMNEs facing stronger home-country pressures are more likely to consider divestment as a way to secure legitimacy at home and avoid political or legal sanctions.

Moreover, home-country institutional pressures may carry coercive and normative legitimacy effects (Oliver, 1991). On the coercive side, firms may be legally compelled to exit certain foreign markets to comply with new restrictions. On the normative side, alignment with national security and industrial policies may improve firms' legitimacy in the eyes of policymakers and domestic stakeholders. Thus, complying with divestment pressures not only reduces regulatory and reputational risks but also positions firms favorably in securing home-market resources, such as subsidies or preferential access to government contracts (Luo, 2022). Taken together, these arguments suggest that DMNEs subject to stronger home-country institutional pressures will be more inclined to divest their foreign subsidiaries, even if such decisions contradict short-term economic logic. Accordingly, we propose the following hypothesis:

Hypothesis 1: Home-country institutional pressure is positively associated with DMNEs' foreign divestment.

2.3 Impact of Investment Opportunities on Linkage between Home-country Institutional Pressure and DMNEs' Foreign Divestment

Investment opportunities refer to the availability of viable and profitable projects that firms can pursue to achieve future growth (Bates, 2005; Carpenter & Guariglia, 2008). In the international business context, investment opportunities reflect firms' strategic flexibility. The strategic flexibility afforded by multinational investment opportunities allows firms to adapt to environmental uncertainties, much like real options that can be exercised when conditions are favorable (Lee & Makhija, 2009). Conversely, a lack of such opportunities may reinforce path dependence, constraining a firm's strategic responses in host markets. Thus, investment opportunities fundamentally shape firms' sensitivity to institutional constraints and their strategic responses.

When home-country institutional pressures rise, firms are confronted with the dilemma of whether to comply by divesting or to resist and continue operations abroad. The ability to divest from a host market in response to home-country pressures is significantly conditioned by a firm's portfolio of investment opportunities. Firms possessing a broader array of real options—such as diversified international investments or viable alternative projects—exhibit greater strategic flexibility. This flexibility allows them to more readily reallocate resources away from pressured markets towards opportunities promising higher returns or better alignment with home-country expectations, thereby mitigating the opportunity cost of divestment. The value of such flexibility in enabling adaptive responses to external shocks, including potentially coercive pressures, is underscored by research in international business (Lee & Makhija, 2009). Divestment, in this case, becomes a relatively less costly option, as the opportunity cost of foregone growth in the host country is mitigated by attractive alternatives elsewhere.

By contrast, firms with limited investment opportunities may perceive divestment as more costly, since withdrawing from an existing market reduces their already scarce growth avenues. Consequently, these firms may resist home-country institutional pressures and sustain their host-country presence despite heightened risks, in order to preserve rare growth opportunities. This implies that the positive effect of home-country institutional pressure on DMNEs' divestment is stronger when investment opportunities are abundant, but weaker when such opportunities are scarce. Accordingly, we propose the following hypothesis:

Hypothesis 2: Investment opportunities positively moderate the relationship between home-country institutional pressure and DMNEs' foreign divestment, such that the relationship is stronger when investment opportunities are abundant.

3.Methods

3.1 Research Context: DMNEs Operating in China

We took DMNEs operating in China as our research sample for three reasons. First, home-country institutional pressures have intensified in recent years, especially in advanced economies. According to the World Investment Report 2024 published by UNCTAD, developed countries have increased their restrictions on OFDI by nearly one-third over the past decade (UNCTAD, 2024). Multiple developed economies have established broad screening mechanisms on OFDI under the rationale of "maintaining national and economic security". Studying DMNEs allows us to capture these changes in home-country institutional pressures and test our theoretical predictions about their effects on divestment. Second, many of these restrictive measures explicitly target DMNEs' investments in China. For instance, the United States' National Critical Capabilities Defense Act (NCCDA) of 2022 introduced a new regulatory mechanism to review U.S. enterprises' investments and business activities in specific countries, including China, citing national security concerns. This confirms that China provides a critical setting for examining FDI-related issues such as foreign divestment (Kim et al., 2010). In addition, as one of the largest recipients of FDI globally, China hosts a substantial proportion of DMNEs' subsidiaries, which further increases the relevance of this context (UNCTAD, 2024). Third, to avoid the confounding effect of cross-country variation in host-country characteristics on foreign divestment, we relied on divestment cases from DMNEs in a single host country within a specific period. In summary, China, with its high concentration of DMNEs' investments, offers an ideal setting for collecting such data and testing our hypotheses.

3.2 Data Collection

We selected listed firms operating in China between 2018 and 2024 whose ultimate controllers are nationals of developed countries as the initial research sample. Data on home-country institutional pressures were collected from the UNCTAD Investment Policy Monitor database, while firm-level divestment and financial data were primarily obtained from the CSMAR database. After excluding firms with missing values on key variables, the final sample consisted of 335 firm-year observations.

3.3 Measures

Dependent variable: Foreign divestment. Following prior research (Boddewyn, 1979; Ameyaw et al., 2023), we measure foreign divestment as the annual reduction in the equity ownership share held by foreign ultimate controllers in their Chinese listed subsidiaries.

Independent variable: Home-country institutional pressure. We measure home-country institutional pressure as the ratio of the cumulative stock of restrictive investment measures issued by a firm's home country by the end of year t to the total stock of investment measures issued by that country by the same year. We use a stock-based rather than a flow-based indicator for three main reasons. First, institutional pressures are cumulative and exhibit memory effects: once restrictive measures are enacted, they usually remain in effect, thereby creating "layered institutional constraints." A stock measure captures the full scope of historical institutional restrictions that firms face, while a flow measure only accounts for newly introduced measures in a given year, potentially underestimating long-term constraints. Second, multinational firms make strategic and compliance decisions with reference to "all currently binding regulations" rather than only newly enacted measures. Thus, the stock-based ratio better reflects firms' actual perceptions and decision logic. Third, a stock measure mitigates short-term volatility that may arise from policy cycles or temporary political shocks, thereby improving stability and comparability. The investment measures are compiled in the UNCTAD Investment Policy Monitor, which records official measures taken by UN member states that affect OFDI. They are classified into two categories according to their potential effects: facilitating measures (e.g., liberalization, promotion, incentives) and restrictive measures (e.g., operational limitations).

Moderating variable: Investment opportunities. Following Szewczyk et al. (1996) and Carpenter & Guariglia (2008), we use Tobin's Q as a proxy for investment opportunities. Tobin's Q is calculated as market value of equity divided by (total assets – intangible assets – goodwill). This measure directly reflects the capital market's expectations about the availability of projects with positive net present value. A Q value greater than 1 indicates that the market perceives the firm to have profitable investment opportunities, with higher values implying greater expected returns from marginal investments.

Control variables. In line with Soule et al. (2014), we control for a range of firm- and country-level variables. At the firm level, we control for: (1) firm age, measured as the natural logarithm of years since establishment; (2) firm size, measured as the natural logarithm of total assets at year-end; (3) leverage, defined as the ratio of total liabilities to total assets at year-end; and (4) ROA, measured as net income divided by the average balance of total assets. At the country level, we control for: (5) host-country GDP, measured as the natural logarithm of annual GDP; and (6) host-country GDP per capita, measured as the natural logarithm of annual GDP per capita.

3.4 Model Specification

To address unobserved firm heterogeneity and avoid omitted variable bias, we employed a panel fixed-effects model, as suggested by the Hausman test which rejected the random-effects assumption. Firm-clustered robust standard errors were used to correct for potential autocorrelation and heteroskedasticity, thereby ensuring consistent estimates and valid statistical inference. The baseline empirical model is specified as follows:

$$\text{Foreign divestment}_{i,t} = \alpha_0 + \alpha_1 \text{Home-country institutional pressure}_{i,t} + \sum \alpha_i \text{Controls}_{i,t} + \sum \text{Industry} + \sum \text{Year} + \varepsilon_{i,t}$$

$$\text{Foreign divestment}_{\text{i,t}} = \alpha_0 + \alpha_1 \text{Home-country intitutional pressure}_{i,t} + \alpha_2 \text{Investment opportunities}_{i,t} + \alpha_3 \text{Home-country intitutional pressure}_{i,t} \times \text{Investment opportunities}_{i,t} + \sum \text{a}_{\text{i}} \text{Controls}_{i,t} + \sum \text{Industry} + \sum \text{Year} + \varepsilon_{i,t}$$

where i denotes the firm, t denotes the year, $\text{Controls}_{i,t}$ is the set of control variables, $\sum \text{Industry}$ and $\sum \text{Year}$ capture industry and year fixed effects, respectively, $\varepsilon_{i,t}$ is the error term.

4.Results

Table 1 shows the descriptive statistics (e.g., means, standard deviations, minimum and maximum) and correlations of all the variables. The mean value of divestment is 1.939 with a standard deviation of 8.609, indicating that divestment activities dominate among foreign firms in China, with substantial variation across firms. On average, firms reduced their equity holdings to a notable extent during the observation period, suggesting that divestment constitutes a common and nontrivial strategic response rather than an isolated phenomenon. At the same time, the relatively large dispersion in divestment indicates heterogeneous firm-level responses to external institutional environments, consistent with prior findings that divestment is highly path- and context-dependent (Benito, 1997; Ameyaw et al., 2023). The mean value of home-country institutional pressure is 0.912, reflecting the intensification of restrictive FDI measures imposed by developed economies in recent years. Moreover, the distribution of investment opportunity suggests that many firms in the sample faced substantial investment opportunities, which provides an important condition to examine how firm-level strategic options may interact with home-country institutional pressures in shaping divestment behavior. Other variables also fall within reasonable ranges and are generally consistent with prior studies.

Table 1 Descriptive statistics and correlations

Variables	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
1 Foreign divestment	1.000								
2 Home-country institutional pressure	0.019	1.000							
3 Investment Opportunities	0.093*	-0.112**	1.000						
4 Firm age	-0.133**	0.009	-0.101**	1.000					
5 Firm size	0.057	-0.021	0.035	-0.002	1.000				
6 Leverage	-0.025	-0.083*	-0.147***	0.043	0.281***	1.000			
7 ROA	0.003	0.010	0.287***	0.121**	0.050	-0.187***	1.000		
8 Host-country GDP	0.013	0.027	0.055	0.010	-0.256***	-0.050	-0.092*	1.000	
9 Host-country GDP per capita	0.051	0.061	0.073	-0.059	-0.051	-0.196***	0.045	0.102**	1.000
Mean	1.939	0.912	2.432	2.786	21.701	0.283	0.054	11.061	11.626
S.D.	8.609	0.100	1.804	0.339	0.931	0.173	0.106	0.605	0.373
Min	-40.900	0.500	1.046	1.609	19.507	0.027	-1.156	8.780	10.479
Max	82.090	1.000	20.436	3.555	24.842	0.976	0.427	11.861	12.338

Note: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

Table 2 reports the regression results. Model 1 includes only the control variables. Model 2 introduces home-country institutional pressure, and the coefficient is positive and significant (α_1 .=11.277, $p < 0.05$), suggesting that stronger home-country institutional pressure is associated with greater foreign divestment in China. Thus, Hypothesis 1 is supported. Model 3 adds the moderating variable (investment opportunities), and Model 4 further incorporates the interaction term between home-country institutional pressure and investment opportunities. The coefficient of the interaction term is positive and significant (α_3=5.173, $p < 0.05$), indicating that the effect of home-country institutional pressure on divestment is stronger for firms with greater investment opportunities. Therefore, Hypothesis 2 is also supported.

Table 2 Results of the panel fixed-effects regression analysis

Variables	Model 1	Model 2	Model 3	Model 4
Firm age	-20.941 (21.946)	-19.551 (22.639)	-15.171 (22.479)	-16.023 (22.658)
Firm size	-0.099 (2.747)	-0.126 (2.867)	1.780 (3.582)	1.860 (3.610)
Leverage	-13.502 (8.595)	-13.079 (8.857)	-17.663* (9.176)	-17.151* (9.212)
ROA	13.023 (13.076)	10.464 (12.692)	3.066 (14.593)	1.971 (14.585)
Host-country GDP	3.697 (11.773)	3.907 (12.039)	2.784 (11.415)	2.099 (11.279)
Host-country GDP per capita	10.699 (15.994)	10.747 (16.099)	9.826 (15.626)	9.583 (15.539)
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Home-country institutional pressure		11.277** (5.634)	14.986** (6.742)	-2.780 (9.392)
Investment Opportunities			0.957 (0.591)	-3.667* (2.102)
Home-country institutional pressure× Investment Opportunities				5.173** (2.594)
Constant	-98.228 (301.425)	-115.484 (308.664)	-148.922 (311.633)	-122.250 (306.633)
N	335	310	310	310
R^2	0.086	0.097	0.115	0.123

Note: Robust standard errors are reported in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

5.Discussion

5.1 Theoretical Contributions

This study makes three main contributions to international business (IB) and strategy research. First, it enriches the institution-based view of international business by repositioning home-country institutional pressure from a relatively passive background condition (Peng, 2002; Peng et al., 2008) to an active driver of DMNEs' international strategies. While prior divestment research has concentrated on host-country turbulence or firm-level inefficiencies (Benito, 2005; Ameyaw et al., 2023), our findings demonstrate that restrictive FDI measures enacted by advanced economies can decisively shape DMNEs' divestment behaviors abroad. In doing so, the study extends the application of institutional theory to explain not only market entry and expansion but also market exit and withdrawal decisions.

Second, the study contributes to the literature on foreign divestment by identifying investment opportunities as a key boundary condition that moderates firms' responsiveness to home-country pressures. Existing research has acknowledged that firms' heterogeneous responses to institutional pressures stem from internal resources and strategic orientations (Kostova et al., 2008; Meyer & Peng, 2016; Oliver, 1991), yet has largely overlooked the constraining or enabling role of investment opportunities. By showing that firms with greater investment opportunities are more inclined to reallocate resources away from China under home-country institutional pressure, we integrate the opportunity-based perspective (Chandra et al., 2012) with institutional explanations of foreign divestment. This integration highlights that divestment is not merely a compliance-driven response but also a strategic reconfiguration of global portfolios in light of both institutional constraints and growth opportunities.

Third, this research advances the broader literature on DMNEs by shedding light on their heterogeneous strategic adaptation under geopolitical uncertainty. Our findings explain why firms facing comparable home-country restrictions—such as Intel scaling down in China versus AMD deepening its local commitments—nonetheless diverge in their divestment propensities. By uncovering the interactive role of institutional pressure and investment opportunities, we offer a more nuanced explanation of DMNEs' internationalization strategies in a period of rising geo-economic interventionism (Cui et al., 2023; Luo & Van Assche, 2023).

5.2 Managerial and Policy Implications

For managers of DMNEs, our findings underscore the importance of incorporating home-country institutional dynamics into international risk management. Managers should recognize that restrictive OFDI measures can materially alter the viability of host-country operations. Accordingly, firms may need to build greater flexibility in their global portfolios, diversify exposure across regions, and proactively identify investment opportunities that allow for smoother reallocation of capital in response to shifting institutional pressures.

From a policy perspective, our findings carry implications not only for policymakers in advanced economies but also for the Chinese government as a host-country regulator. While home-country restrictions are outside China's control, their impacts can be mitigated through policies aimed at stabilizing foreign investors' confidence. For instance, by enhancing regulatory transparency, reducing administrative barriers, and expanding market access in sectors less affected by geopolitical restrictions, China can lower the perceived risks of sustained operations. Moreover, offering tailored incentives or partnership opportunities to foreign investors can help anchor long-term commitments, thereby buffering the destabilizing effects of external institutional shocks. Such measures are aligned with China's broader agenda of stabilizing foreign investment and can help maintain the attractiveness of its market despite rising geo-economic frictions.

5.3 Limitations and Future Directions

This study is not without limitations, which open avenues for future research. First, our empirical setting focuses on DMNEs operating in China. While this context provides an ideal natural laboratory due to the concentration of restrictive FDI scrutiny, future studies should explore whether our findings generalize to other host-country contexts, particularly emerging economies with different institutional profiles. Second, our operationalization of home-country institutional pressure is based on UNCTAD's investment policy database, which captures formal regulatory measures. Future work could extend this by incorporating informal political pressures, such as geopolitical tensions, media discourse, or lobbying activities, to obtain a more comprehensive measure of institutional constraints. Third, although we theorize investment opportunities as the central moderating factor, other firm-level mechanisms—such as ownership structures, resource endowments, or prior divestment experience—may also condition the impact of institutional pressures. Examining these contingencies could enrich our understanding of the heterogeneity in divestment responses.

Overall, this study contributes to the growing stream of research on foreign divestment by advancing an institutionally embedded and opportunity-sensitive perspective. By unpacking how home-country institutional pressures interact with firm-level strategic considerations, we provide novel insights into the complex drivers of DMNEs' divestment behavior and open new directions for future research in international business.

Conclusion

Our study examines the effect of home-country institutional pressure on DMNEs' foreign divestment and investigates how investment opportunities moderate this relationship. We find that institutional pressure from the home country significantly increases the likelihood of divestment, and this effect is amplified when firms possess abundant investment opportunities. The findings can deepen our theoretical understanding of DMNEs' strategic adaptation under geopolitical tension and offers practical insights for policymakers and managers navigating today's increasingly restrictive global investment environment.

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Conflict of Interests

The authors declare that there is no conflict of interest regarding the publication of this paper.

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