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An integrated perspective on foreign ethical divestment

Dr. Richard B. Nyuur***
Newcastle Business School
City Campus East
Northumbria University
Newcastle, NE1 8ST, UK.
Email: richard.nyuur@northumbria.ac.uk
Tel: 0044-1912273336

Dr. Joseph Amankwah-Amoah
Bristol University
School of Economics, Finance & Management,
8 Woodland Road, Clifton, Bristol, BS8 1TN
E-mail: **Joseph.amankwah-amoah@bristol.ac.uk**
Tel: 0044 (0) 117 3317936

Dr. Ellis L.C. Osabutey
Business and Management Department
Middlesex University Business School
The Burroughs, London, NW4 4BT
+44 (0)20 8411 5282
Email: e.osabutey@mdx.ac.uk

Abstract

Much of the existing literature on foreign ethical divestment has been developed in isolation and scattered across multiple disciplines. This paper reviews the existing literature on foreign ethical divestment to extract emerging themes and outline new directions for future research. Our review uncovered that foreign ethical divestment decisions can be attributed to macro, firm and individual level factors. We therefore develop an integrated model to link the dynamics of ethical foreign divestment. The study identified a number of unanswered questions and implications for future research.

Keywords: foreign ethical divestment; individual, firm and institutional factors; macro factors; ethics, performance.

Introduction

Over the past few decades, foreign ethical divestment has gained traction across multiple fields such as business ethics (e.g., Singer & van der Walt, 1987), finance (e.g., Hall, 1986), Law (e.g., Chesterman, 2008), strategic management (e.g., Duhaime & Grant, 1984; Hamilton & Chow, 1993) and international business (e.g., Harrigan, 2013). Ethical foreign divestment entails the termination, relocation or downsizing of an organisation's activities in terms of the sale of part of its assets, product lines, subsidiaries, or divisions in a host country on moral grounds (Chow & Hamilton, 1993; Laczniak & Murphy, 2006; Schlegelmilch & Öberseder, 2010). Accordingly, divestment decision-making has an inescapable ethical spectrum as the decision contents tend to consist of both commercial and ethical factors (Morrison, 2015). Singer and van der Walt (1987) further emphasised that divestment decisions almost always have conspicuous ethical dimensions as they are usually surrounded by political and moral controversies. This reveals the centrality of ethics in divestment decisions and actions.

Although there has been decades of research on ethical divestment (see Harrigan 2013; Soule *et al.*, 2014), the cumulative body of literature on the subject including recent ones is limited and inadequate. Particularly, research on the relationship between ethics and divestment is very limited and no consensus currently exists about what constitutes ethical divestment and the factors that precipitate it. This has not led to improved understanding of ethical divestment and may have inadvertently led to a diminished understanding of the concept (Jagersma & van Gorp, 2003). This is surprising given that scholars continue to add new and diverse insights, in the field of ethics, which are yet to be fully integrated into the extant divestment literature (see Chesterman, 2008; Hall, 1986). Indeed, among practitioners ethical divestment debate remains 'one of the most divisive issues in executive boardrooms and in policy-making circles' (Beaty & Harari, 1987, p. 31).

Despite the progress in the last two decades, lack of integration of the existing literature has obscured the progress made and consequently limited our understanding of the subject and future directions (see Benito, 2005; Berry, 2010). More importantly, the moral aspects of such decisions warrant further scholarly exploration (Kaikati *et al.*, 2000; Patey, 2009). The situation emphasises the need for theoretical contribution on the subject of foreign ethical divestment. Accordingly, it is the purpose of this paper to take stock of the research stream on ethical foreign divestment towards a new theoretical development as well as in outlining new directions for future research. We contribute to the literature by developing an integrated framework of a range of institutional, firm and individual specific factors and how they interact to influence divestment decisions.

We further distil how foreign divestment decision contents reflect the dominant ethical frameworks of egoism, utilitarianism and deontology. We also complement our work with illustrative cases to bring further clarity to enrich the analysis. Such approaches have proven to be particularly effective in new theory development and the exploration of hitherto overlooked issues (Afuah, 2009; Siggelkow, 2007). Our main objective is to unearth and integrate the key antecedents to ethical divestment with specific focus on macro/institutional, firm and individual levels of analyses. The rest of the paper is organized as follows. Firstly, we clarify the boundaries of the subject and explore the areas covered in the literature. Secondly, we put forward a conceptual framework aimed at enhancing our understanding of the subject. Thirdly, the framework is examined in greater detail, by working through various dimensions of the model and categories. Finally, we set the agenda for future research.

Scope of the review

In order to ensure broader coverage of the existing streams of research, we replicated the approach offered by Short (2009) and utilised by recent review studies such as Short et al. (2010) and Amankwah-Amoah (2016). In this direction, we used key words such as ethics, divestment, withdrawals and failure to search electronic databases such as ProQuest, EBSCO Business Source Complete, Emerald, ScienceDirect, ISI Web of Knowledge and JSTOR to track and trace published studies on the subject. This led to the identification of a number of articles that focus on the topic. The keywords were also combined to help reduce the number of articles. This in tandem with reading of the articles and abstract led to identification of relevant studies.

Insert Table 1 about here

Table 1 summarises the theoretical perspectives used in the studies, the data sources, and the categorisation of the key findings into macro-level, firm-level and individual level classification. The table presents a number of studies that have explored the issues and also shed light on the linkages between them. The classification of the studies under each of the three categorisations is based on the relevance of the factors in the study as macro, industry or individual level factors. The table further reveals the limited scholarly work on divestment particularly over the past two decades, and underscores the need for a re-engagement research on the subject as well as a new theoretical contribution on the subject. Table 2 further presents a detailed identification of factors examined by studies under each of the three categorisations. Most of these studies are conceptual with ethical commentary being their theoretical approach. In this paper, we focus on the antecedents of ethical foreign divestment as captured in these studies.

Insert Table 2 about here

Ethical foreign divestment

Foreign divestment generally can be defined as ‘voluntary or forced actions that reduce a company's engagement in or exposure to current cross-border activities’ (Benito and Welch, 1997, p. 9). In a similar vein, Mellahi (2003 p. 151) defined the subject as ‘a voluntary process of decreasing involvement in international operations in response to organizational decline at home or abroad, or as a means of enhancing corporate profitability under non-crisis conditions’. It can be deduced that foreign divestment can be classified into voluntary or deliberate and involuntary or forced foreign divestments (see Boddewyn, 1979a). Voluntary or deliberate divestment refers to the strategic decision to liquidate or sell all or aspects of a firm’s operations in a foreign market and may be induced by factors such as stakeholder and new competitive pressures in the host country’s business environment (Benito, 1997; Boddewyn, 1979a; McDermott, 2010).

On the other hand, involuntary or forced divestments refers to the seizure of foreign-owned assets involving the deliberate action of the host government through expropriation, nationalization and confiscation, which imposes a change of ownership on the firm leading to exits (Akhter & Choudhry, 1993; Benito, 1997; Boddewyn, 1979a). We exclude these types of divestments in this paper as companies are forced by host government’s actions in such a way that no alternative options exist. Involuntary divestments may also occur as an induced strategic response by a company to changes in the external environment which contributes to prolonged loss making operations in the host country (Benito, 1997; Boddewyn, 1979b; Kobrin, 1980; Nyuur & Debrah, 2014). We include these types of divestments in this review as the decision to divest emanate from the company as a strategic response to other factors which may have ethical undertones. Foreign ethical divestments, more often than not, have conspicuous ethical dimensions (Singer & van der Walt, 1987) since the nature of ethical dilemmas usually differ across national markets (Phatak & Habib, 1998). These ethical dimensions may be direct or indirect and would cause managers to deliberately or inadvertently divest their operations.

Scholars have identified rational-egoism, utilitarian, and deontological orientations as angles of corporate strategic decision making including foreign divestments (Singer, 1994; Singer &

van der Walt, 1987). The rational-egoistic ethical divestment perspective is underpinned by the transaction-cost perspective of profit maximisation and cost minimisation by agents in their divestment decision making (Singer, 1994). Shareholder value creation is at the heart of the normative ethical principle of egoism.

Since managerial reward and incentive packages are usually tied to value-creation or profit maximisation, the rational divestment decision making focusing on value creation has egoistic ethical justification for both managers and shareholders (Singer, 1994). The firm thus acts as a rational agent whose divestment decisions are based on systematic identification of all relevant commercial factors and the evaluation of consequences (Singer & van der Walt, 1987). The aim of commercial rationality is to maximize profits for shareholders and minimise cost. This commercial rationality of profit maximisation for shareholders and cost minimisation, according to Friedman (1970) is the only duty of a firm. Divestment decisions therefore triggered purely by commercial factors based on the above reasoning could technically be seen as ethical. The case of Louis Vuitton's recent exit from Argentina is a very good example. For decades, Louis Vuitton expanded across the globe bringing to its affluent customers' high value and high quality products at prestigious locations.

However, in 2012, the firm announced plans to divest from Argentina due to taxes on imported products and a new regulatory environment (Leon, 2012). Recently, top luxury brands such as Escada, Emporio Armani and Yves Saint Laurent have trimmed down and exited operations in the country. The decision to prune Argentine operations echoes the fashion industry's disenchantment with the government and its policies towards imported luxury goods. These measures are seen by the government as attempts at helping to ignite domestic manufacturing sectors. Additionally, in 2008/2009, the global financial and economic crisis influenced firms' decisions to divest parts or some of their subsidiaries abroad to minimise cost and strengthen their positions at a time of turbulence (Belderbos & Zou, 2006; Nyuur & Debrah, 2014). The decisions were therefore based on rational negative global economic factors prevailing at the time. Foreign divestment could also be based on declining profits or business prospects in a foreign host country. Utilitarian and deontological principles which constitute the dominant theoretical lenses in the discourse of ethics also usually play a role in such decisions or actions (Robinson & Dowson, 2012).

While utilitarianism also focuses on consequences (Mills, 1993), decisions are based on the consideration of the greater good for the majority of stakeholders instead of the limited focus on managerial self-interest and shareholder value creation (Singer, 1994). Other factors in the environment and wider social issues have equal weight in the divestment decisions making in this respect (Singer, 1994). The decision therefore constitutes an extension of the manager or shareholder self-interest of higher profit to involve socioeconomic cost-benefit analysis. In the context of divestment, a utilitarian top management would pursue divestment when they consider that such a decision will result in the greater good for the greater number of people compared to alternative actions (Crane & Matten, 2010). For instance, stakeholders such as environmental pressure groups, shareholders, employees, communities, customers, suppliers and home governments may exert pressures through the mass media on organisations to withdraw from a particular market. This may stem from a group advocating a boycott of the company's products which may alter perceptions and lead to substantial decline of the firms operations leading to exit. For instance, between 1985 and 1986, individual and institutional investors with endowments such as colleges, universities, and states in the US divested billions of their shares in firms actively engaged in doing business in South Africa and pressured others to do the same (Kaempfer *et al.*,1987). The aim was to encourage the total withdrawal of foreign firms from South Africa which was expected to subsequently lead to the abolition of apartheid at the time. This, in their view, was the right thing to do and would result in the greater good for the majority of South Africans and other people around the world. This resulted in the state of California pension fund and the University of California selling up to $12 billion worth of shares in firms doing business in South Africa in 1986

(Kaempfer *et al.*, 1987). Ethical divestment is the withdrawal from foreign markets due to actions, inactions and events considered to be immoral either in the home or host country which makes continued involvement in a foreign market difficult to justify and sustain.

Deontology (ethics of duty) on the other hand focuses on virtues, rights, justice and universal principles that influence the decision maker (Kant, 1964; MacIntyre, 1981; Rawls, 1971). In this respect the divestment decision may be triggered as a duty or obligation based on certain universal principles and may even be counter to shareholder value creation or commercial considerations. The decision maker using virtue ethics principles, will however be influenced more by his/her character and integrity in the actions taken or decision making process (Ghillyer, 2012). In the context of foreign ethical divestment, the decisions are driven by concerns of fairness and justice, and these factors may be unrelated or even negatively related to commercial gain of the business (Singer, 1994). Researchers have therefore employed words such as conscience-induced exit, moral divestment, damage-limitation exercise and political divestment, to refer to ethical divestment. In this article, we define foreign ethical divestment as strategic actions of firms to withdraw from a particular host market on moral grounds of fairness and justice or in response to ethical concerns expressed by its stakeholders (Hall, 1986; Patey, 2009; Taylor, 2012).

The norms of morality are central to the divestment decision making in such situations, displacing the norms of rationality (Singer & van der Walt, 1987). Ethical divestment decisions are based on situations that are likely to have a significant effect on others (Crane and Matten, 2010). The issue of politicised divestment by MNCs exemplifies this situation as the decision is likely to be based purely on ethical issues (Singer, 1994). In this sense, ethical divestment extends beyond the largely rational egoistical divestment decisions which are made based on direct commercial factors that tend to affect corporate valuation and business prospects in the short-to-medium term (Singer & van der Walt, 1987). While rational egoistical divestment decisions could technically be classified as ethical, we argue that divestment decisions are more ethical when issues of fairness, justice, and the interests of the wider stakeholders are dominant in the decision content. Ethical foreign divestment can also be seen as a strategic action of the firms to address what is seen as morally unacceptable business deals with corrupt or oppressed regimes. Furthermore, it involves when a group of stakeholders want to exert pressure on firms to change unpopular or socially irresponsible behaviour (Davidson III *et al.*, 1995). Some firms' extreme disregard of the environmental, human rights and security concerns of their operations in foreign markets could also lead to divestment by its investors. The failure or unwillingness to address these concerns may stem from under-developed market supporting mechanisms such as effective court systems, lax regulatory regimes, and corruption. The integration of ethics into strategic divestment is not only essential for our understanding of the subject, but contributes more broadly to the wider scholarly discourse in strategic management (Singer & van der Walt, 1987; Singer, 1994). Therefore, our integrated framework captures ethical divestment issues at macro, firm and individual levels within the wider external environment.

Macro-environmental factors

At the macro level, literature has signalled the influential role of stakeholders in the identification of ethical dilemmas and the moral implications of engaging in certain activities (Akhter & Choudhry, 1993; Lansing & Kuruvilla, 1988; Paul & Aquila, 1988; Richardson & Cragg, 2010; Wright & Ferris, 1997). The scholarship also underscore the increasing role of environmental advocacy groups and other pressure groups that focus on issues such as human rights, animal rights, religious rights, and democratization of governments in order to influence and shape firms' decision to divest (Dhooge, 2006; Soederberg, 2009; Westermann-Behaylo, 2010; White, 2004). In most stock markets institutional investors, such as pension funds, asset managers, mutual funds and insurance companies represent an important proportion of investments and their market power allows them to influence corporate behaviour (Clark & Hebb, 2004; Ryan & Schneider, 2003). Institutional investors can increase their importance in the eyes of managers by shaping the salience of environmental, social and governance issues (Agle, Mitchell & Sonnenfeld, 1999; Gond & Piani, 2012). Socially responsible divesting seeks to direct financial capital to firms 'whose activities do not simply generate profit, but also stimulate economic growth, ensure protection of the environment, human rights, and promote social welfare' (Akhter & Choudhry, 1993; Yach *et al.*, 2001, p. 191). This allows investment funds and individuals to withdraw investments in organisations whose policies are considered undesirable or unethical. These divestments are often characterised by intense pressures from various groups leading to the withdrawal of investment by companies and some institutional investors (Beaty & Harari, 1987; Kaempfer *et al.*, 1987). Studies have attributed some foreign ethical divestments to the pressures on firms to withdraw from host countries where their activities are seen as causing environmental harm or the host government is displaying disregard of the interests of vulnerable but less powerful stakeholders.

The social pressures from climate advocacy groups have often exerted pressures on firms to initiate the divestment process leading to eventual exit. Recent anecdotal evidence indicates that some firms are increasingly uneasy with the operations of the "fossil fuel industry" and in response withdraw their investments from the sector. For instance, pension funds such as Connecticut Retirement Plans and Trust (CPRT) Fund and California Public Employees' Retirement System have withdrawn their investments from a number of companies due to their failure to respond effectively to climate change concerns (Mamudi, 2007). Such pressures from climate advocacy and pension fund groups have the potency to influence a firm operating in the fossil fuel industry in a foreign country, to terminate operations and withdraw from that country. A rich body of research has demonstrated that many firms have often divested from foreign markets in order to avoid paying bribes and political contributions in host countries (e.g., Boddewyn, 1979b; Geo-Jaja & Mangum, 2000).

Under the U.S. Foreign Corrupt Practices Act (1977), it is illegal and unethical for American firms to offer bribes to foreign governments and parties. However, until 1997, the US was the lone ranger in punishing US firms engaged in such activities whereas non-US firms were less constrained by such laws (see Geo-Jaja & Mangum, 2000; Kaikati *et al.*, 2000). Indeed, between 1994 to 1998 U.S. firms lost an estimated $108 billion in business to non-U.S. rivals not subjected to the Act (Kaikati *et al.*, 2000). In 1997, the OECD Convention on Combating Bribery of foreign public officials in international business transactions was signed by its council with the basic tenet that bribery raises serious moral and political concerns (OECD, 2011). The convention came into force in February 1999 and over 39 countries have since ratified it making the bribery of public officials by non-US firms also illegal, and punishable by effective, proportionate and dissuasive criminal penalties (OECD, 2011). Thus, institutions and universal principles such as these increase the moral pressure of certain decisions and actions by firms in host countries that will eventually influence them to divest their operations. These provided insights on how non-economic macro-environmental forces have influenced corporate divestment strategy of MNEs (e.g., Lansing & Kuruvilla, 1988; di Norcia, 1989). Thus, we propose the following:

> **Proposition 1:** *Home country governments and multi-lateral institutional policies and programmes are more likely to impose moral pressures on firms to divest suddenly in instances, where they see major breach of ethics.*

> **Proposition 2:** *The stronger the degree of regulatory and ethical enforcement standards at home, the higher the likelihood that firms will divest from foreign operations to respond to ethical concerns.*

A large body of research has uncovered that some firms following the utilitarian perspective often conclude that the risk of being seen to be associated with unsavoury regimes and governments far outweigh the benefits of continuing operations, and thereby prompting top management teams to head for the exit to help protect their core business. The studies focused largely on U.S. multinationals' divestments from South Africa during the apartheid regime with other limited studies focusing on Sudan (Dhooge, 2006; Patey, 2009; Soederberg, 2009; Westermann-Behaylo, 2010) and Burma (White, 2004). For instance, the Sudan divestment campaign supported by the United Nations, the European Parliament and the U.S. Congress led to many companies adopting the so-called 'genocide-free investing' who divested stock and sought to dissociate themselves from firms or individuals seen to have links to such regimes (see Preston, 2008). The pressure from stock divestment had a knock-on effect on companies operating in Sudan to terminate their operations and exit the country.

In addition, the widespread divestment campaign spearheaded by the Sudan Divestment Task Force contributed to the passing of the Sudan Divestment and Accountability Act, which President George W. Bush signed into law in 2007 (Patey, 2009). The Act sought to exert pressure on firms doing business in the country to suspend or end their operations in the country. This, in a modest way, succeeded in altering many Western firms behaviour in the country. However, many Chinese state-owned firms such as China National Petroleum Corporation and other Asian oil companies continued their operations in the country (Patey, 2009). These studies altogether reveal how private and public pressures rather than the pursuit of profit drove managerial strategies as has been indicated in much of the management literature (see McWilliams & Siegel, 1997; Meznar *et al.*, 1998; Wright & Ferris, 1997). These public (foreign governments) and private (human rights and other pressure groups) institutions are of the view that divestment from such areas is the right thing to do, as continuing operations could support illegitimate regimes or fund violence and human rights abuse towards civilians (Dhooge, 2006; White, 2004). Through such institutional pressures, the moral intensity of divestment decisions become enhanced and firms consider the termination and withdrawal from such countries as more potent in bringing about positive and moral change than constructive engagement (Westermann-Behaylo, 2010).

To illustrate the institutional pressures further, we turn to the case of Rio Tinto. In 2008, the Norwegian Government Pension Fund – Global, a sovereign wealth fund blacklisted the mining company Rio Tinto and sold around $1 billion holdings largely due to the environmental concerns over its operations such as river pollution in Papua, Indonesia (Council of Ethics, 2008; Taylor, 2012). Rio Tinto at the time had around 40% stake in Grasberg gold and copper mine operated by US-based Freeport McMoRan. The mine was found to have discharged around 230,000 tonnes of tailings directly into the local river system causing damage to the River and local communities (BBC, 2008; Taylor, 2012). Wander and Malone (2004) indicates that stakeholders may consider it unethical for certain firms to continue profiting from the production of certain goods seen as harmful and destructive, with less regard to the health and wellbeing of some stakeholders or the society as a whole. In such cases, pressures are imposed on the firm and its partners who may be seen to provide not only financial support but also logistical supports to enable or facilitate such unethical behaviour (Preston, 2008).

Companies revealed to have links to activities that cause damage to local populations often attracted negative publicity and subsequent divestment**.** Similarly, the case of New Zealand Superannuation Fund, which manages the country's pension fund, provides an opportunity to provide further insights on the issue. The fund recently divested shares in the US miner Freeport-McMoRan Copper and Gold, US firm KRB and Chinese resource company, Zijin Mining in what was perceived as failure to meet human rights, corruption and safety standards (NZsuperfund, 2012; Stopthewall, 2012). The pressure exerted on shareholders from environmental groups and other agencies led to the decision to withdraw investment in the focal firms. As the case above demonstrate, firms are likely to sell assets or holdings to erase ties with partner firms known to have committed deviant act(s) or whose activities can be viewed by a broader spectrum of stakeholder groups as unethical. For global companies with holdings in numerous companies, dumping stock appears to be particularly effective in sending a message to executives about their operations or links to oppressive regimes. This invariably serves as a warning to top management teams that failure to address unethical issues within their firms and network of partner firms can result in divestment. Such pressure leads us to propose the following:

> **Proposition 3:** *The intensity, power and legitimacy of stakeholder pressures are highly likely to influence the divestment decisions of firms.*

Firm-specific factors

A number of scholars have posited that poor financial performance is a dominant characteristic of divesting firms, but that firms have a general tendency to tolerate poor performance at the outset of an investment in the anticipation that performance will improve (Berry, 2010, 2013; Boddewyn, 1979a; Amankwah-Amoah, Zhang & Sarpong, 2013). However, over time, firms become increasingly reluctant to accept prolonged losses and therefore begin to exit when they see no greener pasture in the horizon. From a stakeholder theory perspective operating a business concern persistently at a loss does no favours for stakeholders such as shareholder, employees, suppliers, communities etc. Arguably, exiting such activities could give room to firms with the requisite capability to the benefit of stakeholders. Divestment of certain organisational units may also be considered when a new CEO takes over or when the persistent poor environmental performance becomes evident to external constituents or key internal stakeholders such as other divisional managers (Duhaime & Schwenk, 1985). Such divestment decisions are aligned with the rational egoistic ethical orientation (Singer, 1994).

Poor environmental performance could have long-term detrimental reputation on the organisation and divestment could be a solution to saving a firm’s international reputation. The literature has also shown that an organisation’s reputational risk associated with certain actions has the potential of driving ethical divestment decisions (Richardson & Cragg, 2010).

Proponents of this view argue that between 50 and 70 per cent of the value of large organisations is attributable to their brand name and goodwill which they strive to sustain. They therefore avoid engaging in any unethical practices that could tarnish their reputation (Richardson & Cragg, 2010). Consequently, divestment will be undertaken when continuous operation in a particular host country has the risk of negatively affecting the international reputation of the firm. This is particularly evident in situations where stakeholders are of the view that the firm's activities are promoting the violation and abuse of human rights (Soederberg, 2009). Stakeholders expect international firms to behave ethically at all locations of their operations irrespective of the weak institutional arrangements that could allow them to legally undertake activities considered unethical at home or in general. Following the rational egoistic ethical perspective, scholars have also argued that cash-rich firms with limited opportunity for growth in their core businesses tend to make predatory and hostile diversifying acquisitions, especially in situations of weak corporate governance (Jensen, 1986; Mueller, 1969). Haynes *et al*. (2003) therefore suggests that managers of firms under threat of such hostile and predatory take-over would divest parts of the business to prevent the take-over, refocus on its core business and improve performance for its shareholders. However, others chronicle that firms would undertake divestments when a subsidiary or business unit drains resources from other profitable units through unethical behaviour in the home country (Ravenscraft & Scherer, 2011; Wright & Ferris, 1997). This leads us to propose the following:

> **Proposition 4.** *The greater the potential for a firm to suffer reputational and operational damage the more likelihood of divestment.*

At the industry level, the "snowball effect" has been identified to influence the decision to exit an industry. This is where a divestment of a rival in a particular country, for ethical reasons, forces rival(s) to take similar steps in order to avoid looming risks to the survival or profitability as well as reputational damage of firms operating in a given industry or region.

Recent study by Soule *et al*. (2014) indicated that firms' ethical divestment decisions are often shaped by home country factors such as level of protests, level of political freedom and transparency of institutions which exert pressures on industry leaders and the firm's operations to divest. Some scholars have referred to this as 'follow the market leader' behaviour where the firm simply replicates the strategies of the leader (Jagersma & van Gorp, 2003). The exit of the market leader may encourage other firms in the sector to respond in a similar manner given that failure has the potential to ruin their reputation at home and internationally. We therefore propose the following:

> **Proposition 5:** *Divestment decisions of a competitor in a given market are likely to positively influence the divestment decisions of rivals in the same industry.*

Individual level factors

Ethics and CSR issues have been confronting businesses for decades. Researchers and practitioners have been particularly interested in the extent to which managers are responsive to the expectations of shareholders and society. While maximizing long-term shareholder value remains their prime objective, they are also expected to adequately monitor their employees' performance, and to enforce and adhere to certain ethical standards (Ibrahim *et al.*, 2008). Studies have shown that corporate as well as individual characteristics have an impact on managers' social orientation (Marz *et al.*, 2003). It is indicative of the fact that the extent to which they show commitment to ethics/CSR depends on their own ethical postures. Some studies have therefore attributed divestment to the personal characteristics of the top management team which drive their organisation and shape their strategic directions.

A number of factors such as psychological reasons that relate to the decision-makers have been identified to influence divestment decisions (see Nees, 1981). There is a growing body of research which indicates that the moral position and beliefs of the upper echelons of an organisation influence their strategic decision making. Such individuals are therefore more likely to make a decision to divest from markets or industries seen not to be in line with their moral values or that of the society or business (e.g., Singer & van der Walt, 1987). Their deontological ethical values of fairness and justice usually play a dominant role in the divestment decision. In this vein, the potential personal loss of public image or the perception of personal ethical values of top executives could influence their divestment decision making (Wright & Ferris, 1997). Therefore, the top management officials' moral values may drive them to divest certain units or subsidiaries when they honestly acknowledge that their pre-investment decisions were poorly made leading to poor and uncompetitive performance of the unit/subsidiary (Boddewyn, 1979a). In such a situation, their moral value of honesty and sense of duty drives them to admit their mistakes, and take steps to revert the situation in order to protect the company from further losses. Thus we propose that:

> **Proposition 6:** *Top management teams who bring ethical conscience to bear on their decisions are more likely to push their organization towards exit when they perceive something an ethical breach.*

Discussion and Conclusion

This article sets out to examine the antecedents of ethical foreign divestment and to outline some directions for future research. It brings together studies across multiple disciplines to stimulate cross-fertilization of the ethical divestment literature. Consequently, we map out the moral orientations of foreign ethical divestment and develop an integrated theoretical framework to enrich our understanding of ethical divestment. Our work redirects the limited current scholarly discourse towards the importance of macro/institutional, individual and organizational level factors in understanding the issue. Our paper uncovered a broad category of individual, organisational and institutional factors that play a crucial role in the decision to divest. These individual, organisational and institutional factors also fall within the egoism, utilitarianism and deontological perspectives. The exploration of the literature and illustrative cases resulted in the development of a framework (see Figure 1) that links the individual, firm and institutional factors.

Insert Figure 1 about here

From the firm-specific and institutional perspectives of ethical divestment, a range of factors such as socially responsible divesting concept of investment funds and multinationals have often prompted foreign firms' withdrawal from host countries. At the macro-level, the review suggests that much of the literature has focused on apartheid South Africa, Sudan and Burma; there is a need to broaden the scope of current research to include other countries or firms in politically unstable environments particularly under dictatorial regimes. At the industry level there is the need to expand research beyond the predominant literature that focuses on the tobacco industry. Activities of other sectors and industries have not been investigated enough. This is perhaps because investors have not been encouraged to divest from such firms. It is clear that most of the ethical divestment initiatives have resulted from pressures from home and host country institutions and organisations.

At the firm level, there appears to be a continuous balance between ethical and commercial costs with the view that often commercial costs outweigh ethical costs. Indeed until ethical infractions begin to affect the bottom line most firms fail to respond. There is also so much room to expand the literature in respect of political dictatorships and human rights issues across the globe particularly in developing countries. In addition, even though corruption is occurring on a large scale globally (Unruh, 2008) ethical divestment in response to prevalent bribery and corruption issues has hardly been explored. We hope that our work can serve as an incentive to attract more scholarly works on the subject.

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<u>Table 1: Summary of studies on foreign ethical divestments</u>

Author and year	Theoretical perspective	Data source/ sample	Key findings
Primary Construct Under Investigation: Macro/Institutional factors			
Hall (1986).	Commentary	Conceptual development	• Institutional pressures leading to divestment are generally ineffective in forcing political regimes to alter their behaviour. • Withdrawing investments in a particular company are unlikely to alter the firm's behaviour in a significant way.
Beaty and Harari (1987)	Divestment and disinvestment	Conceptual reappraisal in the context of South Africa	• Ethical divestment can serve as a panacea to trigger political change within a country. • Intense public pressure on multinationals and their institutional investors are more likely to lead to divestment decisions.
Kaempfer, Lehman, and Lowenberg (1987).	Divestment and disinvestment	105 firms from standard and poor's 500 index, USA.	• Disinvestment of stocks in South Africa-active firms by individuals or groups of investors to influence the abolition of apartheid. • Divestments in response to sanctions and policies from other governments or stakeholders.
Bond (1988).	Philosophical and ethical theoretical perspectives	Historical evaluation of South African divestment	• Apartheid is immoral and corporations have a social responsibility to change it. • But divestment will negatively affect the blacks than the perpetrators of the apartheid system. • Firms can continue to operate and behave morally by signing to the Sullivan

			principles.
Madsen (1988)	Commentary	Philosophico-ethical positions of divestments in South Africa	• Businesses have the obligation to actively pursue the abolition of the immoral apartheid through divestment. • Corporations have the primacy of their own moral agency as actual members of the same community and can never evade it. • Divesting is simply and inherently the right thing to do. It is the bona fide moral duty which should be practiced regardless of its consequence. • To maintain business in South Africa is to maintain apartheid, continue it and legitimize it.
Akhter and Choudhry (1993).	Political risk perspective	Forced withdrawal from a foreign country	• Divestments for fear of losing contracts, or threat of divestment by very important stockholders such as state, municipal governments, universities and religious foundations. • Divestments as a response to maintain positive public image in all markets.
Arnold and Hammond (1994).	Corporate social disclosure and ideology theory.	South African divestment.	• US multinationals adopted the system of social reporting to justify continued operations during apartheid to minimise any potential loss of legitimacy.
Yach et al. (2001).	Socially responsible investing.	Divestment from tobacco	• A shift towards ethical divestment due to the harm tobacco does to the wider society.
White (2004)	Corporate social responsibility/divestment	Divestment in Burma	• Divestment is an effective tool to foster democracy and free market principles. • Divestment can result from institutional pressures and firms' moral obligations to key stakeholders.

Dhooge (2006)	State divestments Acts and foreign relations	State of Illinois' Act atrocities and terrorism in Sudan	• Managers of Illinois state pension and retirement funds were given 18 months to divest from companies doing business in or with Sudan.
Wander and Malone (2007)	Ethics of public investment in the Tobacco industry	Tobacco Industry documents (e.g., Master Settlement Agreement and Tobacco Documents Library –	• The financial community has ethical responsibility to ensure that the public's trust in economic institutions is not further damaged by the lack of integrity ascribed to the tobacco industry. • The political community is also being cautious about its relationship with the tobacco industry because investment of public funds can be perceived as conflict of interest. • The debate on the financial, ethical and social costs of investing in the tobacco industry pervades alongside global expansion of commercial promotion.
Westerman n-Behaylo (2010)	Divestment and changing institutional norms	Conceptual evaluation of engagement or divestment in South Africa and Sudan	• Using the threat of divestments in response to campaigns by activist groups to raise human rights concerns. • Businesses were encouraged to give up the notion that there is no suitable role for firms to engage in resolving humanitarian crises or conflicts
Soule et al. (2013).	Foreign divestment literature	Multinational firms from Burma, 1996–2002.	• Multinationals from countries with higher levels of political freedom which allow protest and transparency of institutions have a greater propensity to divest their operations for ethical reasons.
Primary construct under investigation: firm level			
Singer and van der	Behavioural and normative	Conceptual development	• Ethical decision making encompass both commercial and ethical factors. • Decision theory is inadequate and incomplete to accurately guide business policy

Walt (1987)	theoretical perspectives		and strategic decision-making. • Divestment decisions depend on the conscience of the individual making the decision.
Richardson and Cragg (2010)	Socially responsible investment's conflicting goals	Conceptual development	• Some investors may acknowledge environmental and ethical issues when they are financially material to the bottom line. • Investors will prefer ethical investments where profits appear to go hand in hand with ethically grounded investment policies and practices.
Primary construct under investigation: individual level			
Rivoli (1995)	Ethical and economic motives of Investors	IRRC Shareholder Governance Control Resolutions, 1988 – 1999	• The assumption that shareholders are wealth maximisers may not always be true. • There is the need for a balance between economic demands of shareholders and the welfare of other stakeholders. • Because Shareholders are interested in and bound by a sense of moral duty to other stakeholders, stakeholder management is arguably an artificial construct.
Sanbu (2012)	Stakeholder duties and moral responsibility	Conceptual Development	• If moral responsibility results from complicity because corporations act on behalf of investors, then shareholders bear greater moral responsibility than bondholders. • Shareholders have a moral responsibility to divest, or use their voting rights and other means to influence management to desist from wrongful behaviour, even if that would have financial consequences.

Table 2: Antecedents to ethical divestment

Dimension	Factors examined and studies
Macro-environmental factors	• Avoidance of bribes and political contributions in host countries (e.g., Boddewyn, 1979b). • Political tensions (Bond, 1988; di Norcia, 1989; Malone & Goodin, 1997; Meznar, Nigh & Kwok, 1994, 1998; McWilliams & Siegel, 1997; White, 2004; Soederberg, 2009; Westermann-Behaylo, 2010). • Political instability and political interference (e.g., di Norcia, 1989; Lansing & Kuruvilla, 1988: White, 2004; Soederberg, 2009; Westermann-Behaylo, 2010). • Stakeholder pressures (Lansing & Kuruvilla, 1988; Wright & Ferris, 1997; Paul & Aquila, 1988; Akhter & Choudhry, 1993; Richardson & Cragg, 2010). • Cost-benefits implications and Social and political impact (Ennis & Parkhill, 1986; di Norcia, 1989). • Social goals such as the promotion of peace and human rights (White, 2004; Dhooge, 2006; Soederberg, 2009; Westermann-Behaylo, 2010). • Economic (financial) or symbolic (isolation) impact on policy change leading to political and social change (Beaty and Harari, 1987; Kaempfer, Lehman, Lowenberg, 1987). • Preventing the production of harmful products (Wander & Malone, 2004, 2007). • Competitive pressures (Hamilton & Chow, 1993).
Firm-specific factors	• Reputational damage (Richardson & Cragg, 2010). • Declining resources and capabilities such as protracted poor performance of the subsidiary or division, (e.g., Berry, 2013; Boddewyn, 1979b; Hamilton & Chow, 1993: Duhaime & Grant, 1984). • Strategic posture or to focus on core business and activities (e.g., Hamilton & Chow, 1993; Alexander & Quinn, 2002).

	• Reducing overlap of strategies and resources following acquisition of other companies (Capron, Mitchell & Swaminathan, 2001). • Replenishing declining financial capital (e.g., Hamilton & Chow, 1993). • Poor coordination and relationship between parent company and subsidiaries in regard to strategic direction (e.g., Boddewyn, 1979b: Boddewyn, 1983). • Facilitating growth of divested units as independent concerns (Hamilton & Chow, 1993). • Preventing predatory and hostile take-over (acquisition) by cash-rich firms with limited opportunity for growth (Haynes, Thompson & Wright, 2003).
Individual-specific factors	• Premature and immature eagerness of the parent-company's upper echelons for foreign investment (e.g., Boddewyn, 1979b). • Conscience and bearing witness to behaviour or action seen as undesirable (Hall, 1986). • Sustaining personal image as a humane citizen (Wright & Ferris, 1997).

Figure 1: An integrative framework of foreign ethical divestment