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# Country portfolio diversity and firms' portfolio adjustment decisions: A behavioral perspective

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ABSTRACT

Taking a behavioral perspective, we explore how environmental diversity in a firm's country portfolio shapes managers' decisions to adjust the portfolio through foreign entries and exits. We argue that country portfolio diversity causes firms to exponentially incur behavioral failures and coordination costs that serve as a distress signal to managers, who therefore increasingly restrict foreign entries and increasingly undertake foreign exits as a function of such diversity. Applying performance feedback theory, we also argue that managers' tendency to interpret behavioral failures and coordination costs from portfolio diversity as a distress signal – and, hence, their tendency to restrict entries and undertake exits as a function of such diversity – depends on whether their firm performs below or above their aspirations. Using measures of cultural, administrative, geographic and economic portfolio diversity, we find support for our ideas in a panel data analysis of all foreign entries and exits by 232 retailers from 24 countries over the period 2001–2007. Our findings illustrate the value of applying a behavioral lens to explain changes in a firm's full set of international activities.

## 1. Introduction

Often managing a range of businesses simultaneously, firms can be conceptualized as portfolios of operations (Henderson, 1970; Hedley, 1977; Bergh & Lawless, 1998). Firms often aim to expand their portfolios in order to achieve growth and, thereby, economies of scale (cf. Bettis & Hall, 1981; Wiklund & Shepherd, 2003; Eisenhardt & Schoonhoven, 1990), but at times they may also decide to curb further expansion of their portfolio or even downsize it, for instance when experiencing performance shortfalls (Bergh & Lawless, 1998). Portfolio management thus involves the simultaneous consideration of expansion and contraction of the portfolio, as illustrated by the following quote by Walmart's CEO Doug McMillon: "Actively managing our portfolio of assets is essential to maintaining a healthy business. Closing stores is never an easy decision, but it is necessary to keep the company strong and positioned for the future. […] So we are committed to growing, but we are being disciplined about it" (Walmart, 2016).

An inherent characteristic of a portfolio of operations is that it contains environmental diversity. This is especially true for portfolios that span multiple countries, since country environments tend to be characterized by various distances between them, including cultural, administrative, geographic, and economic distance (Ghemawat, 2001; Hutzschenreuter, Kleindienst, & Lange, 2014). Environmental diversity in a country portfolio entails both benefits and costs for firms, likely causing parent executives to regularly reflect on the composition of the portfolio and the need for changing it (Hutzschenreuter, Voll, & Verbeke, 2011). However, extant international business (IB) research sheds little light on how environmental diversity in a firm's country portfolio influences the degree and direction of change pursued for the portfolio through foreign entries and exits.

We aim to throw light on this issue by applying a behavioural perspective to the management of country portfolios, consistent with Surdu, Greve, and Benito (2021) call for the greater use of this type of perspective to better understand the evolution of firms' international activities. We propose that country portfolio diversity causes boundedly rational managers to face cognitive challenges that exponentially increase as a function of such diversity, leading firms to exponentially incur behavioral failures and coordination costs as country portfolio diversity increases (Gavetti, Greve, Levinthal, & Ocasio, 2012; Powell, Lovallo, & Fox, 2011; Cyert & March, 1963). Managers will likely

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interpret these failures and costs as a signal that their firm is in distress and unable to cope with the diversity in its country portfolio (Gavetti, 2012; Argote & Greve, 2007), leading them to increasingly restrict foreign entries and increasingly undertake foreign exits as a function of that diversity, so as to curb behavioral failures and coordination costs. We therefore hypothesize a *negative* relationship between the diversity in a firm's country portfolio and its number of new country *entries*, and a *positive* relationship between that diversity and the firm's number of country *exits*, and that these two relationships become stronger at higher levels of portfolio diversity.

Drawing on performance feedback theory (Bromiley & Harris, 2014; Greve, 2003), we also argue that managers' tendency to interpret behavioral failures and coordination costs from portfolio diversity as a distress signal – and, thus, their inclination to restrict entries and undertake exits as a function of such diversity – depends on how their firm's performance compares to their aspirations, in particular their history-based aspirations. More specifically, when their firm is performing worse than in the past, they will likely find the observed behavioral failures and coordination costs from portfolio diversity highly problematic and therefore increasingly engage in 'problemistic search' (Cyert & March, 1963) as a function of such diversity, seeking an increasingly radical solution to address the perceived problem. This solution, we argue, will take the form of an increasingly strong reorientation of the country portfolio as a function of its diversity, since managers who consider their firm to perform relatively poorly will likely be even keener to curb diversity-induced behavioral failures through foreign exits, as well as perceive a need for new revenues through foreign entries to offset the coordination costs associated with such failures. We therefore expect below-aspirational performance to strengthen the increasingly positive effect of country portfolio diversity on a firm's number of country *exits* and to weaken the increasingly negative effect of such diversity on a firm's number of country *entries*.

By contrast, when their firm is performing better than in the past, decision makers will likely be less concerned about behavioral failures and coordination costs caused by country portfolio diversity and, thus, perceive a lower need to reorient the portfolio in response to such diversity. In fact, the higher a portfolio's diversity, the more corporate performance above aspirations will likely convince managers that their firm is coping well with the diversity and, hence, the lower they will likely perceive the need to adjust the portfolio. Accordingly, we hypothesize that above-aspirational performance weakens the increasingly positive effect of country portfolio diversity on a firm's number of country *exits* and strengthens the increasingly negative effect of such diversity on a firm's number of country *entries*.

We test our hypotheses using a sample of the world's largest retailers, since cross-country diversity is a key challenge for these firms and since their respective country portfolios exhibit such diversity to different degrees (Dawson, 2007; Mohr, Batsakis, & Stone, 2018; Coe & Wrigley, 2007). Moreover, the world's largest retailers are known to frequently adjust their country portfolios by entering and exiting countries, even in the same year (Burt, Dawson, & Sparks, 2004; Coe, 2004). For instance, Walmart, one of our sample firms, exited Germany and South Korea in 2006, but also entered five Central American countries that year. Likewise, in 2002, Hong Kong-based Dairy Farm International entered South Korea but exited New Zealand and Australia.

Analyzing a panel dataset containing all country entries and exits by 232 of the world's largest retailers from 24 countries over the period 2001–2007, we find robust support for our hypotheses, thus showing that country portfolio adjustments critically depend on the interplay between a portfolio's environmental diversity and a firm's performance relative to managers' aspirations. In identifying this interplay, we bring together two strands of IB research that so far existed in isolation, namely studies taking a portfolio perspective on multinational firms (Belderbos & Zou, 2009; Hendriks, Slangen, & Heugens, 2018; Hutzschenreuter & Matt, 2017; Nachum & Song, 2011) and studies of how performance feedback affects firms' internationalization (Deng, Li, & Liesch, 2022; Fourné & Zschoche, 2020; Wang, Li, Zhu, & Chen, 2023; Xiao & Tian, 2023). Moreover, whereas the latter studies analyzed the effect of performance feedback on managerial decisions about individual foreign expansions, we take the novel approach of exploring its effect on changes in a firm's full set of international activities. Overall, our study shows the value of taking a behavioral perspective to explain how managers change their firm's country portfolio through foreign entries and exits in response to environmental diversity in the portfolio.

## 2. Theory and hypotheses

### 2.1. How country portfolio diversity affects portfolio adjustment decisions

Managing a portfolio of corporate activities is a complex task for decision makers (Aharoni, Tihanyi, & Connelly, 2011; Egelhoff, 1991; Tihanyi & Thomas, 2005), especially when these activities are spread across countries, since national environments often differ substantially from one another (Hutzschenreuter et al., 2011; De Jong & Van Houten, 2014; Miller, Lavie, & Delios, 2016). Although environmental diversity in a firm's country portfolio may offer several benefits such as access to novel knowledge and risk reduction, it often also necessitates firms to adapt their activities and products across countries and complicates internal coordination at the corporate level (Meyer, Mudambi, & Narula, 2011). The inherent complexity of this simultaneous external adaptation and internal coordination taxes a firm's administrative and control systems and entails substantial challenges that increase with the level of diversity across the countries in the portfolio. Such challenges arise because managers are boundedly rational and thus limited in their ability to align cognitively more distant activities (Gavetti, 2012; Cyert & March, 1963; Simon, 1990a). In particular, decision makers have limited "human cognitive capacity for discovering alternatives, computing their consequences under certainty or uncertainty, and making comparisons among them" (Simon, 1990b: 15), thus being unable to observe, process, and interpret all relevant stimuli within the organization (Simon, 1947; Hambrick & Mason, 1984; Powell et al., 2011).

Partly unobservable frictions and challenges resulting from portfolio diversity include misunderstandings and conflicts between employees residing in different national units, red tape, and suboptimal forms of market knowledge recombination across operations in different countries. Managers of firms with a more diverse country portfolio need to interpret a higher volume of disparate signals, which may lead to difficulties in processing all the available information (Simon, 1947; Banalieva & Robertson, 2010; Tihanyi & Thomas, 2005; Aharoni et al., 2011). Moreover, managers of such firms tend to experience greater difficulties forming shared cognitive maps that can be used by the management team as a whole to understand how activities relate, whether there is overlap between them, and in what way synergies can be brought about (Ginsberg, 1989; Prahalad & Bettis, 1986; Maitland & Sammartino, 2015).

Given managers' bounded rationality, diversity in a portfolio of corporate activities is likely to result in so-called behavioral failures in the form of intra-organizational coordination challenges (Gavetti, 2012; cf. Tong & Reuer, 2007; Ellis, 2007). These failures are likely to take two main forms. First, limitations in relation to the gathering and processing of information and the ability to engage in associative processes imply that managers experience challenges in understanding and bringing together cognitively distant activities and opportunities (Gavetti, 2012). More diverse portfolios tend to be comprised of such activities, for which deviations from predominant ways of thinking are needed, thereby likely putting a strain on mental processes and the recognition of opportunities.

Second, managers will likely attempt to control the challenges caused by portfolio diversity through formalization, but such efforts are often suboptimal and tend to generate coordination costs. Managers engage in such attempts as portfolio diversity gives rise to the need to

put structures and detailed procedures in place to manage intra-corporate knowledge flows (Hutzschenreuter et al., 2011). In optimal form, such structures and procedures act as formalized arrangements that help support the organization's ability to leverage experiences from one setting to another, and may include formal ways of cross-unit collaboration to foster internal communication and specific human resource management practices targeted at a more effective transfer of knowledge (Minbaeva, Pedersen, Björkman, Fey, & Park, 2003). Setting up such structures and procedures, however, requires coordination, the costs of which are likely to be higher for portfolios characterized by greater national diversity. Formalization does not only place additional cognitive demands on decision makers who have to authorize the implementation of coordination mechanisms, but also on managers further down the hierarchy (Hart, 1992). Specifically, the latter managers will likely experience difficulties in identifying cross-country synergies and may therefore resort to time- and resource-consuming cross-country duplication of activities.

These behavioral failures and coordination costs stemming from country portfolio diversity will likely have consequences for the evolution of the portfolio by shaping managers' foreign entry and exit decisions. Regarding foreign entry decisions, managers will likely face constraints in gathering and processing information in the pursuit of new opportunities through foreign entries (Gavetti, 2012; Gavetti, Levinthal, & Ocasio, 2007). Such constraints are likely to be particularly pressing when managers' current tasks are cognitively more challenging. As the management of more diverse portfolios involves greater behavioral failures and higher coordination costs, managers of such portfolios are likely to be exposed to more distress signals, either in their own day-to-day coordination activities or from subordinates who may feel overburdened. Given managers' cognitive limitations, higher country diversity in a portfolio will increasingly put greater strains on their capacity to handle it. That is, increasingly high levels of country portfolio diversity lead to an exponential surge of behavioral failures and coordination costs, so that at very high levels of diversity, even small increases will likely increasingly overwhelm an already stretched and overloaded organization. To curb these failures and keep coordination costs in check, decision makers will likely restrict new country entries as a function of country portfolio diversity, and increasingly so at higher levels of that diversity. We therefore hypothesize:

**Hypothesis 1a**. **:** The higher the diversity in a firm's country portfolio, the stronger the negative effect of that diversity on the firm's number of new country *entries*.

For similar reasons, higher levels of country portfolio diversity will likely also increase decision makers' desire to reduce such diversity by exiting countries. By reducing country portfolio diversity through foreign exits, managers aim to lower the behavioral failures and coordination costs caused by such diversity. Specifically, they will likely see country exits as an efficient way to bring down the amount of disparate information that needs interpretation and to eliminate the necessity of costly coordination between organizational units in search of cross-country synergies (Nguyen, Larimo, & Ghauri, 2022; Kafouros, Cavusgil, Devinney, Ganotakis, & Fainschmidt, 2022). An example of a company opting for country exits after reviewing the diversity of its country portfolio is Marks and Spencer. This British firm decided to close all its stores in ten foreign countries in November 2016 quoting difficulties stemming from a "fragmented owned-store portfolio" (Marks and Spencer, 2016). Accordingly, we hypothesize:

**Hypothesis 1b**. **:** The higher the diversity in a firm's country portfolio, the stronger the positive effect of that diversity on the firm's number of country *exits*.

### 2.2. The moderating role of performance feedback

Although decision makers are likely to notice some of the behavioral failures and coordination costs caused by country portfolio diversity, their bounded rationality will likely prevent them from identifying the exact magnitude of these failures and costs. To gain further insight into this magnitude, decision makers are likely to rely on additional cues in the form of performance feedback (Harris & Bromiley, 2007; Iyer & Miller, 2008; Audia & Greve, 2006; Greve, 1998; Cyert & March, 1963). More specifically, they are likely to assess how their firm is performing compared to an easily observable reference point, such as the firm's past performance (Greve, 2003; Kim, Finkelstein, & Haleblian, 2015; Baum & Dahlin, 2007; Patel & Chrisman, 2014). According to performance feedback theory, decision makers tend to treat this reference point as an aspiration level; that is, an outcome they deem satisfactory at the borderline between perceived success and failure (Schneider, 1992; Greve, 2003). Building on this theory, we propose that corporate performance relative to managers' history-based aspirations affects their inclination to interpret behavioral failures and coordination costs from portfolio diversity as a distress signal and, therefore, their inclination to restrict entries and undertake exits as a function of such diversity.

When their firm is performing worse than in the past and thus below their aspirations, decision makers will likely consider the internal behavioral failures and coordination costs caused by country portfolio diversity highly problematic and thus increasingly engage in 'problemistic search' (Cyert & March, 1963; Daft & Weick, 1984; March & Simon, 1958) as a function of such diversity, seeking an increasingly radical solution to address the perceived underperformance (Tyler & Caner, 2016; Moliterno & Wiersema, 2007; Greve, 1995). This solution is likely to take the form of an increasingly strong reorientation of the firm's country portfolio as a function of its diversity (cf. Schimmer & Brauer, 2012; Baum, Rowley, Shipilov, & Chuang, 2005). To achieve this strategic reorientation, managers are likely to undertake two complementary courses of action. First, they will likely become less conservative in entering new countries at higher levels of country portfolio diversity, as managers who consider their firm to perform relatively poorly will likely perceive a stronger need for new revenues to offset the coordination costs associated with such diversity. Hence, when a firm performs below aspirations, country portfolio diversity will likely have a less restraining effect on new foreign entries and may in fact increasingly trigger such entries. Accordingly, we hypothesize:

**Hypothesis 2a**. **:** The increasingly negative effect of country portfolio diversity on a firm's number of new country *entries* is *attenuated* by firm performance *below* aspirations.

Second, managers of firms who consider their firm to perform relatively poorly will likely become even more strongly inclined to exit countries as a function of country portfolio diversity, since they will likely be even keener to curb diversity-induced behavioral failures and thereby improve their firm's performance. Furthermore, comparative performance shortfalls will likely lead senior management to restrict the financial resources available for funding current country operations, as these resources are diverted away to finance new country entries that serve as alternative sources of growth (cf. Kuusela, Keil, & Maula, 2017; Sengul & Obloj, 2017). Tighter operational budgets will then force decision makers and lower-level managers to engage in a reconfiguration of resources (Vidal & Mitchell, 2015), leaving fewer resources for the optimization of formal structures and procedures, which were aimed at reducing cognitive complexity and other diversity-related challenges. Moreover, having to perform such a reconfiguration of resources likely poses an additional burden on their cognitive capacity, in addition to the already challenging task of handling diversity in their firm's extant portfolio, making behavioral failures more likely. We therefore expect that managers' tendency to undertake corrective action in response to diversity-related behavioral failures is likely to be further strengthened by a lack of available financial resources and revised perceptions about the burden that environmental diversity poses for their firm's current portfolio (Chen, 2008; Iyer & Miller, 2008). As senior managers of firms that perform below aspirations are likely to provide their subordinates

with fewer financial means and are themselves more willing to make changes to the composition of their country portfolio, such firms are likely to pursue more country exits as a function of country portfolio diversity. For these reasons, we hypothesize:

**Hypothesis 2b. :** The increasingly positive effect of country portfolio diversity on a firm's number of country *exits* is *amplified* by firm performance *below* aspirations.

By contrast, when a firm is performing better than in the past and thus above managers' aspirations, managers are unlikely to interpret the observed behavioral failures and coordination costs from country portfolio diversity as a distress signal. In this case, such diversity is therefore unlikely to increase managers' inclination to engage in problemistic search and thus their propensity to reorient their firm's country portfolio. In fact, the higher a portfolio's diversity, the more corporate performance above aspirations will likely convince managers that their firm is coping well with the diversity and, hence, the lower they will likely perceive the need to adjust the portfolio (Audia, Locke, & Smith, 2000; Baum et al., 2005; Iyer & Miller, 2008). That is, when a firm performs above managers' aspirations, country portfolio diversity is likely to increasingly fuel a sense of managerial complacency, causing such diversity to increasingly discourage the planning for and execution of new foreign entries (Greve, 2003; Parker, Krause, & Covin, 2017). Therefore:

**Hypothesis 3a. :** The increasingly negative effect of country portfolio diversity on a firm's number of new country *entries* is *amplified* by firm performance *above* aspirations.

Furthermore, since corporate performance above aspirations causes country portfolio diversity to breed stronger managerial complacency, such performance is also likely to limit managers' incentive to exit countries at higher levels of portfolio diversity. Although higher such levels exponentially increase behavioral failures and coordination costs, decision-makers are unlikely to find these failures and costs problematic when their firm's performance exceeds their aspirations, likely causing them to perceive little need for country exits (Baum & Dahlin, 2007; Cyert & March, 1963; Baum et al., 2005).

In addition, executives of firms that perform above aspirations will likely free up discretionary financial resources that help reduce behavioral failures and coordination costs, for example through the hiring of additional staff or the implementation of more sophisticated IT systems. Moreover, executives may also deploy such resources for the optimization of structures and procedures that were devised to channel and manage information flows in order to better understand the specific nature of different portfolio segments. Such initiatives likely help lower-level managers to feed up more accurate and complete information to decision makers, thereby allaying doubts about the costs and benefits of diversity and about the desirability of operating an environmentally diverse country portfolio. For these reasons, we hypothesize:

**Hypothesis 3b. :** The increasingly positive effect of country portfolio diversity on a firm's number of country *exits* is *attenuated* by firm performance *above* aspirations.

Fig. 1 displays our conceptual model, which summarizes the hypothesized relationships graphically. Overall, we thus predict that when decision makers consider their firm to perform relatively poorly, they will increasingly reorient the firm's country portfolio a function of its diversity, with both the number of country entries and the number of country exits exponentially increasing with country portfolio diversity. By contrast, when a firm's decision makers consider their firm to perform relatively well, they will likely become increasingly irresponsive to greater portfolio diversity, increasingly limiting both foreign entries and foreign exits as a function of that diversity.

## 3. Methodology

### 3.1. Data collection and sample

Following several prior studies (e.g., Mohr & Batsakis, 2018; Evans & Mavondo, 2002), we tested our hypotheses by compiling a panel dataset of all foreign entries and exits by a sample of the world's largest retailers. There are several reasons why such firms are suitable objects for studying portfolio adjustment decisions and how such decisions are shaped by country portfolio diversity. First, environmental diversity across countries is a key challenge for large retailers, as they face strong pressures for local adaptations in their retail offerings as a result of inter-country differences in consumer tastes, income levels, and regulations (Burt, Davies, McAuley, & Sparks, 2005; Coe & Wrigley, 2007). Second, country portfolio diversity varies significantly across large retailers, with some of them being only domestically active, others operating in several yet contextually similar countries, and still others having a diverse country portfolio spanning several continents (Dawson, 2007; Mohr *et al.* 2018). Third, the world's largest retailers are known to frequently restructure their country portfolios by entering and exiting foreign nations (Dawson, 2007), as exemplified by sometimes striking cases of both rapid internationalization (Mohr & Batsakis, 2018; Evans & Mavondo, 2002) and failed internationalization attempts (Bianchi & Ostale, 2006; Burt et al., 2004). Finally, since retailers' foreign activities generally have a market-seeking purpose (Mohr & Batsakis, 2017; Dawson, 2007), our focus on such firms enables us to avoid possible confounding influences from differences in strategic purposes across activities.

Our main source of data is a set of Deloitte reports published annually over the period 2003–2009 with the title "Global Powers of Retailing". These reports contain annual ranks of the world's 250 largest retailers over the period 2001–2007, along with annual data on their countries of operation, revenues, profitability, and sales growth. From these reports we constructed a dataset of retailers originating from 24 home countries.[1] By comparing the reports from year to year, we were able to identify all countries entered and exited by a sample of 232 firms. Although the vast majority of companies appears in every consecutive report, events such as bankruptcies and mergers imply that we estimate our models on an unbalanced panel with 956 firm-year observations. Later reports no longer provided information on retailers' countries of operation and were therefore not consulted. Complementary firm-specific data were obtained from *Thomson One Financial*, *Compustat*, and the sample firms' annual reports. Country-level data were retrieved from Euromonitor's *Passport GMID* database and the World Bank's *World Development Indicators* database.

Our empirical focus on the period 2001–2007 has several advantages. First, it prevents us from having to account for the 2008 financial crisis, which had such profound effects on the world economy that it may have distorted the regular impact of firms' country portfolio diversity and relative performance on their portfolio adjustment decisions. Second, prior to 2008, most of the world's largest retailers primarily still sold their wares in brick-and-mortar stores and were thus more exposed to environmental differences across countries than in the later e-commerce era (Schu & Morschett, 2017).

[1] These home countries and their share in the total number of observations are as follows: Australia (2.0%), Belgium (1.9%), Brazil (1.2%), Canada (4.3%), Chile (1.0%), China (0.7%), Finland (1.6%), France (5.3%), Germany (8.5%), Hong Kong (1.5%), Ireland (0.8%), Italy (2.9%), Japan (12.2%), Mexico (2.0%), Netherlands (2.8%), Norway (1.2%), Portugal (1.5%), South Africa (2.1%), South Korea (1.7%), Spain (2.7%), Sweden (2.2%), Switzerland (1.6%), United Kingdom (8.5%), and the United States (29.8%).

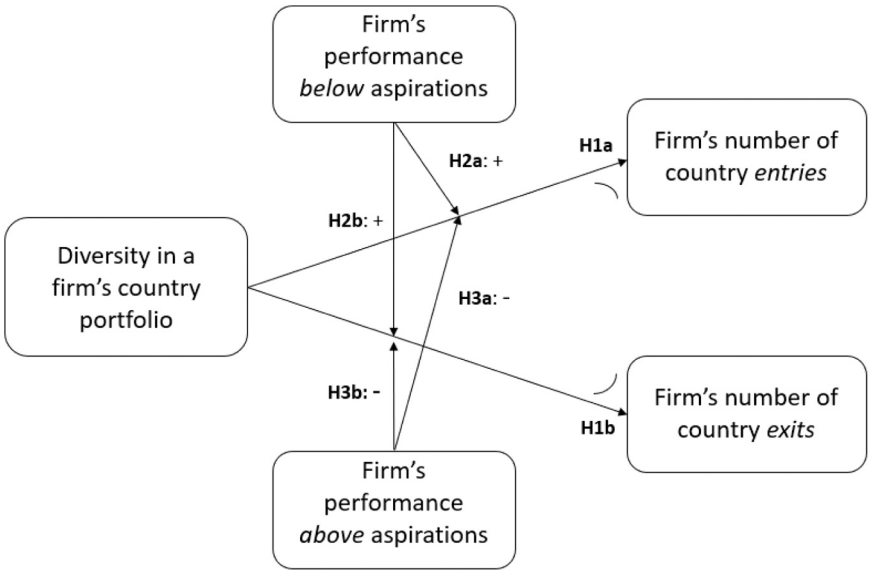


**Fig. 1.** Conceptual model.

### 3.2. Dependent variables

Our study has two dependent variables, namely the number of new countries that a firm entered in a given year, and number of countries that it exited in a given year. We derived these numbers from Deloitte's "Global Powers of Retailing" reports by comparing the list of a firm's countries of operation in a given report with that in the report for the following year and counting how many countries had been added to the latter list, and how many had disappeared from it.

### 3.3. Key independent variables

*Country portfolio diversity*. Countries differ from one another along several dimensions, such as culture, administrative systems, economic development levels, language, and religion (Ghemawat, 2001; Dow & Karunaratna, 2006). Following prior studies (Schu, Morschett, & Swoboda, 2016; Hutzschenreuter et al., 2014), we operationalize the diversity in a firm's country portfolio in cultural, administrative, geographic and economic terms, in line with Ghemawat's (2001) seminal *CAGE* framework.

To measure the cultural diversity in a firm's country portfolio, we use a Blau index (cf. Gomez-Mejia & Palich, 1997). This index is defined as $1 - \sum \rho_i^2$, where $\rho_i$ is the proportion of countries in a firm's portfolio that belongs to cluster *i* of Ronen and Shenkar's (2013) 11 cultural clusters of countries. We prefer this measure over the average cultural distance between all pairs of countries in a firm's portfolio as used by Hutzschenreuter et al. (2011), since Ronen and Shenkar's clusters are the result of a comprehensive analysis of 11 different studies, whereas the average cultural distance between country pairs would need to be based on only one or a few studies.

To ensure consistency among our measures of country portfolio diversity, we also use a Blau index to measure the administrative diversity in a firm's country portfolio. Specifically, we used the World Bank's *Worldwide Governance Indicators* database to collect data on the rule of law in all sample countries, as this indicator is often selected for being a representative measure of the level of development of a country's legal environment (Liu, Feils, & Scholnick, 2011). We then grouped the countries into ten clusters based on deciles,[2] and used these clusters to calculate a Blau index of the administrative diversity in a firm's country portfolio.

For the geographic diversity of a firm's country portfolio, we follow Hendriks (2020) and measure it by the average geographic distance in kilometers between the capitals of all countries where a firm operated in a given year, including its home country. The data on this variable were obtained from *CEPII*'s geographic distance database.

Finally, we also use a Blau index to measure the economic diversity in a firm's country portfolio. Specifically, we used Euromonitor's *Passport GMID* database to collect data on the retail sales per capita in all sample countries, grouped the countries into ten economic clusters based on deciles[2], and used these clusters to calculate a Blau index of the economic diversity of a firm's country portfolio. Diversity in retail sales per capita constitutes a more precise measure of the economic diversity to which retailers are exposed than measures based on more general economic indicators such as GDP per capita (Oh, Sohl, & Rugman, 2015; Alexander, Rhodes, & Myers, 2011). Nevertheless, we also tested our hypotheses using a measure of a portfolio's economic diversity based on countries' GDP per capita. To be able to test our hypotheses, we also generated the squared terms of the four measures of country portfolio diversity (Dawson, 2014).

*Performance relative to aspirations*. A firm's performance relative to managers' aspirations was measured by the difference between its year-on-year sales growth (from $year_{t-1}$ to $year_t$) and the compound annual growth rate (CAGR) of its sales over the previous five years (i.e., $year_{t-6}$ to $year_{t-1}$). The data on these two sales growth figures were retrieved from Deloitte's "Global Powers of Retailing" reports, which separately list firms' annual sales growth and the CAGR of their sales over the previous five years. The use of sales growth data rather than for instance profitability growth data is appropriate because organizations in general and retailers in particular tend to put heavy emphasis on growth targets (Van Witteloostuijn, 1998; Dawson, 2001). Following performance feedback research (Kim et al., 2015; Joseph & Gaba, 2015; Parker et al., 2017; Greve, 2003), we created separate variables for performance above and below aspirations. The first variable, *performance above aspirations*, measures positive differences between a firm's year-on-year growth and its CAGR over the previous five years, and was set to 0 for negative differences. Likewise, *performance below aspirations* measures negative differences between a firm's year-on-year growth and its CAGR

[2] We obtained similar results when we used quintiles instead of deciles.

over the previous five years, and was set to 0 for positive differences.[3]

As shown below, we also performed robustness analyses in which we measure a firm's performance relative to aspirations by the difference between its year-on-year sales growth and the year-on-year sales growth realized by its peers (cf. Baum et al., 2005; Audia & Greve, 2006; Iyer & Miller, 2008; Greve, 2011). Whereas our main measure of a firm's performance relative to aspirations is self-relative, this alternative measure is social-relative (Harris & Bromiley, 2007; Iyer & Miller, 2008; Greve, 1998). We use the social-relative measure as a secondary measure because it is impossible to unambiguously determine which firms a focal firm sees as its peers. We defined a firm's peers as those sample firms that operated in the same segment of the retail industry as the focal firm *and* that originated from the same supranational region, distinguishing between four segments (i.e., grocery retail, high street retail, department and do-it-yourself stores, and other specialty retail) and three home regions (i.e., the Americas; Europe, the Middle East, and Africa; and Asia-Pacific). In line with our main measure of a firm's relative performance, we created separate measures for observations indicating performance above and below aspirations, respectively.

### 3.4. Control variables

Besides our variables of interest, several other factors may also influence the number of countries that a firm enters and exits in a given year. One of them is a firm's domestic footprint, for which we control by entering the ratio of the firm's domestic annual sales to total annual sales in the preceding year (Hendriks et al., 2018). We obtained the data on firms' total and foreign annual sales from their annual reports and the *Thomson One* and *Compustat* databases. We then subtracted a firm's foreign sales from its total sales to determine its domestic sales.

Another factor is the size of a firm's country portfolio, for which we control by means of a count of the foreign countries where the firm was active in the year prior to the observed number of entries and exits (e.g., Tallman & Li, 1996). By controlling for country portfolio size, we prevent bias in the observed effect of country portfolio diversity stemming from the possibility that larger country portfolios tend to be characterized by more environmental diversity. For a similar reason, we also control for the number of retail formats in a firm's activity portfolio in the year prior to the observed number of entries and exits (Gonzalez-Benito, Munoz-Gallego, & Kopalle, 2005). The data on both variables were obtained from Deloitte's "Global Powers of Retailing" reports, which list the countries and retail segments in which a retailer is active on an annual basis.

In the models with the number of country entries as the dependent variable, we include the number of country exits as a control variable, and vice versa, given that foreign entries and exits may be interrelated (Nachum & Song, 2011; Chan, Makino, & Isobe, 2006). Furthermore, we control for a firm's size and age through its total annual sales and the number of years since its inception, respectively. The data on these variables were obtained from the Deloitte reports and from firms' annual reports and websites. Since franchising arrangements may enable firms to enter countries relatively rapidly but may be difficult and costly to terminate, we include a dummy variable coded 1 for retailers exploiting large franchise concepts (Hoffman, Munemo, & Watson, 2016). We based our coding on whether a firm was listed in a given annual edition of either the Franchise Times' Top 200 or Franchise Direct's Top 100 of the largest global franchises (Lawrence & Kaufmann, 2011; El Akremi, Perrigot, & Piot Lepetit, 2015). Since firms with strong brand reputation may be more likely to enter foreign countries and less likely to exit them (Velez-Ocampo & Gonzalez-Perez, 2019), we also include a dummy variable coded 1 for retailers that featured in a given annual edition of either Interbrand's *Best 100 Global Brands* or BrandFinance's *Best 25 Global Retail Brands* (Johansson, Dimofte, & Mazvancheryl, 2012). To control for potential shareholder pressures on firms' portfolio adjustment decisions, we enter two binary variables indicating whether a given retailer was publicly listed or from an Anglo-Saxon home country, respectively.

We control for a home country's time orientation by entering its score on Hofstede's long-term orientation dimension (Hofstede, Hofstede, & Minkov, 2010), as firms from countries with longer time horizons may be more conservative in entering or exiting foreign countries. We also control for the demand uncertainty that a firm faced in its home country, since domestic demand uncertainty may trigger foreign entries (e.g., Lee & Makhija, 2009), especially because a retailer's domestic market is typically its largest market (Hendriks et al., 2018). We measure domestic demand uncertainty by the standard deviation of the retail sales per capita in a firm's home country over the previous five years. The data on countries' retail sales per capita were obtained from Euromonitor's *Passport GMID* database. We control for a home country's level of economic development through its GDP per capita, which was retrieved from the World Bank's *World Development Indicators* database. To control for the possibility that domestic demand saturation triggers foreign entries or discourages foreign exits, we also enter the reverse-coded value of the year-on-year domestic retail sales growth in a firm's home country (Williams, 1992). The data on that growth were obtained from Euromonitor's *Passport GMID* database. To control for possible biases stemming from the fact that the large majority of our observations pertain to three home countries, we enter dummy variables for firms from the United States, the United Kingdom, and Japan, respectively (cf. O'Brien & David, 2014). Finally, we control for possible differences in portfolio adjustment decisions across retail sector segments by entering dummy variables for grocery retailers, high-street retailers, and department and do-it-yourself stores, with other specialty retailers being the reference category. We obtained the data on a firm's main retail segment from Deloitte's "Global Powers of Retailing" reports.

### 3.5. Estimation method

Because both our dependent variables in our panel dataset are counts, we estimated negative binomial regression models for panel data to test our hypotheses. We chose such models over Poisson regression models, since the variance of both dependent variables is substantially larger than their mean, indicating that they are overdispersed, in which case negative binomial regression models typically fit the data better. We also performed likelihood ratio tests and analyzed residual plots to confirm that these models indeed offer a significantly better fit.[4] Because of their relative efficiency with samples consisting of many groups (232 firms) and relatively few time units (7 years), we estimated random-effects models (Wooldridge, 2010). We estimated our models in STATA 17, clustering the standard errors by firm.

## 4. Results

Table 1 shows the descriptive statistics and bivariate correlations of the variables. The mean number of country entries and exits in a given year equals 0.42 and 0.22, respectively, with the maximums being 18 and 20. The mean number of countries in a firm's portfolio equals 8.83, suggesting that the average large retailer in our sample had ample scope to both enter and exit countries. The efforts firms undertook in adjusting their portfolio included a sizeable number of exits from relatively distant countries, which typically contribute the most to the behavioral failures and coordination costs that arise from managing country portfolios. In 2007, for example, British entertainment retailer HMV Group exited

[3] There were no instances where a firm's year-on-year growth was exactly equal to its CAGR over the previous five years.

[4] We nevertheless also estimated Poisson models, which generated qualitatively similar results.

**Table 1**
Descriptive statistics and correlations.

| Variable | Mean | S.D. | Min. | Max. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. No. of country entries | 0.42 | 1.35 | 0 | 18 | | | | | | | | | | | | | | | | | | | | |
| 2. No. of country exits | 0.22 | 1.02 | 0 | 20 | 0.06 | | | | | | | | | | | | | | | | | | | |
| 3. Cultural portfolio diversity | 0.26 | 0.33 | 0 | 0.89 | -0.41 | 0.16 | | | | | | | | | | | | | | | | | | |
| 4. Administrative portfolio diversity | 0.20 | 0.27 | 0 | 0.78 | -0.34 | 0.17 | 0.76 | | | | | | | | | | | | | | | | | |
| 5. Geographic portfolio diversity | 2143 | 2774 | 0 | 11493 | -0.28 | 0.16 | 0.66 | 0.58 | | | | | | | | | | | | | | | | |
| 6. Economic portfolio diversity | 0.25 | 0.29 | 0 | 0.80 | -0.37 | 0.16 | 0.84 | 0.89 | 0.64 | | | | | | | | | | | | | | | |
| 7. Performance above aspirations | 6.74 | 20.2 | 0.01 | 115 | 0.01 | -0.02 | 0.02 | 0.05 | 0.04 | 0.05 | | | | | | | | | | | | | | |
| 8. Performance below aspirations | 3.97 | 8.80 | 0.01 | 93.4 | -0.05 | 0.02 | -0.06 | -0.05 | -0.02 | -0.09 | -0.15 | | | | | | | | | | | | | |
| 9. Firm's domestic footprint | 67.7 | 22.1 | 0 | 100 | -0.28 | -0.17 | -0.53 | -0.53 | -0.47 | -0.59 | -0.09 | 0.00 | | | | | | | | | | | | |
| 10. Number of formats in a firm's portfolio | 2.60 | 2.03 | 1 | 10 | 0.04 | 0.11 | 0.20 | 0.35 | 0.13 | 0.32 | 0.06 | -0.03 | -0.19 | | | | | | | | | | | |
| 11. Number of countries in a firm's portfolio | 8.83 | 8.11 | 0 | 66 | 0.51 | 0.15 | 0.57 | 0.52 | 0.55 | 0.58 | 0.01 | -0.04 | -0.56 | 0.15 | | | | | | | | | | |
| 12. Firm size | 9.15 | 0.95 | 7.70 | 12.8 | 0.06 | 0.06 | 0.22 | 0.25 | 0.25 | 0.25 | 0.00 | -0.05 | -0.15 | 0.24 | 0.20 | | | | | | | | | |
| 13. Firm age | 62.6 | 41.8 | 1 | 334 | -0.03 | 0.07 | 0.09 | 0.05 | 0.08 | 0.10 | 0.03 | -0.09 | -0.09 | 0.13 | 0.01 | 0.05 | | | | | | | | |
| 14. Firm is large franchisor | 0.03 | 0.17 | 0 | 1 | 0.15 | 0.09 | 0.17 | 0.20 | 0.28 | 0.19 | -0.01 | 0.00 | -0.23 | 0.10 | 0.20 | 0.11 | -0.01 | | | | | | | |
| 15. Firm has a valuable brand | 0.29 | 0.45 | 0 | 1 | 0.08 | 0.01 | 0.16 | 0.11 | 0.18 | 0.11 | 0.01 | -0.11 | 0.01 | -0.06 | 0.16 | 0.28 | -0.07 | 0.17 | | | | | | |
| 16. Firm is publicly listed | 0.50 | 0.50 | 0 | 1 | 0.06 | -0.01 | 0.01 | 0.05 | 0.13 | 0.02 | -0.01 | 0.02 | -0.05 | 0.04 | 0.05 | 0.15 | 0.01 | 0.08 | 0.24 | | | | | |
| 17. Home country is Anglo-Saxon | 0.52 | 0.50 | 0 | 1 | -0.06 | -0.05 | -0.28 | -0.36 | -0.10 | -0.37 | -0.08 | 0.05 | 0.30 | -0.43 | -0.21 | 0.06 | -0.04 | -0.05 | 0.20 | 0.07 | | | | |
| 18. Home-country long-term orientation | 51.8 | 26.0 | 21.2 | 100 | 0.07 | 0.09 | 0.29 | 0.32 | 0.11 | 0.36 | 0.08 | -0.07 | -0.21 | 0.30 | 0.20 | -0.04 | 0.10 | 0.02 | -0.12 | -0.07 | -0.79 | | | |
| 19. Domestic demand uncertainty | 500.3 | 272.5 | 25.8 | 1556 | -0.05 | 0.01 | -0.14 | 0.07 | 0.03 | 0.04 | 0.00 | 0.01 | 0.14 | 0.15 | -0.12 | -0.08 | 0.29 | -0.04 | -0.20 | 0.15 | -0.39 | 0.29 | | |
| 20. Domestic GDP per capita | 10.48 | 0.37 | 7.27 | 11.1 | -0.04 | -0.02 | -0.03 | -0.24 | -0.06 | -0.16 | -0.12 | 0.00 | 0.07 | -0.22 | -0.05 | 0.10 | 0.03 | -0.01 | 0.09 | -0.10 | 0.46 | -0.30 | -0.43 | |
| 21. Domestic market saturation | -0.05 | 0.08 | -0.53 | 0.19 | 0.06 | 0.08 | 0.04 | 0.07 | 0.01 | 0.07 | 0.23 | -0.15 | -0.17 | 0.10 | 0.07 | 0.00 | -0.03 | 0.02 | -0.01 | -0.04 | -0.02 | -0.08 | -0.10 | -0.21 |

Correlations greater than |0.08| are significant at $p < 0.05$, while those greater than |0.10| are significant at $p < 0.01$

Japan, but remained active in Europe, North America, and the former British colonies and thus culturally and administratively relatively close locations of Hong Kong and Singapore, amid a slowdown in sales.

Although the four dimensions of country portfolio diversity are substantially correlated, we estimate separate regression models for each dimension, as this enables us to explore whether they have differential effects. All other correlations between the independent variables are below 0.60, suggesting that multicollinearity is not a concern. This was confirmed by an inspection of the variance inflation factors (VIFs), as the highest VIF was 3.65, well below the commonly accepted multicollinearity threshold of 10 (Hair, Black, Babin, Anderson, & Tatham, 2006).

Tables 2a and 2b displays the regression results we obtained when using a firm's annual number of country entries as the dependent variable, with Table 2a showing the effects of cultural and administrative diversity of a firm's country portfolio, and Table 2b the effects of the geographic and economic portfolio diversity. Model 1 only contains the control variables, whereas Model 2 includes the respective measure of country portfolio diversity and its squared term. Model 3 contains the interactions between the main and squared terms of country portfolio diversity on the one hand and our measures of a firm's performance relative to managers' aspirations on the other.

Hypothesis 1a predicted that country portfolio diversity has an increasing negative effect on a firm's number of new country entries. The hypothesis is fully supported, as the regression coefficients of all four types of country portfolio diversity and their squared terms are significantly negative ($p < 0.05$), and Wald tests showed that the coefficients of the squared terms are significantly more negative than those of the main terms ($p < 0.05$).

Hypotheses 2a and 3a stated that firm performance below aspirations attenuates the increasingly negative effect of country portfolio diversity on a firm's number of new country entries, whereas firm performance above aspirations amplifies that effect. These hypotheses also receive support, as the coefficient of the interaction between the squared term of the four types of portfolio diversity and performance below aspirations is significantly positive in Model 3 ($p < 0.05$), whereas the coefficient of the interaction with performance above aspirations is significantly negative ($p < 0.05$).

Fig. 2 plots these interaction effects, with the two upper panels showing how the effect of portfolio diversity on the number of country entries differs between firms performing below aspirations and those performing above aspirations for the cases of cultural diversity (A) and administrative diversity (B), and the two lower panels showing how this effect differs between the two groups of firms for geographic diversity (C) and economic diversity (D). The four panels show similar patterns: at higher levels of portfolio diversity, the negative effect of such diversity on the number of country entries becomes stronger, but more so for firms performing above aspirations than for those performing below aspirations. In fact, at very high levels of portfolio diversity, firms that perform above aspirations generally stop entering new countries altogether, whereas those that perform below aspirations continue to enter one or two countries each year.

Despite these similar patterns across the four types of portfolio diversity, Fig. 2 also shows that a firm's performance compared to aspirations moderates the effects of cultural and geographic portfolio diversity more strongly than the effects of administrative and economic portfolio diversity. The reason may be that managers of large retailers consider cultural and geographic portfolio diversity to be the strongest source of behavioral failures and coordination costs, perhaps because cultural differences are generally hard to pinpoint and respond to, and because geographic portfolio diversity requires complex supply chains.

Tables 3a and 3b show the results of the tests of our hypotheses on a firm's number of country exits. Hypothesis 1b predicted that country portfolio diversity has an increasing positive effect on that number. This hypothesis is also fully supported, as the regression coefficients of all four types of country portfolio diversity and their squared terms are

**Table 2a**
Regression analyses of the effect of cultural and administrative portfolio diversity on *country entries*.

| | **Cultural diversity** | | | **Administrative diversity** | | |
|---|---|---|---|---|---|---|
| **Variables** | Model 1 | Model 2 | Model 3 | Model 1 | Model 2 | Model 3 |
| Portfolio diversity (H1a) | - | -0.23 (0.11)* | -0.18 (0.10)* | - | -0.46 (0.17)** | -0.45 (0.16)** |
| Portfolio diversity squared (H1a) | - | -1.33 (0.17)*** | -1.47 (0.23)*** | - | -0.99 (0.18)*** | -1.02 (0.17)*** |
| Portfolio diversity x Performance below aspirations (H2a) | - | - | 0.06 (0.03)* | - | - | 0.14 (0.05)** |
| Portfolio diversity squared x Performance below aspirations (H2a) | - | - | 0.17 (0.06)** | - | - | 0.17 (0.08)* |
| Portfolio diversity x Performance above aspirations (H3a) | - | - | -0.18 (0.10)* | - | - | -0.28 (0.14)* |
| Portfolio diversity squared x Performance above aspirations (H3a) | - | - | -0.12 (0.04)** | - | - | -0.17 (0.08)* |
| Firm's performance below aspirations | -0.30 (0.13)* | -0.26 (0.13)* | -0.30 (0.13)* | -0.30 (0.13)* | -0.26 (0.14)† | -0.26 (0.14)† |
| Firm's performance above aspirations | 0.07 (0.10) | 0.02 (0.09) | 0.05 (0.08) | 0.07 (0.10) | 0.02 (0.09) | 0.06 (0.10) |
| Firm's domestic footprint | -0.12 (0.07)† | -0.04 (0.09) | -0.04 (0.09) | -0.12 (0.07)† | -0.18 (0.09)† | -0.18 (0.09)† |
| Number of formats in a firm's portfolio | 0.03 (0.11) | 0.05 (0.10) | 0.05 (0.11) | 0.03 (0.11) | 0.01 (0.11) | 0.01 (0.11) |
| Number of countries in a firm's portfolio | 0.47 (0.07)*** | 0.29 (0.10)** | 0.30 (0.10)** | 0.47 (0.07)*** | 0.35 (0.08)*** | 0.35 (0.08)*** |
| Number of country exits | -0.05 (0.06) | -0.02 (0.06) | -0.01 (0.06) | -0.05 (0.06) | -0.04 (0.06) | -0.04 (0.06) |
| Firm size | 0.04 (0.07) | 0.07 (0.07) | 0.08 (0.07) | 0.04 (0.07) | 0.10 (0.08) | 0.10 (0.08) |
| Firm age | -0.24 (0.12)* | -0.29 (0.10)** | -0.28 (0.10)** | -0.24 (0.12)* | -0.22 (0.11)* | -0.22 (0.11)* |
| Firm is large franchisor | 0.05 (0.07) | 0.09 (0.06) | 0.09 (0.06) | 0.05 (0.07) | 0.10 (0.06) | 0.10 (0.06) |
| Firm has a valuable brand | 0.22 (0.10)* | 0.20 (0.10)* | 0.20 (0.09)* | 0.22 (0.10)* | 0.18 (0.09)* | 0.16 (0.10) |
| Firm is publicly listed | 0.05 (0.10) | 0.06 (0.10) | 0.07 (0.10) | 0.05 (0.10) | 0.06 (0.10) | 0.06 (0.10) |
| Home country is Anglo-Saxon | 0.31 (0.20) | 0.25 (0.20) | 0.26 (0.20) | 0.31 (0.20) | 0.35 (0.19)† | 0.35 (0.19)† |
| Home-country long-term orientation | 0.23 (0.18) | 0.27 (0.18) | 0.27 (0.17) | 0.23 (0.18) | 0.20 (0.16) | 0.20 (0.16) |
| Domestic demand uncertainty | 0.12 (0.14) | 0.13 (0.13) | 0.14 (0.14) | 0.12 (0.14) | 0.08 (0.14) | 0.08 (0.14) |
| Domestic GDP per capita | -0.22 (0.20) | -0.27 (0.20) | -0.31 (0.19) | -0.22 (0.20) | -0.17 (0.20) | -0.18 (0.20) |
| Domestic market saturation | 0.01 (0.11) | 0.03 (0.10) | 0.02 (0.10) | 0.01 (0.11) | 0.04 (0.11) | 0.04 (0.11) |
| Log likelihood | -578.2 | -511.7 | -509.2 | -578.2 | -541.5 | -540.3 |
| Wald $\chi^2$ | 159.7 *** | 238.8 *** | 237.3 *** | 159.7 *** | 232.3 *** | 235.8 *** |

The intercept and segment and country dummies are included but not shown; Robust standard errors in parentheses; Number of observations: 956
† $p < 0.1$, * $p < 0.05$, * * $p < 0.01$, * ** $p < 0.001$ (two-tailed)

**Table 2b**
Regression analyses of the effect of geographic and economic portfolio diversity on *country entries*.

| | **Geographic diversity** | | | **Economic diversity** | | |
|---|---|---|---|---|---|---|
| **Variables** | Model 1 | Model 2 | Model 3 | Model 1 | Model 2 | Model 3 |
| Portfolio diversity (H1a) | - | -0.53 (0.11)*** | -0.60 (0.11)*** | - | -0.26 (0.13)* | -0.41 (0.17)* |
| Portfolio diversity squared (H1a) | - | -1.37 (0.19)*** | -1.49 (0.11)*** | - | -1.23 (0.16)*** | -1.48 (0.24)*** |
| Portfolio diversity x Performance below aspirations (H2a) | - | - | 0.47 (0.27)† | - | - | 0.18 (0.09)* |
| Portfolio diversity squared x Performance below aspirations (H2a) | - | - | 0.34 (0.17)* | - | - | 0.23 (0.09)** |
| Portfolio diversity x Performance above aspirations (H3a) | - | - | -0.12 (0.06)* | - | - | -0.45 (0.24)* |
| Portfolio diversity squared x Performance above aspirations (H3a) | - | - | -0.36 (0.18)* | - | - | -1.16 (0.58)* |
| Firm's performance below aspirations | -0.30 (0.13)* | -0.25 (0.12)* | -0.18 (0.12) | -0.30 (0.13)* | -0.32 (0.14)* | -0.17 (0.14) |
| Firm's performance above aspirations | 0.07 (0.10) | 0.05 (0.11) | 0.08 (0.15) | 0.07 (0.10) | 0.05 (0.08) | 0.10 (0.08) |
| Firm's domestic footprint | -0.12 (0.07)† | -0.10 (0.10) | -0.10 (0.10) | -0.12 (0.07)† | -0.10 (0.09) | -0.10 (0.09) |
| Number of formats in a firm's portfolio | 0.03 (0.11) | -0.08 (0.10) | -0.09 (0.10) | 0.03 (0.11) | 0.06 (0.10) | 0.06 (0.10) |
| Number of countries in a firm's portfolio | 0.47 (0.07)*** | 0.27 (0.07)*** | 0.26 (0.07)*** | 0.47 (0.07)*** | 0.21 (0.09)* | 0.21 (0.08)* |
| Number of country exits | -0.05 (0.06) | -0.04 (0.06) | -0.06 (0.07) | -0.05 (0.06) | -0.03 (0.06) | -0.04 (0.06) |
| Firm size | 0.04 (0.07) | 0.04 (0.08) | 0.03 (0.08) | 0.04 (0.07) | 0.05 (0.07) | 0.05 (0.07) |
| Firm age | -0.24 (0.12)* | -0.25 (0.11)* | -0.25 (0.11)* | -0.24 (0.12)* | -0.21 (0.10)* | -0.21 (0.11)* |
| Firm is large franchisor | 0.05 (0.07) | 0.04 (0.07) | 0.06 (0.07) | 0.05 (0.07) | 0.08 (0.10) | 0.09 (0.06) |
| Firm has a valuable brand | 0.22 (0.10)* | 0.18 (0.10)* | 0.20 (0.10)* | 0.22 (0.10)* | 0.19 (0.10)* | 0.20 (0.09)* |
| Firm is publicly listed | 0.05 (0.10) | 0.04 (0.10) | 0.03 (0.11) | 0.05 (0.10) | 0.08 (0.10) | 0.10 (0.09) |
| Home country is Anglo-Saxon | 0.31 (0.20) | 0.24 (0.20) | 0.24 (0.20) | 0.31 (0.20) | 0.25 (0.20) | 0.22 (0.18) |
| Home-country long-term orientation | 0.23 (0.18) | 0.22 (0.19) | 0.15 (0.18) | 0.23 (0.18) | 0.20 (0.19) | 0.23 (0.16) |
| Domestic demand uncertainty | 0.12 (0.14) | 0.10 (0.14) | 0.08 (0.14) | 0.12 (0.14) | 0.10 (0.14) | 0.09 (0.14) |
| Domestic GDP per capita | -0.22 (0.20) | -0.25 (0.20) | -0.27 (0.20) | -0.22 (0.20) | -0.15 (0.18) | -0.19 (0.19) |
| Domestic market saturation | 0.01 (0.11) | 0.03 (0.10) | 0.03 (0.10) | 0.01 (0.11) | 0.01 (0.10) | 0.00 (0.10) |
| Log likelihood | -578.2 | -549.1 | -546.1 | -578.2 | -527.4 | -524.4 |
| Wald $\chi^2$ | 159.7 *** | 183.3 *** | 181.7 *** | 159.7 *** | 226.4 *** | 224.1 *** |

The intercept and segment and country dummies are included but not shown; Robust standard errors in parentheses; Number of observations: 956
† $p < 0.1$, * $p < 0.05$, * * $p < 0.01$, * ** $p < 0.001$ (two-tailed)

significantly positive ($p < 0.05$), and Wald tests showed that the coefficients of the squared terms are significantly larger than those of the main terms ($p < 0.05$).

We also find support for Hypotheses 2b and 3b in all four regression specifications. Specifically, the coefficient of the interaction between the squared terms of portfolio diversity and performance below aspirations

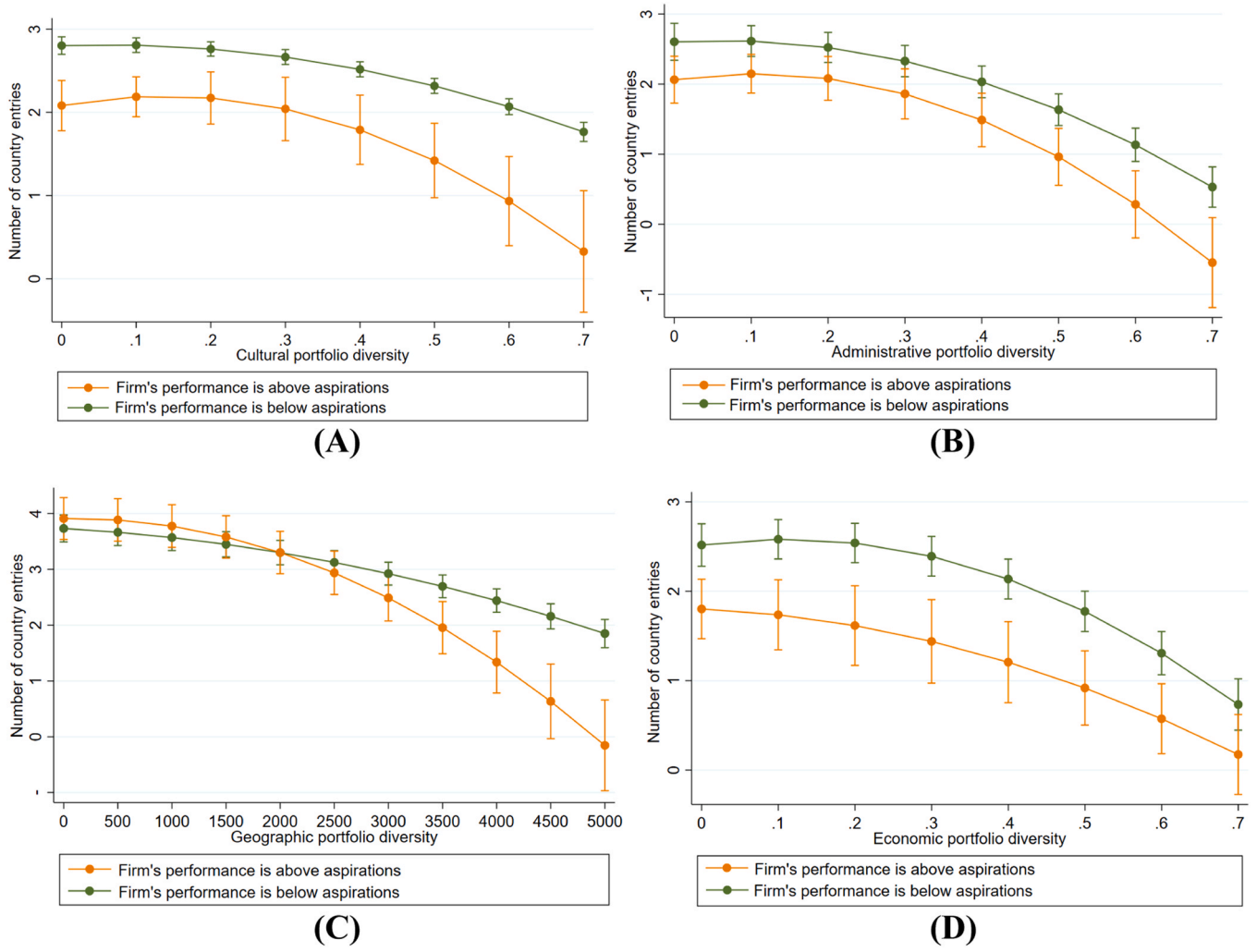


**Fig. 2.** The effect of portfolio diversity on country entries at different aspirational performance levels.

is significantly positive in Model 3, while that between the squared terms of portfolio diversity and performance above aspirations is significantly negative ($p < 0.05$). These results support our prediction that firm performance below aspirations amplifies the positive strengthening effect of country portfolio diversity on a firm's number of country exits, whereas performance above aspirations attenuates that effect.

To gain further insight into these interaction effects, we plotted them in Fig. 3, which shows patterns similar to those displayed in Fig. 2. At higher levels of portfolio diversity, the positive effect of such diversity on the number of country exits becomes stronger, but more so for firms performing below aspirations than for those performing above aspirations. At very high levels of portfolio diversity, for example, firms that perform above aspirations generally exit one to two countries per year, whereas those that perform below aspirations tend to annually exit three to four countries.

### 4.1. Robustness tests and supplementary analyses

We conducted several additional analyses to assess the robustness of our findings. To start with, we reran our models while excluding observations with extreme values on our two dependent variables, in particular those observations pertaining to firms that entered or exited more than 10 countries in a given year and those pertaining to firms that entered or exited more than five annually, respectively. Moreover, we reran our models while excluding those firms that were ranked in the lowest quartile in terms of their foreign sales. We continued to find support for all hypothesized effects.

To explore whether country portfolio diversity has a more complex, S-shaped effect on our two dependent variables rather than the positive and negative curvilinear effects that we hypothesized, we also reran our models while including the cubic term ($X^3$) of our measures of country portfolio diversity. We found that the inclusion of this term did not improve model fit, which provides further support for our hypothesized relationships (Haans, Pieters, & He, 2016).

We also reran our models using alternative measures of country portfolio diversity. Specifically, we measured the cultural diversity of a firm's country portfolio by the average cultural distance between all pairs of countries in a firm's portfolio, using Kogut and Singh's (1988) index based on Hofstede's (1980) four cultural dimensions. In a similar vein, we measured a portfolio's administrative diversity by the average institutional distance between all country pairs, operationalized as the absolute difference between countries' rule of law scores as listed in World Bank's *Worldwide Governance Indicators* database. To create an alternative measure of the geographic portfolio diversity, we grouped the countries in the portfolio into clusters based on the continents on which they are located, and used these clusters to calculate a Blau index. To measure the economic diversity of a firm's country portfolio in a different way, finally, we calculated the average economic distance between all pairs of countries in the portfolio, using data on countries' GDP per capita from World Bank's *World Development Indicators* database. The use of these alternative measures yielded results that were

**Table 3a**
Regression analyses of the effect of cultural and administrative portfolio diversity on *country exits*.

| | Cultural diversity | | | Administrative diversity | | |
|---|---|---|---|---|---|---|
| **Variables** | Model 1 | Model 2 | Model 3 | Model 1 | Model 2 | Model 3 |
| Portfolio diversity (H1b) | - | 0.30 (0.15)* | 0.34 (0.16)* | - | 0.10 (0.04)** | 0.10 (0.04)** |
| Portfolio diversity squared (H1b) | - | 1.50 (0.27)*** | 1.59 (0.27)*** | - | 0.50 (0.19)** | 0.48 (0.18)** |
| Portfolio diversity x Performance below aspirations (H2b) | - | - | 0.31 (0.17)* | - | - | 0.19 (0.09)* |
| Portfolio diversity squared x Performance below aspirations (H2b) | - | - | 0.54 (0.22)* | - | - | 0.36 (0.18)* |
| Portfolio diversity x Performance above aspirations (H3b) | - | - | -0.59 (0.30)* | - | - | -0.33 (0.16)* |
| Portfolio diversity squared x Performance above aspirations (H3b) | - | - | -0.62 (0.23)** | - | - | -0.25 (0.10)** |
| Firm's performance below aspirations | -0.06 (0.13) | -0.04 (0.12) | -0.08 (0.10) | -0.06 (0.13) | -0.02 (0.12) | -0.04 (0.13) |
| Firm's performance above aspirations | -0.04 (0.10) | -0.08 (0.12) | -0.10 (0.11) | -0.04 (0.10) | -0.06 (0.12) | -0.00 (0.12) |
| Firm's domestic footprint | -0.02 (0.14) | -0.04 (0.18) | -0.02 (0.20) | -0.02 (0.14) | -0.06 (0.15) | -0.05 (0.15) |
| Number of formats in a firm's portfolio | 0.02 (0.16) | 0.05 (0.19) | 0.02 (0.21) | 0.02 (0.16) | 0.02 (0.16) | 0.02 (0.16) |
| Number of countries in a firm's portfolio | 0.61 (0.13)*** | 0.78 (0.18)*** | 1.07 (0.20)*** | 0.61 (0.13)*** | 0.58 (0.18)** | 0.63 (0.22)** |
| Number of country entries | 0.15 (0.09) | 0.20 (0.10)* | 0.24 (0.09)** | 0.07 (0.09) | 0.06 (0.09) | 0.06 (0.09) |
| Firm size | 0.09 (0.11) | 0.05 (0.11) | 0.05 (0.12) | 0.09 (0.11) | 0.08 (0.11) | 0.08 (0.11) |
| Firm age | 0.19 (0.13) | 0.24 (0.16) | 0.24 (0.18) | 0.19 (0.13) | 0.17 (0.13) | 0.19 (0.13) |
| Firm is large franchisor | 0.24 (0.10)* | 0.21 (0.14) | 0.17 (0.16) | 0.24 (0.10)* | 0.24 (0.10)* | 0.25 (0.10)* |
| Firm has a valuable brand | -0.44 (0.17)* | -0.44 (0.21)* | -0.37 (0.22)† | -0.44 (0.17)* | -0.47 (0.18)** | -0.51 (0.18)** |
| Firm is publicly listed | 0.13 (0.15) | 0.19 (0.18) | 0.14 (0.19) | 0.13 (0.15) | 0.09 (0.15) | 0.11 (0.15) |
| Firm operates in Anglo-Saxon home environment | 0.45 (0.30) | 0.49 (0.37) | 0.45 (0.40) | 0.45 (0.30) | 0.54 (0.29)† | 0.53 (0.30)† |
| Home-country long-term orientation | 0.65 (0.26)* | 0.69 (0.30)* | 0.66 (0.30)* | 0.65 (0.26)* | 0.70 (0.26)** | 0.71 (0.26)** |
| Domestic uncertainty | -0.11 (0.19) | -0.15 (0.25) | -0.14 (0.24) | -0.11 (0.19) | -0.17 (0.21) | -0.17 (0.22) |
| Domestic GDP per capita | -0.12 (0.30) | -0.17 (0.30) | -0.18 (0.30) | -0.12 (0.30) | -0.05 (0.31) | -0.08 (0.32) |
| Domestic market saturation | -0.29 (0.14)* | -0.33 (0.13)** | -0.26 (0.13)* | -0.29 (0.14)* | -0.36 (0.14)* | -0.36 (0.14)* |
| Log likelihood | -360.4 | -344.3 | -340.1 | -360.4 | -351.9 | -349.1 |
| Wald $\chi^2$ | 76.7 *** | 85.5 *** | 86.8 *** | 76.7 *** | 78.4 *** | 80.4 *** |

The intercept and segment and country dummies are included but not shown; Robust standard errors in parentheses; Number of observations: 956
† $p < 0.1$, * $p < 0.05$, * * $p < 0.01$, * ** $p < 0.001$ (two-tailed)

**Table 3b**
Regression analyses of the effect of geographic and economic portfolio diversity on *country exits*.

| | Geographic diversity | | | Economic diversity | | |
|---|---|---|---|---|---|---|
| **Variables** | Model 1 | Model 2 | Model 3 | Model 1 | Model 2 | Model 3 |
| Portfolio diversity (H1b) | - | 0.36 (0.12)** | 0.38 (0.14)** | - | 0.07 (0.03)* | 0.06 (0.03)* |
| Portfolio diversity squared (H1b) | - | 1.78 (0.30)*** | 1.93 (0.36)*** | - | 0.64 (0.21)** | 0.52 (0.23)* |
| Portfolio diversity x Performance below aspirations (H2b) | - | - | 0.05 (0.03)† | - | - | 0.18 (0.09)* |
| Portfolio diversity squared x Performance below aspirations (H2b) | - | - | 0.19 (0.08)* | - | - | 0.20 (0.08)* |
| Portfolio diversity x Performance above aspirations (H3b) | - | - | -0.15 (0.06)** | - | - | -0.54 (0.27)* |
| Portfolio diversity squared x Performance above historical aspirations (H3b) | - | - | -0.09 (0.04)* | - | - | -0.77 (0.29)** |
| Firm's performance below aspirations | -0.06 (0.13) | -0.05 (0.13) | -0.03 (0.13) | -0.06 (0.13) | -0.06 (0.13) | -0.01 (0.13) |
| Firm's performance above aspirations | -0.04 (0.10) | -0.06 (0.10) | -0.03 (0.10) | -0.04 (0.10) | -0.05 (0.12) | -0.02 (0.10) |
| Firm's domestic footprint | -0.02 (0.14) | -0.07 (0.13) | -0.05 (0.13) | -0.02 (0.14) | -0.05 (0.14) | -0.08 (0.14) |
| Number of formats in a firm's portfolio | 0.02 (0.16) | 0.03 (0.14) | 0.05 (0.14) | 0.02 (0.16) | 0.07 (0.14) | 0.09 (0.14) |
| Number of countries in a firm's portfolio | 0.61 (0.13)*** | 0.51 (0.12)*** | 0.45 (0.13)** | 0.61 (0.13)*** | 0.48 (0.18)** | 0.40 (0.20)* |
| Number of country entries | 0.15 (0.09) | 0.10 (0.09) | 0.09 (0.09) | 0.15 (0.09) | 0.14 (0.09) | 0.10 (.09) |
| Firm size | 0.09 (0.11) | 0.10 (0.09) | 0.10 (0.11) | 0.09 (0.11) | 0.08 (0.10) | 0.09 (0.11) |
| Firm age | 0.19 (0.13) | 0.17 (0.11) | 0.17 (0.09)† | 0.19 (0.13) | 0.17 (0.12) | 0.16 (0.12) |
| Firm is large franchisor | 0.24 (0.10)* | 0.16 (0.08)* | 0.15 (0.08)† | 0.24 (0.10)* | 0.21 (0.08)* | 0.22 (0.09)* |
| Firm has a valuable brand | -0.44 (0.17)* | -0.56 (0.16)*** | -0.61 (0.16)*** | -0.44 (0.17)* | -0.42 (0.16)** | -0.44 (0.16)** |
| Firm is publicly listed | 0.13 (0.15) | 0.10 (0.15) | 0.09 (0.15) | 0.13 (0.15) | 0.10 (0.14) | 0.09 (0.14) |
| Firm operates in Anglo-Saxon home environment | 0.45 (0.30) | 0.47 (0.30) | 0.40 (0.30) | 0.45 (0.30) | 0.46 (0.26)† | 0.48 (0.28)† |
| Home-country long-term orientation | 0.65 (0.26)* | 0.57 (0.28)* | 0.55 (0.27)* | 0.65 (0.26)* | 0.56 (0.26)* | 0.58 (0.27)* |
| Domestic uncertainty | -0.11 (0.19) | -0.10 (0.19) | -0.12 (0.20) | -0.11 (0.19) | -0.12 (0.20) | -0.14 (0.21) |
| Domestic GDP per capita | -0.12 (0.30) | -0.16 (0.28) | -0.15 (0.28) | -0.12 (0.30) | -0.09 (0.29) | -0.12 (0.31) |
| Domestic market saturation | -0.29 (0.14)* | -0.30 (0.14)* | -0.27 (0.14)* | -0.29 (0.14)* | -0.39 (0.14)** | -0.40 (0.15)** |
| Log likelihood | -360.4 | -316.6 | -312.3 | -360.4 | -350.2 | -347.0 |
| Wald $\chi^2$ | 76.7 *** | 135.2 *** | 142.9 *** | 76.7 *** | 98.0 *** | 101.0 *** |

The intercept and segment and country dummies are included but not shown; Robust standard errors in parentheses; Number of observations: 956
† $p < 0.1$, * $p < 0.05$, * * $p < 0.01$, * ** $p < 0.001$ (two-tailed)

highly consistent with those reported above.

Instead of using historical performance data to operationalize a firm's performance relative to managers' aspirations, we also measured the latter performance by the firm's year-on-year sales growth relative to the average CAGR of its peers in that year (cf. Baum et al., 2005; Audia & Greve, 2006; Iyer & Miller, 2008; Greve, 2011). In so doing, we initially considered a firm's peers to be those large retailers that operated in the same segment of the retail industry as the focal firm *and*

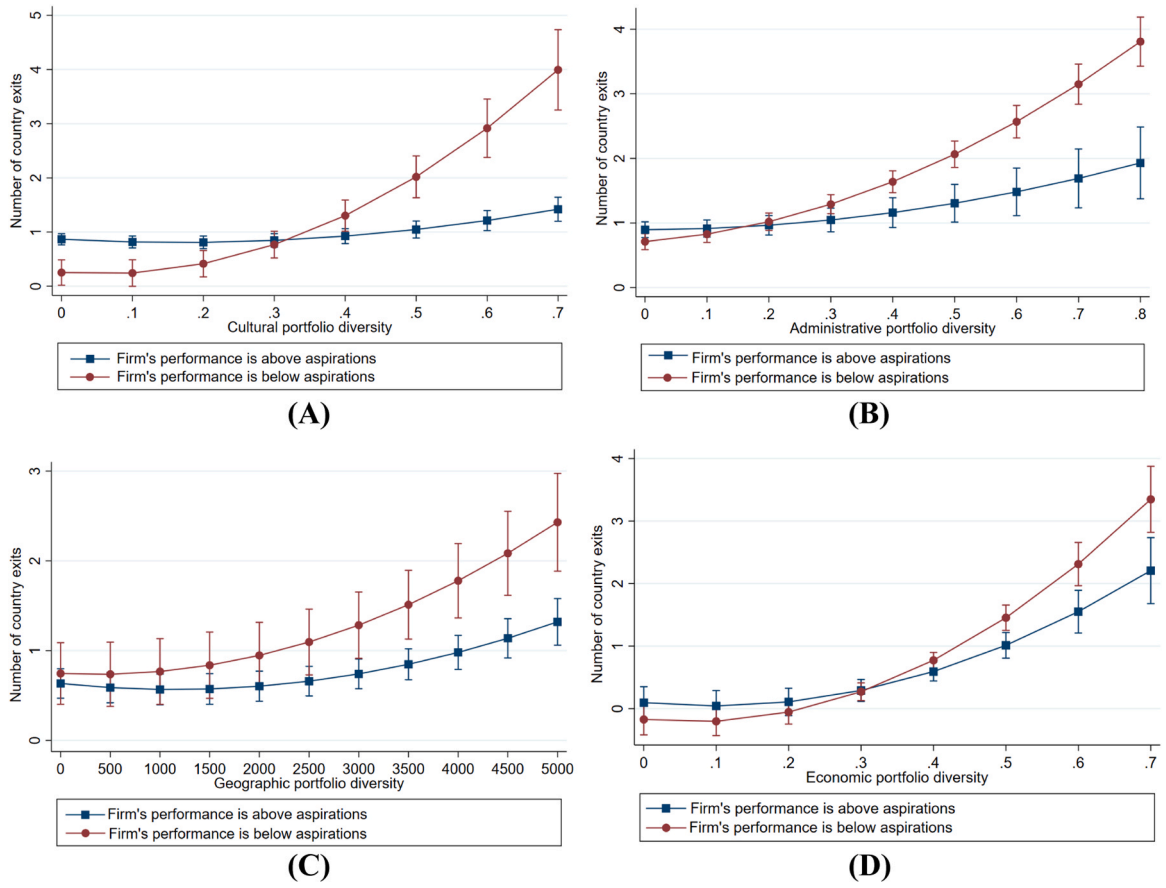


**Fig. 3.** The effect of portfolio diversity on country exits at different aspirational performance levels.

originated from the same supranational region, and then dropped the second criterion, thus broadening the operationalization of peers. In line with our main measure of a firm's relative performance, we created separate measures for observations indicating performance above and below aspirations, respectively. Both sets of analyses yielded results that were highly similar to those reported above.

Last, we performed a supplementary analysis in which we replaced our indicators of a firm's performance relative to aspirations by measures of a firm's absolute performance, notably its annual return on sales and its annual sales growth. These analyses indicated that a firm's absolute performance does not moderate the relationship between the diversity of a firm's country portfolio and the number of countries entered and exited in a given year. These findings support our view that performance comparisons, rather than absolute performance indicators, are the main form of performance feedback that decision makers rely on to determine how to adjust their firm's country portfolio as a function of its diversity.[5]

## 5. Discussion

### 5.1. Contributions and implications

IB scholarship has long had an interest in understanding how firms' international scope affects corporate outcomes such as further internationalization (Hutzschenreuter et al., 2011; Hendriks et al., 2018) and various indicators of firm performance (Yang & Driffield, 2012), including domestic operating performance (Hendriks, Slangen, & Heugens, 2023) and country exits (for a review, see Schmid & Morschett, 2020). The vast majority of these studies conceptualized firms' international scope as their degree of multinationality, often measuring this degree by the number of countries in which a firm is active (Nguyen & Kim, 2020; Chao & Kumar, 2010). Some scholars, however, focused on a different, yet other important dimension of firms' international scope, namely the diversity among the countries in which they operate, in particular the cultural diversity among these countries (De Jong & Van Houten, 2014; Hutzschenreuter et al., 2011). We have built on their approach by not only considering the role of cultural diversity in a firm's country portfolio but also that of three other key forms of environmental diversity and by taking the novel approach of linking these four forms of country portfolio diversity to firms' foreign entry and exit decisions simultaneously.

Our study thereby contributes to the literature in two important ways. First, we offer a theoretical advancement by applying behavioral theory to understand firms' decisions on country portfolio adjustments. We thereby bring together two nascent strands of IB research that independently started to gain traction, but could benefit from each other's insights. On the one hand, studies have increasingly considered international growth decisions as a corporate-level phenomenon and analyzed either country entries or country exits as a function of a firm's portfolio of international operations (e.g., Hendriks, 2020; Nachum & Song, 2011; Belderbos & Zou, 2009). On the other, scholars have started to explore the relevance of organizational performance feedback for the management of multinational corporations (Klueter & Monteiro, 2017), for their overall level and patterns of internationalization (Schmuck, Lagerström, & Sallis, 2022; Lin, 2014), as well as for specific internationalization decisions at the expansion level (Dong, Wang, Yang, & Zhou, 2022; Xiao & Tian, 2023; Xie, Huang, Stevens, & Lebedev, 2019). By bridging these strands of research, we gain a better understanding of

[5] A detailed overview of the results of these analyses is available upon request.

senior managers' portfolio adjustment decisions in response to behavioral failures and coordination costs caused by cross-country diversity in the portfolio. Our study indicates that performance comparisons provide managers with cues about the current state of the portfolio, which affects their evaluation of the severity of the failures and costs associated with country portfolio diversity. Since aspirations co-shape managerial tendencies to restrict expansion and exit foreign markets in response to portfolio diversity, not taking into account the role they play may therefore lead to inaccurate conclusions about the drivers of international portfolio changes. Our findings thus show the value of Surdu and colleagues' (2021) call for the greater use of a behavioral perspective to better understand the development of firms' international activities. Overall, our study indicates that behavioral factors play a larger role in country portfolio management than previously assumed. The consideration of these factors offers a more complete explanation for inter-firm and intertemporal differences in managerial tendencies to (de)internationalize firms, as reflected by the number of countries entered and exited in a given time period. Our findings thereby show that relative performance indicators enter as important factors into country entry and exit decisions by affecting how decision makers react to environmental diversity in their firm's portfolio, thus directly shaping the number of countries in which firms operate, and hence, their degree of multinationality. Scholars studying the effect of multinationality on firm performance are therefore advised to not only consider that multinationality may be endogenous (Berry & Kaul, 2016; Pisani, Garcia Bernardo, & Heemskerk, 2020), but also that it may be shaped by subjective performance comparisons by managers.

Second, we contribute to IB research on performance feedback, since that research so far only analyzed how such feedback affects managerial decisions about individual foreign expansions such as exporting (Dong et al., 2022; Lages, Jap, & Griffith, 2008), and new market entry (Xiao & Tian, 2023; Xie et al., 2019; Ref & Shapira, 2017), while we have started to explore its effect on changes in a firm's full set of international activities. More broadly, we contribute to the rich strategic management literature on performance feedback by shedding more light on the ways in which aspirations influence the strategic direction firms take. Although organizational performance feedback has been widely studied in relation to individual events of risk-taking (for reviews, see Gavetti et al., 2012 and Kotiloglu, Chen, & Lechler, 2021), "existing theory is very limited in predicting the specific kinds of strategies firms will adopt" (Shinkle, 2012: 444). In terms of firm-level strategic repositioning, for example, studies have identified factors that lead firms to move closer or further away from their competitors (Park, 2007; Schimmer & Brauer, 2012), but less is known about strategies used to influence the overall strategic direction of the firm. In our study, we have taken a broader perspective on the range of alternatives available and the role aspirations play in influencing the direction of firms' international growth.

In doing so, the cognitive capacity of decision makers has been central to our framework, in response to Posen and colleagues' (2018) and Powell et al. (2011)'s call on scholars to revisit the role of cognition in 'problemistic search', corrective actions taken to address perceived performance underperformance. According to performance feedback theory, these corrective actions tend to start with a search for local or 'myopic' solutions to performance problems (Argote & Greve, 2007; Kim, Kim, & Miner, 2009; Levinthal & March, 1993). We argued, however, that problemistic search does not necessarily stop at the level of myopic solutions, and may actually also involve farsighted and wholesale international portfolio restructuring decisions, in particular when a firm's decision makers consider the firm to perform relatively poorly. Our findings indicate that, in that case, managers tend to restructure their firm's country portfolio substantially as a function of portfolio diversity through a large number of country exits and entries. Furthermore, whereas prior studies typically found that a firm's performance compared to managers' aspirations has a strong direct effect on its behavior (Kotiloglu et al., 2021), we find relatively weak direct effects of such performance and show that it may in fact also moderate the degree to which firm characteristics (in our case the diversity of a firm's country portfolio) influence firm behavior. Managerial responses thus take the form of a wider reflection on the entire portfolio of corporate activities, and are often more complex and nuanced than assumed. It may thus be beneficial for future studies of the relationship between managers' performance aspirations and complex sets of activities to consider the *interplay* between characteristics of corporate portfolios that generate cognitive complexity on the one hand and managers' subjective performance assessments about a firm's ability to handle that complexity on the other, rather than their isolated effects (see also Fourné & Zschoche, 2020; Zhang & Gong, 2018; Joseph, Klingebiel, & Wilson, 2016).

### 5.2. Limitations and research suggestions

Our study has several limitations. First, we used Deloitte's "Global Powers of Retailing" reports as an important source of data for this study. These reports are compiled annually and specify in which countries large retailers have operations. There were only minor inconsistencies between firms' national operating locations listed in these reports and those listed in firms' annual reports, a source we chose to follow when we were confronted with conflicting information. As this was the case for only a minor fraction of our firm-year observations for which data from both sources were available, we believe Deloitte's reports to be sufficiently reliable.

Second, as these reports only provide information on the countries where the various retailers operate, the total resource commitment made in each of these countries remains unknown, which we thus have to assume to be sizeable enough to result in additional coordination costs (Bianchi & Ostale, 2006; Coe & Wrigley, 2007). While we were unable to measure the resource commitments and withdrawals associated with the observed entries and exits, future studies could explore how decision makers make portfolio adjustments by changing the size of their resource commitments in host countries in addition to our focus on full exits and new entries.

Third, since retailers' foreign activities generally have a market-seeking purpose (Mohr & Batsakis, 2017; Dawson, 2007), our study does not make clear whether our findings also hold for portfolio adjustment decisions for activities that have a different strategic purpose, such as efficiency enhancement or capability enhancement (Dunning, 1998). Future studies could attempt to shed light on the generalizability of our findings to activities with such other purposes. Moreover, whereas we simultaneously analyzed foreign entry and exit decisions, future studies could attempt to extend our analysis to other internationalization decisions that co-occur, such as location and ownership mode decisions (Boeh & Beamish, 2012) or establishment and ownership mode choices (Dikova & Van Witteloostuijn, 2007).

Although we aimed to control for many factors that influence managers' portfolio adjustment decisions, and compiled a sample encompassing both non-internationalized and highly internationalized firms, our research design may not have been sufficient for unambiguously establishing causality between the diversity of a firm's country portfolio and the observed adjustments to the portfolio. To determine the existence of such causality, future studies could make use of alternative research designs based on the occurrence of an exogenous shock.

Future research could also explore alternative ways of measuring a firm's performance relative to managers' aspirations, for example by comparing the focal firm's financial achievements to those of its closest competitor (Lounsbury & Beckman, 2014). There is some evidence that retailers sometimes only look at their closest competitor when selecting foreign markets (Yuang & Sternquist, 2007), which may also be the case for managers' performance comparisons. Future studies could explore whether competitor-based managerial assessments of firms' performance moderate the effect of country portfolio diversity on portfolio adjustment decisions differently than the history-based performance

assessments on which we primarily focused. Moreover, as decision makers' reference points may change over time (e.g., Hu, Blettner, & Bettis, 2011; Blettner, He, Hu, & Bettis, 2015; Washburn & Bromiley, 2012) or result in inconsistent feedback (Blagoeva, Mom, Jansen, & George, 2020; Saraf, Dasgupta, & Blettner, 2022), future studies could explore the effects of such changes and inconsistencies on firms' (de) internationalization decisions.

Previous studies have argued that firms either see performance shortfalls as problems to be solved, and have explained this with the help of performance feedback theory, or as threats to the firm's existence, using threat rigidity theory (Greve, 2011; Powell, 2017). In line with the former theory, larger firms are found to respond to performance shortfalls mostly with an increase in risk-taking, presumably because such firms have larger resource endowments. Some smaller firms, on the other hand, tend to respond to performance shortfalls with a decrease in risk-taking, consistent with threat rigidity theory. Our findings suggest that firms take more risk when their performance fails to meet managers' aspirations, but as our sample was mainly comprised of relatively large firms, these findings may be specific to such firms. Future studies could explore whether our framework similarly applies to smaller and medium-sized firms.

Recent studies of firms' adjustments to their portfolio of business lines have focused on the importance of corporate governance, and especially on the pressure that shareholders may exert on managers to adjust their firm's portfolio of activities (Bergh & Sharp, 2015; Filatotchev, Wright, Uhlenbruck, Tihanyi, & Hoskisson, 2003; Zuckerman, 2000). By controlling for whether a firm was publicly listed or based in an Anglo-Saxon country (Weimer & Pape, 1999), we were able to take into account such pressures to some degree, but we were unable to fully account for them because about half of our sample firms were privately owned and thus reported little data on their corporate governance features.

Last, even though our study indicates that behavioral factors have an important bearing on international portfolio adjustment decisions in terms of foreign entries and exits, we did not study the performance consequences of these decisions in response to portfolio diversity. One possibility is that managers who are more aware of the behavioral failures associated with diversity extract more value from the portfolio through efficient portfolio adjustment decisions at different levels of portfolio diversity. Our behavioral perspective, however, does not assume 'economic rationality', causing the performance implications of the observed entry and exit decisions to remain unclear. Future studies could explore these implications in order to shed light on the normative value of our behavioral perspective.

## Data Availability

The authors do not have permission to share data.

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