Sector-Mediated Transmission and Selective Exit: Micro-Foundations of Managerial Cognition in Fragile Institutional Contexts

Abstract

Despite growing interest in foreign divestment, international business research still says little about the micro-foundations through which macro-level institutional fragility is translated into firm-level exit decisions. This study addresses that gap by examining how managerial cognition mediates multinational enterprises' (MNEs) exit responses in Pakistan between 2020 and 2025. Drawing on semi-structured interviews with senior managers across 10 MNEs spanning six sectors and five home countries, and using Coleman's Bathtub model as an organising lens, the study shows that macro-level shocks do not confront firms uniformly; rather, they are transmitted through sector-specific regulatory regimes that shape the situational conditions managers face. In addition, it identifies selective exit as a distinct strategic response to institutional fragility, whereby firms divest institutionally exposed business lines while retaining relatively insulated ones. This response rests on a micro-foundational mechanism (differential exposure assessment) through which managers compare institutional risk across business lines and preserve strategic optionality where possible. The study contributes to micro-foundations research, institutional theory in MNEs, and the foreign divestment literature by clarifying how shared macro-level fragility generates differentiated situational pressures and differentiated exit responses.

Keywords: Divestment, Institutional fragility, MNEs global strategies, micro-foundations, managerial cognition, Emerging markets

1. Introduction

Multinational enterprises (MNEs) increasingly operate under conditions of geopolitical instability, macroeconomic volatility, and institutional fragmentation that complicate cross-border strategy (Verbeke et al., 2025; Luo and Chi, 2026). Among these, geopolitical instability has become more important for cross-border strategy. This is partly because of challenges such as sanctions, trade restrictions, and shifts in international norms, which in turn shape where firms choose to locate, how they organise themselves, and how their global value chains are configured (Verbeke et al., 2025; Driffield et al., 2026).

Recent work suggests that global economic fragmentation is no longer driven by geographic distance alone anymore. It is increasingly linked to political divisions as well. This means that firms need to take "political distance" into account, not just how far countries are from each other, when deciding where to locate value chain activities (Cui *et al.*, 2025). Related to this, research shows that having operations across very different environments can create coordination problems and behavioural inefficiencies. These issues can act as warning signs for managers and may lead them to adjust their strategies, including both entering and exiting foreign markets, especially when performance falls below expectations (Hendriks *et al.*, 2024).

Despite these developments, international business research is still uneven. Although there is extensive work on why firms enter foreign markets, but relatively less attention has been paid to exit decisions. This gap is glaring because exits are not solely driven by subsidiaries poor performance. In many cases, they are shaped by a mix of institutional pressures, macroeconomic instability, and how managers interpret risk in uncertain situations (cf. Khan et al., 2023). As a result, subsidiary divestment (whether through sale, closure, or other forms) has become increasingly relevant in practice but remains underexplored compared to entry decisions (Surdu et al., 2018; Sethuram and Gaur, 2024).

One reason for this is that divestment decisions operate across multiple levels. At a broader level, firms may encounter institutional fragmentation, where regulatory, social, and cultural expectations diverge and exert competing pressures (Verbeke *et al.*, 2025). In international settings, this complexity is amplified by regulatory differences, value chain disruptions, and shifting political priorities, all of which increase uncertainty and compliance costs. However, firms do not always respond in a straightforward way to these pressures. Exit decisions are shaped by managerial judgement, organisational routines, and governance structures. This makes it important to understand how macro-level conditions are interpreted and acted upon within firms.

The micro-foundations perspective offers a useful lens for understanding these firm-level decisions. It focuses on how individual actors within organisations think, decide, and interact, and how these processes leads to firm-level outcomes (Felin and Foss, 2005; Felin et al., 2015; Foss and Pedersen, 2019). In global strategy, this includes managerial cognition, bounded rationality, and the use of heuristics under uncertainty. Managers often rely on familiar decision rules, even in changing environments, while their experience and context shape how risks are perceived. However, despite growing interest in micro-foundations, limited research has connected these behavioural processes to divestment decisions in fragmented institutional settings (Debellis et al., 2021; Khan et al., 2023; Verbeke et al., 2025).

To address this gap, this study uses Coleman's Bathtub framework as an organising lens (Coleman, 1990). It starts from broader (macro) conditions and moves through individual-level mechanisms before feeding back into firm-level outcomes. In other words, it gives a way of thinking about how external pressures are interpreted by decision-makers, and how those interpretations end up shaping firm strategy over time. The framework is flexible enough for international business domain, where the "macro" level could refer to the institutional environment or the firm itself, and the "micro" level could refer to managers or decision-making teams. It can also be extended to capture interactions across different organisational layers (Contractor *et al.*, 2019).

Empirically, the study focuses on Pakistan, a context characterised by significant institutional fragmentation and macroeconomic volatility. Between 2020 and 2025, several MNEs reduced their presence or exited altogether, reflecting not only wider global shifts but also local regulatory and economic pressures.

Existing work points to several factors behind this. These include low investment levels, declining real incomes, relatively high compliance costs, and the continued importance of the informal economy. Taken together, these conditions can make formal operations less attractive, or at least more difficult to sustain (Khan, 2025). Building on this context, the study draws on a literature review alongside qualitative interviews conducted with managers across multiple MNE subsidiaries and sectors. This approach enables a closer look at how managers interpret macro-level conditions and how their decisions eventually lead to divestment outcomes.

Against this background, the study is guided by the central research question: *how do the micro-foundations of managerial cognition explain MNE exit decisions in fragile institutional contexts?*

This question is addressed through four research objectives. First, to analyse the macro-level institutional factors driving MNE exits in Pakistan, with particular attention to how sector-specific regulatory regimes translate generic macroeconomic shocks into firm-level operational pressures. Second, to explore the micro-level cognitive processes through which managers interpret institutional volatility and convert those interpretations into strategic decisions. Third, to examine how individual managerial decisions aggregate into broader collective patterns of MNE withdrawal, including contagion dynamics and selective retrenchment. Fourth, to extend Coleman's (1990) Bathtub model within the context of IB by specifying the micro-cognitive mechanisms through which macro-level institutional conditions are transmitted to firm-level strategic outcomes.

In addressing this question, the study makes key contributions. First, it advances micro-foundational work in international business by explaining how macro-level institutional fragility is translated into firm-level exit through managerial cognition. Specifically, it shows that macro shocks are not transmitted uniformly across firms, but are filtered through sector-specific regulatory regimes that shape the situational conditions managers confront and interpret (Coleman, 1990; Felin and Foss, 2005; Kostova et al., 2008; Felin et al., 2015). This sharpens the micro-foundational explanation of strategic response by specifying how institutional heterogeneity enters managerial sensemaking and judgement under uncertainty (Maitland and Sammartino, 2015; Foss and Pedersen, 2019). Second, it extends the divestment literature by identifying selective exit as a distinct response to institutional fragility. The findings show that some firms do not simply stay or leave; rather, managers compare the institutional exposure of different business lines and withdraw from those that have become untenable while retaining those that remain viable. This micro-cognitive mechanism, which we term differential exposure assessment, links managerial cognition to strategic reconfiguration and extends real options and dynamic capabilities reasoning into the exit domain (Kogut, 1991; Helfat and Peteraf, 2015; Vahlne and Bhatti, 2019; Sethuram and Gaur, 2024).

The remainder of the paper is structured as follows. The next section reviews the relevant literature and develops the conceptual framework. This is followed by the methodology. The findings are then presented, followed by a discussion that links them within the existing literature and highlights key implications. The paper concludes with suggestions for future research.

2. Literature Review

2.1 Behavioural Micro-foundations

The micro-foundations perspective directs attention to how individual cognition, behaviour, and interaction produce the strategic outcomes conventionally attributed to firms as collective actors (Felin and Foss, 2005; Felin et al., 2015). In international business, this matters because managers rarely confront uncertainty in a neutral or uniform way. They interpret it through prior experience, cognitive shortcuts, and situational frames, and these interpretations influence how they define threats, evaluate alternatives, and justify strategic action (Maitland and Sammartino, 2015; Foss and Pedersen, 2019).

Existing work has shown that managerial cognition is central to international strategy, especially under conditions of uncertainty. Executives rely on prior experience and established interpretive schemes when gathering information and evaluating strategic options (Maitland and Sammartino, 2015). Even when environments become more volatile, managers do not necessarily abandon existing decision rules. Instead, they often continue to rely on familiar heuristics, even as the content of perceived risk changes (Ambos *et al.*, 2020). This point is important because it suggests that strategic responses to institutional instability cannot be explained only by reference to external shocks. They must also be understood through the cognitive processes by which managers interpret those shocks.

This is particularly relevant for divestment. Exit decisions are often treated as the outcome of deteriorating performance or changing portfolio logic, but such explanations remain incomplete if they do not specify how decision-makers interpret worsening conditions. Whether a firm stays, adapts, or exits depends not simply on objective deterioration, but on how managers define the situation, what thresholds they regard as acceptable, and how they judge the viability of continued operation (Spadafora and Giachetti, 2021). In that sense, behavioural micro-foundations provide a more precise explanation of strategic response than firm-level accounts alone (Teece, 2025).

Earlier studies looked at the cognitive roots of these capabilities (Helfat and Peteraf, 2015), while recent research shows that other factors also matter, such as political capital and different ways of sensing opportunities—from opportunistic actions and bricolage to social evaluation and creating new knowledge (Puthusserry et al., 2019; Zabel et al., 2023; Heubeck, 2024; Baishya et al., 2025). In divestment contexts, these mechanisms often lead to exit decisions when continuing seems unfeasible.

Micro-foundations also operate through knowledge integration, where individual skills and behaviours build wider organisational capabilities. Research shows motivation, engagement, and knowledge sharing are key to better performance (Mazzucchelli *et al.*, 2019). By encouraging innovation and outside connections, flexible HR practices increase absorptive capacity (Guedria *et al.*, 2026). Experience varies depending on the situation. Industry-specific experience is more significant in independent subsidiaries, whereas multinational experience is less significant in units that are closely managed or heavily involved in research and development (Nuruzzaman *et al.*, 2019). For smaller firms, dynamic capabilities often come from a mix of individual, structural, and procedural factors, helping them overcome resource limits and innovate (Teissandier *et al.*, 2025). Together, these findings show micro-foundations influence both performance and firms' ability to adapt or exit under institutional pressure.

The psychosocial aspect adds depth to this perspective. For example, organisational practices that foster positive perceptions of corporate social responsibility can boost employee satisfaction and reduce attrition (Ng *et al.*, 2019). In cooperative-competitive environments, managers carefully plan their actions to manage conflicts (Lundgren-Henriksson and Tidstr¨om, 2021). Research on organisational ambidexterity finds that behavioural complexity in executives, strong top management teams, and focused leadership are key to handling competing demands (Zimmermann et al., 2020; Venugopal et al., 2020; Huang et al., 2021). The idea of a CEO "paradox mindset" is especially relevant, meaning the ability to handle conflicting demands at once. This skill matters in divestment because it helps managers navigate institutional tensions rather than simply exiting (Amosh, 2026).

2.2 Institutional Fragmentation

Institutional fragmentation means organisations face inconsistent and often conflicting rules, norms, and cultural expectations across different settings (Verbeke *et al.*, 2025). Globally, it also shows the breakdown of a once unified system into more regional and political segments. This fragmentation raises uncertainty because following one set of rules might conflict with another.

A micro-foundational view shows how individuals interpret and respond to these situations. This perspective emphasises how thinking, emotions, and individual agency influence both stability and change, rather than viewing institutions only as external constraints (Haack et al., 2019; Voronov and Weber, 2020). Demers (2020) adds a moral dimension, emphasising that individuals within organisations have different reasons for upholding or changing institutional rules, while Frödin (2024) combines cognitive and network perspectives to demonstrate how people and their environments influence each other over time. This is relevant to divestment because companies may choose to exit not only for financial reasons but also when questions of legitimacy or ethics arise.

Research on multinationals from emerging economies shows that firms navigate fragmented environments by developing specific routines. These routines rely on individual, relational, and structural micro-foundations and aim to handle various institutional pressures (Elg *et al.*, 2017). How well firms respond depends on how organisational members understand and prioritise these competing demands.

Crises tend to deepen fragmentation and reveal that firms still fall back on familiar decision-making practices. Even as global integration declines, managers might reassess risks, but they often continue using the same shortcuts they are used to (Ambos *et al.*, 2020). As a result, firms usually respond to fragmentation by relying on existing decision patterns rather than making major changes. Other studies on subsidiary strategy highlight the roles of identity, legitimacy, leadership, and non-market actions in addressing increasingly unstable global value chains (Andersson *et al.*, 2026). Research on family firms also shows that factors like time, emotions, and institutional relationships play an important role, suggesting that these issues need to be understood across different levels rather than from a single perspective (Vahlne and Bhatti, 2019; Debellis et al., 2021).

2.3 Divestment Decision/Exit Strategies

Divestment decisions and exit strategies are treated interchangeably in this study. Despite their importance, they remain underexplored relative to entry and expansion decisions (Surdu et al., 2018; Sethuram and Gaur, 2024). Yet it remains a key strategic decision, revealing how firms reassess their position and reallocate resources when situations evolve (Khan et al., 2023). From a dynamic capabilities' perspective, divestment is part of the process of sensing opportunities, seizing them, and reorganising resources (Teece, 2007; Pitelis et al., 2024). In other words, it's not just about leaving a market rather it's a strategic move to deal with a gap between what the company can do and what the environment requires.

The sensing phase is strongly shaped by behavioural micro-foundations. Managers use experience and mental shortcuts to make sense of uncertainty, risk, and institutional mismatches. Even when major disruptions shift how managers view risk, the underlying rules they use to make decisions tend to remain fairly consistent (Ambos *et al.*, 2020). At the same time, individual considerations, such as how difficult or inconvenient a situation feels, can shape both investment and divestment choices (Schotter and Beamish, 2013). As a result, firms may choose to exit not only because conditions deteriorate, but also because managers perceive the situation as too complex or challenging to manage.

The latter stages of seizing and reconfiguring depend on governance and organisational inertia. Firms often postpone divestments due to internal resistance, even when performance is poor. Changes in governance, along with prior divestment experience, can increase a firm's likelihood of exiting (Ocasio, 1997; Shimizu and Hitt, 2005). This suggests that decisions to divest are not based only on performance figures but also depend on how decisions are made internally and who is involved in making them. Similarly, when the routines used to cope with external pressures become too costly or are no longer seen as appropriate, firms may shift from adaptation to withdrawal (Elg *et al.*, 2017).

There is a clear gap in research on emerging markets with high institutional complexity. While studies have examined managerial thinking, governance, and organisational routines, they have paid little attention to how these factors influence exit decisions. In contexts such as Pakistan, firms often pull out for reasons beyond economic outcomes alone. Instead, it may reflect a mix of institutional misalignment, managerial views, governance issues, and the challenge of handling competing pressures (cf. Khan et al., 2023). The idea of a paradox mindset helps explain how managers deal with these tensions, either by accepting them or seeing them as reasons to exit (Miron-Spektor *et al.*, 2017).

2.4 Research gap and our theoretical perspective

In summary, current research shows that behavioural micro-foundations are important for understanding how managers interpret and react to institutional complexity, and how these interpretations shape strategic action (Felin and Foss, 2005; Felin et al., 2015; Maitland and Sammartino, 2015). At the same time, institutional research has shown that fragmented environments generate competing regulatory, normative, and legitimacy pressures for firms operating across borders (Kostova et al., 2008; Verbeke et al., 2025). Divestment research, for its part, has established that exit remains an important but underdeveloped area in international business, with most studies still focusing more on performance, governance, and post-entry outcomes than on the micro-level processes through which exit decisions are formed (Surdu et al., 2018; Khan et al., 2023; Sethuram and Gaur, 2024). However, these three streams remain insufficiently integrated. Micro-foundations research mainly examines cognition and capabilities; institutional studies focus on legitimacy and conflicting logics; and divestment research often emphasises performance and governance. What remains underdeveloped is a clearer explanation of how macro-level institutional fragility is translated, through managerial cognition, into firm-level exit decisions.

This gap is especially important in emerging markets and other fragile institutional contexts, where institutional fragmentation is often stronger and where divestment decisions are shaped by a wider range of behavioural and contextual factors than economic performance alone (Khan et al., 2023; Cui et al., 2025; Verbeke et al., 2025). Studying firm exits in Pakistan therefore offers a useful setting for examining how managerial behaviour interacts with fragmented institutional conditions to shape decisions to stay, adapt, or leave. Figure 1 illustrates this gap by locating it at the intersection of behavioural micro-foundations, institutional fragmentation, and divestment research, and by highlighting the need for more work that connects these areas more explicitly, particularly in contexts marked by institutional complexity and fragmentation (e.g., Debellis et al., 2021; Tung et al., 2023; Cui et al., 2025; Martínez-Noya and Valdés-Llaneza, 2025; Janeiro and Ferreira, 2026).

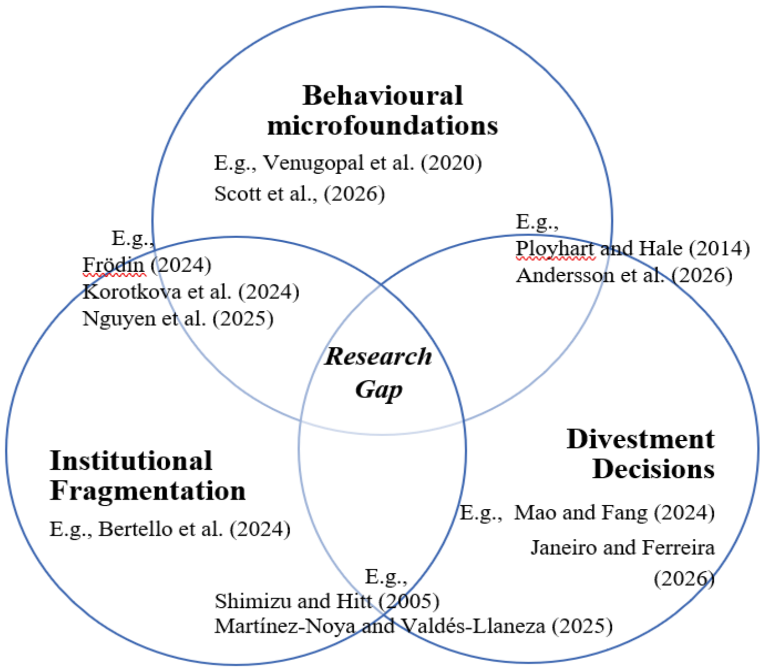

Figure 1. The conceptual gap at the intersection of behavioural micro-foundations, institutional fragmentation, and divestment research

A persistent issue in IB and global strategy research is how to explain the link between broader (macro-level) environments and firm-level strategic outcomes without treating firms as "black boxes". The micro-foundations perspective addresses this by focusing on how individual-level cognition, behaviour, and interactions among actors come together to shape organisational outcomes and differences across firms (Felin and Foss, 2005; Felin et al., 2015).

Following this line of thinking, the present study draws on Coleman's Bathtub framework (Coleman, 1990) to structure how institutional fragmentation may lead to subsidiary divestment through managerial decision-making processes. Rather than treating this as a purely top-down relationship, the framework helps to break the process into smaller steps.

Coleman’s model starts from broader macro conditions, moves through micro-level mechanisms or “conditions of action,” and then links these to behaviour before feeding back into macro-level outcomes (Coleman, 1990). This is useful here because there is still limited understanding of how wider institutional pressures become translated into firm exit outcomes (Kogut, 1991; Kostova et al., 2008; Surdu et al., 2018; Debellis et al., 2021; Verbeke et al., 2025). In this study, the macro level is approached through institutional fragmentation, understood as a situation in which regulatory, normative, and cultural expectations do not align neatly and instead generate tensions around coordination, compliance, and legitimacy (Kostova et al., 2008; Verbeke et al., 2025). In international business settings, these tensions become especially visible because differences in regulation, disruptions in global value chains, and shifting political priorities create layered pressures for subsidiaries and their managers (Verbeke et al., 2025; Andersson et al., 2026).

At the micro level, the question becomes a bit more practical: how do managers interpret these pressures? The study focuses on behavioural micro-foundations, with particular attention to managerial cognition, heuristics, and decision routines. What tends to emerge from prior research is that managers do not approach decisions in a uniform way. Instead, they draw on different mental models, often shaped by their own experience, and this influence how they process information under uncertainty. In this respect, bounded rationality becomes difficult to ignore (Maitland and Sammartino, 2015; Felin et al., 2015). Even when conditions change, decision rules do not always shift immediately. In that sense, how risk is perceived (and how situations are interpreted) starts to matter quite a lot (Ambos *et al.*, 2020).

Building on Coleman’s idea of “conditions of action”, managerial knowledge, skills, and abilities can be thought about in slightly different ways. Sometimes they are shaped by prior experience, for example through international exposure influencing judgement. At other times, they relate more to underlying cognitive capabilities, such as being able to sense changes, respond to them, and reconfigure resources where needed (Coleman, 1990; Helfat and Peteraf, 2015). These ideas overlap with the dynamic capabilities literature, although that literature tends to emphasise harder-to-observe elements like routines and decision rules (Teece, 2007;Teece, 2025).

The link back from micro to macro in Coleman’s framework appears here in how managerial interpretations are converted into subsidiary divestment outcomes. These may take the form of sale, closure, transfer, or strategic withdrawal. Although entry decisions have received sustained attention in international business research, divestment remains less developed, making a micro-foundational explanation especially valuable in this context (Surdu et al., 2018; Sethuram and Gaur, 2024). From a process perspective, divestment may involve recognising institutional misfit, judging whether adaptation remains viable, and then reconfiguring or withdrawing assets. In practice, however, this is rarely a neat sequence. It depends heavily on how managers interpret thresholds, assess exposure, and decide whether continued operation remains defensible (Teece, 2007; Pitelis et al., 2024). Governance and organisational inertia further shape this process, since prior divestment experience, internal attention structures, and governance change can either facilitate or delay exit even under deteriorating conditions (Shimizu and Hitt, 2005).

In essence, Coleman's framework can be applied across different levels, stretching from individuals and teams all the way up to subsidiaries, the broader MNE, and even the institutional environment (Coleman, 1990; Contractor et al., 2019). This flexibility matters quite a bit for divestment research, since the reality is often messy: subsidiary conditions, headquarters priorities, and host-country environments don't always line up in a straightforward way (Andersson *et al.*, 2026).

With that in mind, this study uses Coleman's Bathtub as a guiding theoretical lens rather than as a rigid blueprint. It treats divestment as a multi-level process in which institutional fragmentation shapes the pressures firms confront, those pressures are interpreted by managers through cognitive mechanisms and decision routines, and those interpretations feed into differentiated exit outcomes. Seen this way, the study responds to ongoing calls for clearer micro-foundational explanations of strategic response under institutional complexity, while also contributing to the underdeveloped literature on foreign divestment in volatile contexts (Debellis et al., 2021; Khan et al., 2023; Verbeke et al., 2025).

3 Research Methodology

3.1 Research Methods

The study examines how managers make sense of fragmented institutional environments, which called for a qualitative, inductive approach (Miles *et al.*, 2019). Rather than starting from a fixed theoretical framework, the aim was to stay close to how managers themselves describe and navigate these situations, tracing how their interpretations and day-to-day responses interact, and what this means for the link between institutional complexity and strategic outcomes (e.g., divestment).

To achieve this, semi-structured expert interviews were chosen as the main data collection method (Bogner *et al.*, 2018). Expert interviews are widely recognised as a flexible way of capturing in-depth, experience-based insights, especially when the goal is to understand decision making under uncertainty. Following Meuser and Nagel (2009), the experts in this study were selected because of their first-hand knowledge of how multinational subsidiaries operate within Pakistan's volatile business landscape. Their expertise came from their managerial roles, industry experience, and direct involvement in decisions related to scaling down or exiting foreign operations.

We employ Coleman's Bathtub framework, as it allows movement across different levels. While institutional fragmentation and regulatory volatility shape the broader context, what really matters is how managers make sense of these conditions and respond to them in practice. It is these patterns of thinking and action that, in turn, help explain divestment outcomes at the subsidiary level.

3.2 Data Collection

The study focused on managers working in multinational subsidiaries that had recently scaled back or withdrawn from Pakistan. Companies were identified by scanning both national and international business news, which highlighted several examples of closures, divestments, and major downsizing. After identifying these firms, there was an attempt to contact potential participants through professional networks and industry connections. In practice, reaching some of them proved difficult, so not all could be included. Those who did take part, however, shared valuable first-hand experiences about the decisions involved in scaling back operations. Focusing on these managers made it possible to understand what it was like to operate in a volatile institutional environment, including the kinds of challenges they faced on the ground.

Contact with participants was first made by email, and in some cases, followed up with phone calls to sort out availability and consent. Eighteen managers ultimately agreed to take part. The interviews were carried out remotely using Microsoft Teams and generally ran for around 45 to 60 minutes. With permission, the conversations were recorded and later transcribed word for word. Transcripts were returned to participants so they could check and confirm what had been captured

(Yin, 2018). This step was useful in reinforcing both the credibility of the material and participants' confidence in how their input was being used.

Interview data were also checked against secondary materials, including company press releases, industry reports, and relevant policy documents. Bringing these sources together made it possible to look at the issue from more than one angle, and to compare how managers described events with what could be observed at the firm level (Miles *et al.*, 2019).

3.3 Data Analysis

The interviews were analysed using a qualitative approach combining content and thematic techniques. The process started with open coding, where segments of data were labelled with initial concepts. Related codes were then examined together to identify connections across transcripts, forming categories that reflected shared ideas. In the final stage, these categories were brought together into broader themes that captured the main patterns in the data and connected back to the study's theoretical focus (Strauss and Corbin, 1998).

Several key themes emerged from the analysis. These included institutional fragmentation and regulatory uncertainty, macroeconomic volatility and state-driven shocks, the behavioural micro-foundations of exit decision-making, and legitimacy alongside responsible exit strategies. The authors went through the coding in detail, talking through overlaps and making adjustments where it seemed appropriate. After reaching agreement on the codes and the broader themes, the results were shared with participants, giving them the chance to confirm or clarify how their experiences had been represented.

The entire analytical process was facilitated through Atlas.ti7 software, which supported the organisation of codes, memos, and theme networks. The interpretation followed a social constructionist orientation (Miles et al., 2019), recognising that meaning around exit decisions emerges from ongoing interactions between managers and their institutional environment rather than from objective mechanisms alone. Table 1 summarises quality measures and actions taken.

Table 1: Quality measures and actions taken

Measure	Purpose	Action Taken
Confirmability	Confirmability assurance of the integrity of the findings based on the data	Data collected from experts in the MNEs subsidiaries

	(interpretations, constructions, assertions, facts etc.)	
Credibility	Matching the constructed realities of the respondents to those presented by the evaluator	Multiple respondent types and data sources were used to triangulate emergent findings
Dependability	Trackable variance and transparency	Atlas.ti software used for coding Interview quotations, coding scheme elaborated on
Transferability	Specifying the context of scope in which the research findings can be generalised	Theoretical sampling of 10 companies in the sector of study Provided a thick description of the research process

(Insert Table 1)

3.4 Ensuring Research Quality

Trustworthiness was important throughout the study, but it was not something that could be checked off like a list. Reading the transcripts took time, and participants were asked whether the interpretations made sense to them. At the same time, other sources were looked at, to see how the findings compared with what was already out there. By paying attention to these details, the analysis stayed close to what was happening in the data. It also made it easier to see the patterns that were emerging and to get a sense of how the findings connected to actual events.

Taking these steps helped keep the analysis close to the data and gave the authors more confidence that the results reflected what actually happened. To give readers a sense of context, the research included detailed descriptions of Pakistan’s institutional and macroeconomic environment, which also helped show how the findings might apply to other situations (Miles *et al.*, 2019).

Notes were taken during data collection and coding, which made it easier to see how the analysis was developing over time. Personal reflections were written alongside this, and some of these ideas were discussed with the research team, bringing out possible biases and adding another perspective to the interpretation (Yin, 2018). This kept the analysis close to the data and provided a clearer sense of how the findings were reached.

Since this study is more concerned with behavioural processes than with numerical patterns, the emphasis is on analytical rather than statistical generalisation. The aim is to contribute theoretically by showing how managers' micro-level thinking interacts with macro-level institutional fragmentation, while also offering practical insights for multinational companies operating in uncertain or politically volatile environments.

4 Findings

4.1 Overview and Sample Description

The empirical base comprises 18 semi-structured interviews with former top-level managers including Chief Executive Officers, Chief Financial Officers, Country Managers, Country Chairs, Site Leaders, and Presidents of Strategy, drawn across ten MNEs that exited or strategically restructured their Pakistani operations between 2020 and 2025. The sample spans six sectors: Oil and Gas (OG-01, OG-02); Pharmaceuticals (PH-01, PH-02, PH-03); Chemicals (CH-01); FMCG (FM-01); Automobile (AU-01); Telecommunications (TL-01); and Technology/Ride-hailing (TC-01). In accordance with the ethical undertakings given to participants, all organisations and individuals are identified by anonymised codes throughout this study. Table 2 presents the full participant register, detailing the organisational codes, sector classifications, headquarters origins, exit modes, and participant role codes.

Table 2: Participant Register — Anonymised Organisation and Interviewee Codes

Org. Code	Organisation Description (Sector / Nature of Operations)	HQ Origin	Exit Mode	Participant Code & Role
AU-01	Automobile (Motorcycle manufacturer)	East Asia	*Full Exit*	AU-01-HO
TL-01	Telecommunications Company	Europe	*Partial Exit*	TL-01-CFO
OG-01	Oil & Gas Downstream Company	Europe	*Full Exit*	OG-02-CMO & OG-15-CHR
CH-01	Petrochemical Manufacturing Company	East Asia	*Partial Exit*	CH-01-GMO & CH-01-CQ
PH-01	Life Sciences and Agro-Chemical Company	Europe	*Partial Exit*	PH-01-CEO & PH-01-MPO
PH-02	Global Pharmaceutical Manufacturing Company	North America	*Full Exit*	PH-02-SPL & PH-02-ML
PH-03	Multinational Pharmaceutical Company	Europe	*Full Exit*	PH-03-CCD & PH-03-MF
OG-02	Oil & Gas Downstream Company	Europe	*Partial Exit*	OG-02-CSO & OG-02-PSS
FM-01	Global Fast-Moving Consumer Goods Company	North America	*Full Exit*	FM-01-VCE & FM-01-CMO
TC-01	Technology Platform and Ride-Hailing Company	Middle East	*Partial Exit*	TC-01-MD & TC-01-OPS

Note: Org. Codes use sector prefix (OG=Oil & Gas, PH=Pharmaceuticals, CH=Chemicals, FM=FMCG, AU=Automobile, TL=Telecommunications, TC=Technology) plus sequential number. Participant Codes append role suffix (HO=Head of Operations, CFO=Chief Financial Officer, CMO=Chief Marketing Officer, GMO=General Manager Operations, CEO=Chief Executive Officer, SPL=Site/Plant Leader, CCD=Country Chair & MD, CSO=CEO Local Operations, PSS=President Strategy & Sustainability, VCE=VP & CEO, MD=Managing Director).

Table 3 provides a cross-case evidence matrix summarising the dominant institutional pressures, sectoral regulatory mechanisms, and exit modes across the ten firms. Three findings immediately stand out from the matrix: First, the *rupee devaluation* and *forex liquidity crisis* was the single most universally cited pressure, but its operative mechanism differed dramatically by sector. Second, a *diversity of exit modes* is present, i.e., seven full exits, three selective/partial exits, undermining the stay/exit binary assumed in prior literature. Third, the *temporal clustering* is pronounced: the vast majority of turning-point decisions concentrated in the 2022–2023-rupee crisis window.

Table 3: Cross-Case Evidence Matrix — Institutional Pressures, Regulatory Mechanisms, and Exit Modes

Institutional Pressure	Oil & Gas (OG-01, OG-02)	Pharma (PH-01, PH-02, PH-03)	Chemicals (CH-01)	FMCG / Auto (FM-01, AU-01)	Telecom / Tech (TL-01, TC-01)
Rupee devaluation / FX	>50% since 2018; repatriation blocked; import costs +30-40%	API costs (60% COGS) inflated; LC delays blocked production; dividends frozen	PX feedstock imports blocked; gas costs doubled (Rs1,100→Rs2,400/mmbtu)	Raw material + energy inflation; manufacturing plants are uneconomic	Equipment imports +40-50%; captain incentives squeezed
Sector-specific regulation	OGRA pricing lag; smuggling (20-30% market); anti-dumping delays	DRAP price freeze (last broad hike 2002); 2-year registration delays; generics squeeze MNC share	No sector-specific policy shift, but compounded by national FX/energy	FBR withholding; energy tariff; customs valuations	PTA spectrum delays/costs; FBR digital tax; outdated transport laws vs. ride-hailing
Political instability	Network disruption; logistics delays; security costs	Supply chain disruption; investor confidence erosion	Port clearances delayed; energy supply uncertainty	Consumer spending suppression; logistics disruption	City-level protests disrupted operations; infrastructure gaps
Adaptation threshold crossed	OG-01: 2023; OG-02: 2024 (stake)	PH-02 Q1 2024; PH-03 Q1 2023; PH-01 mid-2023	2023 (first shutdown); decision crystallised 2025	AU-01: ongoing 2022-25; FM-01: October 2025 announcement	TL-01: NOK 2.5bn impairment 2022; TC-01: July 2025 suspension
Exit mode	FULL-EXIT (OG-01→local buyer);	PARTIAL ASSET TRANSFER (PH-02→LCI;	PARTIAL STAKE (CH-01→75% stake)	FULL WIND-DOWN (FM-01 manufacturing);	PARTIAL-EXIT (TL-01→PTCL, fintech

Institutional Pressure	Oil & Gas (OG-01, OG-02)	Pharma (PH-01, PH-02, PH-03)	Chemicals (CH-01)	FMCG / Auto (FM-01, AU-01)	Telecom / Tech (TL-01, TC-01)
	PARTIAL STAKE (OG-02→50%)	PH-03→consortium; PH-01 pharma→OBS, Crop Science retained)		FULL-EXIT (AU-01)	retained); PARTIAL-EXIT (TC-01 ride-hailing suspended, tech retained)

4.2 RO1: Macro-Level Institutional Factors

4.2.1 Regulatory Fragmentation as a Persistent Structural Condition

The defining macro-institutional characteristic described across all eighteen interviews is not an episodic disruption but persistent regulatory fragmentation due to the simultaneous operation of multiple misaligned regulatory authorities with overlapping mandates. Critically, the operative regulatory body and therefore the specific mechanism of fragmentation, differed sharply by sector, constituting the empirical basis for this study's first theoretical contribution.

> *"Overlapping regulations from the [federal], and provincial bodies produce inefficiencies and uncertainty. Incentives… exist on paper, but enforcement is inconsistent."* — TL-01-CFO

> *"Disjointed federal-provincial energy policies and inconsistent enforcement by [regulator] create operational unpredictability. Smuggling in the energy sector…undercut our premium positioning."* — OG-01-CMO

> *"Overlapping regulators… create opacity and delays… enforcement gaps and price controls turn strategic investments into cost battles."* — PH-01-CEO

For pharmaceutical firms (PH-01, PH-02, PH-03), the dominant regulatory mechanism was DRAP's drug price fixation regime, with only ad-hoc adjustments granted against a backdrop of 25-35 percent annual inflation. PH-02-SPL quantified the effect precisely: with active pharmaceutical ingredients (APIs) constituting 60 percent of cost of goods sold and priced in foreign currency, while output prices were administratively fixed in rupee terms, every devaluation cycle produced a direct, unrecoverable margin compression.

For Oil and Gas (OG-01, OG-02), the operative mechanism was OGRA's petroleum pricing framework combined with SBP foreign exchange repatriation restrictions. For

Telecommunications (TL-01), it was PTA spectrum licensing uncertainty and high reserve prices at auctions. For Automobile (AU-01), it was the expiry of the 2016-2021 Auto Development Policy and inconsistent enforcement of localisation targets. For Technology (TC-01), it was the persistence of legacy provincial transport laws that had not been updated to accommodate app-based ride-hailing, creating legal grey zones around driver registration, insurance liability, and fare regulation.

The informal-formal gap was a cross-cutting aggravating factor. OG-01-CMO described a petroleum market where smuggled products competed directly with formally compliant OMCs on price, creating an asymmetric cost disadvantage for MNCs unwilling or legally unable to operate informally. CH-01-GMO described customs informality that disadvantaged formal importers of petrochemical feedstocks. This enforcement gap imposed what institutional economists would term a negative selection mechanism on formally compliant foreign firms.

4.2.2 Macroeconomic Compounding: The Rupee Crisis as a Cross-Sector Cognitive Trigger

The Pakistani rupee lost approximately 50 % of its value between 2018 and 2023, with particularly acute compression in 2022-2023 (from approximately PKR 180 to PKR 300+ per USD). This was universally cited as the single most consequential macro shock across all ten firms, but its sectoral mechanisms differed, and it interacted differentially with each sector's regulatory framework to produce distinct institutional damage.

> *"Rupee devaluation was relentless. The product price went [drastically up]… Our sales dropped from 23,610 units in FY19 to 5,709 in FY25."* — AU-01-HO

> *"The rupee's sharp decline between 2018 and 2023 increased our debt servicing costs and equipment imports by 40-50%. Capital controls constrained dividend repatriation, tying up NOK 0.9 billion in cash flows."* — TL-01-CFO

> *"High energy costs… electricity and gas tariffs for continuous manufacturing lines… added another 20-30% burden in recent years, directly squeezing margins on high-volume product lines."* — FM-01-VCE

The interaction between the rupee crisis and sector-specific regulation was particularly detrimental for pharmaceutical firms, as regulatory mechanism in the industry prevented price increase. The result was what several interviewees described as a price-cost scissors effect:

input costs rising with the dollar, output prices frozen in depreciated rupees. This combination of macroeconomic shock amplified through sector-specific regulatory immovability, constitutes the empirical mechanism behind the sector-mediated transmission proposed as this study's first theoretical contribution.

The super-tax of 2022 (an additional levy of up to 10% of profits above a certain threshold) added a fiscal dimension to the compounding shock architecture. For firms already operating at compressed margins, this represented the crossing of a cognitive threshold, a point at which even optimistic adaptation scenarios could not produce a viable business case. Several interviewees explicitly identified the super-tax announcement as a 'sensemaking' disruption event that irreversibly shifted their personal assessment from 'cyclical challenge' to 'structural exit case.'

4.2.3 Temporal Clustering: The 2022-2023 Rupee Crisis Window

A significant macro-level finding is the temporal concentration of exit turning points. Most interviewees identified late 2022 or early 2023 as the decisive period in which their personal assessment shifted toward exit or restructuring. This temporal concentration maps precisely onto the period of most acute rupee depreciation combined with the imposition of the super-tax and the onset of Pakistan's IMF programme conditionalities.

> *"My personal view shifted decisively after the first 2023 shutdown... Triggers accumulated: gas price doubling, feedstock import blocks, and 45% revenue drop in Q2"* — CH-01-GMO

> *"My operational view shifted decisively in late 2022... Triggers: escalating rupee devaluation, LC approval bottlenecks, and regulatory rigidity amid inflation spikes that pushed plant contribution margins negative."* — PH-02-SPL

This temporal concentration has important implications for understanding the contagion pattern (addressed in Section 4.4).

4.3 RO2: Micro-Level Cognitive Processes: Three Instruments of Bounded Rationality

The interviews revealed evidence of the specific cognitive instruments that individual managers are utilising to translate institutional volatility into strategic decisions. Three instruments are identified: *threshold heuristics*, *structured planning routines*, and *real-options reasoning*. All three are used in conjunction with legitimacy management as an embedded decision parameter. Table 4 displays a cross-case analysis.

Table 5: Selective Exit - Comparative Case Analysis (PH-01, TL-01, TC-01)

Firm (Code)	Exited Operation	Retained Operation	Differential Exposure Assessment (Participant's exact reasoning)	Enabling Condition
PH-01 (PH-01-CEO)	Pharmaceutical manufacturing (healthcare assets transferred to local buyer ~PKR 7bn)	Crop Science / Agro-chemical operations (pesticides ~8% market share; seeds >40%)	*"The agro-chemical business was in a completely different regulatory universe. DRAP was killing us in pharma but the crop science side had a clear regulatory runway." — DRAP vs. Ministry of Agriculture regulatory split*	Operational modularity: two distinct divisions with separate regulatory environments and supply chains
TL-01 (TL-01-CFO)	Telecom network operations (sold to national incumbent; NOK 5.3bn)	Mobile money / fintech subsidiary (~45m users)	*"Smooth handover to the national incumbent preserved jobs and services. The fintech model had a completely different risk architecture under SBP compared to the PTA spectrum/licence regime." — Structural regulatory asymmetry between network and fintech*	Modular corporate structure: network entity vs. fintech entity with distinct SBP vs. PTA regulatory exposure
TC-01 (TC-01-MD)	Ride-hailing operations (suspended July 18, 2025 — provincial transport permit uncertainty, competition from low-cost entrant)	Technology operations (100+ engineering roles; back-end, delivery, platform capabilities)	*"Exiting the ride-hailing business was not giving up on Pakistan — it was finding a way to stay in a form that was viable. The technology infrastructure is the option we are preserving." — Asset-light vs. asset-heavy exposure*	Platform modularity: consumer-facing ride-hailing (regulated, FX-exposed) vs. asset-light tech operations (lower friction, export-oriented talent)

4.3.1 Threshold Heuristics

The most prominent and theoretically significant micro-cognitive finding is the convergence of a 15-20 percent numerical threshold heuristic across firms in structurally diverse industries, different national cultures, and different operational contexts. This threshold appears in five independent interviews without any apparent coordination or shared origin.

> *"If adaptation costs exceed 15–20% of projected revenues, we reconsider the commitment… It is not written anywhere, but everyone knows it."* — AU-01-HO
>
> *"If contribution margins drop below 15–20% thresholds for sustained quarters, we trigger deeper reviews."* — FM-01-VCE
>
> *"If variable costs (FX-impacted imports + logistics) exceeded recoverable margins by 15–20%, rationalisation followed."* — OG-02-CSO

The consistency of this threshold across automotive (AU-01), petrochemical (CH-01), pharmaceutical (PH-02), FMCG (FM-01), and downstream energy (OG-02) is significant, as these sectors have entirely different capital structures, margin profiles, regulatory environments, and competitive dynamics. The threshold's consistency suggests it operates as an inter-subjective managerial norm and a shared cognitive reference point transmitted through management education, industry benchmarking, and executive peer networks, rather than as a firm-specific financial calculation.

The implication is theoretically important that is, exits in the country were not driven by panic or reactive emotionality, but by the crossing of pre-established cognitive boundaries. This mechanism explains both the timing of exit decisions and their apparent rationality even under severe conditions.

4.3.2 Structured Planning Routines

Beyond static threshold rules, managers described structured cognitive routines for dynamically processing uncertainty. The OODA loop (Observe, Orient, Decide, Act), a decision model, was cited independently by AU-01, CH-01, PH-02, PH-03, and TC-01 respondents as an operational framework for managing high-frequency regulatory shocks.

> *"I use the OODA loop… it's quick for volatile markets… where I observe market signals, orient based on our strengths, decide on adaptations, and act swiftly."* — AU-01-HO

The scenario planning framework was described by AU-01-HO as drawing explicitly on widely disseminated scenario methodology. OG-01-CMO also confirmed scenario planning was institutionalised within that firm's own decision-making culture, suggesting that cognitive practices can diffuse across firm boundaries through executive mobility and industry networks.

TL-01-CFO described Bayesian updating as the primary epistemological framework: continuously revising probability estimates as new information emerged from forex markets, regulatory signals, and subscriber data. This real-time revision of probabilistic assessments as opposed to static threshold rules, represents a more sophisticated cognitive instrument, consistent with the financial training background of a CFO role relative to an operations manager.

4.3.3 Real-Options Reasoning and Risk-Adjusted Capital Allocation

The most theoretically sophisticated cognitive instrument identified was real-options reasoning. This reasoning was articulated most explicitly by TL-01-CFO, OG-02-PSS, and FM-01-VCE, but variants appeared across multiple other interviews.

> *"Under uncertainty, I lean on the 'real options' mental model… treating investments like options, where we can defer, expand, or abandon based on evolving info."* — TL-01-CFO
>
> *"I lean heavily on portfolio real-options thinking… treating every manufacturing asset as a flexible commitment that can be optimised, scaled, or transitioned based on macro realities."* — FM-01-VCE

The real-options cognitive frame has a structural consequence for understanding exit decisions as within this frame, exit is not a failure of commitment but the rational exercise of an abandonment option when the holding costs of maintaining the position exceed the expected value of the option. This cognitive reframing explains why managers who described genuine emotional attachment to their Pakistani operations simultaneously described their exits as analytically clear and regret-free: the decision was experienced as exercising an option rather than abandoning a commitment.

4.3.4 Differential Exposure Assessment: The Micro-Cognitive Foundation of Selective Exit

A cognitive pattern observed exclusively in the three partial-exit firms; PH-01, TL-01, and TC-01, constitutes this study's most novel micro-cognitive finding. In each case, the manager's cognitive process involved an explicit comparison of institutional risk profiles across the firm's own distinct business lines, leading to a differentiated assessment that one line was institutionally viable whilst another was not.

> *"Pharmaceutical price controls were killing us in pharma, but the crop science side had a clear regulatory runway."* — PH-01-CEO
>
> *"[Fintech firm] fintech model had a completely different risk architecture under SBP compared to the PTA spectrum and licence regime."* — TL-01-CFO
>
> *"Exiting the ride-hailing business was not giving up on Pakistan… The technology infrastructure is the option we are preserving."* — TC-01-MD

This differential exposure assessment is analytically distinct from the threshold heuristics described above. Where threshold heuristics provide a decision rule for whether to exit or not, differential exposure assessment provides the cognitive instrument for distinguishing which operations to exit and which to retain within the same market presence. Without this cognitive capability, selective exit cannot occur. The three managers who articulated this cognitive process all had prior experience managing diverse business portfolios, suggesting that portfolio management experience may be a micro-level antecedent of the differential exposure assessment capability.

4.3.5 Legitimacy Management as an Embedded Cognitive Concern

Across all eighteen interviews, legitimacy management emerged as an active cognitive parameter embedded in the threshold calculation rather than a post-hoc justificatory narrative. Managers consistently described dual legitimacy exposure: the reputational risk of staying too long (appearing strategically naive or financially irresponsible to global boards and investors) and the reputational risk of leaving abruptly (damaging relationships with employees, customers, regulators, and distributors).

> *"Legitimacy weighed heavily in exit decisions: abruptly leaving could tarnish our global brand as 'uncommitted,' so we ensured continued spare parts support to honour warranties."* — AU-01-HO

> *"Legitimacy is paramount… A smooth handover to the national incumbent preserved jobs and services… reputational capital in Pakistan is hard to rebuild."* — TL-01-CFO

> *"Responsible divestment reinforces our reputation as a reliable partner… We ensured retail and lubricants brand continuity for five years post-sale."* — OG-02-PSS

The practical manifestation of this legitimacy concern was what several interviewees described as deliberate exit management through careful sequencing of asset transfer agreements, communication strategies, handover periods, brand continuity commitments, and employee transition packages designed to minimise institutional harm. Several interviewees were explicit that the management of legitimacy was also a strategic imperative for preserving optionality: firms that exit responsibly preserve the possibility of future re-entry or continued business relationships through alternative models.

4.4 RO3: Aggregation into Collective Patterns: Contagion and Selective Exit

4.4.1 Sector-Sequenced Contagion

The data reveals a pattern of sector-sequenced contagion in which early movers within a sector generate *informational* and *legitimacy* signals that lower the cognitive and organisational barriers to subsequent exits within the same sector.

> *"Our exit heightened scrutiny for remaining oil marketing companies, potentially accelerating reviews… but as an ownership transfer it showed continuity under new investors."* — OG-01-CMO
>
> *"We were influenced by peer exits… confirming shared regulatory and economic pressures. Our manufacturing divestment… likely accelerated reviews elsewhere."* — PH-02-SPL

The empirical contagion sequence that emerges from cross-reading the interviews is as follows: In Oil and Gas, OG-01's divestment preceded OG-03's decision to sell its stake. OG-02-PSS confirming that peers taking similar selective actions was a relevant data point in the group-level portfolio review. In Pharmaceuticals, PH-01's 2023 asset transfer, PH-03's 2023 stake sale, and PH-02's 2024 transfer to a local buyer formed a sequential cluster in which each subsequent exit cited prior exits within the sector as confirming shared structural pressures. Critically, the pharmaceutical cluster preceded the FMCG cluster (FM-01, October 2025) and is consistent with a transmission pattern in which sector-specific shocks (DRAP pricing crisis for pharma) preceded and amplified a broader FDI exit narrative.

The contagion mechanism operates through two distinct channels. The *informational channel* reduces cognitive uncertainty for firms considering exit: once a credible sector peer has crossed the threshold and exited, the cognitive case for exit becomes easier to make and to communicate to boards or HQs. The *legitimacy channel* lowers the reputational risk of exit: as once multiple sector peers have exited, staying becomes the contrarian position i.e. changing the default from 'justify exit' to 'justify continuation'.

4.4.2 Selective Exit as a Distinct Aggregation Mode

The three partial-exit cases; PH-01, TL-01, and TC-01, represent a qualitatively distinct mode of aggregation from the seven full-exit cases. Rather than individual decisions aggregating into full market withdrawal; individual differential exposure assessments aggregated into selective retrenchment. The firm retained an institutionally insulated operation whilst divesting the institutionally exposed one. Table 5 presents the three partial-exit cases in comparative detail.

(Insert Table 5)

Across all three cases, the structural pattern is consistent: the exited operation was characterised by high institutional friction (pharmaceutical price controls, PTA spectrum uncertainty, provincial transport permit ambiguity); high forex exposure (API imports, imported network equipment, fuel-cost-dependent ride-hailing economics), and significant competitive erosion (generics squeeze, consolidating telecom market, rapid low-cost competitor entry). The retained operation in each case was characterised by lower institutional friction (Agriculture ministry regulations, SBP fintech regulation, asset-light technology operations for TC-01), lower forex exposure (local agricultural sales for PH-01's Crop Science, digitally native services for the fintech and tech subsidiaries), and a more defensible competitive position.

Importantly, all three partial-exit managers articulated an explicit real-options logic for the retained operation: TC-01-MD described the technology infrastructure as "the option we are preserving"; TL-01-CFO pointed to the fintech subsidiary as a "separate risk architecture"; PH-01-CEO described the agro-chemical division as having "a clear regulatory runway." This real-options framing distinguishes selective exit from mere operational downsizing- rather the retained operation is preserved for the strategic optionality it embeds.

4.5. RO4: Coleman's Feedback Loop

4.5.1 Three Feedback Channels

Multiple interviewees articulated the feedback loop connecting firm-level exit decisions to macro-level institutional reconstitution, often unprompted and in terms that map directly onto Coleman's framework. Three analytically distinct feedback channels were identified.

The first feedback channel *FDI confidence deterioration*, operates through media coverage, investor community discourse, and country risk rating revisions. High-profile exits by sector-leading MNEs generate international attention that revises country risk assessments upward and raises the hurdle rate for prospective entrants. AU-01-HO explicitly noted: "The contagion effect is real and potent. Media coverage creates a narrative of 'Pakistan is too risky,' deterring FDI." CH-01-GMO estimated that their exit, as the fifth major exit of 2025, amplified existing risk narratives among lenders and suppliers.

The second feedback channel sector *ecosystem disruption*, more slowly, as supply chain infrastructure, technical employment, and sector capabilities atrophy following anchor-firm exits. TL-01's exit disrupted the mobile money subsidiary's parent network (though the subsidiary was retained), affecting 45 million fintech users and an entire mobile money ecosystem. CH-01's exit removed specialised engineering standards and process chemistry expertise from Pakistan's petrochemical sector. PH-02's and PH-03's asset transfers moved pharmaceutical manufacturing under local ownership but reduced the technology transfer and GMP expertise that MNC presence had sustained.

The third channel, *reform pressure,* introduces a non-linear element: exits sometimes generate the political conditions for institutional improvement. Multiple respondents noted this mechanism:

> *"Our exit spotlighted low ARPU and regulatory issues, pushing dialogues on spectrum and taxes."* — TL-01-CFO

> *"Disciplined portfolio decisions create constructive pressure for reforms… encouraging policymakers to address structural issues."* — OG-02-PSS

4.5.2 The HQ-Local Cognition Divergence

A final finding within the aggregation and feedback theme concerns the systematic divergence between HQ attention and local manager assessment that emerged across multiple cases. Local managers described complex, multi-dimensional institutional risk landscapes while HQ governance focused primarily on financial metrics and strategic portfolio logic.

> *"[HQ] focused on global portfolio optimisation… exiting non-core assets to cut risks... Local input informed but did not override the strategic restructuring mandate."* — CH-01-GMO

> *"Global HQ held the final say... local operational data… fed into the decision but aligned with group-level transformation priorities."* — PH-02-SPL

> *"The Executive Committee… provided the final recommendation… HQ focus was squarely on portfolio selectivity: does the asset fit our core geographies for growth and transition?"* — OG-02-PSS

This HQ-local divergence illustrates that HQ and local managers attend to different signals, construct different situational understandings from the same macro environment, and reach convergent strategic decisions (exit) through different cognitive pathways. The HQ pathway is often driven by portfolio optimisation logic and financial threshold metrics while the local manager pathway is driven by granular institutional friction signals such as, regulatory notices, supply chain disruptions, and daily forex movements; that aggregate at the firm level but are not fully legible from a global portfolio management perspective.

5. Discussion

This study examined how the micro-foundations of managerial cognition explain MNE exit decisions in fragile institutional contexts. Drawing on eighteen interviews across ten multinational enterprises, the findings show that foreign divestment in Pakistan cannot be explained adequately by deteriorating performance, macroeconomic instability, or portfolio logic alone. These conditions matter, but they do not translate directly into exit. They become strategically consequential through the ways managers interpret them, judge their significance, and convert them into action. In that sense, the study responds to calls for stronger behavioural micro-foundational work in international business and global strategy, particularly work that explains how macro-level complexity is mediated through managerial cognition rather than treated as acting on firms automatically (Felin and Foss, 2005; Felin et al., 2015; Maitland and Sammartino, 2015; Foss and Pedersen, 2019; Verbeke et al., 2025).

The discussion develops three interrelated contributions. *First*, it refines Coleman's (1990) macro–micro–macro logic by showing that the transmission from macro-level institutional fragility to firm-level situational pressures is not uniform, but sector-mediated. *Second*, it identifies selective exit as a distinct response to institutional fragility, enabled by a micro-cognitive mechanism that we term differential exposure assessment. *Third*, it suggests that exit decisions in fragile contexts may have wider field-level implications through investor signalling, ecosystem effects, and reform pressure, although the evidence here is more suggestive than definitive. These contributions extend current work on institutional fragmentation, behavioural micro-foundations, and foreign divestment by showing how shared macro-level instability can generate differentiated situational pressures, differentiated exit responses, and broader feedback effects (Kostova et al., 2008; Surdu et al., 2018; Sethuram and Gaur, 2024; Verbeke et al., 2025).

Regarding the first contribution, our findings sharpen Coleman's (1990) Bathtub model by directing attention to the mechanism through which broader structural conditions are converted into action. In our sample, firms operating in the same host-country environment did not experience the same pressures in the same way. Common shocks (e.g., rupee depreciation, inflation, and foreign-exchange restrictions) were filtered through different sector-specific regulatory regimes. This finding extends Kostova et al. (2008) and Verbeke et al (2025) disaggregation of institutional environments in MNE research beyond the country level; not only do countries differ institutionally, but sectors within the same country differ in ways that generate systematically different macro-to-situational transmission pathways. Our contribution is to specify the sector-regulatory level as the operative unit of this complexity, rather than the country level that most regional strategy frameworks employ (Debellis et al., 2021).

Theoretically, this finding suggests a specification of Coleman's (1990) Bathtub: the transmission arrow from macro to situational is not direct but is filtered through a sector-specific regulatory lens. Where the regulatory lens is rigid (e.g., DRAP's price freeze preventing cost pass-through) or structurally misaligned with macro dynamics (e.g., OGRA's pricing lag during rapid inflation), the transmitted situational pressure is disproportionately severe relative to the macro shock. Where the regulatory lens is flexible (agro-chemical regulation for PH-01's retained Crop Science operations; SBP's fintech framework for TL-01's retained mobile money subsidiary), the transmitted pressure is attenuated.

Therefore, our contribution here is not simply to restate that institutions matter, but to specify how they matter. Institutional heterogeneity enters strategy through the situational conditions managers confront and interpret, not by bypassing managerial judgement. This also gives the micro-foundational argument greater precision, because it shows that managerial cognition is not operating in an abstract environment, but under conditions structured by distinct regulatory interfaces (Felin and Foss, 2005; Felin et al., 2015; Maitland and Sammartino, 2015).

Accordingly, we propose:

Proposition 1*: In fragile institutional contexts, the transmission from macro-level conditions to firm-level situational pressures is sector-mediated: common macro shocks are filtered through the sector-specific regulatory regimes governing the firm's operations, producing differentiated situational conditions for managerial interpretation and action.*

The second contribution concerns the form of exit itself. Existing work has established that divestment remains underdeveloped relative to entry and expansion, and that much of the literature still assumes a broad stay/exit binary (Benito, 1997; Surdu et al., 2018; Sethuram and Gaur, 2024). Our findings point to a more differentiated picture. In three cases (PH-01, TL-01, and TC-01) firms did not simply leave the host market or remain fully committed to it. Instead, managers explicitly compared the institutional exposure of different business lines and withdrew from those judged to be institutionally exposed while retaining those seen as more insulated. We refer to this as selective exit.

Selective exit is important because it is not reducible to partial downsizing or generic restructuring. Its distinctive feature is cognitive, not merely structural. Managers did not treat the host market as a single undifferentiated exposure. They separated business lines analytically, assessed their institutional risk comparatively, and used that assessment to justify withdrawal from one line while maintaining another. Differential exposure assessment is therefore central. Threshold heuristics help explain when continuation becomes difficult to defend. Differential exposure assessment explains how managers decide what to abandon and what to preserve within the same market. Without that comparative cognitive move, selective exit is unavailable and the strategic choice becomes much closer to a binary stay/exit decision.

This sharpens the micro-foundational explanation of divestment. Felin et al. (2015) call for clearer specification of the mechanisms through which individual-level cognition produces firm-level outcomes. Our evidence shows that the relevant mechanism is not simply managerial awareness of risk, but comparative managerial judgement across distinct business lines. In other words, selective exit depends on how managers cognitively partition exposure within the host market. This is precisely where existing divestment work remains thin. Benito (1997), Shimizu and Hitt (2005), and Surdu et al. (2018) clarify important antecedents and forms of divestment, but they say relatively little about how managers distinguish analytically between operations that have become institutionally untenable and those that remain viable. In fragile contexts, that distinction is decisive.

This finding also extends real options and dynamic capabilities reasoning into the exit domain. Kogut's (1991) real options logic is useful here because the retained operation in the selective-exit cases was not treated as a residual asset, but as preserving future strategic possibility. The retained operation functioned, in effect, as an option on continued or renewed market participation. At the same time, Teece (2007; 2025) and Pitelis et al. (2024) emphasise sensing, seizing, and reconfiguring as central to strategic adaptation. Our evidence suggests that selective exit is one form of reconfiguration, but one that depends on a more specific micro-cognitive capability than the current literature usually spells out. Managers must distinguish analytically between business lines that are institutionally exposed and those that remain viable under the same macro conditions. In this sense, differential exposure assessment can be understood as a micro-cognitive underpinning of reconfiguration under fragility, consistent with Helfat and Peteraf's (2015) argument that dynamic managerial capabilities rest partly on managerial cognition and judgement.

The cases also shed light on the relationship between local managerial cognition and headquarters attention. In several instances, local managers described dense institutional frictions that were only partially visible at headquarters, while HQ framed the same situation through portfolio optimisation and risk allocation. This suggests that the same strategic outcome can be reached through different cognitive pathways within the MNE. That point is consistent with Ocasio's (1997) attention-based view, in which what decision-makers notice, prioritise, and interpret shapes strategic action. In our setting, local managers were better placed to identify the texture of regulatory and operational friction, while HQ actors were more focused on comparative portfolio logic. Selective exit appears to depend, at least in part, on whether local managers can render differentiated exposure legible to headquarters in ways that matter strategically.

A further element of the second contribution concerns legitimacy. Decision-making under institutional complexity is not only technical or economic, but also moral and relational (Haack et al., 2019; Demers, 2020; Voronov and Weber, 2020). Managers did not describe exit simply in terms of returns and costs. They also framed it in terms of responsibility to employees, customers, regulators, and local partners. What emerged was not a generic concern with image, but a more specific attempt to reconcile strategic withdrawal with continued legitimacy. In that sense, legitimacy management formed part of the cognitive work of selective exit rather than a post-hoc narrative attached to it. This matters because it shows that differential exposure assessment is not a purely calculative device. It is also implicated in decisions about what can be exited, what must be preserved, and how withdrawal remains defensible. Accordingly, we propose:

Proposition 2: *In fragile institutional contexts, selective exit becomes possible when managers engage in differential exposure assessment, that is, when they compare the institutional risk profiles of distinct business lines and use that comparison to divest institutionally exposed activities while retaining relatively insulated ones.*

The third contribution concerns the broader consequences of exit. Our evidence provides insights into the micro-cognitive mechanisms that Felin et al. (2015) identify as the constitutive elements of micro-foundations research; “actors, their interactions, and the mechanisms and context that influence such interactions”. The consistent 15-20% threshold heuristic across five firms in four different sectors directly supports and extends Ambos et al. (2020) finding that macro shocks alter risk/return perceptions but not the underlying decision rule, in location choice decisions. Our evidence demonstrates it in exit decisions, extending their finding to the divestment domain.

The cross-industry consistency of the 15-20% threshold is theoretically significant because it cannot be explained by firm-specific financial modelling: no two of the five firms share the same industry, capital structure, or margin profile. The most parsimonious explanation is that the threshold operates as an inter-subjective norm, a shared cognitive reference point transmitted through management education networks, international executive mobility, and industry benchmarking. This is in consistence to Hambrick and Mason (1984), the background, experience, and cognitive models of top managers systematically shape strategic choices. Similarly, the OODA loop's cross-industry appearance (AU-01, CH-01, PH-02, PH-03, TC-01) demonstrates its diffusion across these diverse organisations suggests transmission through executive networks, management consulting practices, or industry associations rather than formal education in consistence with Puthusserry et al. (2019) account of how network ties transmit capabilities across institutional contexts.

The real-options cognitive framework's concentration in financially sophisticated roles (TL-01-CFO; OG-02-PSS; FM-01-VCE) versus its absence from operationally oriented roles (AU-01-HO; CH-01-GMO; PH-02-SPL) is consistent with Helfat and Peteraf (2015) argument that managerial cognitive capabilities underlying dynamic managerial capabilities are heterogeneous and role-dependent. This heterogeneity has a strategic consequence: firms whose Pakistan leadership combined operational and financial cognitive sophistication (TL-01, FM-01) were able to frame exit within a real-options logic that preserved strategic optionality; firms whose leadership was primarily operationally oriented (AU-01, CH-01) experienced exit as the crossing of a fixed threshold rather than the exercise of a designed option.

The responsible exit choreography documented across all ten cases connects to and extends Demers (2020) analysis of moral micro foundations under institutional complexity. Demers argue that during institutional transitions, individuals use distinct moral justifications to stabilise or unsettle institutional compromises. Our evidence demonstrates an analogous process in the exit context: managers construct legitimacy narratives such as, 'responsible exit,' 'smooth handover,' 'continuity for patients and customers', that frame departure not as institutional defection but as responsible stewardship. These narratives simultaneously serve a reputational function (protecting the MNC's global brand) and a cognitive function (resolving the moral tension between long-standing community commitments and strategic withdrawal) (Haack et al., 2019; Demers, 2020 Voronov and Weber, 2020).

Our findings also connect with Schotter and Beamish (2013) analysis of managerial personal frictions as micro foundations of location avoidance. While they identify operational inconveniences as the friction source, our evidence points to institutional friction, that is, the cost of simultaneously maintaining legitimacy across misaligned regulatory actors, as the primary driver. This institutional friction is analytically distinct because it is structurally embedded in the host-country regulatory landscape rather than in individual managerial preferences, rendering it less amenable to personal coping strategies and more decisively determinative of exit probability.

Our evidence for Coleman's framework adds empirical substance to a theoretical claim that has been largely asserted rather than documented in the international business literature. The three feedback channels we identify; *FDI confidence deterioration*, *sector ecosystem disruption*, and *reform pressure*, operate through different mechanisms and on different timescales, suggesting a multi-modal rather than a monolithic feedback structure. The reform pressure channel is theoretically the most interesting because it introduces a non-linear, potentially self-correcting element into what would otherwise be a purely deteriorating loop. Multiple respondents including AU-01-HO, TL-01-CFO, OG-02-PSS, and PH-02-SPL, described the emergence of regulatory engagement following exit announcements. Regulatory consultations following the pharmaceutical cluster exits, OGRA engagement following the Oil and Gas cluster exits, and merger approvals prompted by TL-01's exit are all consistent with the reform pressure mechanism. This is in consistence with Andersson et al. (2026) analysis of how subsidiaries can influence host-country institutional configurations; our evidence suggests that exit has disciplining power over host-country institutions that subsidiary persistence typically cannot exercise, an asymmetry with important implications for FDI policy design. Accordingly, we propose:

Proposition *3: MNC exits from fragile institutional contexts generate multi-modal macro-level feedback through three channels operating at different timescales: (i) FDI confidence deterioration, operating rapidly through media and investor network discourse; (ii) sector ecosystem disruption, operating gradually as supply chain capabilities and technical employment pools atrophy; and (iii) reform pressure, operating non-linearly as cluster exits may create political conditions for institutional improvement, generating a potential self-correcting mechanism in what would otherwise be a purely deteriorating feedback loop.*

6. Conclusion

6.1 Implications for Theory

This study contributes to theory in three ways. First, it sharpens institutional analysis in MNE research by showing that macro-level fragility is not transmitted uniformly across firms. Institutional work in IB has shown that host-country environments matter for firm strategy

(Kostova et al., 2008), but it often treats the national context as a relatively common exposure. Our findings suggest that this is too aggregated for explaining divestment under fragility. What matters is the sector-regulatory interface through which firms encounter the host environment. In this sense, the study specifies a missing intermediate level between country conditions and firm response.

Second, the study advances the micro-foundations literature by identifying a more precise mechanism through which macro conditions enter strategic decision-making. Micro-foundational work has long argued that firm-level outcomes should be explained through actors and their cognition (Felin and Foss, 2005; Felin et al., 2015), yet the link between institutional instability and managerial judgement has remained underdeveloped. Our findings show that managers do not respond to fragility in a generic way. They interpret it through thresholds, routines, and comparative judgements about exposure. This makes managerial cognition analytically central, not residual.

Third, the study extends foreign divestment research by identifying selective exit as a distinct response to institutional fragility. Existing work explains divestment mainly through performance decline, governance change, and inertia (Benito, 1997; Shimizu and Hitt, 2005; Surdu et al., 2018; Sethuram and Gaur, 2024). Our findings show that some firms do not simply stay or leave. They differentiate across business lines, withdraw from institutionally exposed activities, and retain those that remain viable. This also extends real options and dynamic capabilities work by showing that reconfiguration under fragility depends on a specific micro-cognitive mechanism—differential exposure assessment—rather than on abstract flexibility alone (Kogut, 1991; Helfat and Peteraf, 2015; Teece, 2025).

6.3 Implications for Practice

For MNC managers, the study yields three actionable insights. First, the sector-mediated transmission finding implies that country-level risk assessments are systematically inadequate guides to operational exposure for firms whose primary institutional interface is a sector-specific regulatory body. Firms entering in any fragile institutional context, should construct sector-regulatory risk assessments that capture the specific mandate, enforcement capacity, and political economy of the regulator governing their operations, alongside country-level indicators.

Second, the selective exit finding implies that operational modularity i.e., the structural separability of business lines within a host-country presence, is a strategically valuable property in fragile institutional contexts. Firms entering fragile markets should evaluate entry structures not only for operational efficiency but for the modularity they preserve at potential exit time. Integrated operational structures that bundle multiple business lines within a single legal entity and shared infrastructure foreclose selective retrenchment as an option; structurally modular entries (separate legal entities, distinct supply chains, separable regulatory relationships) preserve it. The ex-ante design of entry structures should account for exit flexibility as an explicit strategic objective.

Third, the threshold heuristic finding implies that firms benefit from making implicit cognitive thresholds explicit before they are needed. Firms that had pre-established threshold rules reported clearer and more decisive exit processes than might be expected given the severity of the institutional conditions they faced. Pre-establishing exit thresholds as part of market entry strategic planning, specifying in advance the conditions under which exit becomes the default rather than the exception, reduces the political and cognitive costs of eventual exit decisions and enables more timely responses to threshold-crossing events.

For host-country policymakers, the multi-modal feedback finding has a specific implication: the reform pressure channel suggests that cluster exits may create political windows for institutional reform that isolated exits do not. Pakistan's experience of regulatory engagement following the pharmaceutical cluster exits (DRAP consultations), the Oil and Gas cluster (OGRA pricing reviews), and the Telecoms exit (PTA merger approvals) is consistent with this mechanism. Policymakers who wish to reverse FDI decline should therefore focus on sector-specific regulatory reforms particularly in pricing mechanisms, forex repatriation frameworks, and enforcement consistency, rather than on generic FDI promotion that does not address the sector-specific transmission channels through which macro fragility reaches operational viability.

6.4 Limitations and Future Research

Three limitations bound the generalisability of this study's findings. First, the sample is drawn from a single host country during a specific and extraordinary institutional crisis window. The sector-mediated transmission and selective exit patterns we document may be more pronounced in extreme cases than in moderate fragility contexts. Replication studies in other fragile institutional contexts of sub-Saharan Africa, selected South and Southeast Asian markets, MENA economies are needed to assess whether the mechanisms identified here generalise across the spectrum of emerging-market environments.

Second, the study examines only exiting firms. Survivorship selection means we cannot directly compare the cognitive processes of exiting firms with those of firms that faced similar institutional pressures and chose to remain. A matched-sample design, pairing exiting and persisting firms in the same sector during the same period, would allow direct comparison of whether threshold heuristics differ between exiters and persisters, and whether differential exposure assessment capability is present in persisting modular firms as well as in selective exiters.

Third, whilst the retrospective interview design is appropriate for accessing participants' cognitive processes and strategic reasoning, it introduces the risk of post-hoc rationalisation: managers may reconstruct their decision processes in more coherent and deliberate terms than those in which decisions were actually made. Process tracing methods such as analysis of board minutes, strategic review documents, and contemporaneous correspondence, would provide stronger causal evidence for the cognitive mechanisms identified here.

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