

**RESEARCH ON CORPORATE DIVESTITURES: A SYNTHESIS**

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Divestitures, understood as the parent company's disposal and sale of assets, facilities, product lines, subsidiaries, divisions and business units, are emerging as a central topic of research in several areas. Yet our understanding of these operations is still limited. For example, it is still not clear whether divestitures are merely a reflection of the economic cycle, a means to correct or reverse previous strategic decisions, or a proactive strategic option. Integrating literature in finance, strategy, and organizational behavior, this paper offers a comprehensive picture of divesting modes, antecedents, mechanisms and outcomes of divestitures. It integrates empirical findings and theoretical contributions into a researchable whole, in order to identify common themes and gaps in existing research. The final objective of this analysis and review is to propose meaningful avenues for future research to improve knowledge on divestitures.

**Keywords:** Carve-outs; Corporate strategy; Divestitures; Management buyouts; Restructuring; Spin-offs; Sell-offs.

## **INTRODUCTION**

Divestitures are defined as the parent company's disposal and sale of assets, facilities, product lines, subsidiaries, divisions and business units. They are emerging as a central topic in several fields of research, such as strategic management (Capron, Mitchell, & Swaminathan, 2001; Harrigan, 1981; Hopkins, 1991; Porter, 1987; Singh, 1993; Villalonga & McGahan, 2005), finance (Berry, 2003; Boudreaux, 1975; Rosenfeld, 1984; Schipper & Smith, 1986; Trifts, Sichernman, Roenfeldt, & de Cossio, 1990; Vijn, 2002) and organizational behavior (Aron, 1991; Baker, Gibbons, & Murphy, 1999; Gopinath & Becker, 2000; Seward & Walsh, 1996). However, our understanding of divestitures is still limited. For example, it is still not clear whether divestitures are merely a reflection of the economic cycle (Aron, 1991; Duhaime & Grant, 1984; Garvin, 1983; Ito, 1995), a means to correct or reverse previous strategic decisions (for example, diversification) (Hitt, Hoskisson, Johnson, & Moesel, 1996; Hoskisson, Johnson, & Moesel, 1994; Markides, 1992a; Seth & Easterwood, 1993), or a proactive strategic option (McGahan & Villalonga, 2003).

Previous empirical studies in the finance literature have mostly focused on stock market reactions to announcements of the divestitures' operation, and consequent variations in stock prices. These studies claimed that typically divestitures have a positive impact on the divesting parent's share price. Despite the consistency of these results, this literature in finance has not provided a compelling explanation for the reason why this happens. We suggest that, since companies pursue objectives that go beyond the maximization of shareholders' wealth, it is also important to include strategic and organizational reasoning and consequences in order to understand the value creating mechanisms of divestitures.

Divestitures are more than just financing operations. They are means, not solely ends, because they affect the long-term evolution of the firm. Yet, previous research on strategy has portrayed divestitures as a reaction to an error of judgment by management at the time of the

original acquisition (Porter, 1987) or as a readjustment of the company's business focus in order to increase its economic value or competitive position (Khoroshilov, 2002; Markides, 1992a). Despite the increasing attention paid to divestitures in both academic (Johnson, 1996; Markides, 1992a; Porter, 1987) and managerial journals (Dranikoff, Koller, & Schneider, 2002; Garvin, 1983), the question of whether divestitures are essentially corrective or proactive in nature remains unsettled (Eisenhardt & Brown, 1999).

The objective of this paper is to review existing research on divestitures, to identify common threads and gaps in current research, and to propose some ideas and avenues for future studies. From this analysis, it emerges that research in finance and strategy overlap and complement each other with respect to findings on the economic antecedents and outcomes of divestitures. However, only by integrating literature in finance, strategy and organizational behavior can we obtain a comprehensive picture of divesting modes, antecedents, mechanisms and outcomes of divestitures. The comparison of the three literature streams shows that our understanding of divestitures is still limited and that more research is needed in different areas. We believe that a more collaborative approach is needed to generate a comprehensive picture of divestitures.

In this paper we review existing research with the aim of evaluating the current state of knowledge on this topic and of drafting a research agenda for future research. To integrate empirical findings and theoretical contributions into a researchable whole, we proceed as follows. First, we classify existing literature on divestiture, by grouping it into three streams: research on finance, on organizational behavior, and on strategy. Second, we summarize the findings of all the major published studies on divestitures in order to identify common themes and gaps in research. We do so by comparing and integrating research in these three groups. Third, we engage in a sense-making process to interpret findings, inconsistencies and gaps in existing studies, in order to propose meaningful avenues for future research.

## **A REVIEW OF RESEARCH ON DIVESTITURES**

### **Identification of the Literature and Development of the Framework**

We chose to focus our review mostly on articles published in journals because these can be considered validated knowledge and are likely to have the highest impact on management research (Podsakoff, MacKenzie, Bachrach, & Podsakoff, 2005). We identified relevant articles on divestitures, starting with a computerized search based on keywords in the *Business Source Premier* publication database. We first limited our search to the most relevant management journals, such as the *Academy of Management Journal* and *Strategic Management Journal*. We then used a 'snow-ball' approach and looked at the other papers that authors published in these journals, cited to expand the scope of the review with regard to the broad disciplinary base of research on divestitures. Consequently, we included journals in related fields such as *Journal of Law, Economics and Organizations*, *Journal of Economic Behavior & Organization*, and *Journal of Finance*. We also included practitioner-oriented journals. The resulting working list consisted of 31 journals and a total of 94 articles.

We developed an analytical review scheme for systematically evaluating the contribution to this body of literature. To classify and integrate current literature on divestiture, we grouped existing research into three streams: research on strategy, on finance, and on organizational behavior. We started by analyzing existing literature on divestitures from a strategic management perspective and paid particular attention to the theoretical frameworks used by strategy scholars in their analysis of divestitures.

In the following section we summarize the findings of existing literature in order to identify common themes and gaps in the research.

## **Research in Strategy**

An in-depth examination of the existing literature in strategy reveals a recurrent pattern of theoretical arguments and frameworks used in the study of divestitures. Strategy scholars predominantly build on agency theory, transaction cost economics (TCE), the resource-based view (RBV), and evolutionary theory to 'make sense' of divestitures. Table 1 summarizes our analysis and illustrates that each of these theoretical approaches offers a different picture of divestitures. Also, most studies do not ascribe the phenomenon of divestitures to just one of these theories, but rather use arguments stemming from several different theories. Finally, theoretical arguments are often not the focus of the study and a number of authors only implicitly refer to one or more of these theoretical frameworks to explain divestitures. Table 1 reports the details of this analysis.

Overall the most prominent explanation of divestitures is the agency explanation. Agency theory explains the antecedents, process, and outcomes of divestitures. Agency theorists believe that the reason why many companies undertake a divestiture has to do with issues between managers, owners and the board of directors. Divestitures are often a correction for prior inefficient growth and diversification strategy pursued by managers (Jensen, 1989). The main rationale behind this explanation is the misalignment of managers' and owners' interests. The personal wealth of managers is linked more to firm size and risk of bankruptcy than to company performance. Therefore, managers have incentives to expand and diversify, even when doing so does not increase the market value of the firm (Amihud & Lev, 1981). Managers decide to undertake a divestiture only when they fear the threat of an acquisition or are pressured by shareholders (Bethel & Liebeskind, 1993).

The use of agency theory in the analysis of divestitures provides interesting insights into the outcomes – and eventual benefits - of divestitures at unit level. These include reduced agency costs and increased flexibility (Seth & Easterwood, 1993). The new ownership and capital

structure implemented after a divestiture can affect the motivation of the new company's stakeholders and the company's objectives (Gopinath & Becker, 2000). Because there is no more distraction from the rest of the multidivisional company, the stock value of a divested unit is a much cleaner signal of managerial productivity (Aron, 1991). Other advantages include a shorter distance between policy and implementation, a decrease in size and complexity of the organizational structure, and facilitated delegation, action and consensus between managers and owners (Bruining & Wright, 2002; Seth & Easterwood, 1993). Studies that aim to compare the decision to divest with other strategic choices, e.g. alliances, predominately apply arguments based on transaction cost economics (TCE). Accordingly, divestitures may reduce and balance the costs of different governance structures to generate growth based on the parent's core competencies, and to pursue an efficient corporate internal labor market (Ito, 1995). Thereby managers choose the best governance form given the characteristics of their company and the target unit, as well as the types of underlying activities of both of them. Some transactions within a company in a specific governance structure can be too expensive (McGahan & Villalonga, 2003b). Divestitures may represent an intermediate form between the extremes of market and hierarchy. With a divestiture, the detached unit can become an independent company, and yet the parent can maintain control of it. In this way, the unit retains a more or less informal tie to the original hierarchy. Studies that focus on a company's resources their applicability across industries, and the potential for synergies offered by different resource combinations tend to refer to the resource based view explanation. A company's competitive advantage depends on its assets and resources. They can represent an obstacle for the corporation. Companies engage in divestitures when their structure, following acquisitions with overlapping businesses, becomes redundant (McGahan & Villalonga, 2003b). They enhance efficiency by redeploying resources and divesting redundant target assets (Capron *et al.*, 2001), moving

assets from a lower-value to higher-value user (Kaiser & Stouraitis, 1995), and making use of corporate resources under a new structural scheme (Ito & Rose, 1994).

Finally, some authors also refer to evolutionary theory to explain divestitures (Anand & Singh, 1997; Capron *et al.*, 2001; Duhaime & Grant, 1984; Mitchell, 1994). As firms evolve and adapt to the external environment, strategic choices can be interpreted as Darwinian survival strategies (Capron *et al.*, 2001; Garvin, 1983; Ito, 1995; Mitchell, 1994; Rose & Ito, 2005). Divestitures, like mergers and acquisitions, are elements of a dynamic process of adaptation to a changing environment (Meyer, Brooks, & Goes, 1990). However, companies seem to lose the 'downward vision and mobility' once they become established in their industry (Christensen, 1997: 24) and do not succeed in adopting the attitudes, structures and cultures of more entrepreneurial and innovative pioneer companies (Markides & Geroski, 2003). Hence, the easiest solution for established companies is to transfer an innovative project to a smaller firm. This project transfer can occur via a divestiture that will create a small independent company. The newly created company will act as an incubator for the new project that will be crucial for its growth and success (Christensen, 1997). Thus companies may use divestitures to successfully implement technical or organizational innovations in the pursuit of prosperity and survival.

**[Insert Table 1 about here]**

Table 2 provides an overview of the research questions, databases and results of research on strategy about divestitures. Research in this field examines the effects of ownership concentration, outside director equity, corporate strategy and the size and relatedness of units sold on performance; the circumstances under which divestitures improve economic performance; the role of the size of a divested unit in the decision process leading to divestiture; the structural and environmental conditions conducive to spin-offs; and factors influencing the relationship between a parent and its divested unit. Other studies focus on

divestitures and innovation, foreign investments, emerging economies, knowledge base, entrepreneurship and technology.

While providing a review of this extensive literature, we paid specific attention to aspects such as the general environment, industry characteristics, corporate and business-unit characteristics, choice of mode, strategic and economic outcomes.

**[Insert Table 2 about here]**

### ***General environment***

Research on strategy focuses on the cultural and social aspects of the environment.

Divestitures seem to occur more often in rapidly changing markets and highly competitive environments (Eisenhardt & Brown, 1999; Ito, 1995). Furthermore specific cultural and social contexts (such as homogeneous society, informal contracts, stable shareholders, and lack of an external labor market), and environments that are open to the formation of new companies, facilitate divestitures (Ito, 1995; Garvin, 1983).

### ***Industry characteristics***

Various authors emphasized the importance of a systematic analysis of industry attractiveness and the parent's competitive position for divestiture strategies (Garvin, 1983; Harrigan, 1981; Hopkins, 1991; Porter, 1987). Empirical evidence showed that divestitures are more common in industries characterized by high profitability (Markides, 1992b), concentration (Hopkins, 1991; Markides, 1992b), R&D intensity (Markides, 1992b), and where the parent's market share is big (Markides, 1992b). Conversely, divestitures are hindered by other factors, such as economic exit barriers and differentiable and commodity-like product traits (Harrigan, 1981). Evidence showed that divesting patterns exist specifically in industries generally characterized by the presence of multiple market segments, information and start-up advantages, and transferable technologies (the construction, hi-tech, and consulting

industries, for example) (Garvin, 1983). Divestitures have been portrayed as means for an established firm to enter new emerging industries, markets or market niches (Garvin, 1983).

### ***Corporate characteristics***

A number of researchers focused on the characteristics of companies undertaking a divestiture. From a strategic perspective, most divesting companies seem generally to be poor performing (Duhaime & Baird, 1987; Haynes, Thompson, & Wright, 2003; Hoskisson *et al.*, 1994; Zuckerman, 2000) and relatively indebted companies (Haynes *et al.*, 2003; Hoskisson *et al.*, 1994). Another corporate characteristic conducive to divestitures is weak governance, defined as the quality of the monitoring of strategy and performance in a firm, and weak strategy formulation (Haynes *et al.*, 2003; Hoskisson *et al.*, 1994).

Divesting companies also tend to be more diversified than their industry counterparts (Haynes *et al.*, 2003; Hoskisson *et al.*, 1994). Highly diversified companies tend to emphasize financial controls, thus de-emphasizing strategic controls and thereby producing less internal innovation (Hitt *et al.*, 1996), and increasing managerial risk aversion (Hoskisson *et al.*, 1994). Therefore, exaggerated diversification can push a company toward de-diversification and de-conglomeration as a correction of its strategic choices. A company may engage in divestitures to improve its innovation capacity and entrepreneurial spirit, or to enter technology-based or immature industries (Garvin, 1983). Spin-offs, for example, can be used to stimulate corporate innovativeness and entrepreneurial spirit in the divested unit, while the parent gains some benefits from the new product or technology developed in the independent company (Garvin, 1983). However, in very specific contexts, for example, in Japan, divestitures are also used to enhance diversification (Ito, 1995).

### ***Business-unit characteristics***

The division's performance and financial status (Duhaime & Grant, 1984; Zuckerman, 2000), relative size (Duhaime & Baird, 1987), and relatedness to the focal firm (Chang, 1996; Duhaime & Grant, 1984) are the most frequently mentioned characteristics of business units used to explain divestitures. A unit is less likely to be divested when it is generally profitable and when it has great prospects of future earnings (Duhaime & Baird, 1987; Duhaime & Grant, 1984; Lowe & Veloso, 2005; Zuckerman, 2000).

There is general agreement about the relationship between unit size and divestiture decisions: a curvilinear relationship between unit size and divestiture exists (Duhaime & Baird, 1987). There seem to be minimum efficient sizes for units in the business portfolios of diversified firms — sizes below which business units should not be acquired. Only Trifts *et al.* (1990) found that size is not important for MBOs.

In contrast, unit relatedness (generally referred to as existing interdependencies among the firms' divisions) and divestiture decisions are negatively related (Duhaime & Grant, 1984). Consistent with Porter's (1976) definition of exit barriers, high levels of sharing of technology, facilities and customers among units of firms would act as barriers to the firms' exit from those units (Duhaime & Grant, 1984).

### ***Choice of mode***

Several authors examined how companies divest, in an attempt to throw more light on the different modes of divesting (McGahan & Villalonga, 2003; Montgomery, Thomas, & Kamath, 1984; Slovin, Sushka, & Ferraro, 1995; Villalonga & McGahan, 2005). Firms tend to spin-off a business unit when the resources and competencies of the subsidiary are valuable, but where managing them is less effective under full ownership (Rose & Ito, 2005). Parents choose a spin-off: if they are operating in a rapidly changing and competitive environment (Aron, 1991; Garvin, 1983; Ito, 1995); if they want to eliminate negative

synergies in their structure; and if they wish to boost entrepreneurial spirit and reduce turnover (Garvin, 1983). The parent company can use the divestiture operation to implement efficient internal governance and control practices in the spun-off firm (Seward & Walsh, 1996), to reduce debt or give special dividends to shareholders using the proceeds of the sale (Bowman, Singh, Useem, & Bhadury, 1999).

Instead, parents may opt for a complete separation via a sell-off when they do not want to maintain a trading relationship (Rose & Ito, 2005).

### ***Strategic outcome***

Several authors argued that divestitures aim to do more than increase the company's stock price. Divestitures are a tool of corporate strategy. Nees (1978) offered practical suggestions for managers on the 'management' of divestitures and maximization of their strategic outcome: establishing business policy committees, formulating a zero-base strategy, and creating a "divisions exchange market".

The intra-organizational relationship between the parent and its units can be managed in various ways, which require different organizational arrangements. An intense relationship between parent and divested unit is beneficial to a limit, beyond which over-embeddedness can have a detrimental effect (Parhankangas & Arenius, 2003). Within the positive range divestitures can be used to renew the parent firm's competencies. For example, companies can spin-off units to develop new technologies or to operate in very different knowledge environments from their parent firms (Parhankangas & Arenius, 2003). In general, a parent operating in R&D intensive industries can use divestitures to implement strategic controls in order to foster internal innovation (Hitt et al., 1996) and to increase managerial risk-taking through new investments in R&D (Hoskisson & Johnson, 1992).

Divested units benefit from divestitures because of a decrease in size (Bruining & Wright, 2002), reduced agency costs and increased flexibility (Seth & Easterwood, 1993), the

possibility for the divested unit to negotiate a more favorable set of contracts with the regulators (Schipper & Smith, 1986), and reduced corporate taxes (Seth & Easterwood, 1993).

### ***Economic outcome***

Literature on strategy corroborates findings from finance research about the positive returns of divesting companies. Such positive returns seem to depend specifically on three factors: the type of divestitures, the process of divestitures, and the characteristics of the business unit. First, divestitures motivated by financial logic show the strongest positive returns (Bowman & Helfat, 2001). Second, aspects of process management affect the economic outcome of divestitures. These include the way the divestiture is announced (Klein, 1986), and the managers' capacity to communicate the improved profitability of the new project to claimholders prior to the divestiture announcement (Fluck & Lynch, 1999a). Third, the characteristics of the business unit which affect the return of divestitures are absolute in terms of size (larger divestitures show larger positive excess returns) (Hearth & Zaima, 1984; Klein, 1986; Miles & Rosenfeld, 1983), and presence in the same industry (units operating in the same industry as their parents tend to under-perform the parent) (Rose & Ito, 2005). Woo et al. (1992) on the other hand, found no significant improvement in the pre- and post-divestiture performance of the divested unit, except for a slight decrease in return on assets in the post-spin-off performance of the divested unit. Negative reactions at market level can be explained by the information conveyed with the divestiture's announcement and its credibility. The announcement may lack credibility: if the company has not preceded the announcement with preparatory organizational changes; if the divestiture is expected to have no impact on the firm's future; or investors already expected this operation and the information was already reflected in the firm's stock price (Bowman & Singh, 1993).

## **Research on Finance**

Existing literature on finance about divestitures mainly focused on some three sets of research questions: the effect of divestitures on the performance of the parent company, the organizational status of the parent company post-divestiture, and financial antecedents of divestiture (e.g. the performance of the parent company). Table 3 provides an overview of studies on divestitures in finance literature. We further examined this body of research according to the general environment, corporate characteristics, choice of mode, and economic outcome.

**[Insert Table 3 about here]**

### *General environment*

The debate about whether and how economic or environment conditions affect divestitures is ongoing. Researchers in finance contended that divestitures can be a reaction to shocks in the general environment. Khoroshilov (2002), for example, found that divestitures tend to occur during economic ‘booms’.

### *Corporate characteristics*

Existing research has not reached a consensus about how a parent’s financial status affects its decision to divest parts of its businesses. Restructuring a firm from a financial standpoint means changing its capital structure, and redistributing the weights of equity and debt (Bethel & Liebeskind, 1993). Recent research investigated the relationship between divestiture and conglomerate discount (Colak & Whited, 2004; Khoroshilov, 2002). For example, Khoroshilov (2002) showed that companies traded at a diversification discount are more likely to refocus and, hence, to divest.

### ***Choice of mode***

Previous research elaborated on different modes of divesting, portraying their nature, antecedents, and outcomes. With a *carve-out*, a new independent company is created by detaching part of the parent's businesses and selling the shares of the new company in a public offering. In general, the parent remains in possession of a substantial proportion of the equity of the carved-out company. A parent undergoes a carve-out when it has poor operating performance, high leverage, a need for external financing and its capital is constrained (Allen & McConnell, 1998), as well as when outside investors are likely to price the new shares at higher than the managers' perceived value (Slovin *et al.*, 1995). A company choosing to engage in a carve-out releases information about positive net-present-value projects (Schipper & Smith, 1986). Typically, the parent choosing a carve-out wishes to retain operating synergies or the benefits of tax consolidation and intends to re-acquire the public shares (Schipper & Smith, 1986). Often, the parent knows that the carve-out is an intermediate stage for the divested unit before it is divested into another mode (Klein, Rosenfeld, & Beranek, 1991; Slovin *et al.*, 1995). Carve-outs allow a larger set of firms to undertake valuable projects, financing new investment opportunities separately through the carved-out company (Allen & McConnell, 1998; Myers & Majluf, 1984). Another reason to choose the carve-out mode is to improve the asset management structure through new incentive contracts and new responsibilities (Schipper & Smith, 1986).

In the case of a *spin-off*, the detached unit becomes an independent company whose shares are distributed to the parent's shareholders. Hence, the parent maintains control of the new company. Firms tend to spin-off a business unit if, within high technology industries, there are great differences in R&D expenditures and intangible assets (John, 1993); if managers believe that the market is mis-valuing the firm in its current organizational form (the so-

called hubris hypothesis, (Linn & Rozeff, 1985), and if they want to reduce agency costs and create tax shields (John, 1993).

*Management buy-outs* (MBOs) are transactions in which managers, with the support of other investors, replace the public stockholding of the parent company. MBOs are normally financed with large debt issues, and the new stocks tend to be held by incumbent managers and a small group of external investors. A company engages in an MBO: when the divested division managers are ready to pay a higher price for the unit than the value perceived by the parent, if the parent wants to maximize the cash flow from the sale; and where existing managers will continue to run the divested unit efficiently, in the event that the parent is interested in its post-divestiture performance (Seth & Easterwood, 1993; Singh, 1993; Trifts *et al.*, 1990). MBOs often continue to operate significant portions of the original assets (Seth & Easterwood, 1993).

A firm engages in a *sell-off* when it sells a unit to another firm in exchange for cash. The sold assets are absorbed by the acquiring firm and become part of it (Hearth & Zaima, 1984; Rosenfeld, 1984).

### ***Economic outcome***

An important body of finance literature studied the effect of divestitures on shareholder wealth. There is a general consensus about the positive effect of divestiture announcements on the divesting firm's stock price on the day of the announcement. Substantial and significant increases in share price are typically found on the day the announcements are made, and also sometimes before and after (Boudreaux, 1975; Hearth & Zaima, 1984). The predominant explanation for such positive results is the decrease in diversification of the parent (John & Ofek, 1995). Empirical evidence seems to indicate that divestitures may increase firm value for several reasons; such as a wealth redistribution between the parent's shareholders and bondholders (Denning & Shastri, 1990; Hite & Owers, 1983; Linn &

Rozeff, 1985; Miles & Rosenfeld, 1983; Palepu, 1990); or supposed dissemination of information prior to public announcement (Linn & Rozeff, 1985).

Complementing this area of investigation, some authors emphasized additional conditioning factors that might influence share price reactions to divestitures; for example, whether the divestiture was voluntary or involuntary. Empirical evidence suggests that involuntary (i.e. forced for legislative or judicial reasons) divestiture announcements are surrounded by negative parent stock price movement (Boudreaux, 1975; Heath & Zaima, 1984; Hite & Owers, 1983).

### **Research on Organizational Behavior**

Table 4 provides an overview of existing studies on organizational behavior about divestitures. Specific questions and topics addressed in this stream of literature include 1) whether divestitures help companies to design better governance and incentive systems, a better distribution of decision rights and delegation of authority; 2) whether the ownership and governance structure of the parent company may act as an antecedent of divestitures, and 3) from a process perspective, whether managerial involvement has any effect on the outcomes of divestitures.

Following our framework of analysis, we categorized literature according to a focus on corporate characteristics, management of divestitures (including governance structure, management team and effects on employees), and organizational and governance outcomes.

**[Insert Table 4 about here]**

#### ***Corporate characteristics***

Agency theorists argue that firms decide to engage in a divestiture because of governance issues (Hoskisson et al., 1994; Markides, 1997). The reasons why many companies undertook restructuring operations in the 1980s had to do with issues between managers, owners and the

board of directors. Changes in ownership, high levels of ownership concentration such as blockholders or institutional investors, and changes in top management are frequent antecedents of divestitures (Bethel & Liebeskind, 1993). Corporate control problems and the consequent need to improve internal controls may lead to a reduction of diversification in scope and to the divestiture of unrelated businesses (Bethel & Liebeskind, 1993).

***Management of divestitures: Governance structure, management team and effects on employees***

Literature suggests that the board of directors initiates a divestiture if the performance of the company is declining. Otherwise, the divestiture is more likely to be initiated by managers (Johnson, Hoskisson, & Hitt, 1993). In both cases, the division manager assumes a central role. His or her collaboration is essential for the success of the divestiture, as he or she is the information supplier, implementer of secondary decisions, protector of morale and productivity in the divested division, host of potential acquirers when visiting the division, and, finally, a potential buyer (Nees, 1981). However, as is the case of a management buy-out, external investors may perceive the role of management in divestitures negatively. A divestiture to unit managers raises the issue of asymmetric information and conflict of interests. External investors may believe that unit managers are pursuing their specific interests (Nees, 1981; Trifts et al., 1990) and that the divestiture may require specialized information not available to the division manager (Nees, 1981). On the other hand, managers often know more about a firm's investment opportunities than external investors do (Nees, 1981).

Both the governance structure and the role of managers affect the process and outcome of a divestiture, as does the reaction of employees. Board members, and specifically external directors, will be involved in a divestiture only when managerial strategic controls are perceived to be weak and when the top management team is heterogeneous (Johnson et al.,

1993). The active participation of middle managers in the divesting process is essential for the success of the divestiture (Nees, 1981). Also, divestitures can be used to improve the effectiveness of corporate incentives. After a divestiture, the stock value of the divested unit is a much clearer signal of managerial productivity as there is no more distraction from the rest of the multidivisional company (Aron, 1991).

Literature on strategy argues that divestitures are often accompanied by changes in the organizational structure, such as divisional redesign and employment downsizing (Bowman et al., 1999). Research on organizational behavior further elaborated on this subject. If layoffs are understood by employees to be necessary for corporate survival, they are perceived as just. But when layoffs merely stem from corporate divestitures, employees tend to perceive them as unnecessary and unjust. This may cause a sense of frustration and mistrust toward the parent company. The cooperation line management (Nees, 1981) and straightforward managerial communication (Gopinath & Becker, 2000) seem to positively influence employees' perceptions of the procedural justice of layoffs, to build post-divestiture trust in the organization, and to influence employees' post-divestiture commitment to the new company (Gopinath & Becker, 2000).

### ***Organization and governance outcomes***

Literature on finance showed that divestitures facilitate shaping the characteristics of the organization, such as the new ownership, and the implementation of efficient internal governance and control practices (Jensen, 1983; Seward & Walsh, 1996). From an organizational behavior perspective, Baker, Gibbons and Murphy (1999) added that formal ownership structures affect the feasibility of informal relational contracts. Informal delegation within an organization differs from formal delegation via divestiture; and divestiture, through asset transfer, achieves the delegation of formal authority. Asset ownership affects renegeing temptations: the allocation of formal authority can influence

whether a particular allocation of informal authority can be achieved in the medium- to long-term. Divestiture is efficient in circumstances where contractable delegation would be valuable but informal delegation is unfeasible (Baker et al., 1999).

Agency theorists suggest that in the post-divestiture period, the new ownership and capital structure can affect the motivations of the firm's key stakeholder groups and their objectives (Gopinath & Becker, 2000). Advantages for the divested subsidiary include a shorter distance between policy and implementation, a decrease in size and complexity of the organizational structure, and facilitated delegation, action and consensus between managers and owners (Seth & Easterwood, 1993). This all allows for a more flexible decision-making process and stimulates efficiency.

To sum up, Table 5 compares themes on divestitures in existing literature on finance, strategy and organizational behavior.

**[Insert Table 5 about here]**

## **DISCUSSION AND FUTURE RESEARCH**

Our extensive comparative analysis across different disciplines reveals that research on divestitures in finance and strategy areas overlaps and is complementary, with respect to findings on the financial outcomes. We argue that integrating literature on finance and on strategy is critical for generating a comprehensive picture of divesting modes, antecedents, mechanisms and outcomes of divestitures. For example, the integration of findings in the finance stream and in the strategy stream allows us to draw a more complete picture of factors leading a company to choose a sell-off or carve-out: the characteristics of the business unit (i.e. it is worth selling, performs well, is related to the parent's businesses, and/or is related to the other parent industries); the characteristics of the parent (performance, leverage,

need for cash, diversification); and the characteristics of the environment they operate in (pace of growth and performance of the industry). However, only literature on organizational behavior explains process and implementation issues of divestitures.

We have taken the comparison of these three disciplinary streams of literature further with a more in depth analysis of existing research on strategy as perceived through different theoretical lenses. From a theoretical perspective, our analysis suggests that the most frequently recurring theoretical frameworks used to study divestitures are agency theory, transaction cost economics, resource-based view, and evolutionary theory. We hope that this review of existing literature on divestiture through these theoretical lenses offers a broader perspective and understanding on divestitures and represents a useful complement to the thorough review conducted per research stream. The two analyses - according to theoretical perspectives and per research stream - allow us to refine our understanding of divestitures, broach the discussion on this phenomenon, and identify possible gaps that future research can address.

Overall, this review of the, still fragmented, literature on divestitures suggests that our understanding of them is still limited and that more research is needed in various areas. We particularly emphasize the need for future studies to amend the lack of research on the long-term value creation of divestitures, and to expand research on procedural and process issues.

#### **Avenues for Studies on Long-term Effects**

A divestiture affects the performance of the divested unit and of the divesting parent. Variations in the latter are easy to evaluate, while changes in the former, mostly in the case of a sell-off (where the unit is sold to a third party in the market) may be more difficult to identify. The total financial effect of divestitures is captured by changes in the stock market price of the company or by its operative profit. Accordingly, researchers use market performance or accounting performance to measure the effect of divestitures.

Market-based measures are prevalent in event studies. The effects of the divestiture announcement are normally measured using Fama's Cumulative Average Residuals (CARs), (Fama, Fisher, Jensen, & Roll, 1969). It is mostly finance-based papers that use event study and CARs to analyze corporate performance (Alexander, Benson, & Kampmeyer, 1984; Allen & McConnell, 1998; Boudreaux, 1975; Hearth & Zaima, 1984; Hite & Owers, 1983; Klein, 1986; Klein *et al.*, 1991; Linn & Rozeff, 1985; Miles & Rosenfeld, 1983; Montgomery *et al.*, 1984; Rosenfeld, 1984; Slovin *et al.*, 1995). Colak and Whited (2004) have suggested that positive results of divestitures may be due to a sample bias (endogeneity bias: firms which decide to divest are different from those which decide not to divest) and measurement errors (use of Tobin's q).

When research uses accounting measures, the study period varies from a few years (Woo *et al.*, 1992) to a few days surrounding the event (Hearth & Zaima, 1984). The parent's ex-post performance is calculated using: return on assets (Bergh, 1995; Berry, 2003; Montgomery & Thomas, 1988; Woo *et al.*, 1992); return on the capital employed (Haynes, Thompson, & Wright, 2002); return on sales (Berry, 2003) or inflation-adjusted sales growth (Woo *et al.*, 1992); the market-to-book ratio (Woo *et al.*, 1992); the average stock market price and its variations (Villalonga & McGahan, 2005); financial strength as return on equity as compared with the industry average (Alexander *et al.*, 1984; Duhaime & Baird, 1987); CAPM alpha (Berry, 2003; Kaplan & Weisbach, 1992; Woo *et al.*, 1992); liquidity and leverage as current ratio (pretax assets/current liabilities); interest coverage (pretax income plus interest expense, all divided by interest expense) and the debt ratio (Montgomery & Thomas, 1988).

Recent studies increasingly use accounting-based measures. However, only a few authors apply both accounting-based and market-based measures (Hearth & Zaima, 1984). We suggest that future research should combine these and rely on multiple performance measures. Such an integrative approach would allow comparisons between the effect of

divestitures on a firm's accounting performance and the effect of divestitures on a firm's stock market results.

Furthermore, the long-term consequences of divestitures, largely on the divesting parent company, remain unexplored. Divestitures do not have to be a once-in-a-lifetime event, but may be a means for the company to continuously adapt to external and internal changes. The analysis of the long-term consequences of divestitures could help managers to understand how they can determine *ex ante* whether divestitures will increase their firm's value and by which modes of divesting such value is maximized. Linked to this issue is the design of the governance and control mechanisms of a divested firm and how this affects the firm's future.

### **Avenues for Process Studies**

Although divestiture activity has attracted the interest and research attention of a broad range of disciplines encompassing the financial, strategic and organizational behavior fields, literature on divestitures continues to be dominated by studies on antecedents and outcomes, neglecting the process of divestitures and the decision-making dynamics. We believe that research on divestitures needs to establish a link between decision-making and implementation. Further research is required to create a more comprehensive picture of these complex operations. First, research on the divestiture process could distinguish between intended and unintended outcomes. For example, McKinley and Scherer (2000) claimed that organizational restructuring produces two unintended consequences. On an organizational level, restructuring unexpectedly produces cognitive order for top executives. On an environmental level, restructuring unexpectedly contributes to the long-term turbulence in the environment surrounding the firms.

Second, studies focusing on the economic outcome of divestitures have generally neglected variables at the process management level. Studies that focus only on the link between corporate characteristics such as the management team and economic outcome, for instance,

fail to explain how the management team or employees' perceptions, other than in the case of layoffs, affect the outcome of the divestitures operation. Factors at process level, rather than simply antecedents, may affect the outcome of the divestiture operation and enhance a firm's competitive position and performance. Research including process-level variables could help to determine under what circumstances and how divestitures increase value.

Thus, we believe that researchers now need to begin to address process issues in divestitures for two reasons. First, this analysis can shed light on divestitures in general, making managers also aware of the unanticipated consequences of divestitures. Second, the link between antecedents and outcomes may be moderated by a host of other factors at process level.

Similar to other authors (McGahan & Mitchell, 2003), we welcome research conducted by multidisciplinary teams, taking a more complete approach. We also suggest that future research takes a more integrative approach to the study of divestitures. Strategy research on divestitures, for example, could benefit from the insights, approaches and methods of organizational behavior and organization theory, and vice versa. We do not claim that this will bring uniformity and convergence of approaches or results. However, engaging and integrating different disciplines, such as sociology and psychology, may possibly provide a richer understanding of strategic management in general and of divestitures in particular (Hambrick, 2004). This seems particularly important in the analysis of the 'process' of divestitures, which can only be partially understood if analyzed from a single perspective. The richness of strategy research derives mainly from the diversity of tools, approaches and methodologies. Future research should entail fine-grained methodologies, such as intensive field research and case studies. Finally, these methodologies could also help in understanding how to operationalize the various research gaps identified in this paper.

In other words, we recommend that researchers conduct more studies that explore the effects of the divesting process and the phases before and after the actual decision-making.

## **CONCLUSIONS**

The approach taken in this review of research on divestitures runs counter to the general trend of analyzing phenomena such as divestitures using a single research perspective. This paper provides an overview of research on divestitures from a multidisciplinary perspective. By doing so, this literature review aims to integrate and compare different research areas and topics. The purpose of this paper was to review literature in order to identify possible contradictions, overlaps and gaps in existing research. We believe that research on divestitures needs to take a more daring approach - one that deals with process issues instead of continuing to focus essentially on more tractable but overemphasized content issues. Moreover, although integration of different perspectives may not be difficult, cross-fertilization of perspectives should be aspired to. Overall, with this review, we also aim to highlight the importance of divestitures and better understanding this still controversial phenomenon. Specifically, we hope that future empirical studies on divestitures, drawing on different streams of research, will corroborate our point that divestitures are not a sign of failure, but rather that they constitute a proactive tool of corporate strategy and enable the creation of long-term value.

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**TABLES**

Antecedents	Process	Outcomes
<b>Agency theory</b>		
<p>Misalignment of managers' and owners' interests: the personal wealth of managers is linked more to firm size and risk of bankruptcy than to firm performance. Therefore, managers have incentives to expand and diversify, even when doing so does not increase the market value of the firm (Amihud &amp; Lev, 1981). Managers decide to undertake a divestiture only because of threats of an acquisition or pressure from shareholders (Bethel &amp; Liebeskind, 1993).</p>	<p>External investors may perceive the role of management in the operation negatively. This is particularly evident in the case of MBOs. A divestiture to unit managers raises the issue of asymmetric information and conflict of interests. External investors may believe that unit managers are pursuing their specific interests (Nees, 1981; Trifts <i>et al.</i>, 1990), and that the divestiture may require specialized information not available to the division manager (Nees, 1981). However, on the other hand, managers often know more about a firm's investment opportunities than external investors do (Nees, 1981).</p>	<p>At unit level: the divested unit benefits from reduced agency costs and increased flexibility (Seth &amp; Easterwood, 1993).</p> <ul style="list-style-type: none"> <li>- The new ownership and capital structure implemented after a divestiture can affect the motivations of a company's stakeholders and its objectives (Gopinath &amp; Becker, 2000).</li> <li>- Because there is no more distraction from the rest of the multidivisional company, the stock value of a divested unit is a much cleaner signal of managerial productivity (Aron, 1991).</li> <li>- Other advantages: a shorter distance between policy and implementation, a decrease in size and complexity of the organizational structure, and facilitated delegation, action and consensus between managers and owners (Bruining &amp; Wright, 2002; Seth &amp; Easterwood, 1993).</li> </ul>
<p>Company self-regulating mechanism: divestitures can allow restructuring operations without undergoing a radical change in corporate control. Shareholders can align managers' interests with their own by increasing managers' equity ownership (Bethel &amp; Liebeskind, 1993), they can exert their disciplinary effect on managers (Bethel &amp; Liebeskind, 1993; Hoskisson <i>et al.</i>, 1994), by changing the composition of the board of directors and the corporate constitution to push managers to operate the firm efficiently, regardless of managers' share ownership (Bethel &amp; Liebeskind, 1993).</p>	<p>Perceptions of the justice of the divestiture explain variance in trust and commitment to the new organization above and beyond the perceptions of the justice of layoffs (Gopinath &amp; Becker, 2000).</p>	
<p>Increased emphasis on financial controls: excessive diversification, beyond the optimal level for shareholders, results from a strategy poorly designed by managers (Markides, 1992a, 1992b). Because of increased information-processing constraints on managers, diversification leads firms to emphasize financial controls over strategic controls. This reduction of strategic controls and poor strategy can lead to performance difficulties (Hoskisson &amp; Hitt, 1988). Divestitures are often used to correct inefficient growth and diversification strategy (Jensen, 1989).</p>		
<b>Transaction cost economics</b>		
<p>Divestitures may reduce and balance the costs of different governance structures, to generate growth based on the parent's core competencies, and to pursue an efficient internal corporate labor market (Ito, 1995).</p>		<p>The divested unit benefits from being independent and from moving in external markets (Makhija, 2004). It can locate and bargain for supplies, production skills, managerial know-how, and technological capabilities and accumulates experience in market-related decisions (Makhija, 2004).</p>
<p>Comparison between different organizational forms: a company would prefer a divestiture to an alliance when the contracting costs are too high. It would prefer a divestiture to an acquisition when the activities of the firms are not compatible and the costs of running them within the same company are too high (McGahan &amp; Villalonga, 2003b).</p>		<p>Divestitures may represent an intermediate form between the extremes of market and hierarchy. With a divestiture, the detached division can become an independent company, and yet the parent can maintain control of the new company. A divestiture can represent a change in relationship from a hierarchical transaction to a quasi-market transaction. Divestitures can balance two transaction costs simultaneously: the costs associated with market transactions and those associated with hierarchy (Ito, 1995).</p>

<b>Resource based view</b>		
Companies engage in divestitures when their structure, following acquisitions with overlapping businesses, becomes redundant.		At unit level: the divested unit benefits of the parent's support in terms of capital, assets and knowledge (Ito and Rose, 1994).
Companies divest a unit, when its resources and competencies are valuable, but managing them is less effective under full ownership (Ito & Rose, 1994). They can use corporate resources in a more efficient way: - by changing their organizational structure (Ito & Rose, 1994) - by redeploying resources and divesting redundant target assets in similar strategic environments (Capron <i>et al.</i> , 2001) - by moving assets from a lower-value to higher-value user (Kaiser & Stouraitis, 1995)		At parent level: while connections between parent and divested unit exist, the parent also benefits from the assets, competencies and knowledge developed by and within the unit (Ito and Rose, 1994).
Actors: Managers seek to enhance core competencies through divestitures to achieve unrelated diversification and competitive internal source allocation. Owners, on the other hand, seek to enhance core competencies through divestitures to achieve related diversification and cooperative internal source allocation. The result of this internal debate is that the types of unit sold may depend on whether the managers or the owners have the most influence within their organization (Bergh, 1995: p. 222).		
<b>Evolutionary theory</b>		
Firms evolve and adapt to the external environment and strategic choices can be interpreted as Darwinian survival strategies (Capron <i>et al.</i> , 2001; Garvin, 1983; Ito, 1995; Mitchell, 1994; Rose & Ito, 2005). Firms grow old, from emerging to mature phase (Garvin, 1983). Divestitures are elements of this process of business adaptation and reconfiguration (Capron <i>et al.</i> , 2001; Mitchell, 1994).		The divested unit acts as an incubator for the innovative project and considers the project to be crucial for its growth and success (Christensen, 1997). Companies may use divestitures to successfully implement technical or organizational innovation in the pursuit of prosperity and survival.
Companies seem to lose the "downward vision and mobility" once they become established in their industry (Christensen, 1997: 24) and do not succeed in adopting the attitudes, structures and cultures of more entrepreneurial and innovative, pioneer companies (Markides & Geroski, 2003). Hence, the easiest solution for them is to create a new company through a divestiture. They can transfer the innovative project to the smaller firm.		

Table 1: Theoretical frameworks used by strategy literature in the analysis of divestitures.

Research question STRATEGY	Author	Theoretical perspective	Sample	Findings
What are the effects of ownership concentration, outside director equity, and corporate strategy, on the size and relatedness of units sold on performance?	(Bergh, 1995)	RBV Agency theory Corp. Strat.	112 sell-off (1986-1990) of <i>Fortune 500</i> companies.	<ul style="list-style-type: none"> <li>- Ownership concentration is positively associated with the divestiture of unrelated and small units.</li> <li>- This relationship is strengthened when outside director equity is high.</li> <li>- The effects of corporate strategy type on the characteristics of units sold depend on ownership concentration and outside director equity.</li> <li>- Post-sell-off performance of the parent is negatively associated with the relatedness of the unit sold.</li> </ul>
Can divestitures of unrelated acquisitions be predicted on the basis of whether motives and conditions at the time of the acquisition have been satisfied?	(Bergh, 1997)	Corporate strategy	2 samples of unrelated acquisitions over a 5 year period: 135 from 1977 and 140 from 1987.	Most divestitures could be correctly predicted on the basis of the motivations and conditions at the time of acquisition.
What is the impact of home and foreign country influences on the divestment activities of firms in their home country?	(Berry, 2003)	Corp. Strat. (Political Econ.) RBV	190 US publicly traded manufacturing firms (1977-2000), as on Compustat.	<ul style="list-style-type: none"> <li>- Prior performance is not a determinant of divestitures in low R&amp;D intensity industries. Size and diversification are the strongest determinants.</li> <li>- Extent of divestment activity is positively related to a firm's substitute foreign investments, and negatively to a firm's complementary foreign investments.</li> </ul>
When does restructuring improve economic performance?	(Bowman <i>et al.</i> , 1999)	(Corp. Strat.) Finan.	Distinction between portfolio restructuring, financial restructuring, and organizational restructuring. Financial restructuring has the strongest positive returns.	
Are divestitures always negative?	(Capron <i>et al.</i> , 2001)	Corp. Strat. (RBV)	Survey in North American and European horizontal acquisitions (1988-1992), within manufacturing companies.	<ul style="list-style-type: none"> <li>- Analysis of business acquisitions, resource deployments and asset divestiture as elements of a dynamic process of business adaptation and reconfiguration.</li> <li>- Greater strategic similarity leads to greater divestiture of the target's assets. Strategic similarity leads to greater redeployment to target and to acquirer. Greater resource redeployment to target leads to greater divestiture of target resources.</li> </ul>
Decision of an established firm to commercialize innovation.	(Cassiman & Ueda, 2004)	Corp. Strat.	Conceptual Firm possesses critical resources for successful development of new products. Positive relation between the base performance of the internal projects of the established firm and its spin-off.	
Do poor performance and the firm's existing knowledge-base constitute a motivation to enter or exit?	(Chang, 1996)	Evolut. Th.	Longitudinal data on 772 firms from TRINET and COMPUSTAT for 5 years from 1981-1989.	Firms are more likely to divest businesses of different profiles.
What is the best governance form for technology spin-offs?	(Chesbrough, 2003)		35 Xerox spin-offs (1984-1999). Interviews.	Spin-offs with a higher percentage of venture capital investors on their boards experienced better financial performance, because they search a broader space for commercializing their technology..
How are entrepreneurial spin-offs originated? What are the differences between entrepreneurial spin-offs and non-entrepreneurial spin-offs?	(Dahlstrand, 1997)	Corp. Strat. Agency theory	CPA sample from the MIT Center of Policy Alternatives: 30 ESOs (1965-1980) + personal interviews.	<ul style="list-style-type: none"> <li>- Entrepreneurial spin-offs have a higher degree of technology transfer, but no differences in inventiveness.</li> <li>- Circumstances at previous employer influencing the establishment of new firm: internal crisis, previous employer closed down or bought or sold, founder's ideas were not used by previous employer (most important antecedent).</li> <li>- 10 years after formation, entrepreneurial spin-offs are growing much faster than non-spin-offs.</li> </ul>
What is the role played by the size of a divested unit in the decision process leading to divestiture?	(Duhaime & Baird, 1987)	Corp. Strat.	Mail survey: 115 large US divesting firms (1972-1978) + personal interviews from <i>Fortune 500</i> divesting firms: 59	<ul style="list-style-type: none"> <li>- Curvilinear relationship between unit size and reason for divestment. Defensive reasons are given for divestment of small and large units, while aggressive reasons are given for medium-sized units.</li> <li>- Returns on small units had to be abnormally high for top managers to stay interested.</li> <li>- Moderate-sized units are divested as part of strategic reorientation of the company despite their relatedness to other units.</li> </ul>

			divestments (1975-1980).	
What structural and environmental conditions are conducive to spin-offs?	(Garvin, 1983)	Corp. Strat.	Conceptual Voluntary divestitures can be an alternative for established companies instead of accepting a high incidence of spin-offs and the consequent increased competition. - Spin-offs also guarantee the parent some benefits from the new product or technology. Also they reduce turnover and leaking of entrepreneurial personnel. - There are specific divesting patterns in some industries (construction, hi-tech, consulting, etc.).	
Analysis of the deterrent effect of exit barriers, industry structural traits and competitive posture investment on the firm's ability to divest a failing business.	(Harrigan, 1981)	RBV	61 firms with declining businesses in 1972 <i>Census of Manufacturers of Survey of Current Business</i> + personal interviews.	- Divestiture is deterred by the relative influences of a number of factors: economic exit barriers, differentiable product traits, commodity-like product traits, and strategic importance of divested unit. - Firms need to plan their exits when they enter a business.
What are the determinants of divestitures?	(Haynes <i>et al.</i> , 2003)	Agency theory Strategic view	Panel data on 144 UK publicly quoted firms (1985-1991)	The impact of poor performance on the extent of divestment activity will be greater for firms with strong corporate governance. The impact of leverage on the extent of divestment activity will be greater for firms with weak corporate governance.
How do acquisitions and divestitures as forms of corporate control affect internal control mechanisms, and influence internal and external innovation?	(Hitt <i>et al.</i> , 1996)	Corp. Strat.	250 US industry firms (1990-1992) from <i>S&amp;P Compustat</i> + personal contact with each CEO.	- Acquisitions and divestitures emphasize financial controls, de-emphasize strategic controls and thereby produce less internal innovation. - Acquisition intensity is positively related to divestiture intensity. - There is a positive relationship between divestiture intensity and financial controls and a negative relationship between divestiture intensity and strategic controls.
Test the "defensive response" explanation of the link between acquisition/divestiture and: 1) competitive position of the acquiring firms in their home markets, 2) the market structure of those markets.	(Hopkins, 1991)	(Finance: M&A theory, profit focused theory) Corp. Strat. Agency theory	Fortune 1000 (1965-1979). For the extent of acquisition activity: Federal Trade Commission's <i>Statistical Report on M&amp;A</i> .	A firm's prior circumstances are related to the intensity of both its acquisitions and divestitures (as well as the type of firms acquired). Support to defensive diversification hypothesis: The lower a firm's market shares in its home industries, the more acquisitive it is. Firms do not find high industry concentration to be an attractive industry characteristic.
What are the characteristics of the diversifying firm and the antecedents of divestiture?	(Hoskisson <i>et al.</i> , 1994)	Agency theory Corp. Strat.	203 divestitures from COMPUSTAT (1985-1990).	- Important antecedents of divestitures are governance constructs: blockholder equity, a governance antecedent; and relative product diversification (strategy). - Market performance mediates the relationship between accounting performance and divestiture intensity.
What factors influence the decision of a parent to spin-off a b-unit? And what is the relationship between the two?	(Ito & Rose, 1994)	RBV	342 spin-offs in 1988, of which 257 spun-offs are publicly traded. Manufacturing and service sectors.	- Spin-offs may help parents to survive. Parent benefits from maintaining the entrepreneurship of a small firm and from the availability of the assets of larger firms. - The parent's ownership decreases with the accumulated experience of the subsidiary. - The larger the parent, the lower the degree of parent ownership. - The more profitable the parent and the less profitable the subsidiary, the higher the degree of parent ownership.
Why do many Japanese firms spin-off? What is the economic rationale for, the conditions conducive to, and the strategic implications of, a spin-off?	(Ito, 1995)	TCE		- Spin-offs are a flexible alternative for survival in a highly competitive environment. They are suitable under the conditions of a homogeneous society, informal contracts, stable shareholders, and the lack of an external labor market. - Spin-offs in Japan are an alternative approach to diversification within a single firm. - Spin-offs are more likely to be created when the separation of organizations produces scope economies and when the parent is low-technology and owns a higher technology business.
What is the present and future of public corporations?	(Jensen, 1989)	Corp. Strat.	Conceptual Primary source of gains from LBOs is organizational changes that lead to improvements in the company's operating and investment decisions. LBO organizations solve the free cash flow issue of firms in low-growth industries by providing managers and their monitors with higher incentives, derived	

			from increased management ownership and high financial leverage. Presence and participation of external equity investors in governance lead to improved monitoring of managers performance.	
Does more innovation occur in internal or acquired units? Do companies retain more of their internally created or acquired units?	(Karim and Mitchell 2004)	Org. learning RBV Evolut. Th.	Case study of Johnson and Johnson: 87 product lines and 88 business units (1975-1997)	<ul style="list-style-type: none"> <li>- Internally developed innovations are more likely to be retained.</li> <li>- Divestitures are more common for units that originated from the reconfiguration of other units.</li> <li>- Disrupting unit boundaries may disrupt routines and hinder innovation.</li> </ul>
Do diversification and divestitures depend on external shocks? How do they affect the conglomerate's value?	(Khoroshilov, 2002)		Conceptual Divestitures serve as a good signal and lead to an increase in conglomerate value. Divestitures and diversification discount are pro-cyclical. Diversification discount increases with the number of divestitures. In the case of a positive external shock, a 'boom', ratios between the good units and bad units in the market and in the conglomerate increase. This leads to an increase in both the conglomerate value and the average market portfolio value. Since the good to bad division ratio increases, many conglomerates undertake refocusing and divestitures. Only conglomerates traded at a real diversification discount decide to refocus and hence to divest.	
How do a firm's R&D strategies influence its decision to disband resources?	(Lowe & Veloso, 2005)	Evol. Th. RBV	Pharmaceutical patents (1994-1998 to 2002). 50 largest pharmaceutical firms for innovative output.	Both "new to science" and "new to the firm" exploratory paths are associated with a greater likelihood of disbandment. Existing knowledge, which is not part of the firm's knowledge base, has a negative impact on the outcome of a project. Firms cease investing in assets that are perceived to be of lesser value.
What is the effect of restructuring on firm value in emerging economies?	(Makhija, 2004)	TCE		Restructuring significantly reduces the value of firms in emerging economies.
Does de-diversification through refocusing create market value for the companies involved? What is the impact on shareholder wealth?	(Markides, 1992a)	Corp. Strat. (Agency theory) Finance	45 refocusing announcements of firms not involved in other refocusing in the 3 previous years (1980-1988).	<ul style="list-style-type: none"> <li>- Refocusing announcements are associated with significant, positive abnormal returns.</li> <li>- Refocusing is an adjustment process that brings over-diversified firms closer to their optimal limits and thus improves their efficiency.</li> <li>- The relationship between diversification and profitability is curvilinear: at low levels of diversity, it is positive; but beyond the optimal diversification point, it is negative.</li> </ul>
What are the characteristics of the de-diversifying firm?	(Markides, 1992b)	Corp. Strat.	Random 201 sample of Fortune 500 companies (1981-1985).	<ul style="list-style-type: none"> <li>- A firm is more likely to refocus the higher the profitability, size, concentration ratio and advertising intensity of its core industry.</li> <li>- A firm is less likely to refocus the higher the R&amp;D intensity of its core business.</li> </ul>
What are the characteristics of the restructuring firm?	(Markides, 1997)	Agency theory	132 firms responding to survey	<ul style="list-style-type: none"> <li>- Antecedents of restructuring are organizational misfits between strategy and structure in association with inappropriate internal controls (and not governance problems) =&gt; agency problems are not antecedents of financial restructuring.</li> <li>- The lower the (sales) growth of the firm and the higher the diversification, and thus the higher the probability of restructuring.</li> </ul>
Does the value generated by acquisitions, alliances and divestitures differ?	(Villalonga & McGahan, 2005)	TCE (Finance) Corp. Strat.	7714 deals announced by 86 members of <i>Fortune 100</i> (1990-2000): 1407 divestitures.	<ul style="list-style-type: none"> <li>- Governance form alone is not a good predictor of stock market reaction to the announcement of a deal. The overall value generated by acquisitions, alliances and divestitures did not differ.</li> <li>- There is a relationship between market response and firm identity: firms do not make their governance choices contingent on the idiosyncrasies of particular deals, but rather they specify their governance preferences as part of their corporate strategies for contracting and expanding their boundaries.</li> </ul>
Under which circumstances do firms pursue acquisitions, alliances or divestitures?	(McGahan & Villalonga, 2003b)	Agency theory, TCE, RBV, capabilities	Deals announced by 86 members of <i>Fortune 100</i> (1990-2000).	A high degree of uncertainty and asset specificity but low internal organization costs are associated with the transactions. For divestitures: the focal and target firm are in related businesses, have dissimilar levels of R&D expenditure and are balanced in size. The focal firm is diversified and has prior acquisition experience but little alliance experience.
How do business sales and age in evolving industries affect the likelihood that firms shut down or sell their businesses?	(Mitchell, 1994)	Corp. Strat.	Archival research of press + interviews. 43 divested businesses (1952-1981) in the US medical sector.	<ul style="list-style-type: none"> <li>- Start-up firms and diversifying firms are more likely to sell their businesses over time. (even when age, sales and other business and corporate characteristics are controlled)</li> <li>- Sales levels have no effect on the divestiture rate.</li> </ul>
How does the financial market value divestitures, in	(Montgomery <i>et al.</i> ,	Portfolio mgmt. Finance.	78 divestitures of <i>Fortune 500</i> firms (1976-1979).	Divestments stemming from integrated strategic plans have positive share price effects. Divestitures linked to corporate business level strategies in company publications are valued positively by the market (and vice versa).

their different types?	1984)	Corpo. strategy.		
What is a divestment? What is a divestment process?	(Nees, 1978)	Corp. Strat.	Conceptual Divesting process is a series of interdependent steps spread over time and scattered across various levels of an organization. It concerns the divested unit's management deeply. It follows no single, unique sequence of events, and is not a smooth decision-making process. Practical suggestions: establish business policy committees, formulate a zero-base strategy, and establish a 'divisions exchange market'.	
What are the consequences of LBOs?	(Palepu, 1990)	Corp. Strat.	LBOs create value for stockholders through significant operating performance improvements; transfers of employees, taxpayers and pre-buyout debtholders; and overpayment by post-buyout investors. LBOs have two opposite effects on firm risk: they increase leverage associated with financial risks, but changes in the organizational structure and strategy reduce business risk. Therefore, LBO investors bear lower risk than comparably levered investments in public corporations.	
Proposes a taxonomy of corporate spin-offs by exploring the relationship parent-spun-off.	(Parhankangas & Arenius, 2003)	Corp. Strat. RBV Resource dependency th.	50 technology related spin-off firms from large Finnish corporations. Databases+ questionnaires.	- Study identifies three clusters: spin-offs developing new technologies, spin-offs serving new markets, restructuring spin-offs. - Intra-organizational relationships are essential for renewal of the competences in the spun-off firm. However sharing an intense relationship is beneficial to a limit, over which over-embeddedness starts.
How do divestitures fit into corporate strategy? Are they value-generating moves, i.e. do they create shareholder value?	(Porter, 1987)	Corp. Strat.	Conceptual Restructuring strategy seeks out undeveloped, sick or threatened organizations or industries on the threshold of significant change. A corporation must bring competitive advantage to a newly acquired unit (or vice versa). If this benefit is enjoyed only once, there is no reason for the corporation to hold the unit in its portfolio. Hence, it is better to sell the unit and free corporate resources. Three issues about diversification: 1) competition occurs at business level. 2) diversification adds costs and constraints to business units. 3) criticizing the claim that diversifying companies are actually pursuing this strategy for the benefit of shareholders, Porter stresses the fact that shareholders can readily diversify by themselves.	
Why do some firms undergo IPOs before selling themselves?	(Reuer & Shen, 2003)	Finance	Firms engage in IPOs before divesting to increase the visibility of the firm for potential acquirers and to mitigate valuation effects of these problems. Sequential divestitures via IPOs are more likely in industries with especially dispersed firms and for firms with significant intangible resources.	
IPOs within M&A process: the decisions of private firms to go public prior to divestiture (sequential) rather than undergo an outright sale.	(Reuer & Shen, 2004)	Finance Agency theory	Private firms undertaking divestiture. Manufacturing firms acquired by US bidders: SICs 2000-3999, (1996-1999). From 800+ to 3000+ operations.	Firms use sequential divestiture in the presence of search costs and also when intangible resources increase the risk of adverse selection. IPOs can ameliorate transaction costs <i>ex ante</i> due to search costs and information asymmetries in the M&A market. Strategic alliances offer alternative signals to potential buyers and attenuate the impact of intangibles on a firm's proclivity to use IPOs prior to divestiture.
Does a spun-off company outperform its parent?	(Rose & Ito, 2005)	Evolut. Th.	Japanese service sector. 91 parent-subsidiary pairs (1949-1989).	Subsidiaries operating in the same (different) industry as the parent tend to under-perform (outperform) the parent. Spin-offs are used to enhance familial survival and to maximize the value of a family of firms, rather than that of the individual parent. Parent chooses a sell-off when it does not want to maintain a trading relationship; and a spin-off when the resources and competencies of the subsidiary are valuable, but managing them is less effective under full ownership.
How do parent firms' react, in terms of share price, to announcements of the public offerings of stock of wholly owned subsidiaries?	(Schipper & Smith, 1986)	Corp. Strat.	76 carve-out announcements (1963-1983)	- Only in carve-outs is there an increase in shareholder wealth. Two main reasons for wealth increases: relaxed tax/regulatory constraints and improved opportunities for contracting with managers of the spun-off firms. - A positive share price reaction is expected if the information releases reveal the existence of positive NPV projects; and if the revisions in manager responsibility or incentive contracts associated with carve-out lead to improved asset management. - Carving out a minority interest of the subsidiary permits retention of operating synergies or benefits of tax consolidation and facilitates the re-acquisition of the public shares, but also gives rise to the potential for minority interest conflict.
What are the changes in corporate strategy achieved by large MBO firms?	(Seth & Easterwood, 1993)	Corp. Strat. Agency theory	Sample biased toward large firms. 32 US firms (1983-1988).	- Highly diversified firms are more likely to undertake an MBO. MBOs appear to be vehicles for focusing the strategic activities of the firm toward the most related businesses. - MBOs often continue to operate significant portions of the original assets. Strategic efficiency considerations (asset sales to related acquirers), rather than market power, are the predominant explanation for ownership changes.
What can we learn about researching corporate restructuring? Why is there a lack of consensus?	(Singh, 1993)	Finance Corp. Strat. Agency T.	Conceptual Divestitures in the '70s were generally poor performers in relation to corporate goals. Divested units are likely to have been incorporated into the parent firm through acquisition, rather than through internal development. MBOs:	

Divestitures: what distinguishes a business sold from those retained?			<ul style="list-style-type: none"> <li>- Pros: genuine productivity gains.</li> <li>- Cons: levels of debt carried by MBOs are excessive and can threaten the firm's survival.</li> <li>- MBOs tend to be efficiently run by the same management team that was in control when the firm was publicly held.</li> </ul>
How do organizations exit from existing activities?	(Sull, 2003)	Evolut. Th. Intra-firm resource allocation process model + Resource dependence	<p>Firestone Tire &amp; Rubber Company. Archival data + personal interviews.</p> <ul style="list-style-type: none"> <li>- A bottom-up resource allocation process well suited to investment decisions may fail to promote proposals for divestment.</li> <li>- A top-down process may be better suited to removing resources from an ongoing business.</li> <li>- Powerful providers of capital, e.g. banks and dominant shareholders, may play an important role in the divestment process.</li> </ul>
Are carve-out announcement period excess returns caused by asymmetric information or by other explanations of wealth gained from divestitures?	(Vijh, 2002)	Finance Agency theory	<p>336 COs (1980-1997).</p> <ul style="list-style-type: none"> <li>- Announcement-period returns increase with the ratio of subsidiary to non-subsidiary assets.</li> <li>- Many carve-outs are followed by a complete spin-off or a third-party acquisition. The market reacts positively in this second case.</li> <li>- Market reacts positively if parent announces that carve-out proceeds will be used to repay debt or meet other financial contingencies and to invest in new projects, and when the carve-out is announced to be used to create pure plays and unlock hidden values inside a complex firm structure.</li> </ul>
Focus on performance of divested unit (only spin-offs).	(Woo <i>et al.</i> , 1992)	Corp. Strat. Agency theory (TCE)	<p>51 voluntary spin-offs of non-financial institutions (1975-1986).</p> <ul style="list-style-type: none"> <li>- No change in pre- and post-spin-off performances is observed.</li> <li>- Following divestiture, the performance gains of related subsidiaries exceed those of unrelated subsidiaries.</li> </ul>
What is the impact of divestiture announcements on the stock return behavior of publicly traded firms?	(Wright & Ferris, 1997)	Agency theory	<p>(1984-1990) 31 divestitures of business units of publicly traded South African firms.</p> <ul style="list-style-type: none"> <li>- The impact of divesting South African units has a negative effect on stock price.</li> <li>- Divestitures in South Africa may be motivated by the self-interest of senior management and represent the manifestation of an agency problem.</li> <li>- This result does not support the idea that senior managers are motivated to act in the best interests of shareholders.</li> </ul>
When is de-diversification most likely to happen?	(Zuckerman, 2000)	Agency theory	<p>All American operating companies that appear both in <i>S&amp;P's Compustat ISF</i> and in <i>Study of Security Prices</i> (1984-1994).</p> <ul style="list-style-type: none"> <li>- Firms that are covered by many analysts display lower rates of divestiture.</li> <li>- Divestitures are more likely when a firm's stock price is low and there is significant mismatch between its corporate strategy and the identity attributed to the firm by analysts, and less likely when they enjoy higher rates of return, when their divisions are highly related to one another and when firms achieve a high valuation</li> <li>- A segment is less likely to be divested when it is more profitable, when its prospects of future earnings are greater, when the segment is larger and when it is older than other segments in the firm.</li> </ul>

Table 2: Existing Research in Strategy Literature.

Research question FINANCE	Author	Method and Sample	Findings
Do divestitures have a positive effect on performance? YES	(Alexander <i>et al.</i> , 1984)	Event study: CARs (-1; 0). 53 sell-offs (1964-1973)	Sell-offs are announced after a period of generally abnormal returns.
	(Allen & McConnell, 1998)	CER (-1; 1) 188 IPOs (carve-outs) (1978-1993)	Prior to initiating carve-out, parent firms exhibit poor operating performance and high leverage. In carve-outs in which funds raised are used to pay down debt (to creditors or shareholders), the average excess stock return is greater than the average stock return for carve-outs in which funds are retained for investment purposes.
	(Boudreaux, 1975)	CARs (-2; 0) 169 voluntary and involuntary divestitures (1965-1970)	Positive (negative) effect for voluntary (involuntary) divestitures
	(Chemmanur & Nandy, 2004)	Longitudinal Research on spin-offs	Increase of productivity, deriving from decreases in employment and total wages, material costs, and in rental and administrative expenses.
	(Haynes <i>et al.</i> , 2002)	Event-time method for CARs (-1; 0). 126 voluntary divestitures of UK quoted companies (1985-1993)	Limited support for the view that the benefit from divestment is greater for larger and/or more diversified firms and firms operating with weak governance agreements.
	(Hite & Owers, 1983)	123 voluntary spin-offs (1963-1981)	- Positive (negative) effects for voluntary (involuntary) divestitures. - Positive gains for firms engaging in spin-offs to facilitate mergers or to separate diverse operating units. - Market value of parent is hardly diminished even though assets are distributed to subsidiary.
	(Kaplan & Weisbach, 1992)	CARs (1971-1982). 271 large acquisitions of at least \$100m and with US acquirer → divestitures	50% of classified divestitures are unsuccessful. There is no evidence that diversifying acquisitions are less successful than related ones (although they are four times more likely to happen).
	(Klein, 1986)	Event study for CARs (-2; 0). 202 voluntary sell-offs (1970-1979)	There is positive relationship between the relative size of the divestiture and the announcement day returns: larger sell-offs produce larger share price responses.
	(Klein <i>et al.</i> , 1991)	Event study for CARs (-1; 0). 52 carve-outs by 46 companies (1966-1983)	Sell-off and re-acquisition announcements have a strong positive impact on subsidiary share prices. The shorter the time span, the greater the chance that the next event will be a disposal of parent interest. Firms retaining a large percentage of subsidiary shares are more likely to engage in share re-acquisition than in a sell-off.
	(Hite & Owers, 1983)	CARs (-1; 0). 123 voluntary spin-offs (1963-1981) of companies from CRSP	- Positive gains for firms engaging in spin-offs to facilitate mergers or to separate diverse operating units. - Negative returns for firms responding to legal and/or regulatory difficulties. - Excess returns around announcement. - Market value of parent is hardly diminished even though assets are distributed to subsidiary. Total gains for subsidiary and parent are more than simply expropriation from preferred stockholders and bondholders to common stockholders.
	(Linn & Rozeff, 1985)	Event study for CARs (-1; 0). 151 voluntary spin-offs	The larger price increases tend to be concentrated in those companies that explicitly communicate anergy motives to investors.
	(Miles & Rosenfeld, 1983)	Event study for CARs 55 spin-offs (1963-1980)	Major spin-offs have a greater effect on shareholder wealth. Enhancement of shareholder wealth because of: increase in the value of future growth opportunities; market interpretation as a sign; wealth transfer from bondholders to shareholders.
	(Morrow, Johnson, & Busenitz, 2004)	1976 single-business manufacturing (not diversified) firms (1980-1995).	Positive effect of growth industries: asset retrenchment is positively related to performance improvement; cost retrenchment is not related to performance improvement.
	(Rosenfeld, 1984)	CARs 35 spin-offs of 35 firms listed on the NYSE or on the ASE	- Spin-offs and sell-offs record similar cumulative average adjusted returns. - Announcement effect on spin-offs has a stronger positive influence on share prices than sell-offs. - Sell-off announcements are perceived by shareholders as a positive NPV transaction.
(Slovin <i>et al.</i> , 1995)	Event-time methodology. Av. Excess returns 32 carve-outs, 37 spin-offs, 179 sell-offs.	- Positive for spin-offs and carve-outs; no effects for sell-offs. - Firms conduct carve-outs when outside investors are likely to price the new shares at a price higher than managers' perceived value.	
Do divestitures have a	(Parrino, 1997)	Qualitative: Marriott spin-off	It documents the changes in bondholder and shareholder wealth and a decline in total value resulting from 1993 Marriott spin-off

positive effect on performance? NO			The value created by the spin-off was more than offset by its cost. Transaction costs and inefficiencies resulting from the spin-off explain much of the decline in the total value of the firm. - Expected benefits from spin-off: enable the company to fully exploit value-creating growth opportunities in the management businesses by reducing capital constraints; enable the capital markets to assess the true value of the firm more accurately by improving the quality of financial information available to investors; the parent can draft more efficient contracts with managers owning modest equity stakes.
Do divestitures have a positive effect on performance? NO EFFECT	(Hearth & Zaima, 1984)	Event study with CARs. 58 voluntary divestitures (not spin-offs) (1979-1981).	Positive cumulative average returns before the announcement date but not after. The stronger the financial status of the seller, the larger the positive returns to the shareholders. Larger divestitures show larger positive excess returns.
	(Colak & Whited, 2004)	2 samples from COMPUSTAT: one for divesting companies (1983-1994), one for spinning-off companies (1981-1996).	The positive results from divestitures have <i>de facto</i> a placebo effect. Firms who engage in refocusing are different from those who decide not to refocus. Another cause of positive results of divestitures may be measurement errors.
	(Craft Denning & Shastri, 1990)	Event study: Mean adjusted return model 50 divestitures of firms with only one divestiture announcement (1970-1981)	No significant announcement of divestment period positive return and no significant variance changes for claimholders. Divestitures are unimportant events for claimholders.
What is the organizational status of leveraged buy-outs (LBO) after completion?	(Kaplan, 1991)	Probability of returning to public ownership as a function of time. 183 LBOs (1979-1986)	- LBO organizations solve the free cash flow problem faced in low-growth industries by providing higher incentives to managers. - Percentage of LBOs returning to public ownership increases over time (about 7 years). LBOs becoming public maintain debt levels lower than initially, but higher than pre-buyout levels and median public-companies levels. Independent public LBOs show relatively concentrated equity ownership.
Are divesting firms less healthy financially than non-divesting firms?	(Montgomery & Thomas, 1988)	68 voluntary divestments made by <i>Fortune</i> 500 firms (1976-1979).	Divesting firms tend to be weak performers when compared with their industry counterparts. The stock market re-evaluation of the weak accounting performance of strategic divestors is due to the altered long-term expectations, not short-term financial gains.
What is the rationale for spin-offs and for the performance and value improvements following them?	(Chemmanur & Yan, 2004)	Conceptual A spin-off increases the parent's chance of losing control of the spun-off unit or of the parent itself becoming a rival. This threat motivates the parent either to work harder at managing the firm or to relinquish control of one of the firms. Spin-offs are more likely for firms operating in an industry with a high degree of takeover activity, or characterized by rapid technological change; and for units underperforming or unrelated to parent. The announcement has a positive effect on market value. The magnitude of this effect increases in line with in the size of the division as a fraction of the joint firm (parent + division).	
Do firms that merge and then divest perform well in the interim period?	(Fluck & Lynch, 1999b)	Conceptual Mergers increase the combined values of acquirers and targets by financing positive NPV projects that cannot be financed as standalones. And, because these projects are only marginally profitable, conglomerates are less valuable than standalones. An acquired subsidiary is divested only when it becomes sufficiently profitable.	
When should a firm be spun-off into multiple corporate entities? Does this choice enhance the firm's value?	(John, 1993)	Conceptual Any incremental value of spin-off results from the combined effect of changes in agency costs and tax shields. Coinsurance effect on investment incentives dominates the effect of a flexible allocation of debt across technologies in a spin-off. The larger the differences in R&D expenditures and intangible assets within high technology industries, the more likely it is that spin-offs occur. The debt ratio before spin-off should be equal to the debt ratio of each of the post-spin-off firms.	
Why are carve-out announcements received favorably by the market?	(Nanda, 1991)	Conceptual Divesting firms are unable to use debt or other modes of external financing. Given asymmetric information, a firm with insufficient financial slack may choose to forgo some valuable investment opportunities. By their financing decisions, firms reveal information about the value of the assets in the subsidiary and the value of the assets in the rest of the corporation. The possibility of an ECO has the beneficial effect of allowing a larger set of firms to undertake valuable projects.	

Table 3: Existing Research in Finance Literature.

Research question ORG BEHAVIOR	Author	Theoretical perspective	Sample	Findings
Can the possibility of a future spin-off improve current incentives for divisional managers?	(Aron, 1991)	Agency theory		<ul style="list-style-type: none"> <li>- The possibility of a future spin-off improves current incentives for divisional managers, even if spin-offs rarely actually occurs.</li> <li>- The probability that a firm engages in a spin-off increases more than proportionately to the number of divisions in the firm.</li> <li>- Firms that are operating in rapidly changing markets are more likely to engage in spin-offs.</li> <li>- Although a spin-off is <i>ex ante</i> efficient, reacquisition of the spun-off division is also efficient and should be accompanied by a positive share price response.</li> </ul>
Decision rights in organizations. Informal authority. Model applied in divestitures as contractible delegations.	(Baker <i>et al.</i> , 1999)	Corp. Strat. Agency theory		<p>Model of product development: divestiture as contractible delegation.</p> <p>Ownership of decision rights gives the subordinate the right to make decisions without the threat that the boss will overturn his decision. A CEO cannot give to the division manager any formal authority.</p> <p>New rationale for vertical disintegration: formal ownership structures affect the feasibility of informal relational contracts.</p> <p>Divestiture achieves the delegation of formal authority.</p>
What is the relationship between ownership structure and corporate restructuring, in the '80s?	(Bethel & Liebeskind, 1993)	Agency theory Environm. theory	93 US firms from <i>Fortune 500</i> (1981-1987). OLS	Increases in ownership concentration lead to divestitures of unrelated businesses. Many managers restructured their companies in the '80s only when pressured to do so by large shareholders (blockholders or institutional investors).
Relationship between managerial communication, perceptions of the procedural justice of layoffs, and employee attitudes within the context of divestiture.	(Gopinath & Becker, 2000)	Agency theory	144 questionnaires to employees. 2-step logistic regression.	<ul style="list-style-type: none"> <li>- Employee perceptions of procedural justice regarding the divestiture create trust and later post-divestiture commitment to the organization.</li> <li>- Managerial communications during the divestiture process increase perceptions of procedural justice of the divestiture and layoffs, and have effects on future commitment.</li> </ul>
How do managerial and board characteristics influence board involvement in restructuring actions?	(Johnson <i>et al.</i> , 1993)	Corpo Str. Agency theory	92 voluntary divestitures from COMPUSTAT (1985-1990).	<ul style="list-style-type: none"> <li>- Top management team equity stakes, emphasis on strategic controls by managers, top management organizational tenure are negatively related to board involvement in restructuring.</li> <li>- Outsider representation on the board and outside director ownership are positively related to board involvement in restructuring.</li> <li>- Restructuring may be initiated by outsiders on the board when other governance and control mechanisms fail. This implies a substitution process between governance tactics (ownership vs. board monitoring) and internal controls (managerial vigilance).</li> </ul>
Is management's co-operation during divestments positive?	(Nees, 1981)	Corp. Strat. Agency theory	14 European and US divestment cases (1967-1977).	The most successful divestments are those where line management's co-operation has been elicited at very early stages.
What is the role of a voluntary spin-off in the design of efficient internal corporate control mechanisms?	(Seward & Walsh, 1996)	Corp. Strat. Agency theory	78 corporate spin-offs from 74 companies (1972-1987) filtered from Dow Jones News Retrieval Service. Event study for CARs (-1; 0).	<ul style="list-style-type: none"> <li>- The selection of the new CEOs, the design of their compensation committees in the spun-off firms are <i>ex ante</i> efficient.</li> <li>- These governance and control practices are not strongly related to positive market reactions to spin-off announcements.</li> <li>- Equity reorganizations facilitate the implementation of efficient internal governance and control practices. But other factors must influence the share price reactions to the announcement of voluntary corporate restructurings.</li> </ul>
The impact of selling to unit managers (MBOs) on shareholder wealth.	(Trifts <i>et al.</i> , 1990)	Agency theory	The rosters section of M&A (1981-1985) for firms on NYST/AMEX: 91 MBOs and 187 IPOs.	<ul style="list-style-type: none"> <li>- The average impact on parent-firm shareholder wealth for unit management divestiture is not different from public divestiture.</li> <li>- The possible negative effects perceived to exist arising from the potential conflict of interest or from asymmetric information are offset by one or more of the positive effects of increased job security and reduced agency and servicing costs.</li> <li>- Over the two-day announcement period average abnormal return for parent firms divesting units to unit managers is positive.</li> </ul>

Table 4: Existing Research in Organizational Behavior Literature.

<b>Issues</b>	<b>Literature in finance</b>	<b>Literature in strategy</b>	<b>Literature in organizational behavior</b>
General environment	√	√	
Industry characteristics	√	√	
Corporate characteristics		√	√
Business-unit characteristics		√	
Choice of mode	√	√	
Economic outcome	√	√	
Strategic outcome		√	
Management of divestitures: Governance structure, Management team and effects on employees			√
Organizational and governance outcomes			√

Figure 5: Gaps in Existing Literature on Divestitures

