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Performance effects of corporate divestiture programs

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Abstract

Purpose – The paper aims at extending extant research on sources of divestiture gains by suggesting a novel program-based perspective on divestitures and analyzing the performance of program divestitures in comparison to single "stand-alone" divestitures.

Design/methodology/approach – Based on event study methodology, the authors analyze the abnormal returns of 160 divestiture announcements within the global insurance industry between 1998 and 2007. In contrast to prior research which relied on *ex post* statistical clustering to identify transaction programs, *ad hoc* corporate press releases issued with the divestiture announcements are used to categorize program divestitures.

Findings – Empirical results suggest that program divestitures generate higher abnormal returns than stand-alone divestitures. Further analyses into the sources for these higher gains, however, do not provide support for experience effects as significant explanatory factors. Instead, results suggest that the scheduling of divestitures significantly impacts announcement returns.

Research limitations/implications – The scope and single industry setting of the study suggest future cross-industry research on the influence of divestiture program characteristics on divestiture performance and the conditions under which these programs improve divestiture performance.

Practical implications – Managers are advised to refrain from piecemeal divestiture behavior lacking clear strategic focus. Instead, they are encouraged to bundle their divestitures as part of a divestiture program with a clear strategic intent and shared business logic.

Originality/value – While prior research on divestitures has treated divestitures as isolated events, the paper directs attention towards the analysis of divestiture programs. Further, experience and timing effects, which have been widely absent from prior divestiture studies, are considered.

Keywords Insurance companies, Divestment, Strategic management

Paper type Research paper

1. Introduction

Even though acquisitions have generally taken a much more prominent place in strategic management research, divestitures have attracted more and more research attention recently (Brauer, 2006; Johnson, 1996). The term divestiture stands for a group of vehicles through which a firm adjusts its ownership structure and reduces its business portfolio scope. The most prominent vehicles that are commonly captured under the umbrella term divestiture are sell-offs, spin-offs or equity carveouts. Over the past few decades, scholars have contributed considerably to our knowledge of the antecedents of divestitures and offered further insights into divestiture performance (Haynes *et al.*, 2002, 2003; Bergh and Lim, 2008; Markides, 1992; Montgomery *et al.*, 1984; John and Ofek, 1995; Berger and Ofek, 1999; Hite *et al.*, 1987; Lang *et al.*, 1995). But still, many ambiguities and gaps remain in our understanding of divestitures.

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In particular, there is still much debate about the stock market responses to divestitures. While there is a general agreement on positive shareholder wealth effects from divestiture announcements, researchers are less unanimous about why these effects come about. Various differing explanations for the sources of divestiture gains have been explored but none of these were found to be equally valid in a larger number of studies and transaction contexts (Kaiser and Stouratis, 2001; John and Ofek, 1995; Brauer, 2006). This study proposes that one potential explanation for the inconsistent findings is that divestitures were never studied as strategically interrelated events (Bergh and Lim, 2008; Haynes *et al.*, 2002). Constrained by a lack of information on which divestitures jointly implement distinct portfolio changes and thereby relate to each other, many scholars have been bound to adopt the notion of divestitures as isolated, self-contained events[1]. This view on divestitures as isolated corporate events conflicts with recent developments in acquisition research (Chatterjee, 2009; Laamanen and Keil, 2008) and does not reflect current business practice, where it has been recognized that "selling businesses is rarely a one-off activity" (Mankins *et al.*, 2008, p. 99) but a sequential, recurring task that is oftentimes guided by the business logic of a corporate divestiture program.

The purpose of this study is to address this shortcoming. Specifically, we adopt a novel program-based perspective on divestitures and analyze the performance of program divestitures in comparison to single "stand-alone" divestitures. We define divestiture programs as groups of (unit) divestitures that adjust the corporate focus of a firm according to an explicitly announced strategic logic. Given such change in a firm's focus, we use the terms "divestiture program" and "refocusing program" synonymously. By adopting this view, we acknowledge that firms engage in transaction sequences rather than in single transactions to implement their corporate strategies (Schipper and Thompson, 1983; Laamanen and Keil, 2008; Haynes *et al.*, 2002).

Our empirical analyses of the global insurance industry indicate that program divestitures generate higher abnormal returns than stand-alone divestitures. We further study the sources for the greater abnormal returns of program divestitures. Specifically, we study the influence of experience transfer and timing. Learning theory suggests that improved divestiture performance may originate from specific and general experience transfer (Haleblian and Finkelstein, 1999; Bergh and Lim, 2008). Consequently, we test whether specific experience transfer between divestitures of the same program and general experience transfer between prior divestitures and program divestitures influence abnormal returns. However, neither specific nor general experience seems to influence abnormal returns. Instead, we find that the scheduling of program divestitures has a significant influence on abnormal returns. Firms that allow for sufficient time between divestitures generate higher announcement returns than firms that schedule their divestitures too tightly and thus may become subject to time compression diseconomies (Dierickx and Cool, 1989).

The remainder of the paper is organized as follows: first, we review prior research on the impact of divestitures on a firm's market performance. Based on acquisition research, we identify a set of explanatory factors that relate to the presence and scheduling of divestiture programs, which might account for the inconclusive findings of extant literature on the determinants of divestiture success. Subsequently, we explain our methodological design and present and discuss our results. We conclude with an outline of the study's limitations and implications for theory and practice.

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2. Extant research on sources of divestiture gains

Extant research on the financial performance implications of divestitures agrees upon the following: The stock price of a firm that announces a divestiture rises on the days surrounding the announcement. Though on average positive, however, these announcement returns have been found to vary quite substantially. Table I highlights the range of effect sizes that were found by studies analyzing cumulative average abnormal returns caused by divestiture announcements.

The relatively broad range of abnormal returns also raises the question about the sources of divestiture gains. Scholars in both finance and strategy have studied various aspects of divestitures and their transaction contexts to identify explanations for the observed stock price effects. Based on a review of previous research in strategy and finance, we derived five major hypotheses on the sources of positive divestiture announcement returns.

Refocusing hypothesis

Over-diversification has been found to be one of the most prominent antecedents of divestitures (Brauer, 2006). Consequently, divestiture gains have been related to positive effects of a reversal of such over-diversification. Specifically, it has been argued that capital markets receive divestitures positively because refocusing is expected to reduce managerial (i.e. owner-manager conflict of interest; influence costs) and operational inefficiencies – predominantly in regards to financial resource allocation (Afshar *et al.*, 1992; Hite *et al.*, 1987; Schipper and Smith, 1983; John and Ofek, 1995). Essentially, this hypothesis builds upon previous empirical research which shows that highly diversified firms earn greater announcement returns and that divestitures of units which belong to different industry sectors than the parent firm are more positively received by capital markets than divestitures of businesses which belong to the firm's core (e.g. John and Ofek, 1995; Comment and Jarrell, 1995; Daley *et al.*, 1997; Desai and Jain, 1999). Markides (1992) ascribes this relationship between the diversification level of firms and the abnormal return sizes of focus-enhancing divestitures to diminishing returns from specializing a firm's management in an ever narrower range of operations. Similarly, research in corporate finance suggests that divestiture stock market returns positively relate to the number of business segments before the divestiture (Vijh, 1999). Consistently, a firm's refocusing from two business segments to one business segment has been theorized to generate different returns than a reduction from eight to seven business segments (Dittmar and Shivdasani, 2003; Lang and Schulz, 1994).

Pure play hypothesis

Closely related to the refocusing hypothesis is the pure play hypothesis. The pure play hypothesis – often also called complexity or under-valuation hypothesis – argues that value in divestitures is created through the separation of unlike parent and subsidiary assets into independently traded units, which helps markets, respectively analysts, to gain a better understanding of their true value (e.g. Krishnaswami and Subramaniam, 1999; Schipper and Smith, 1986; Vijh, 1999; Zuckermann, 2000). Zuckermann (2000) argues that capital markets will reward the effort of firms to make their stock more easily understood for financial analysts who usually specialize by industry-use to compare assets and thus have difficulties with firms that straddle multiple industries.

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Author [orientation/focus[a]]	Period	Sample size	Country	Event window (days)	Model[b]	CAAR (%)
Miles and Rosenfeld (1983) [F]	1962-1980	55	USA	1	MA	0.2
Schipper and Smith (1983) [F]	1963-1981	93	USA	2	MM	2.8
Alexander *et al.* (1984) [F]	1964-1973	53	USA	2	MA	1.3
Hearth and Zaima (1984) [F]	1979-1981	58	USA	11	MM	3.6
Rosenfeld (1984) [F]	1969-1981	62	USA	2	MA	2.3
Jain (1985) [F]	1976-1978	1,064	USA	1	MM	0.1
Klein (1986) [F]	1970-1979	202	USA	3	MM	1.1
Hite *et al.* (1987) [F]	1963-1981	55	USA	2	MM	1.7
Sicherman and Pettway (1987) [F]	1981-1987	278	USA	2	MM	0.9
Denning (1988) [F]	1970-1982	133	USA	13	MV	n/a
Afshar *et al.* (1992) [F]	1985-1986	178	UK	1	MM	0.9
Markides (1992) [SM]	1980-1988	45	USA	2	MM	1.7
John and Ofek (1995) [F]	1986-1989	231	USA	3	MM	1.5
Lang *et al.* (1995) [F]	1984-1989	93	USA	2	MM	1.4
Lasfer *et al.* (1996) [F]	1985-1986	142	UK	2	MA	0.8
Wright and Ferris (1997) [SM][c]	1984-1990	116	USA	1	MM	− 25
Krishnaswami and Subramaniam (1999) [F]	1979-1993	118	USA	2	MM	3.2
Kaiser and Stouratis (2001) [F]	1984-1994	590	UK	2	MM	1.2
Schill and Zhou (2001) [F]	2000	11	USA	3	MM	11.3

Notes: [a]Strategic Management (SM), Finance (F); [b]Market Model (MM), Mean Adjusted Return Model (MA), Mean and Variance of Return Model (MV); [c]Special case of involuntary divestitures following public pressure; N.B.: Montgomery *et al.* (1984) are excluded as their event window stretches over 24 months

Table I.
Shareholder wealth effects (sell-side) of prior studies

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Also, capital markets are expected to respond positively to such a separation due to the fact that the new stand-alone company has to supply audited periodic financial reports. Another performance enhancing effect may also result from the fact that the pure play might not only serve analysts but also investors. By creating a pure play, different investor clienteles for the two separated stocks might emerge and the attractiveness of pure play stocks to these different clienteles may lead to positive announcement returns (Vijh, 2002). Essentially, capital markets thus award a premium to the parent firm for offering a novel investment alternative to equity investors (Miles and Rosenfeld, 1983; Hakansson, 1982).

Information asymmetry hypothesis

The information asymmetry hypothesis is based on empirical evidence that has shown that the abnormal returns for sell-offs, equity carveouts and spin-offs differ. Several authors propose that rational managers would only issue stock when they have private information that their stock is likely to be overvalued at the specific point in time (Myers and Majluf, 1984; Nanda, 1991; Nanda and Narayanan, 1999; Slovin *et al.*, 1991, Vijh, 2002; Welch, 1989). Investors would thus lower the stock price on the announcement of an issuance of stock for a unit by the parent. But this explanation only holds for divestiture modes that are share-for-cash transactions such as equity carveouts or sell-offs, but not for spin-offs. This explanation for the source of divestiture abnormal returns is further complicated by the fact that the non-issuance of parent stock also conveys information. The non-issuance of parent stock suggests that the management issues subsidiary stock because it sees the parent's assets undervalued and the subsidiary's assets overvalued. In turn, this piece of positive information might dominate the negative information and thus actually lead to a divestiture gain (see Myers and Majluf, 1984, for a discussion). Other studies, however, have all together greatly questioned whether the type of exit mode may explain varying divestiture gains by showing that in many instances investors are unable to distinguish the different divestiture modes and, for example, often confuse carveouts with spin-offs (Hand and Skantz, 1997).

Financing hypothesis

The financing hypothesis is based on divestiture studies in corporate finance which found that market returns are on average more positive if the proceeds are used to repay the parent's or the subsidiary's debt (Allen and McConnell, 1998; Lang *et al.*, 1995). Further, it is argued that the parent firm benefits from the fact that through a divestiture separate financing for the divested unit's investment projects is obtained (Schipper and Smith, 1983).

Managerial incentive hypothesis

The managerial incentive hypothesis suggests that the positive market returns to divestiture announcements might originate from more efficient compensation contracts for the subsidiary's managers (Schipper and Smith, 1986). This explanation of divestiture gains, however, only applies to spin-offs and carveouts where the divested unit functions as an independent entity after divestiture. In these instances, managers who receive stock based compensation have indeed been found to

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create firm value by better exploiting investment opportunities (Aron, 1991; Krishnaswami and Subramaniam, 1999; Larraza-Kintana *et al.*, 2000; Vijh, 2002).

The aforementioned hypotheses from finance and management research illustrate that divestitures were predominantly studied with an emphasis on financial rather than strategic rationales underlying the individual transactions. It is further striking to observe that compared with acquisition research, in which learning and experience effects have become major explanatory factors (e.g. Barkema and Schijven, 2008a, b; Haleblian and Finkelstein, 1999; Hayward, 2002; see Haleblian *et al.*, 2009, for a review), these effects have been left unconsidered in divestiture research. The consequences of this neglect of divestitures' joint underlying strategic rationales and the neglect of the role of learning and experience effects in prior studies set the stage for our analyses.

3. Hypotheses

Implementing a change in corporate strategy typically requires firms to adjust their business portfolios. If a company strives to change its business configuration more than incrementally, it will often launch a transaction program to transition from the current to the envisioned business portfolio. The more radical the envisioned changes are, the more important a well-designed transaction program becomes. To implement corporate growth strategies, firms often devise acquisition programs (Schipper and Thompson, 1983; Asquit *et al.*, 1983; Barkema and Schijven, 2008a; Laamanen and Keil, 2008). In the context of corporate restructuring strategies, divestiture programs are of major importance to adjust a firm's business portfolio (Brauer, 2006; Berger and Ofek, 1999; Dranikoff *et al.*, 2002). During the most recent financial market crisis (so called "subprime" crisis starting 2007), examples of such divestiture programs have been abundant. For instance, Alcoa, a major player in the steel industry, announced a divestiture program that shed non-core businesses with more than 22,000 employees (Alcoa, 2009). Similarly, in the economic downturn that ended in 2003, companies such as Thyssen-Krupp or Tyco International used divestiture programs to respond to challenges in their respective economic contexts. Thyssen-Krupp and Tyco International trimmed their business portfolio by divesting more than 33 respectively more than 50 businesses at this time (Tyco, 2008).

While the performance implications of transaction programs or series have been studied in acquisition research (Schipper and Thompson, 1983; Asquit *et al.*, 1983; Laamanen and Keil, 2008; Voss and Müller-Stewens, 2006), research on divestitures has so far ignored their widespread use. Instead, divestitures have been analyzed as independent, unrelated events (Dess *et al.*, 1995; Chang, 1996). Since divestitures are not mere reverse images of acquisitions but complex strategic moves of their own (Brauer, 2006; Johnson, 1996) and given the fact that divestitures substantially differ from acquisitions both in terms of their determinants and their overall effect on firm market and accounting performance, findings on acquisition programs cannot be easily transferred to divestitures, which deserve independent study.

While researchers have conjectured that divestitures which "are part of clearly identified strategies should create more value than divestitures that take place in a reactional or piecemeal manner" (Montgomery *et al.*, 1984, p. 831), only recent practitioner-oriented research has acknowledged the interrelation between multiple divestitures by the same firm and sought to qualitatively discriminate between well-planned series of divestitures and reactive divestitures (Dranikoff *et al.*, 2002).

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Divestiture programs have thus been proposed as a major source and determinant of divestiture gains. The increased value creation potential of program divestitures compared to non-program divestitures may theoretically be argued to build upon the so-called principle of internal consistency, which claims that decisions in a series of choices that are taken in close alignment with each other and in reference to relevant external correspondences are superior (Johnson *et al.*, 2005; Sen, 1993). Based on this notion we suggest that program divestitures that by definition aim at collectively implementing a corporate strategy or are driven by a core business logic generate higher market returns than "stand-alone" divestitures.

Besides the internal consistency attributed to program divestitures, it is the strategic relevance of program divestitures which suggests higher market returns. Prior research found out that divestitures which "impact the way the firm does business" (Montgomery *et al.*, 1984, p. 833) receive higher abnormal returns and argued that such transactions have a more important role with a greater impact on future earnings. Since such a change in the way a firm does business is much less likely to materialize from a single divestiture[2], but rather from a coordinated series of divestitures as part of a firm's divestiture program (Brauer, 2006; Berger and Ofek, 1999; Dranikoff *et al.*, 2002), investors are likely to perceive program divestitures more positively than "stand-alone" divestitures. Given that most firms divest when they are confronted with poor financial performance, program divestitures may benefit more from being perceived as proactive and concerted steps that are not an outcome of compromised opportunities and market pressures (Dranikoff *et al.*, 2002). Following these lines of reasoning and taking the capital market's perspective, divestiture programs should be awarded with a premium. We therefore propose:

H1. Program divestitures are associated with greater abnormal returns than "stand-alone" divestitures.

As mentioned above, the strategic consistency and relevance attributed to program divestitures may lead to above average positive market returns for program divestitures. However, prior studies on serial acquirers further argued that above average abnormal returns may result also from positive experience effects (Barkema and Schijven, 2008a; Schipper and Thompson, 1983; Laamanen and Keil, 2008). Research on learning and experience effects in acquisitions, however, has produced very mixed results (see Barkema and Schijven, 2008b, for a review). Experience from prior acquisitions has been found to affect the performance of the focal acquisition in positive (Bruton *et al.*, 1994; Fowler and Schmidt, 1989; Pennings *et al.*, 1994), concave (Haleblian and Finkelstein, 1999), neutral (Hayward, 2002; Zollo and Singh, 2004) and negative manners (Kusewitt, 1985). Given these equivocal findings, acquisition researchers have introduced more fine-grained notions of experience. Haleblian and Finkelstein (1999), for instance, proposed that only the transfer of specific acquisition experience – that is the transfer of experience between acquisitions which are similar in type and nature – is beneficial to acquisition performance while the transfer of general acquisition experience may even have a detrimental effect on acquisition outcome.

While experience effects have been documented for acquisitions, little research has been done on divestitures, let alone on divestiture programs. So far, only Bergh and Lim (2008) produced evidence for experience effects in restructuring actions. They

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found that experience in sell-offs and spin-offs affect a firm's propensity to further engage in these actions. As concerns performance implications of experience, they found that experience in restructuring actions increases post-restructuring performance in terms of ROA. The argument for positive experience effects on divestiture performance and the distinction between general and specific experience transfer, however, has not yet been brought up but seems to be of great relevance from a divestiture program perspective. Valuable, organizational learning is particularly attributed to events that resemble each other in such a way that routines can be developed (Cohen and Levinthal, 1990). Since transactions within divestiture programs are often of the same type, involve units with similar characteristics (e.g. in term of unit performance, relatedness, size, age), and are usually implemented by the same management team, experience transfer between program divestitures not only becomes more probable than between "stand-alone" divestitures but is also likely to be more specific and thus more value-enhancing (Bergh and Lim, 2008; Singh and Zollo, 1998; Zollo and Winter, 2002). Also, smaller temporal intervals between the implementation of program divestitures, as promoted by the usually limited time horizon of a divestiture program, may amplify the positive effects of experience transfer on financial outcome of program divestitures. Long time intervals between divestitures lower managerial expectations that activities will repeat in the near future, increase reluctance to codify experiences, and therewith render inferences unavailable or inapplicable (Argote *et al.*, 1990; Zollo and Singh, 2004; Hayward, 2002; Ellis, 1965). In line with this argument, Hayward (2002) found that firms only benefit from recent but not distant acquisition experience. Overall, this suggests that experience transfer from one program divestiture to the other is more likely to be performance-enhancing. Thus, program divestitures which occur later in a program of divestitures should generate higher announcement returns:

H2. The amount of prior specific experience from divestitures which are part of the same divestiture program is positively related to the abnormal returns of the focal program divestiture.

In comparison, we propose a positive, albeit weaker, experience effect for the overall dealflow. Since non-program divestitures share fewer similarities with program divestitures, the experience transfer between non-program and program divestitures is likely to have less positive effects and is less likely to be perceived as beneficial by capital markets. Hence, we propose:

H3. Prior general divestiture experience positively influences program divestitures' abnormal returns. This effect is weaker than for specific experience transfer between program divestitures.

As mentioned above, the ability to benefit from learning effects seems also to depend on how the company schedules its divestitures. Insights from acquisition research suggest that a rather tight scheduling of divestitures seems to benefit experience transfer (Hayward, 2002). However, a tight scheduling of divestitures may also be detrimental to divestiture performance. While such timing effects have remained unexplored for divestitures, acquisition research suggests that scheduling acquisitions too tightly (Gary, 2005; Hill and Hoskisson, 1987) or departing from established rhythms of deal making, defined as the standard deviation of the yearly number of

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transactions (Vermeulen and Barkema, 2002; Laamanen and Keil, 2008), may negatively affect acquisition financial performance. The negative implications of a tight scheduling of multiple acquisitions can be explained by organizational frictions that arise at the acquirer's side: the acquisition and integration of target firms temporarily absorbs large portions of the acquiring firm's scarce management capacity (Cohen and Levinthal, 1990), which cannot be easily expanded for two reasons. First, the current management's cognitive capacity is naturally constrained and not scalable (Cyert and March, 1963; Greve, 2003; Simon, 1959); and second, the labor market is imperfect and cannot be expected to quickly provide managers who possess the required skill-sets and experiences (Dierickx and Cool, 1989). Hence, overloading a firm's management by scheduling acquisitions too tightly may create severe problems in the post-merger integration phase and other areas of the firm's operations (Gary, 2005; Hill and Hoskisson, 1987); both effects compromise transaction and overall firm performance.

Similarly, the issue of appropriate scheduling is of central concern in divestiture programs. The issue seems particularly acute in divestiture programs because divestiture programs usually follow a predetermined time schedule that specifies by what time (usually year) a firm wants to have its divestiture program completed. In 2000, for example, the chemical firm Degussa announced a divestiture program worth €6.5 billion in sales which was set out to be completed by 2002. Similarly, in 1998 the German electronics company Siemens defined a divestiture program worth €8 billion which was scheduled to be completed by 2000. Moreover, the studies by Nees (1978, 1981) and Brauer (2009) suggest that divestitures are associated with complex decision-making and implementation processes that span multiple levels in the organization and require considerable management capacity during each phase. In the initiation stage, the top management of the divesting firm has to analyze and weigh alternative options and to overcome internal resistance before agreeing on the decision to divest. Thereafter, a time-consuming process of developing and implementing a transaction plan follows, which is largely constrained to the top management due to confidentiality reasons (Brauer, 2009). Once announced, divestitures also draw on the capacities of middle-managers to implement the divestiture which involves the detaching from customers and the disentangling of the firm's resource portfolio (Penrose, 1959; Nees, 1978, 1981; Brauer, 2009). Similar to acquisitions, the available management capacity is thus likely to limit the number of divestitures a firm can handle effectively within a short span of time (Dierickx and Cool, 1989; Cohen and Levinthal, 1990). Thus, we propose the following relationship:

H4. The time elapsed since the last divestiture of a firm is positively related to the abnormal return of a firm's divestiture.

4. Methods

4.1 Sample and data

In contrast to previous studies on acquisition programs (Laamanen and Keil, 2008), we opted for a single-industry study so that all firms are exposed to the same environment. While this consideration hampers generalizability, it also naturally reduces the number of required control variables that may be critical in explaining relationships among the studied variables (Hansen and Hill, 1991). Also, our approach of conceptualizing programs on the basis of the firms' divestiture announcements demands similar

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disclosure and reporting practices from each of the studied firms, which could not be so easily secured when studying different industries. Due to its regulated character, disclosure and reporting practices are fairly uniform in the insurance industry and the high disclosure standards allow us to perform our analyses on an extensive, longitudinal set of press releases. A focus on the insurance industry is not uncommon. For instance, in strategic management research, the insurance industry has been used as a setting in research on competitive dynamics (Greve, 2008). Moreover, the focus on a service industry is an interesting change to prior divestiture studies that exclusively focused on manufacturing industries (Brauer, 2006). Our choice of industry is thus responsive to prior requests in divestiture research that future studies should include knowledge-based service firms in their analyses (Brauer, 2006). This focus on a service industry seems also particularly apt due to the fact that recent studies by the Organization for Economic Cooperation and Development (OECD) (2003) displayed that in the European business service sector, both entry and exit rates have been much higher than in manufacturing industries throughout the mid-1990s to late 1990s. Similarly, figures for the US show that the business service sector belongs among the most actively divesting industries (Thomson Media, 2001).

We derived our firm sample from the Dow Jones Global Stoxx Insurance Index. However, the composition of the index and the availability of information on the firms required us to discard the following groups of firms: first, broker firms which focus solely on the retail of financial products; second, firms for which either no financial or no consistent transaction data were available. Our ultimate sample of firms consists of 31 companies listed on the Global Insurance Index throughout the study period from 1998 to 2007. Data availability restricted the analysis of years prior to 1998. The wake of the major global financial crisis starting in August 2007 advised us to choose 2007 as the upper bound for our empirical analysis. These 31 firms undertook a total of 160 divestitures within this time span. Given our single industry setting, this sample size can be considered high compared with prior multi-industry divestiture studies (compare Table I).

To allow for an in-depth analysis of individual transactions, we identified and collected the press releases the firms had issued with their divestiture decisions. We proceeded as follows: in an initial step, we fully retrieved the press release archives of the sampled firms for the stated year range. This resulted in 7,445 saved web pages. Using automated procedures coded in Visual Basic, we isolated the plain texts of the press releases and identified their announcement dates. Next, we compiled the firm names, text strings and dates in an Excel database. Then, we identified the different types of portfolio transactions by means of structured content analysis based on keyword lists (Chen and Hambrick, 1995). Following these steps, we generated the sample of divestitures in two further steps: first, we matched the consolidated database by the date as key with the respective data on divestitures from the Thomson One Deal Module, which yielded – after a manual review of the matched press releases – 85 divestitures. Since our arguments rest on business unit sales, a manual review was needed to exclude other sales such as share sales or sales of minority holdings. Second, we reviewed the remaining press releases, which we had classified as divestiture announcements, and identified 83 more divestitures. To rule out stock market effects from confounding events, we dropped any divestiture within three days of any other strategic move of the same firm (McWilliams and Siegel, 1997). This process resulted in

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a transaction total of 160. The accounting data for our sample firms was retrieved from Worldscope database.

4.1.1 Dependent variable. Divestiture market returns. We used cumulative abnormal returns (CAR) as proxies for the total shareholder value created or destroyed by each divestiture. To calculate abnormal returns, we applied event study methodology. For the regression analysis, we chose to cumulate the abnormal returns over an event window of three days, as this length is assumed to capture the significant stock price effects while being short enough to minimize the number of events with overlapping event windows (McWilliams and Siegel, 1997; Berger and Ofek, 1999). Specifically, we enclosed the day before the announcement to factor in information leakage and the day after the announcement to cover the case that the divestiture news was released on the announcement day after the trading hours of the respective stock exchange. To ensure the robustness of our results, we aggregated the abnormal returns for further event-window lengths ranging from an asymmetric two day window $(-1, 0)$ to a symmetric window of a total length of 11 days surrounding the event date $(-5, +5)$.

4.1.2 Independent variables. Program divestiture. For analyzing the differences between program and non program divestitures, we needed to classify these two groups of transactions. In acquisition research, two approaches have been used to distinguish program from non-program acquisitions. The first is to denote all transactions in the years following an initial program announcement (Bhabra *et al.*, 1999; Schipper and Thompson, 1983) as program transactions; the second approach is to take all transactions that form an acquisition cluster within time and label them as program acquisitions (Laamanen and Keil, 2008; Conn *et al.*, 2004). However, since both approaches only allow for uninterrupted sequences of program divestitures, they risk mislabeling opportunistic divestitures as programmatic. Since our research aims at investigating whether the market awards the implementation of a strategically coherent divestiture sequence with a premium rests on an unequivocal separation of the two divestiture types, neither of the two approaches is suitable. Identifying program divestitures on the basis of divestiture announcements also seems favorable because divestiture announcements are most influential in shaping the perceptions of capital markets about a divestiture (Tetlock *et al.*, 2008; Kaiser and Stouratis, 2001). The determination of programs based on statistical clustering in contrast occurs in hindsight. It is thus highly doubtful that capital markets will in fact associate a divestiture with a program since it has no information that suggests so.

In our approach resting on text analysis, two raters read through the press releases of the 160 divestitures in our sample. Each divestiture was coded as "program divestiture" if the press release explicitly stated that the divestiture belonged to a "restructuring, refocusing, divestiture or downscoping program" or when the press release stated that the divestiture transaction "was part of a wider strategy to restructure, refocus or downscope". The coding was carried out in two steps. First, each of the raters categorized the transactions independently. Raters' assessment matched for all but four press releases. This translates into an inter-rater reliability assessed by Cohen's (1960) kappa of 0.94 ($p < 0.01$). Second, the four inconsistently rated press releases were discussed and categorized in mutual agreement between the two raters. Raters' codings were then translated into a binary variable with the value "1" if the transaction was part of a program and with the value "0" ($n = 104$), if not. In

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our sample, approximately one third of the corporations' divestitures were identified as program divestitures ($n = 56$). Though managers may rationalize clusters of divestiture activity as divestiture programs (Burgelman, 1996), this seems unlikely in our case. The firms only denoted a plausible share of the firms' divestitures as programmatic – roughly one third – and they did so in advance and not in hindsight. *Ex post* rationalization by the corporate management thereby becomes implausible.

Specific divestiture experience. In research on acquisitions (Haleblian and Finkelstein, 1999; Ingram and Baum, 1997), experience is normally captured with a count measure – the number of divestitures a firm has undertaken prior to the focal divestiture. Similarly, we use a count measure to capture potential experience transfer effects between divestitures which are part of the same program. But to distinguish specific from general divestiture experience, specific divestiture experience is measured only as the number of program divestitures that took place prior to the focal program divestiture. Essentially, the variable expresses the specific experience that was accrued within the specific program up to each divestiture.

General divestiture experience. Inline with the operationalization for specific divestiture experience, we also use a count measure to capture general divestiture experience. Specifically, we operationalize general divestiture experience determining the position of each divestiture in the firm's full sequence of divestitures. The position values are assigned in ascending order throughout the time-span of the study, starting with "1" for the earliest divestiture undertaken by the firm.

Elapsed time since last divestiture of the firm. This variable is a clock variable which counts the number of days elapsed between the firm's last and focal divestiture announcement. Constructed like this, the variable is not a substitute to rate or rank variables, which focus on cumulated experience effects, but expresses the recency of the preceding divestiture and therefore captures potential time compression effects. For keeping the cumulated abnormal returns of our sampled divestitures unbiased, we discard those that have overlapping event windows with any other material firm event, including other divestitures (Afshar *et al.*, 1992; McWilliams and Siegel, 1997).

4.1.3 Control variables. Firm performance. Poor and well performing firms divest for different reasons which may also affect divestiture market returns. Previous research suggested that poor firm performance not only raises a firm's propensity to divest (Haynes *et al.*, 2003), but that poor performing firms surprisingly earn higher abnormal returns than well performing firms (Johnson, 1996; Duhaime and Grant, 1984; Ravenscraft and Scherer, 1991; Dranikoff *et al.*, 2002; John and Ofek, 1995). We control for firm performance by averaging firms' return on assets (ROA) over the three years preceding the focal divestiture.

Firm size. Prior studies found that a firm's size positively relates to its propensity to divest (John *et al.*, 1992; Sanders, 2001; Duhaime and Grant, 1984; Bergh, 1997; John and Ofek, 1995). While this conflicts with the interests of managers, who personally benefit from operating larger firms (Rhoades, 1983) and (at least short-term) usually do not benefit from rendering operations more profitable by refocusing (Haynes *et al.*, 2007), it conforms with the arguments of the refocusing hypotheses mentioned earlier. We control for effects from firm size by using the natural logarithm of a firm's total sales in the year preceding the focal divestiture.

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Degree of diversification. The degree of a firm's diversification at the time of divestiture has been found to be strongly associated with its decision to divest and to influence stock market returns upon the divestiture's announcement (Dittmar and Shivdasani, 2003; Lang and Schulz, 1994; Markides, 1992). The scope of diversification serves the capital market as an indicator for control problems associated with the management of complex organizations and thereby as a proxy for the efficiency gains that can be realized by the divestiture (Haynes *et al.*, 2003). Following John and Ofek (1995), we measure firm diversification with a sales-based Herfindahl index. For each divestiture, we chose the index value from the end of the year that precedes the divestiture.

Debt-to-equity ratio. Since debt reduces a management's ability to invest its firm's free cash flow and raises costs for further external funding, it also makes divestitures a more attractive source of financing (Weston and Chung, 1990; Jensen, 1989, 1986). Consistently, prior research found debt to increase a firm's propensity to divest (Haynes *et al.*, 2003). Yet, literature suggests confounding effects of debt on the abnormal returns generated by divestiture announcements. Proposing a positive effect, Lasfer *et al.* (1996) interpret divestitures as strategies that ameliorate the financial situation of the divestor. Finding a negative effect, others (Hearth and Zaima, 1984; Sicherman and Pettway, 1987) consider debt to reduce the divestor's negotiating power, ultimately leading to lower transaction prices. We control for divestor financial condition (Chatterjee and Wernerfelt, 1991; Vermeulen and Barkema, 2002) by calculating the firm specific debt-to-equity ratio ((long term debt/(common equity + policyholder's equity)) × 100) as of the end of the year preceding each divestiture[3].

4.1.4 Data analysis. To test the aforementioned hypotheses, we apply event study methodology and run a regression on the cumulative returns of the announcements. For the calculation of the cumulative returns, we follow the procedures described by MacKinley (1997). Specifically, we calculate the cumulative abnormal return (*CAR*) for each announcement (i) and each event window length ($t_2 - t_1$) as $CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{it}$ with $AR_{it} = R_{it} - (a_i + b_i R_{mt})$, where a_i and b_i are the ordinary least squares parameter estimates from the regression of R_{it} (actual return of the stock on day t) on (actual market return on day t) over an estimation window with the length of 120 trading days before of the announcement. Because we study a set of international firms, an issue with differences in operating hours of the different stock markets arises (Park, 2004). We resolve this issue by using the respective home market index (m) for each company as its reference index and systematically exclude the local non-trading days from the respective calculations. According to finance theory (Fama *et al.*, 1969; Ball and Brown, 1968; Ashley, 1962), $CAR_i(t_1, t_2)$ represents the net present value of all future cash flows to the shareholders that the specific firm event (i) gives rise to and which are capitalized in between the days t_1 and t_2. To calculate the wealth effect that arises on a day (t) between t_1 and t_2 (AR_{it}), the formula stated above calculates the difference between the actual returns (R_{it}) surrounding the event and the "normal" returns ($a_i + b_i R_{mt}$) which the stock would have exhibited if the event would not have occurred. While the actual returns can be calculated from the actual stock prices, the expected returns need to be estimated. This is done by calculating the firm's stock's historical correlation (b_i) with the market and uses this historic relationship to project the hypothetic stock returns based on the actual market returns.

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For a meaningful application of the event study methodology, several requirements must be considered (Bromiley *et al.*, 1988; McWilliams and Siegel, 1997; Oler *et al.*, 2008). First, the events under study need to be of substantial relevance for the company and its shareholders (Brown and Warner, 1980), as well as understandable for the capital market participants, so they can properly estimate and price performance implications (Oler *et al.*, 2008). Second, the events must release information that is new to the stock market. And third, the stock markets on which the divesting firms are listed, need to exhibit a level of information efficiency that allows for a timely capitalization process (Fama *et al.*, 1969; Bromiley *et al.*, 1988). For research based on press releases, information efficient stock markets require the press release to be the initial source of information and thereby demand that the sampled firms practice efficient financial market communication. Peterson (1989) further points out that the stocks must be actively traded in a sufficient volume to prevent distortions in the price effects.

In our study, all of these requirements are met. First, divestitures are critical events that attract considerable shareholder attention (Klein, 1986; Jensen and Ruback, 1983). All the same, while showing complexity during the decision stage (Nees, 1978, 1981), divestitures induce only minor ambiguity as soon as they are decided and announced. Herein, they differ from acquisitions, which come with a much more challenging implementation phase and a high level of inherent uncertainty about the ultimate performance outcome (Oler *et al.*, 2008). Second, each divestiture releases new information to the capital markets. This also applies for program divestitures. Instead of pre-releasing an initial statement on their programs, revealing the units for sale and thereby compromising bargaining power, the sampled firms used the occasion of each program divestiture to relate the transaction to prior ones that followed the same rationale and, in most of the cases, explained how the firm is progressing in achieving this rationale. Since the details of the divestiture programs thereby materialized from the individual divestitures, the stock markets were less likely to capitalize the program transactions at once (Schipper and Thompson, 1983) but rather one by one (Afshar *et al.*, 1992). Third, also the stock market requirements are met. The analyzed firms were all listed on well-developed stock exchanges during the full study period and were obliged to operate professional financial market communication by their regulators. Further, distortions from thinly traded stocks can be excluded as the free-float ratios of all securities in the DJ Stoxx Global Insurance Index (2008) were constantly high (>75 percent) throughout the study period.

Since we regressed the abnormal stock returns on several independent variables, these also must conform to the methodology's assumptions and closely reflect the information the capital markets have absorbed and capitalized. We consider the use of official corporate press releases superior to other sources, such as newspaper articles or annual reports. The official corporate press releases have the advantage that they are published in an *ad hoc* fashion since the firms are legally bound to publish stock-price relevant events such as divestitures in an immediate fashion. So they are timely very accurate. Also, in terms of content, these releases can be assumed to be highly accurate as firms may otherwise by charged with providing misleading stock-market information. In contrast, newspaper articles, especially when they are drawn from various sources, may indicate wrong event dates (Afshar *et al.*, 1992; Peterson, 1989) or include other information than those released on the event dates (Haynes *et al.*, 2002;

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Peterson, 1989). Both effects obviously can distort the calculation of announcement returns. Given recent findings on which information stock markets consider (Tetlock *et al.*, 2008; Tetlock, 2007; Oler *et al.*, 2008; John and Ofek, 1995), we can expect our regression to yield valid relationships. We run a cross-sectional regression on the cumulative abnormal returns centering on the announcement dates of the sampled divestitures.

5. Results

Table II reports the means, standard deviations and correlation coefficients for the variables used in our regression models.

The average three day cumulative abnormal return (CAAR) in our sample is slightly positive. This is in line with prior studies that consistently found positive cumulative abnormal returns for divestiture announcements. Table II also indicates that the time elapsed between divestitures is significantly positively correlated with divestiture market returns. The significant correlation of this time variable with the experience variables does not cause any problems of multicollinearity as these variables are not used in the same models. The positive correlation is, however, plausible as a greater number divestitures is likely to require tighter scheduling.

Table III further details the abnormal returns found in our analysis. Table III compares the shareholder wealth effects of the full sample with the ones generated by the two sub-samples (program vs non-program divestitures) and gives the t-statistics for the comparison between the two divestiture types.

We find positive abnormal returns around the announcement date for all event windows with lengths up to five days. However, this effect largely leads back to divestitures from corporate programs. For non-program divestitures, the average abnormal returns are negative for event windows with lengths from 2 to 11 days. Thereby, Table III lends initial support for our first hypothesis and indicates less positive shareholder wealth effects for non-program divestitures. However, these results do not consider contingency factors. To control for these and to test whether further factors related to the program perspective affect divestiture performance, we run a cross-sectional regression on the cumulative abnormal returns $(-1, +1)$. Table IV presents the results of our regression analysis.

Our regression results support our initial findings from the calculation of abnormal returns. Program divestitures generate, on average, significantly higher abnormal returns of approximately 1 percent in all models ($p < 0.05$). Thus, *H1* is supported. Our regression results in models 2 and 3, however, do not support our hypotheses related to specific and general experience effects (*H2* and *H3*). Program divestitures that occur late in a divestiture program do not seem to generate higher abnormal returns than program divestitures that take place at the outset of a program. Model 3 also does not reveal any general positive experience transfer effects from prior divestiture activity.

H4 suggests that firms may benefit from not scheduling their divestiture too tightly since time compression diseconomies may exist in too tightly scheduled sequences. This hypothesis is supported by our empirical analysis ($p < 0.01$). We find a significant positive relationship between the days elapsed since a firm announced its previous divestiture and the abnormal return of the focal divestiture.

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Variable	Mean	SD	1	2	3	4	5	6	7	8
1. CAR (−1, 1)	0.07	2.88	1.00							
2. Firm performance	1.01	1.05	0.17*	1.00						
3. Firm size[a]	4.46	0.56	−0.04	0.14	1.00					
4. Degree of diversification	0.50	0.18	−0.01	−0.05	0.14	1.00				
5. Debt-to-equity ratio	259	398	0.03	0.33*	0.45	0.15	1.00			
6. Program divestiture	0.35	0.48	0.13	−0.13	−0.07	−0.13	−0.15	−1.00		
7. Specific divestiture experience	4.61	4.26	−0.09	−0.25	0.45*	−0.21	−0.07	n/a	1.00	
8. General divestiture experience	7.46	7.27	−0.11	−0.09	0.51	−0.23*	0.26*	0.13	0.59*	1.00
9. Elapsed time[b]	286	441	0.22*	−0.01	−0.19*	0.00	−0.01	−0.10	−0.33*	−0.33*

Notes: [a]Logarithm; [b]Elapsed time (in days) since the last divestiture of the firm; *$p < 0.05$ or lower

Table II.
Descriptive statistics and correlations

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Event window	Overall CAAR	Overall Positive	Program CAAR	Program Positive	Non-program CAAR	Non-program Positive	t
0	0.28	54.38	0.57	58.93	0.13	51.43	−1.35**
−1 to 0	0.08	53.75	0.50	58.93	−0.14	50.48	−1.63**
−1 to 1	0.07	51.25	0.59	53.57	−0.22	49.52	−1.68**
−2 to 2	0.09	53.13	0.27	50.00	−0.00	54.29	−0.54**
−5 to 5	−0.38	51.88	0.26	58.93	−0.73	47.62	−1.26**

Notes: [a]Cumulative average abnormal returns over selected intervals for a sample of 160 divestitures during the period 1998 to 2007. Abnormal returns are calculated using the market model parameters estimated over a 120-(trading) day period prior to the announcement date. The percentage positive is the ratio of the number of transactions with positive cumulative abnormal returns to the total number of transactions. Both sets of figures are individually provided for the full sample and the sub-samples of program ($n = 56$) and non-program ($n = 104$) divestitures. All figures, except the *t*-statistics, are percentages; $^{*}p < 0.10$; $^{**}p < 0.05$; conservative two tailed test comparing program and non-program divestitures

Table III.
Shareholder wealth effects (CAAR[a]) for different event windows

Variable	Models 1	2	3	4	5
Constant	1.08	0.41	−0.32	4.40	−1.00
	(2.29)	(2.29)	(2.35)	(5.44)	(2.62)
Program divestiture		0.94**	1.05**	n/a	1.07**
		(0.48)	(0.48)		(0.51)
Specific divestiture experience			−0.05		
			(0.04)		
General divestiture experience				−0.06	
				(0.11)	
Elapsed time btw. divestitures[a]					0.0015***
					(0.0006)
Firm performance	0.48**	0.52**	0.45*	0.53	0.55
	(0.23)	(0.23)	(0.23)	(0.50)	(0.26)
Firm size[a]	−0.31	−0.28	0.01	−0.34	−0.09
	(0.47)	(0.47)	(0.51)	(1.06)	(0.52)
Diversification level	−0.23	0.08	−0.30	−4.11	0.10
	(1.29)	(1.29)	(1.32)	(2.70)	(1.41)
Debt-to-equity ratio	0.00	0.00	0.00	−0.00*	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
N	160	160	160	56	129
R^2	0.03	0.05	0.06	0.16	0.10
Adjusted R^2	0.01	0.02	0.03	0.07	0.07

Notes: [a]Logarithm; [b]Elapsed time (in days) since the last divestiture of the firm; $^{*}p < 0.10$; $^{**}p < 0.05$; $^{***}p < 0.01$; conservative two tailed test; standard errors are reported in parentheses

Table IV.
Results of OLS regression models for CAR (−1, +1)

6. Discussion

The purpose of this study was to further our understanding of the sources of divestiture gains. While prior research on divestiture gains has treated divestitures as isolated events, we direct our attention towards the analysis of divestiture programs. This is in line with the most recent developments in acquisition research and, in fact,

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business practice. However, our study deviates from acquisition research by applying a potentially more accurate way of identifying and operationalizing divestiture programs. Instead of applying statistical clustering to determine divestiture programs, we ground our empirical analysis on the detailed text analysis of corporate press releases to identify those divestitures that are explicitly mentioned to be part of a divestiture or refocusing program and thus follow a joint explicit strategic rationale or business logic.

In doing so, our empirical results advance extant knowledge on divestiture gains. Findings for the global insurance industry suggest that program divestitures generate significantly higher market returns than "stand-alone" divestitures. The neglect of prior research to differentiate between program and non-program divestitures may thus partly account for the range of results on divestiture gains. As indicated, the higher market returns could result from the fact that capital markets may consider program divestitures as being more strategically relevant and reward them for greater strategic consistency. Prior research on corporate finance additionally suggests that this above average positive market return of program divestitures may also be due to the explicit link to corporate strategy and the delivery of a strategic motive for the transaction. Firms that provide a sound strategic motivation for their divestitures have been found to benefit from greater positive announcement returns compared to firms that provide no such motivation (e.g. Allen and McConnell, 1998; Lang *et al.*, 1995; Vijh, 2002).

In an effort to further explore and detail the sources for the above average positive effects of program divestitures, our *H2* to *H4* set out to investigate the influence of specific and general divestiture experience as well as the influence of divestiture timing on divestiture market returns. While transaction experience is one of the most studied performance determinants in acquisition research (Haleblian and Finkelstein, 1999; Bergh and Lim, 2008; Vermeulen and Barkema, 2001; Barkema and Vermeulen, 1998), little research has been done on the impact of divestiture experience on divestiture gains. Despite the practically intuitive arguments in learning theory that suggest a positive influence of experience on divestiture outcome, our findings do not show any support for a significant impact of experience on divestiture market returns. Our insignificant findings, however, should not be easily discarded as an indication for the irrelevance of experience transfer in divestitures. Given the fact that firms have generally far less routinized divestiture processes than they have acquisition processes (Dranikoff *et al.*, 2002; Mankins *et al.*, 2008), these findings may simply reflect that firms are usually less accustomed with divestitures and have not yet installed the same kind of learning and routinization processes that they may have installed for acquisitions.

Besides experience, timing is another potential source for higher returns of program divestitures. Timing is a general element of divestiture programs since these are usually assigned a certain deadline by which the units should be divested. Our results for *H4* propose significantly higher performance of moderately paced divestitures, suggesting that too tightly scheduled divestitures may experience time compression diseconomies (Dierickx and Cool, 1989). This result is in line with prior findings from acquisition research (Gary, 2005; Hill and Hoskisson, 1987; Haunschild *et al.*, 1994).

Our study also makes two methodological contributions. First, it departs from the practice of assuming that transaction clusters in time automatically constitute

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transaction programs (Conn *et al.*, 2004; Laamanen and Keil, 2008). While prior research on acquisition programs suffered from being "unable to link [their phenomena of interest] with explicitly defined acquisition programs and their characteristics" (Laamanen and Keil, 2008, p. 670), our conceptualization of programs is based on a thorough review of the information the firms have disclosed with their divestitures. By adopting our approach, future research on divestiture and acquisition programs could ensure to base their empirical analyses on the same information the capital markets have absorbed. The statistical clustering of transactions to identify programs seems also highly questionable given the fact that these patterns only emerge *ex post*. At the time of an acquisition or a divestiture announcement, the capital market which operates in real time cannot process this information. The link to market returns at the time of announcement thus seems flimsy based on such an approach. Second, our study is one of the first to analyze divestiture abnormal returns in a service industry. Prior studies have usually been set in manufacturing industries.

Our findings also bear implications for business practice. First and foremost, capital markets seem to reward divestitures that are guided by an explicit strategic rationale. Divestitures that are not tied to a firm's overarching corporate strategy by means of an explicit divestiture program generate, on average, inferior returns. In such cases, shareholders may see their future earning potentials at risk by shortsighted action. Consistent with this notion, we also find that firms are penalized for implementing their divestitures too quickly. Higher abnormal returns were attributed to moderately paced divestiture series.

7. Avenues for future research and limitations

Our results imply that research on divestiture gains could benefit from a greater incorporation of process issues. Specifically, this study drew attention to the interrelation between divestitures in form of divestiture programs as well as the importance of the temporal dynamics of divestitures. So far, researchers have treated divestitures as isolated events and thereby might have overlooked an important explanatory factor responsible for the limited reach of extant explanations for the announcement returns of divestitures. We suggest that future studies should adopt a program perspective and try to elaborate on the characteristics of these programs and the conditions under which these programs enhance divestiture market performance. Of particular interest are the interaction effects of divestiture program characteristics with additional covariates, such as firm or governance characteristics, which could provide further insights on the capital market's divestiture pricing mechanics. To extent upon this line of research, it would also be valuable to not only look at process characteristics but also link these to process outcome measures. Announcement returns are unquestionably the most widely used performance measure and can be deemed to be superior to accounting measures for several reasons (see Haleblian *et al.*, 2009, for a discussion). However, announcement returns only capture changes in market expectations about the future firm performance. Alternative study designs, such as the one applied by Haynes *et al.* (2002), may focus on the long-run implications and thereby analyze whether the predictions made by the announcement returns also translate into differences in long-term profitability or become overlapped by other factors. Last but not least, future studies are needed to test for the wider

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generalizability of our findings across different industry settings. Our more accurate but also more restrictive approach to identify divestiture programs based on text analysis of firm press releases instead of grounding our analysis purely in readily available secondary data from SDC constrained our overall sample size and suggested a single-industry set-up.

8. Conclusion

In general, our study emphasizes the need for moving beyond the analysis of divestitures as isolated events. We propose to stress the analysis of causal and temporal interrelationships in firms' divestiture behavior. Both are shown to significantly influence divestiture market returns. In the face of the current financial crisis, as firms across industries restructure their business portfolios, these findings may be particularly useful. Managers are advised to refrain from piecemeal divestiture behavior lacking clear strategic focus. Instead, they are encouraged to bundle their divestitures as part of a divestiture program with a clear strategic intent and shared business logic. At the same time, they are advised to stage these divestitures in a careful manner. Too tightly scheduled "fire sales" are likely to diminish returns from divestitures.

Notes

1. This view of divestitures as isolated events not only resulted from the data collection and analysis approach of prior studies that seldomly applied in-depth text analysis of firms' publicized divestiture announcements to determine potential linkages between firm divestitures but is also partly inherent to how these studies applied event study methodology (see Haynes *et al.*, 2002, for an extensive discussion).
2. Individual divestitures are less likely to bring about a major change in the way a firm does business because prior research found that firms tend to divest rather small, non-core businesses.
3. Further controls which could have been added based on previous research on corporate finance are the use of proceeds, the selling price and the payment type (Afshar *et al.*, 1992; Kaiser and Stouratis, 2001; Klein, 1986; Lang *et al.*, 1995). But neither the corporate press releases nor the Worldscope database provided the information necessary to include these measures for a sufficiently large sub-sample of our divestitures.

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