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The diversity of divestiture– stock market reactions around the announcements of divestiture programs

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Abstract

Single divestitures can adjust a firm's strategy, while divestiture programs, a series of divestitures with a common rationale, may considerably change a firm's business. However, this does not always imply a positive impact. Existing evidence on how capital markets evaluate these decisions lacks validation based on the firm's strategic background. This paper fills this gap by examining stock market reactions to divestiture program announcements, conditional on the firm's current situation. We explore five key antecedents likely to influence divestiture program decisions: CEO turnover, new blockholder, financial distress, prior divestiture experience, and industry divestiture waves. Examining more than 100 European firms and their divestiture disclosures, our results show that firms announce divestiture programs when financially distressed or after a change in the top management. Market reactions vary but are more positive when program value is disclosed, especially for financially driven programs or those programs which are part of broader restructuring initiatives.

Keywords Divestiture programs · Management turnover · Financial distress · Signaling

JEL Classification G14 · G32 · G34 · L25 · M10

This paper is based on one chapter of the PhD thesis of Ludwig Erl.

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1 Introduction

Divestitures, the process of selling or spinning off parts of a company, are widely regarded as a key strategic tool for firms aiming to streamline operations and enhance financial performance. However, recent research exploring the causes and consequences of divestitures presents inconsistent findings (Bergh and Lim 2008; Brauer 2006; Feldman et al. 2016; Kolev 2016; Lee and Madhavan 2010; Vidal and Mitchell 2018). Literature reviews by Silva and Moreira (2019) and Schmid and Morschett (2020) highlight the mixed results in divestiture research, suggesting that the variation in findings is rooted in diverse methodological approaches, datasets, and contexts. In addition, Arte and Larimo (2019) note discrepancies in empirical designs, particularly in the operationalization of variables, sample sizes, and geographic focus, contributing to the lack of consensus. Borga et al. (2020) demonstrate that country policies and economic conditions significantly influence divestment decisions, extending beyond mere financial performance considerations. Additionally, little is known about how market reactions differ between broader divestiture programs and stand-alone divestitures, especially when considering the rationale behind these moves and the information disclosed during announcements. Given these complexities, understanding the broad impact of divestitures and the timing of the announcements on firm value and competitive positioning remains critical for both corporate management and investors.

In this study, we contribute to the existing literature by examining the impact of divestiture program announcements and analyzing the corresponding stock market reactions of firms following such announcements. By focusing on how the stock market perceives and responds to these strategic moves, we aim to shed light on the relationship between the rationale for divestiture and the resulting changes in firm value and investor reaction. Our analysis provides insights into financial implications of these announcements, offering a deeper understanding of their role in shaping corporate strategy and market behavior. Based on a unique dataset of 148 divestiture programs announced by a cross-industry and cross-country sample of 101 European firms between 1997 and 2014, we contribute to divestiture research by providing a detailed examination of the stock market evaluation, occurrence and rationales of divestiture programs. We additionally compare decisions where firms announce a program to a stand-alone divestiture, analyzing divergences in resulting stock market reactions based on the rationale behind the programs and the extent of information disclosure in program announcements. Our analyses focus on differentiating observed divestiture decisions and testing for dependencies. We present three primary program rationales: financial motives, refocusing, and streamlining. Divestiture programs are often initiated for financial motives, responding to concerns such as debt or liquidity issues, or from a refocusing rationale, involving an exit from specific industries or geographies. Additionally, divestments can be driven by a streamlining rationale, aimed at optimizing a firm's business portfolio. This recognition contrasts with prior research, which predominantly focused on refocusing alone (Berger and Ofek 1999). Divestiture programs are identified as standalone announcements, integrated into a broader restructuring initiative, or associated with an acquisition, often coinciding with a firm's results presentation.

While many studies view divestitures as “isolated, self-contained events” (Brauer and Schimmer 2010: 85) or “one-off activities” (Mankins et al. 2008: 99), when firms alter their strategy and restructure their business unit portfolios, they often engage in sequences of transactions rather than single ones (Bhabra et al. 1999; Bowman and Singh 1993; Brauer and Schimmer 2010; Haynes et al. 2002; Laamanen and Keil 2008; Schipper and Thompson 1983). A sequence of divestitures sharing a common rationale constitutes a divestiture program, which is interrelated, coordinated, and strategically consistent (Brauer and Schimmer 2010). Divestiture programs are distinguishable from stand-alone divestitures and signify a major adjustment of a firm’s strategy and portfolio, indicating a far-reaching strategic rationale (Brauer and Schimmer 2010). Previous research selectively examined divestitures as part of a sequence (Berger and Ofek 1999; Brauer and Schimmer 2010). Berger and Ofek (1999) report that refocusing programs are often preceded by corporate control events, with positive and significant abnormal returns for related announcements. Brauer and Schimmer (2010) examine market reactions to divestitures as part of a program, finding them superior to stand-alone divestitures.

Considering antecedents explaining a firm’s decision to announce a divestiture program in contrast to a stand-alone divestiture, we contribute to the literature and provide evidence that firms often choose to announce a program after a change in top management or when financially distressed. This suggests that programs mark major and deeper changes than stand-alone divestitures, allowing firms to restore financial health and serve as strong signals to the market. We also consider prior divestiture experience and industry waves, finding that only distant experience increases the likelihood of a program, and firms are less likely to announce a program after a divestiture wave in their primary industry.

In line with existent research, we show that programs result in high positive abnormal returns, but varying by program rationale. While program announcements often follow a strategic context, they may lack the specificity of stand-alone divestiture announcements. Signaling theory supports our argument that the effectiveness of the seller’s signals depends on the amount of information shared with investors, and that clearly communicating the value of a program is a significant positive predictor of abnormal returns. Our results suggest that for programs with a financial or restructuring rationale program value increases signaling effectiveness and credibility. For refocusing rationale programs, specifying the assets leading to a refocused firm is associated with significant positive abnormal returns. This study’s findings are novel and add to the current literature as they illustrate that divestiture programs convey more robust information about management’s strategic intent than isolated divestitures, emphasizing the importance of coherent communication in enhancing market trust and support.

The rest of the paper is organized as follows. Section 2 provides the theory and hypotheses. Section 3 describes the sample, presents the variables, and outlines the methodology. Section 4 reports the results, while Sect. 5 discusses our findings, its implications, and its limitations and Sect. 6 concludes.

2 Theoretical background and hypotheses development

In this section, we present the theoretical foundation for our paper. We discuss how divestiture antecedents influence a firm's decision to announce a program versus a stand-alone transaction. We also explore the relationship between the provision of program details and the market's reaction to program announcements, ultimately positing testable hypotheses, emphasizing the role of signaling theory in understanding divestiture announcements.

2.1 The decision between divestiture programs and stand-alone divestitures

Divestiture announcements are crucial signals to the market, communicating strategic intentions and future directions of a firm. Following general signaling theory (Spence 1973), firms use these announcements to convey information to stakeholders, particularly investors, about their strategic vision in the future but also on which markets and costumers they focus on, providing relevant information to investors. In the context of divestitures, the distinction between a broader divestiture program and a stand-alone divestiture can send different signals regarding management's commitment to change business strategy and the anticipated impact on firm value.

Prior literature has extensively examined the antecedents of stand-alone divestitures (e.g., Brauer 2006; Kolev 2016), focusing on governance, performance, strategy, and the firm environment (Brauer 2006; Johnson 1996). However, less attention has been paid to the antecedents of divestiture programs and the implications of distinguishing between stand-alone divestitures and divestiture programs. For instance, while Berger and Ofek (1999) explore the motivations for reducing diversification through divestitures, they do not differentiate between refocusing via single versus multiple transactions. They observe that corporate control events, such as new CEO appointments or financial distress, often trigger refocusing efforts, but they do not fully explore how these events signal changes in strategic intent.

Incorporating signaling theory into this discussion, the announcement of a divestiture program can be interpreted as a proactive signal to the market, indicating that management is committed to significant strategic adjustments and is willing to address current inefficiencies. Conversely, a stand-alone divestiture may be viewed as a more reactive measure, potentially raising concerns about the firm's overall stability and future prospects. Organizational adaptation theory also complements this perspective, emphasizing how organizations respond to environmental changes (Meyer 1982; Hannan and Freeman 1977). Firms must adapt proactively or reactively to maintain their competitive edge (Chakravarthy 1982). Proactive adaptation, such as the announcement of a divestiture program, serves as a signal that management is anticipating future challenges and is prepared to make necessary adjustments.

The role of top management is essential in effective organizational adaptation (Yukl and Mahsud 2010), as leaders are responsible for shaping and communicating strategic visions, fostering a supportive climate for change, and mobilizing resources. However, barriers such as cognitive biases and organizational inertia can hinder these processes (Schein 1990). Signaling theory helps explain how management can use

divestiture announcements to navigate these barriers, demonstrating their commitment to overcoming firm challenges and inefficiencies in the past.

Building on these theoretical foundations, we investigate antecedents that differentiate between divestiture programs and stand-alone divestitures. Given that divestiture programs signal substantial strategic adjustments, we explore five key antecedents likely to influence such decisions: CEO turnover, new blockholder, financial distress, prior divestiture experience, and industry divestiture waves.

2.1.1 CEO turnover

The appointment of a new CEO often results in significant changes in corporate strategy (Weisbach 1995). Research indicates that CEO tenure correlates with economic investment cycles and increases agency problems (Pan et al. 2016). Moreover, new CEOs tend to reverse prior decisions, especially in response to performance issues (Haynes et al. 2002; Weisbach 1995). By announcing a divestiture program, a new CEO signals to stakeholders that they are taking decisive action to enhance firm performance and move beyond the previous administration's legacy. This signal might be amplified when the new CEO opts for a program over a single transaction, indicating a commitment to comprehensive strategic change.

Hypothesis 1 Firms will engage in divestiture programs rather than stand-alone divestitures following the appointment of a new CEO.

2.1.2 New blockholder

The presence of new blockholders, shareholders holding significant stakes, can also alter corporate governance dynamics, prompting management to reconsider strategic options (Bethel and Liebeskind 1993; Jensen and Meckling 1976). Blockholders often demand efficiency and may pressure firms to divest underperforming assets. When a new blockholder joins the firm, their influence can signal to the market a shift towards more rigorous corporate oversight, suggesting that management may be more inclined to pursue stand-alone divestitures, which may be perceived as less comprehensive and more reactive.

Hypothesis 2 Firms will engage in stand-alone divestitures rather than divestiture programs following the buy-in of a new blockholder.

2.1.3 Financial distress

Financially distressed firms may turn to divestitures as a means of restructuring and regaining stability (Dranikoff et al. 2002; Ravenscraft and Scherer 1987). The announcement of a divestiture program during financial distress serves as a strong signal of management's proactive efforts to address underlying issues and improve operational efficiency. This signal is critical for reassuring investors that the firm is taking necessary steps to restore health and stability.

Hypothesis 3 Firms will engage in divestiture programs rather than stand-alone divestitures when facing financial distress.

2.1.4 Divestiture experience

According to learning theory, firms with prior divestiture experience are likely to develop the skills and knowledge necessary to navigate future divestitures more effectively (Levitt and March 1988). Erl et al. (2023) show that this experience can lead to positive expectations about the outcomes of divestitures, fostering confidence in management's ability to implement considerable strategy changes. However, if a firm has recently divested, it may signal to the market that a comprehensive program is not required, leading to a preference for stand-alone transactions that capitalize on existing knowledge.

Hypothesis 4 Firms will engage in stand-alone divestitures rather than divestiture programs based on their prior divestiture experience.

2.1.5 Industry divestiture wave

Divestitures often occur in waves within industries, impacting firms' strategic decisions (Brauer and Wiersema 2012; McNamara et al. 2008). During such waves, firms may be hesitant to initiate divestiture programs due to concerns about signaling opportunism or following peers without clear strategic rationale. The signals sent by divestiture announcements can differ significantly depending on whether the firm is operating in a divestiture wave. In a wave, a stand-alone divestiture may be perceived as a necessary adjustment to stay competitive, whereas a divestiture program could signal that the firm is engaging in an extensive overhaul, potentially raising concerns about the firm's stability and management's ability to handle multiple changes simultaneously.

Hypothesis 5 Firms will be less likely to engage in divestiture programs during a divestiture wave in their primary industry.

2.2 The market reaction to divestiture program announcements

Empirical research on divestitures has extensively examined the wealth effects associated with stand-alone divestiture announcements, generally finding positive market responses (Brauer and Schimmer 2010; Lee and Madhavan 2010). These studies suggest that the market response positively to the signaling of strategic changes, reflecting investor confidence in management's decisions. Furthermore, findings indicate that the market reaction to announcements of individual divestitures within a program tends to be even more favorable than to stand-alone divestitures, highlighting the perceived coherence and strategic intent behind the program (Brauer and Schimmer 2010).

In contrast to previous studies that predominantly examine stand-alone divestitures, our analysis focuses on divestiture program announcements, which typically

involve multiple divestitures executed as part of a coordinated strategy. Earlier research has primarily investigated the effects of these announcements in the context of refocusing or down-scoping moves among large U.S. corporations during the 1980s (e.g., Johnson 1996). These studies have shown that announcements involving refocusing, whether through multiple transactions or single divestitures, tend to result in positive abnormal returns (Berger and Ofek 1999; Markides 1992; Slovin et al. 1995).

However, our study expands beyond the refocusing rationale to include divestiture programs that may also contain streamlining or financial motives. A divestiture program is characterized as an interrelated, coordinated, and strategically consistent series of divestitures (Brauer and Schimmer 2010). This multifaceted nature allows a divestiture program to signal a significant shift in strategy, indicating a firm's commitment to ongoing transformation and the anticipated impacts of subsequent individual divestiture announcements. By announcing a divestiture program, a firm reduces the need for separate signals for each individual divestiture, showing a clear and consistent strategy that is more appealing to investors.

According to signaling theory, if the restructuring move signals a coherent strategy that is expected to impact future cashflows positively and aligns with or exceeds investor expectations, it should lead to positive abnormal returns (Bowman and Singh 1993). Previous research indicates that the deal value or transaction price often serves as a predictor of abnormal returns (Afshar et al. 1992; Klein 1986; Mulherin and Boone 2000), where a lack of disclosed pricing may be interpreted as an indication of concealed negative information (Haynes et al. 2002). For divestiture programs motivated by financial reasons, it is essential that the announced program value meets or exceeds market expectations to gain positive abnormal returns. Conversely, for programs announced with a refocusing rationale, the emphasis should be on the strategic intent behind the move rather than the specific value of the assets to be divested.

Hypothesis 6 The provision of program value is positively associated with the abnormal returns of a divestiture program; this effect is greater for programs with a financial rationale.

Furthermore, in cases where a divestiture program is framed within a restructuring context, the size of the announced program value serves as a critical signal of commitment and economic significance. A larger program value may enhance the credibility of the divestiture program, providing investors with a better indication of the management's intentions.

Hypothesis 7 Abnormal returns increase with the value of a divestiture program for programs that are announced as part of a restructuring program or are undertaken for a financial rationale.

Additionally, the provision of a timeline or program length can help mitigate information asymmetries that often accompany divestiture announcements. However, the importance of this information likely varies based on the program's rationale. For programs motivated by financial concerns, the timeline may be less critical, as the

financial rationale itself implies urgency in implementation. Conversely, for refocusing moves that often require a long-term perspective, the provision of a timeline can significantly enhance the credibility of the announcement.

Hypothesis 8 Program length is positively associated with abnormal returns of a divestiture program; this effect is greater for programs with a refocusing rationale.

Moreover, specifying particular assets targeted for divestiture within a program can further enhance the information quality of the announcement. For refocusing-driven programs, naming specific assets enhances the credibility of the firm's intentions, demonstrating a clear commitment to strategic realignment. In contrast, for divestitures driven by financial motives, the mere act of committing to extensive divestiture may hold greater significance than the identification of specific assets.

Hypothesis 9 Naming specific assets to be divested is positively linked to abnormal returns of a divestiture program; this effect is stronger for programs with a refocusing rationale.

3 Sample and methodology

In the following, we present our sample, the employed measures, and our empirical setting to test our hypotheses.

3.1 Sample

The sample is obtained from the constituents of the STOXX Europe 600 in 2000, and is similar to Erl et al. (2023). This index covers the largest European firms by market capitalization from a broad range of industries. Prior literature on divestitures has mostly focused on the U.S. (e.g., Berger and Ofek 1999; Feldman et al. 2016), while more recent studies have also taken a European or global but industry-specific perspective (e.g., Bergh et al. 2019; Brauer and Schimmer 2010; Erl et al. 2023). In line with prior literature, we excluded industries that allow for limited comparability of accounting data across industries: the financial industry, trading/ retail industry (Berger and Ofek 1999; Haynes et al. 2002), and the regulated energy sector. The study covers divestiture program announcements in the period from 1997 to 2014. At least four consecutive years of data between 1995 and 2014 were required for a firm to be included in the analysis. This resulted in a sample of 271 firms across Europe. Next, we systematically searched primary (e.g., press releases) and secondary sources (e.g., financial press, newswires) using the Factiva database for explicit announcements of divestiture programs.¹ To be considered in the analysis, a single announcement needed to refer to the divestiture of multiple units or assets, the divestiture of a certain amount of sales or assets, or the general intent to restructure the business portfolio or parts thereof. Finally, a sample of 101 firms that have made 168

¹ Note that divestiture programs are often also labeled as disposal programs or asset sales plans.

announcements for 148 divestiture programs between 1997 and 2014 remained. The announcements peaked between 1999 and 2003 (see Fig. 1).

3.1.1 Program rationale

Following a manual analysis by classifying all divestiture program announcements and their coverage by secondary sources, three program rationales can be defined: financial motives, refocusing, and streamlining. These rationales are in line with prior literature on divestitures (Berger and Ofek 1999; Brauer 2006; Brauer and Schimmer 2010; Hamilton and Chow 1993; Montgomery et al. 1984). Programs that are undertaken out of *financial* motives divest businesses or assets in response to debt or liquidity concerns, e.g., a struggling industrial conglomerate that tries to reduce its high leverage.² Firms that divest with a financial rationale may also intend to refocus through their program. In such a case, refocusing is considered a secondary rationale, with the primary rationale still being the financial motive (see Fig. 2, dotted bar segments). *Refocusing* programs divest businesses or assets to exit specific industries or geographies and consequently increase the focus of the business portfolio, e.g., an industrial conglomerate exiting its chemicals business to focus on its engineering core. Prior divestiture research has also referred to refocusing as downscoping (e.g., Johnson 1996) and framed divestitures that follow a refocusing rationale as strategic (Montgomery et al. 1984). *Streamlining* programs divest businesses or assets as part of a portfolio review in a “housecleaning fashion as a means of ridding the firm of unwanted or undesired units” (Montgomery et al. 1984: 833) or with the intention of “clearing the decks” (Lee and Madhavan 2010: 1352). In contrast to refocusing programs, streamlining programs do not imply exiting an industry or geography, e.g., a hotel conglomerate that announces to review and divest part of its hotel portfolio. In addition, programs may be linked to or directly follow a previous acquisition. Thus, the presented rationale may be a direct consequence of the acquisition and involve both acquired and previously owned units, e.g., a firm may refocus through

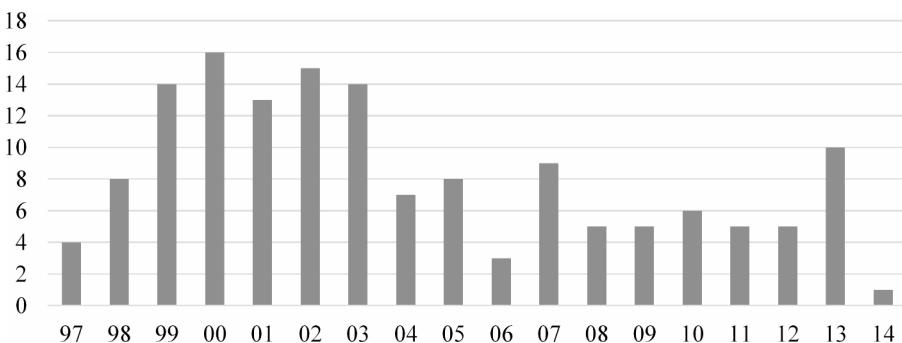


Fig. 1 Announced divestiture programs per year between 1997 and 2014 ($N=148$, w/o follow-up announcements)

² All programs whose announcement refers with regard to the usage of proceeds primarily to the reduction of debt or the restoring of cash flows are categorized as financially motivated programs.

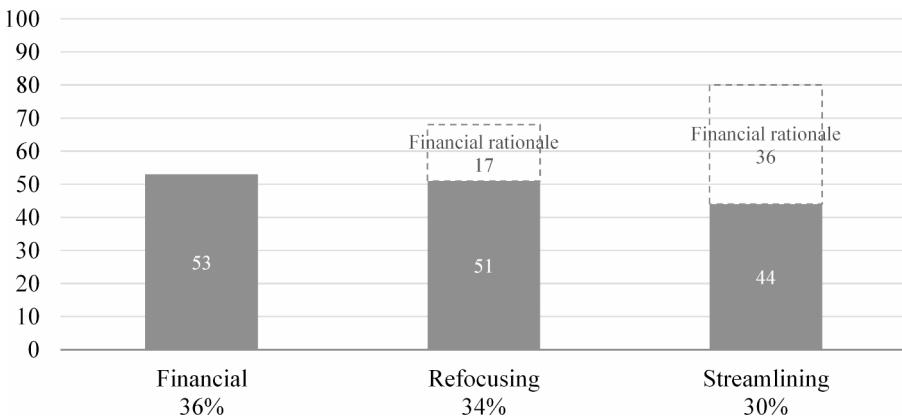


Fig. 2 Divestiture programs by rationale ($N=148$, w/o follow-up announcements)

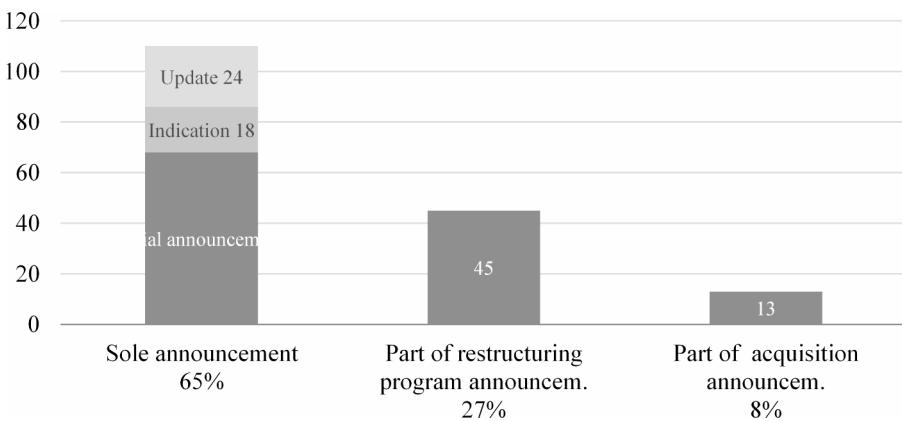


Fig. 3 Divestiture programs by announcement type ($N=168$)

both acquisitions and divestitures, a firm may divest to streamline its portfolio, or to reduce its debt levels following a significant acquisition.

3.1.2 Announcement types

Divestiture programs are announced in various contexts, often aligned with the program rationale. Three primary announcement types could be identified: sole announcements, part of an acquisition, and part of a restructuring program (see Fig. 3). Sole announcements involve the firm solely disclosing a divestiture program, while acquisitions and restructuring may incorporate divestiture plans. Initial announcements outline specific goals, such as realizing EUR 1.0 billion from divesting non-core assets. Indications involve the CEO or CFO hinting at potential divestitures or initiating a portfolio review. Program updates occur when the firm refines or expands the initial announcement. Divestiture decisions may also be part of broader restructuring efforts, addressing debt or profitability concerns. Timing-wise, divestiture programs

are often disclosed alongside quarterly or annual results, with 48% occurring on the same day or as part of a results announcement. Table 7 in the Appendix provides some exemplary announcements and shows the largest divestiture programs by relative and absolute values in terms of expected proceeds and sales.

3.2 Variables

In the following, we describe the variables to examine a firm's decision when to announce a divestiture program and the capital market reaction to such announcements. All accounting data is obtained from *Worldscope*, stock and market index data from Refinitiv's (formerly Thomson Reuters) *Datastream*, and divestitures from *SDC*. Program-specific characteristics were hand-collected based on the program announcements obtained from *Factiva*.

3.2.1 The decision between divestiture programs and stand-alone divestitures

The *dependent variable* for the first research question describes a firm's choice between a *divestiture program*, a *stand-alone divestiture*, and *non-divesting*. Thus, it draws a clear distinction to stand-alone divestitures. Follow-up announcements to a prior announcement were excluded if the initial announcement of the program is included in the study to avoid sample bias. For *stand-alone divestitures*, an initial list of sell-offs undertaken by the sample was obtained from *SDC*.³ Transactions needed to be flagged as a divestiture deal by *SDC*, be announced between 1997 and 2014 and eventually be completed. Further, we excluded the sale of non-operational assets such as property or buildings and divestitures, where the holding is not reduced to a minority holding, e.g., the formation of a 50/50 joint venture. These criteria were applied based on the *SDC* fields *deal type* and *deal synopsis*. To ensure that only substantial divestitures are included, we required each transaction to divest at least 5% of firm size.⁴ The median of the divested firm size of the 101 firms in the sample takes a value of 0.42% for all 2,641 transactions for which size was available. This confirms that most divestitures in the sample are rather small in size and supported setting a size threshold. To avoid the inclusion of divestitures that were part of the identified divestiture programs, we excluded divestitures in the year before and the two years after a divestiture program. Overall, we identified 152 divestitures that fulfilled the criteria. They were undertaken over 142 firm periods.

³ We built on the divestiture sample of a prior study. 57 firms included in that prior study were also part of the current study. For the remaining 44 firms, we obtained new data from *SDC*.

⁴ Prior literature has mostly measured divestiture size based on transaction price (e.g., Haynes et al., 2002) or unit sales (e.g., Pathak, Hoskisson, and Johnson, 2014). However, given the issue of incomplete transaction financials (Haynes et al., 2002; Nanda and Narayanan, 1999), we employed a multi-step approach to ensure a sample size as large as possible. Where available, we scaled unit sales data with the previous year's parent's sales to measure size. If sales were not available, we used, based on their availability, in the following order transaction price, including net debt, relative to previous year's enterprise value, unit's assets relative to previous year's total assets, or divested employees relative to previous year's total employees.

The *independent variables* describe those antecedents of divestiture whose effect on the decision between a divestiture program and a stand-alone divestiture was under examination.

CEO turnover. The variable takes a value of 1 if the firm's top executive changed in the focal or the previous year.⁵ To identify management changes, we built an executive database for the sample by systematically searching primary (e.g., press releases) and secondary sources (e.g., financial press, newswires) using the *Factiva* database and filtering for the subject "management moves".

New blockholder. The variable takes the value of 1 if the firm received a new blockholder in the focal or previous year. Given limited availability of ownership databases for the European region and different disclosure requirements, we relied on three sources to build a comprehensive database of ownership changes: annual reports, *Factiva*, and *Bloomberg*. To be considered, a new blockholder needed to take a stake above 5% of the share capital and voting rights. A threshold of 5% assures mandatory disclosure for all sample firms. Further, we required a new blockholder to hold a stake above this threshold for at least one year. As part of the supplementary analysis, we differentiate between passive and non-passive blockholders.

Financial distress variables. We captured financial distress based on three measures: dividend cut, negative net income, and stock underperformance. *Dividend cut* takes a value of 1 if the dividend per share in the past fiscal year is lower than in the year before (e.g., Berger and Ofek 1999; Owen et al. 2010). *Negative net income* takes the value of 1 if a firm has reported a negative income in the past fiscal year (e.g., Feldman et al. 2016; Lang et al. 1995). Divestiture literature has previously considered prior stock performance as an indicator of financial distress (e.g., Owen et al. 2010). *Stock underperformance* is measured by calculating the cumulative excess returns for the two years prior to the focal period and ranking the firms.⁶ The excess returns are calculated by deducting the return of a reference index from the realized return. Given that the STOXX Europe 600, from which the sample was drawn, did not offer return data for the entire observation period, we take the S&P Europe 350 as our reference index. The bottom quartile of firms was considered to underperform.⁷

Divestiture experience. We measure divestiture experience as the number of divestitures in all three years prior to the focal period. We included further variables for each of the three years individually. The transaction needed to be a divestiture of operational assets and to capture the entire holding in a unit or reduce the holding to

⁵ Capturing CEO change and new blockholders in the previous and the focal year, assured that the variable also considers a proper period for programs announced at the end of a year. Applying this approach came closest to measuring the 360 days prior to the actual announcement. Given that the model compared firm periods, also those without any divestiture, it was not possible to operationalize CEO turnover relative to an announcement day.

⁶ In line with prior literature, we also measured stock performance as buy-and-hold abnormal returns (Owen et al., 2010). Results are robust and available upon request.

⁷ Prior literature has also considered *interest coverage*. We operationalized it to take a value of 1 if earnings before interest, taxes, depreciation and amortization (EBITDA) relative to total interest expense (e.g., Bergh and Sharp, 2015; Lang et al., 1995) is less than three (Demiroglu and James, 2015). Given that the variable exhibited a correlation of 0.75 with *negative net income*, we omitted the variable to avoid multicollinearity issues. Results are robust to replacing the negative net income with interest coverage, which itself is not significant.

a minority holding. Again, we required divestitures to exceed a minimum size threshold. We required divestitures to be greater in size than 0.42%, the upper boundary of the second quartile of the divestiture size distribution. We used experience dummies for the proportion tests.

Divestiture wave. The variable takes a value of 1 if the focal period is within an industry divestiture wave. In case no divestiture wave was identified for the industry and period, the variable is 0. Further, we differentiated in the same manner whether the focal period is before, at, or after the peak of a wave. Industries are defined based on the four-digit Standard Industrial Classification. To identify industry divestiture waves, we followed the methodology proposed by Brauer and Wiersema (2012).⁸

In line with prior literature, we include several control variables in the analysis and lagged them by one period: Firm current ratio, firm size and firm leverage. Firm current ratio is the level of slack resources and is calculated as current assets over current liabilities (Feldman et al. 2016). Firm size is measured as the natural logarithm of total assets (Bergh and Sharp 2015; Brauer et al. 2017). Firm leverage is operationalized as total debt scaled by total assets (Berger and Ofek 1999; Dickerson et al. 1997; Haynes et al. 2002). We also consider year-dependent effects through year fixed effects (Brauer et al. 2017; Haynes et al. 2002).⁹

3.2.2 The market reaction to divestiture programs

The *dependent variable* for the investor reaction consideration is the *divestiture program market returns*. Cumulative abnormal returns (CAR) on the three days surrounding a divestiture program announcement are used to measure the market reaction to such events. We account for potential confounding effects in two ways. Divestiture programs are often announced in the context of and on the same day as other events such as results presentations, restructuring programs, or acquisitions. Results presentations and restructuring program announcements are accounted for through control variables in the main analysis. Acquisition announcements that include a divestiture program announcement were excluded. To eliminate further confounding effects, we adhered to the methods suggested by McWilliams and Siegel (1997): We excluded confounding events in the five-day window around the announcement date using *Factiva* to screen the press coverage of a firm. After excluding acquisitions and

⁸ We filtered those industries of the sample firms that had at least one year in which more than 30 divestitures were undertaken. Next, we identified the peak of a wave as the year with the highest number of divestitures. The start of a wave was determined as the year where less than 50% of the peak number took place. The end was determined as the year where the number of divestitures declined by 50% compared to the peak (McNamara et al. 2008). McNamara et al. (2008) limit the length of waves to a maximum of six periods. Given that many of the waves identified in this study exceeded such a limit, we relaxed this constraint. However, to assure that these further waves constitute a substantial deviation from normal divestiture levels, we required their peak to reach at least double the level of the median divestiture amount in the respective industry. The non-randomness of the identified divestiture waves is confirmed by applying the procedure developed by Harford (2005). The identified divestiture waves are outlined in Table 8.

⁹ In unreported models, we also included previous year's industry sales growth as a control variable to account for the industry environment (e.g., Haynes et al., 2002). Results are robust and available upon request.

confounded announcements, 144 out of 168 announcements remained in the final sample. We also winsorized at the 2.5% and 97.5% levels based on the CAR (-1, +1) (e.g., Owen et al. 2010).

The *independent variables* describe the program characteristics that were obtained from primary and secondary coverage of divestiture programs through *Factiva*.

Program value dummy. Announced program value was measured as a dummy that takes the value of 1 if a program value was provided and 0 if no value was provided.

Program value. The actual program value was calculated as the relative share to be divested. Based on the sales to be divested or the expected proceeds, the share was measured relative to total sales or enterprise value at the end of the latest prior fiscal year. For program updates, the increase in sales to be divested or expected proceeds was measured. For programs where no value was provided, the variable was set to a value of 0. As shown in Table 1, 68% of all announcements in the OLS sample stated a program value. On average, the announced programs divested 14.5% of firm size, and the median size was 9.8%. Thus, many of the programs likely altered a firm's operations significantly.

Program length dummy. Announced program length was measured as a binary variable that takes the value of 1 if a timeline was provided. For the descriptive statistics, shown in Table 1, the length was measured in years. 60% of all announced divestiture programs in the sample provided a timeline and were, on average, scheduled to run for 1.49 years or 18 months.¹⁰

Program assets named dummy. This variable captures whether the announcement names specific assets, industries, or geographies to be divested. This was the case for 89 announcements or 62% of the sample. For divestiture programs with a refocusing rationale, 91% of all announcements named specific assets to be divested.

All information points were available for 40 observations or 28% of the regression sample. Many divestiture programs are announced concurrently with other events. The *restructuring program* dummy variable takes a value of 1 if the divestiture program was announced alongside other restructuring measures, such as e.g., workforce reductions or cost-cutting. Three controls were included to account for the fact that nearly half of all divestiture programs were announced on the same day as a firm's results. *Net profit negative* takes a value of 1 in the case negative results were reported. *Net profit change* is the change in net profit for the reported period relative to the previous comparable period. We capped the variable at -100% and +100%. In case a firm changed from profit to loss, the variable was set to -100%. Coherently, when it changed from loss to profit, it was set to +100%. The variable takes a value of 0 if no results were reported. In addition, we included the firm control variables outlined above.¹¹ The descriptive statistics and the correlation matrix of the variables are reported in Table 2, while the distribution of firms by industry and country is provided in Table 9

¹⁰ If programs were announced to be concluded within the next few months, it was measured as half a year. For programs that announced to be concluded by the end of the year, the remaining months' share of the calendar year were measured.

¹¹ Further, in unreported models, dummy variables for the usage of the program proceeds were included (debt repayment, core/acquisitions, return to shareholders). However, their inclusion does not increase model fit.

Table 1 Descriptive program characteristics

Full sample	Total sample			Financial rationale			Refocusing rationale			Streamlining rationale		
	N (% of sample)	Avg	Min	Median	Max	N (% of sample)	Avg	N (% of sample)	Avg	N (% of sample)	Avg	
Program value (as % of overall, firm)	115 (68%)	14.2%	0.5%	9.5%	55.6%	53 (76%)	11.3%	37 (65%)	19.2%	28 (58%)	13.0%	
Program length (in years)	99 (59%)	1.49	0.33	1.17	4.17	48 (69%)	1.37	27 (47%)	1.32	27 (56%)	1.90	
Program assets named	104 (62%)					38 (54%)		52 (91%)		52 (40%)		19
Value, length and specific assets provided	45 (27%)					22 (64%)		19 (33%)		19 (13%)		6
Total sample	168					70		57		48		
OLS Sample	Total sample			Financial rationale			Refocusing rationale			Streamlining rationale		
	N (% of sample)	Avg	Min	Median	Max	N (% of sample)	Avg	N (% of sample)	Avg	N (% of sample)	Avg	
Program value (as % of overall, firm)	98 (68%)	14.5%	0.5%	9.8%	55.6%	45 (79%)	11.8%	30 (65%)	18.8%	23 (56%)	14.0%	
Program length (in years)	87 (60%)	1.49	0.33	1.17	4.17	40 (70%)	1.33	25 (54%)	1.34	22 (54%)	1.95	
Program assets named	89 (62%)					31 (54%)		42 (91%)		42 (39%)		16
Value, length and specific assets provided	40 (28%)					18 (32%)		18 (39%)		18 (10%)		4
Total sample	144					57		46		41		

Note: OLS sample excludes confounded events and acquisition announcements

3.3 Data analyses

Two approaches are applied to examine the decision between the announcement of a divestiture program and a stand-alone divestiture. First, *proportion tests* are used to test for equality of proportions for each independent variable between the years in which a *divestiture program* is announced with those years of a *stand-alone divestiture* and the *non-divesting* years.¹² Second, a *multinomial logit model* is estimated to compare the effects of the independent variables on the likelihood to undertake a *divestiture program* or a *stand-alone divestiture* that was not part of a program against the base case of *non-divesting*. The application of the multinomial logit model is in line with prior divestiture research that has examined similar research settings (e.g., Damaraju et al. 2015; Vidal and Mitchell 2018).

For the event study, we applied the Fama-French-3-Factor (FF3F) Model. The FF3F regresses firm excess returns ($R_{i,t} - r_{f,t}$) over an estimation window with market excess returns ($R_{M,t} - r_{f,t}$), the differences in return of small and big firms measured by market capitalization (small minus big, *SMB*), and the difference in return between firms with a high book to market ratio and those with a low ratio (high minus low, *HML*):

$$R_{i,t} - r_{f,t} = \alpha_i + \beta_{i,M} (R_{M,t} - r_{f,t}) + \beta_{i,s} SMB_t + \beta_{i,h} HML_t + \epsilon_{i,t}. \quad (1)$$

$R_{i,t}$ is a firm's actual return on day t , $R_{M,t}$ is the market return on day t and $r_{f,t}$ is the risk-free return on day t . The estimation is based on a window of one trading year (255 days) prior to 30 days before the announcement (e.g., Brauer and Wiersema 2012; Depecik et al. 2014).

The abnormal return $AR_{i,t}$ is calculated as the difference between the actual return and the expected return measured by the FF3F model:

$$AR_{i,t} = R_{i,t} - (r_{f,t} + \beta_{i,M} (R_{M,t} - r_{f,t}) + \beta_{i,s} SMB_t + \beta_{i,h} HML_t) \quad (2)$$

The cumulated abnormal returns (CAR) over the event windows are calculated as:

$$CAR(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{i,t}. \quad (3)$$

In the next step, the cumulated average abnormal return (CAAR) is calculated as the arithmetic mean across all events. Statistical significance is tested using the parametric Patell (1976) z-test and cross-sectional z-test as proposed by Boehmer et al. (1991), as well as the non-parametric generalized sign test according to Cowan (1992). We obtained Fama/French European 3 Factors from the Kenneth French's Fama/French website.

Next, to identify the impact of program characteristics on the market reaction, we ran a regression with abnormal returns as the dependent variable. The analysis

¹² In addition, we also test for equality of proportions between divestiture programs by a specific rationale (refocusing, streamlining, and financial) and all other divestiture programs.

Table 2 Sample statistics and correlation matrix

Panel A: Descriptive statistics						
	Observations	Mean	Median	Std. Dev.	25%-quantile	75%-quantile
Divestiture program	1,597	0.269	0.000	0.612	0.000	0.000
Stand-alone divestiture	1,597	0.170	0.170	0.456	0.000	0.000
CEO turnover	1,597	0.293	0.000	0.455	0.000	1.000
New blockholder	1,597	0.334	0.000	0.472	0.000	1.000
Financial distress	1,597	0.407	0.000	0.491	0.000	1.000
Dividend cut	1,597	0.142	0.000	0.349	0.000	0.000
Negative net income	1,597	0.155	0.000	0.362	0.000	0.000
Stock underperform.	1,597	0.269	0.000	0.444	0.000	1.000
Div. experience	1,597	2.211	2.000	2.401	0.000	3.000
Div. experience t-1	1,597	0.723	0.000	0.448	0.000	1.000
Div. experience t-2	1,597	0.430	0.000	0.495	0.000	1.000
Div. experience t-3	1,597	0.427	0.000	0.495	0.000	1.000
Divestiture wave	1,597	0.413	0.000	0.492	0.000	1.000
Firm size	1,597	16,022	15,893	1,321	15,046	17,046
Firm leverage	1,597	0.303	0.289	0.157	0.191	0.397

Panel B: Correlation matrix						
	1.	2.	3.	4.	5.	6.
1. Divestiture program	1.00					
2. Stand-alone divestiture	-0.10*	1.00				
3. CEO turnover	0.11*	-0.01	1.00			
4. New blockholder	0.01	0.00	0.05*	1.00		
5. Financial distress	0.12*	0.00	0.14*	0.07*	1.00	
5.1. Dividend cut	0.06*	-0.01	0.02	0.01	0.49*	1.00
5.2. Negative net income	0.08*	0.03	0.21*	0.07*	0.52*	0.17*
5.3. Stock underperform.	0.10*	-0.01	0.12*	0.05	0.73*	0.10*
6. Div. experience	0.04	0.09*	0.03	0.01	0.10*	0.07*
6.1. Div. experience t-1	0.03	0.05	0.03	0.01	0.11*	0.01

Table 2 (continued)

Panel B: Correlation matrix										
6.2 Div. experience t-2	0.01	0.07*	0.01	0.00	0.04	0.04	0.10*	0.00	0.73*	0.26*
6.3 Div. experience t-3	0.04	0.07*	0.02	0.00	0.07*	0.10*	0.09*	0.00	0.68*	0.17*
7. Divestiture wave	0.02	-0.02	-0.01	-0.12*	0.02	0.06*	0.02	0.01	0.03	0.02
8. Firm current ratio	-0.04	0.02	-0.07*	0.01	-0.06*	-0.04	-0.02	-0.06*	0.01	-0.02
9. Firm size	0.06*	-0.05*	-0.01	-0.19*	-0.06*	-0.02	-0.05*	-0.06*	0.04	0.05*
10. Firm leverage	-0.01	0.03	0.05	0.06*	0.15*	0.07*	0.15*	0.13*	0.04	0.05
* $p < 0.05$										

is based on a pooled cross-sectional sample, with some firms announcing multiple divestiture programs in the study. The application of an OLS regression to explain abnormal returns is common practice in divestiture research (e.g., Humphery-Jenner et al. 2019; Owen et al. 2010).¹³ Also, we performed quantile regressions (QREG) at the 25th quantile, the median, and the 75th quantile. This allows highlighting differences in the explanatory power of the variables at different points in the distribution of the cumulative abnormal returns (e.g., Humphery-Jenner et al. 2019).

4 Results

We now present the results of the multinomial logit regression and proportion tests to analyze the decision between divestiture programs and stand-alone divestitures. Subsequently, the results of the event study and the respective drivers of the market reaction are provided.

4.1 Multinomial logit regression and proportion tests

Table 3 presents the proportions per antecedent for *divestiture program* years, *stand-alone divestiture* years, and *non-divesting* years and reports the results of *z*-tests for differences in proportions. Table 10 presents the same for different program rationales. Table 4 reports the main effects of the multinomial logit models¹⁴: Model 1 is the base model, Model 2 differentiates the financial distress variable, Model 3 differentiates the divestiture experience variable, and Model 4 differentiates the industry divestiture wave variable.

4.1.1 CEO turnover

As hypothesized in Hypothesis 1, the announcement of a divestiture program is closely related to a change in the top management. 45% of all divestiture program announcements were preceded by a CEO change in the previous or focal period. This is a significantly higher proportion than for stand-alone divestitures or non-divesting periods (see Table 3). Programs with a financial rationale followed a CEO turnover more often than refocusing or streamlining programs (see Table 10). The multinomial logit regression, as presented in Table 4, supports this finding. CEO turnover is a highly significant determinant of a divestiture program announcement in the base

¹³ Prior divestiture research has highlighted the issue of unobserved heterogeneity in similar settings and proposed the application of a random-effects model, including firm-specific error terms (Brauer & Wiersema, 2012). For the sample of this study, a Hausman (1978) test rejected the consistency of a fixed-effects estimator, and a Breusch and Pagan (1980) Lagrange multiplier test rejected the appropriateness of random effects. Thus, we ran a pooled cross-sectional OLS on the cumulative abnormal returns in the three days around an announcement.

¹⁴ Table 2 Panel B presents the correlations among the variables that are part of the multinomial logit model. The correlations suggested no multicollinearity issues. Correlations were only high between the category variables financial distress and divestiture experience, and those variables that determine their value (5.1 through 5.3 and 6.1 through 6.3). Given that these were never part of the same model iterations, this correlation was neglected.

Table 3 Proportions and proportion tests comparing firm years with divestiture programs to such with stand-alone divestitures and non-divesting years

Firm Variables	Divestiture program announcement	Stand-alone divestiture announcement	z-statistic	Non-divesting	z-statistic
CEO turnover	45%	26%	3.28***	28%	4.16***
New blockholder	34%	35%	-0.17	33%	0.27
Financial distress	60%	39%	3.54***	39%	4.84***
Dividend cut	21%	13%	1.61*	14%	2.28***
Negative net income	25%	19%	1.16	14%	3.36***
Stock underperformance	41%	24%	3.10***	26%	3.97***
Divestiture experience	81%	82%	-0.34	70%	2.67***
Divestiture exp. t-1	48%	54%	-0.95	41%	1.54**
Divestiture exp. t-2	51%	51%	-0.13	41%	2.30**
Divestiture exp. t-3	49%	51%	-0.59	39%	2.01**
Divestiture wave	13%	8%	1.25	11%	0.64
Before peak	5.5%	4.2%	0.49	2.8%	1.76**
At peak	4.1%	0.7%	1.88**	1.5%	2.34***
After peak	3.4%	3.5%	-0.04	7.0%	-1.63*
N	146	142		1309	

Note: The table shows the results of tests on the equality of proportions. It tests for no difference in proportions for two subsamples. Specifically, it tests the difference of the proportion for years with a divestiture program compared to years with a stand-alone divestiture and non-divesting years. A negative z-statistics indicates a lower proportion in comparison, and a positive z-statistics indicates a higher proportion. Significance levels are indicated next to the z-statistics: * $p<0.10$ ** $p<0.05$ *** $p<0.01$

model ($b=0.60$, $p=0.000$) and all other models. CEO turnover increases the average probability of a divestiture program announcement by 0.05 ($p_{AME}=0.000$). For stand-alone divestitures, no significant effect of CEO turnover can be determined.

4.1.2 New Blockholder

The analysis does not show a significant effect of a new blockholder on the probability of either a divestiture program or a stand-alone divestiture announcement. Thus, Hypothesis 2 which postulates that a new blockholder has a considerably antecedent of stand-alone divestitures is not supported. The proportion of stand-alone divestiture announcements preceded by a new blockholder amounted to 35%, only slightly more than the 33% for non-divesting periods, and 34% for divestiture program announcements. The proportion does not significantly differ across program rationales (see Table 10). Accordingly, the multinomial logit model shows no significant effects for the arrival of a new blockholder (see Table 4).

4.1.3 Financial distress

Hypothesis 3 assumes that firms engage in divestiture programs rather than stand-alone divestitures when financially distressed. Divestiture program announcements

Table 4 Results of the multinomial logit regression

	Model 1 – Base model		Model 2 – Financial distress				Model 3 – Divestiture experience				Model 4 – Divestiture waves			
	Main effects	Marginal effects	Main effects		Marginal effects		Main effects		Marginal effects		Main effects		Marginal effects	
			Divesture alone	Divesture vs. non-divesting	Divesture alone	Divesture vs. non- divesting	Divesture alone	Divesture vs. non- divesting	Divesture alone	Divesture vs. non- divesting	Divesture alone	Divesture vs. non- divesting	Divesture alone	Divesture vs. non- divesting
CEO turnover	0.60 (0.17)	*** -0.11 (0.22)	0.05 (0.01)	*** -0.01 (0.02)	0.58 *** -0.13 (0.16)	0.05 *** -0.01 (0.23)	0.60 *** -0.11 (0.02)	0.05 *** -0.11 (0.17)	0.59 *** -0.10 (0.22)	0.59 *** -0.10 (0.02)	0.55 *** (0.22)	0.55 *** (0.01)	-0.01 (0.02)	
New blockholder	0.23 (0.19)	0.04 (0.16)	0.02 (0.01)	0.00 (0.01)	0.25 *** (0.19)	0.03 *** (0.16)	0.24 *** (0.01)	0.24 *** (0.19)	0.02 *** (0.17)	0.20 *** (0.01)	0.20 *** (0.19)	0.02 *** (0.16)	0.02 *** (0.01)	
Financial distress	0.87 (0.2)	*** 0.02 (0.17)	0.07 *** -0.01 (0.01)	-	-	-	-	0.88 *** 0.06 (0.2)	0.07 *** 0.00 (0.18)	0.89 *** 0.02 (0.2)	0.07 *** 0.02 (0.18)	0.07 *** (0.01)		
Dividend cut	-	-	-	-	0.49 * (0.28)	0.20 * (0.27)	0.04 * (0.02)	0.01 * (0.02)	-	-	-	-	-	
Negative net income	-	-	-	-	0.39 * (0.25)	0.38 * (0.28)	0.03 * (0.02)	0.03 * (0.02)	-	-	-	-	-	
Stock underperformance	-	-	-	-	0.58 *** -0.26 (0.22)	0.05 *** -0.02 (0.22)	0.05 *** -0.02 (0.02)	-	-	-	-	-	-	
Div. experience t-1	0.03 (0.03)	0.15 *** (0)	0.00 *** (0)	0.01 *** (0.03)	0.14 *** (0.03)	0.00 *** (0)	0.01 *** (0)	-	-	0.03 *** (0.03)	0.15 *** (0.03)	0.00 *** (0)	0.01 *** (0)	
Div. experience t-2	-	-	-	-	-	-	-	-	-0.05 (0.08)	0.02 (0.06)	0.00 (0.01)	-	-	
Div. experience t-3	-	-	-	-	-	-	-	-	0.00 (0.08)	0.22 (0.07)	0.00 (0.01)	0.02 *** (0.01)	-	
					-	-	-	0.14 * (0.08)	0.19 ** (0.08)	0.01 ** (0.01)	0.01 ** (0.01)	-	-	

Table 4 (continued)

Model 1–Base model				Model 2–Financial distress				Model 3–Divestiture experience				Model 4–Divestiture waves				
Main effects		Marginal effects		Main effects		Marginal effects		Main effects		Marginal effects		Main effects		Marginal effects		
Divestiture	Stand-alone	Divestiture	Stand-alone	Divestiture	Stand-alone	Divestiture	Stand-alone	Divestiture	Stand-alone	Divestiture	Stand-alone	Divestiture	Stand-alone	Divestiture	Stand-alone	
program v.s.	divestiture vs.	program	divestiture	program	divestiture	program	divestiture	program	divestiture	program	divestiture	program	divestiture	program	divestiture	
non-divesting	non-divesting															
Divestiture	-0.21	-0.36	-0.01	-0.03	-0.25	-0.41	-0.02	-0.03	-0.23	-0.39	-0.02	-0.03	-0.43	0.03	0.03	
wave	(0.2)	(0.34)	(0.02)	(0.03)	(0.2)	(0.34)	(0.02)	(0.03)	(0.2)	(0.35)	(0.02)	(0.03)	(0.38)	(0.39)	(0.03)	
Before	-	-	-	-	-	-	-	-	-	-	-	-	0.40	0.43	0.03	
peak	-	-	-	-	-	-	-	-	-	-	-	-	0.43	-0.89	0.04	
At peak	-	-	-	-	-	-	-	-	-	-	-	-	-0.47	-0.07	-0.07	
After peak	-	-	-	-	-	-	-	-	-	-	-	-	-1.02	** -0.77	* -0.05	
Firm current ratio	-0.23	0.06	-0.02	0.01	-0.26	0.05	-0.02	0.01	-0.24	0.05	-0.02	0.01	-0.22	0.06	-0.02	
Firm size	0.23	*** -0.09	0.02	*** -0.01	0.23	*** -0.08	0.02	*** -0.01	0.23	*** -0.08	0.02	*** -0.01	0.22	*** -0.10	0.02	
Firm leverage	-0.75	0.83	-0.06	0.07	-0.83	0.79	-0.07	*	0.07	-0.71	0.85	-0.06	0.07	-0.73	0.81	-0.06
Constant	-6.56	*** -1.83			-6.47	*** -1.86			-6.62	*** -1.95			-6.57	*** -1.84		
Year effects	Yes				Yes				Yes				Yes			
No. of observations	1,597				1,597				1,597				1,597			
Per reference state	146	142			146	142			146	142			146	142		
Wald chi ²	301.68				356.38				339.46				351.11			
Prob>ch ²	0.0000				0.0000				0.0000				0.0000			

Table 4 (continued)

Model 1– Base model		Model 2– Financial distress				Model 3– Divestiture experience				Model 4– Divestiture waves			
Main effects	Marginal effects	Main effects	Marginal effects	Main effects	Marginal effects	Main effects	Marginal effects	Main effects	Marginal effects	Main effects	Marginal effects	Main effects	Marginal effects
Divestiture program vs. non-divesting	Stand-alone divestiture vs. non-divesting	Divestiture program alone	Divestiture program alone	Divestiture Stand-alone program									
		vs. non-divesting	vs. non-divesting	vs. non-divesting	vs. non-divesting	vs. non-divesting	vs. non-divesting	vs. non-divesting	vs. non-divesting	vs. non-divesting	vs. non-divesting	vs. non-divesting	vs. non-divesting
Pseudo R ²	0.079	0.079	0.079	0.082	0.082	0.082	0.082	0.082	0.082	0.084	0.084	0.084	0.084
Log pseudolikelihood	-.878.40	-.877.72	-.875.51	-.875.52	-.875.52	-.875.52	-.875.52	-.875.52	-.875.52	-.875.52	-.875.52	-.875.52	-.875.52

Note: Robust standard errors clustered by firm are reported in parentheses

* $p<0.10$ ** $p<0.05$ *** $p<0.01$

were preceded in 60% of all instances by a financial distress event. This is a significantly higher proportion than the 39% for stand-alone divestitures and non-divesting periods. All three financial distress events (dividend cut, negative net income, stock underperformance) exhibit the highest proportions for divestiture programs (see Table 3). When differentiating by program rationale, intuitively, the proportion was highest for financially motivated programs at 79%. The proportion for refocusing programs was 46%, thus, significantly lower than the 60% for all programs (see Table 10). Accordingly, as shown in Model 1 of Table 4, financial distress is a significant predictor in the multinomial logit regression ($b=0.87$, $p=0.000$). It increases the average probability of a divestiture program announcement by 0.07 ($p_{AME} = 0.000$). Model 2 shows that dividend cuts and stock underperformance have a significant impact on the occurrence of a program. The average probability of a program is increased following a dividend cut by 0.04 ($b=0.49$, $p=0.08$, $p_{AME} = 0.09$), stock underperformance by 0.05 ($b=0.58$, $p=0.008$, $p_{AME} = 0.005$). The effect of negative net income is 0.03 ($b=0.39$, $p=0.11$, $p_{AME} = 0.14$) and slightly below statistical significance. In contrast to the significantly explanatory power for program announcements, the probability of stand-alone divestitures is not found to increase following any of the three financial distress events.

4.1.4 Divestiture experience

Hypothesis 4 postulates that firms with high levels of divestiture experience would be less likely to initiate a divestiture program due to limited opportunities to divest and instead engage in stand-alone divestitures. The proportion of prior experience was similar for divestiture program announcements and stand-alone divestitures with 80% and 81%, respectively. Both are significantly higher than the 70% for non-divesting periods. The proportion of experience in t-2 and t-3 is similar for both divestiture programs and stand-alone divestitures, at 49–51%. The proportion of experience in t-1 is lower for divestiture programs compared with stand-alone divestitures at 48% vs. 54% (see Table 3). Differences in proportion between different program rationales lack significance (see Table 10). The regression as presented in Model 1 of Table 4 shows that experience in the previous three years does not increase the average marginal probability of divestiture program announcements. As argued for stand-alone divestitures there is a significant effect of 0.06 ($b=0.79$, $p=0.001$, $p_{AME} = 0.003$). When differentiating experience by year of occurrence (see Model 3), only distant experience (in t-3) is a significant predictor of a divestiture program announcement ($b=0.14$, $p=0.08$). In contrast, for stand-alone divestitures experience is a significant positive predictor in t-2 ($b=0.22$, $p=0.003$) and t-3 ($b=0.19$, $p=0.011$). Experience in t-1 does not show a statistical effect ($b=0.02$, $p=0.72$).

4.1.5 Industry divestiture wave

In line with the assumptions postulated in Hypothesis 5, the proportion tests presented in Table 3 show significantly higher proportions for divestiture programs in contrast to non-divesting periods before (5.5% vs. 2.8%) and at the peak (4.1% vs. 1.5%) of an industry divestiture wave. After the peak, the proportion was signifi-

cantly lower (3.4% vs. 7.0%). Given the generally low occurrence of industry divestiture waves within the sample, interpretation of the sub-samples by program rationale should be considered carefully. Results show that occurrence is highest for programs with a financial rationale at and before the peak of a wave (see Table 10). While the coefficient is negative, the occurrence of a wave itself, as examined in Model 1 of Table 4, is no significant indicator of a divestiture program ($b = -0.21, p=0.27$). However, the differentiation by timing (see Model 4) is as postulated by Hypothesis 5. It shows that after its peak, an industry wave is a significant negative predictor of a divestiture program announcement. The average probability of a divestiture program announcement decreases by 0.07 ($b = -1.02, p=0.011, p_{AME} = 0.020$) after the peak of an industry wave. Further, the same holds for stand-alone divestitures, for which the average probability decreases by 0.05 ($b = -0.77, p=0.08, p_{AME} = 0.14$) after the peak of an industry wave.

4.1.6 Supplementary analyses

To test for the robustness of the analysis, we ran two alternate models of the regression in addition to the main model. Given the panel nature of the data, a panel model recommends itself. A Hausman test rejected a fixed effects estimator. Thus, a multinomial logit model was fitted using STATA's *gsem* command in connection with a latent variable at the firm level to capture the random effect. However, the full models could not be fitted, and computation was only possible for the base model without year effects. Results were robust compared with the *mlogit* regressions reported in the [Results](#) section. The same holds for unreported *xtlogit* regressions for a choice between stand-alone divestitures and divestiture program announcements. Moreover, we added to our year fixed effects several additional fixed effects. We do not find that firm, industry, or country fixed effects impact our results.¹⁵

To further assure the robustness of our analyses, we performed several variations concerning the definition of variables and included additional controls. First, to avoid the inclusion of divestitures that were part of a divestiture program in the stand-alone divestiture sample, the main regression excluded divestitures in the year before and the two years after an announced divestiture program. When loosening this constraint to one year before and only one year after, 162 divestitures are included in the analysis, and results remain robust. Second, we replaced divestiture experience with dummy variables. The experience dummy over all three previous years is positive and significant for both divestiture programs and stand-alone divestitures. When differentiating by year, all three dummies are positive and significant for stand-alone divestitures. For divestiture programs, none of the individual dummies is significant. Third, we included the previous year's industry sales growth as a control variable to account for the industry environment (e.g., Haynes et al. 2002). However, given its low explanatory power, the variable was not included in the reported analysis. The results remain robust. Fourth, we differentiated new blockholder in passive and non-passive blockholders. We define blockholders as passive if they were a financial company without activist record, e.g., asset management firms, institutional funds,

¹⁵ Results are not reported for reasons of brevity but are available from the authors upon request.

banks, and insurance companies. We categorize investors as non-passive if they were strategic or activist investors, e.g., activist funds, private equity funds, non-financial companies, or private investors. We employed *Factiva* to identify traces of activism for all financial companies. Differences for passive and non-passive blockholders between divestiture programs, stand-alone divestitures, and non-divesting periods are not significant.

4.2 Event study analysis

Table 5 presents the daily average abnormal returns (AARs) for the days $-1, 0, 1$ and the dependent variable in terms of cumulate average abnormal returns (CAAR) for all three days, both by announcement type and announcement rationale. We find that divestiture programs, on average, create value in the three days surrounding the announcement (CAAR_{All, NR, -1, +1} = 5.03%, CAAR_{All, All, -1, +1} = 2.30%). Both the parametric and non-parametric tests indicate the significance of the CAAR for all announcements, excluding those made together with a firm's results presentation. When also considering the latter, parametric tests still indicate significance while the non-parametric generalized sign-test lacks significance. When excluding those announcements that were winsorized in the subsequent OLS regression at the 2.5% and 97.5% levels, market reaction remains positive and significant, though at lower magnitude (CAAR_{All, 2, NR, -1, +1} = 1.25%, CAAR_{All, 2, All, -1, +1} = 0.78%).

Sole divestiture program announcements yield, on average, positive and significant returns both when announced alone and when announced alongside firm's results (CAAR_{Sole, NR, -1, +1} = 2.98%, CAAR_{Sole, All, -1, +1} = 1.57%). Restructuring programs exhibit the largest returns for all announcement types in the sample (CAAR_{Restructuring, NR, -1, +1} = 10.04%, CAAR_{Restructuring, All, -1, +1} = 3.99%), however, being only partially significant. The reason is that the restructuring program sample contains the largest outlier in the sample and thus is heavily skewed.

When differentiating by divestiture program rationale, returns for programs with a refocusing rationale are positive and significant across all tests (CAAR_{Refocus, NR, -1, +1} = 1.80%, CAAR_{Refocus, All, -1, +1} = 1.69%). Returns for programs with a financial rationale are positive and partially significant (CAAR_{Financial, NR, -1, +1} = 12.80%, CAAR_{Financial, All, -1, +1} = 3.72%). The extremely high abnormal returns for programs with a financial rationale, likewise as for restructuring programs, are driven by the largest outlier in the sample. Returns for streamlining programs are not significant when examined by themselves.

The daily abnormal return is highest on the day of the announcement (CAAR_{All, NR, 0} = 4.03%, CAAR_{All, All, 0} = 1.79%) followed by the day before (CAAR_{All, NR, -1} = 0.66%, CAAR_{All, All, -1} = 0.43%). On the day after the announcement, abnormal returns are considerably lower (CAAR_{All, NR, +1} = 0.34%, CAAR_{All, All, +1} = 0.08%) and even negative for streamlining programs.

Table 5 Average abnormal returns (AARs) and cumulative average abnormal returns (CAARs) by program announcement type and program rationale

Sample	Event window	NR - Announcements excl. results announcements (in %)				All - Announcements incl. results announcements (in %)			
		AAR/CAAR	Patell (1976) z-Test	Boehmer et al. (1991) z-Test	Cowan (1992) GenSign z-test	AAR/CAAR	Patell (1976) z-Test	Boehmer et al. (1991) z-Test	Cowan (1992) GenSign z-test
All (w/o acq.)									
N _{NR} = 68	Day -1	0.66	**	*	54.41	-	0.43	*	-
N _{All} = 144	Day 0	4.03	****	-	63.24	***	1.79	***	-
	Day +1	0.34	*	-	50.00	-	0.08	-	-
	-1 to +1	5.03	****	**	60.29	***	2.30	***	*
All 2 (w/o acq., w/o winsorized events)									
N _{NR} = 65	Day -1	0.38	-	-	52.31	-	0.26	-	-
N _{All} = 136	Day 0	0.47	**	-	63.08	***	0.37	***	-
	Day +1	0.39	*	-	50.77	-	0.15	-	-
	-1 to +1	1.25	****	**	60.00	***	0.78	***	**
Returns by program announcement type									
Sole announcements									
N _{NR} = 48	Day -1	0.96	**	*	54.76	-	0.50	**	-
N _{All} = 101	Day 0	1.28	***	**	66.67	***	0.75	***	**
	Day +1	0.74	**	-	47.92	-	0.32	*	-
	-1 to +1	2.98	***	***	62.50	***	1.57	***	**
Part of restructuring program announcements									
N _{NR} = 20	Day -1	10.61	-	-	50.00	-	0.26	-	-
N _{All} = 43	Day 0	-0.61	***	-	55.00	-	4.25	*	-
	Day +1	9.96	-	-	55.00	-	-0.52	-	-
	-1 to +1	10.04	***	-	55.00	-	3.99	-	-
Part of acquisition announcements									
N _{NR} = 12	Day -1	0.16	-	-	66.67	*	0.32	-	-
N _{All} = 13	Day 0	-1.72	***	-	33.33	*	-1.84	***	-
	Day +1	0.08	-	-	50.00	-	0.19	-	-
	-1 to +1	-1.47	-	-	66.67	-	-1.34	-	-
Returns by program rationale									

Table 5 (continued)

Sample	Event window	NR - Announcements excl. results announcements (in %)				All - Announcements incl. results announcements (in %)			
		AAR/ CAAR	Patell (1976) z-Test	Boehmer et al. (1991) z-Test	Positive GenSign z-test	Cowan (1992) AAR/ CAAR GenSign z-test	Patell (1976) et al. z-Test	Boehmer Positive (1991) z-Test	Cowan (1992) GenSign z-test
Financial rationale(w/o acq.)	Day -1	1.70	***	70.83	**	1.13	**	*	59.65
N _{NR} = 24	Day 0	10.18	***	62.50	-	2.72	**	-	42.11
N _{All} = 57	Day +1	0.91	***	58.33	-	-0.13	-	-	49.12
	-1 to +1	12.80	***	66.67	***	3.72	***	-	54.39
Refocusing rationale(w/o acq.)	Day -1	0.14	-	43.48	-	0.20	-	-	52.17
N _{NR} = 23	Day 0	1.01	***	69.57	**	1.06	***	**	71.74
N _{All} = 46	Day +1	0.64	-	56.52	-	0.42	-	-	50.00
	-1 to +1	1.80	***	69.57	**	1.69	***	**	65.22
Streamlining rationale (w/o acq.)	Day -1	0.05	-	47.62	-	-0.27	-	-	39.02
N _{NR} = 21	Day 0	0.29	-	57.14	-	1.30	**	-	56.10
N _{All} = 41	Day +1	-0.63	-	33.33	-	-0.01	-	-	46.34
	-1 to +1	-0.30	-	42.86	-	1.01	-	-	46.34

Note: The table shows cumulative abnormal returns in percent based on a Fama-French-3-Factor model. The estimation was based on a one-year window (255 days) prior to 30 days before the announcement. After controlling for confounding events, and excluding acquisition announcements, 144 remained from the original sample of 168 announcements. We measured abnormal returns for those announcements that were not made concurrently with a firm's results presentation (N_{NR}) and for all announcements, including those announced with a firm's results (N_{All}). Positive denotes the share of events exhibiting positive ARs and CARs. Statistical significance was tested using the Patell (1976) z-test, the cross-sectional z-test as proposed by Boehmer et al. (1991) and the generalized sign test, according to Cowan (1992). * $p < 0.10$
** $p < 0.05$ *** $p < 0.01$

Table 6 Results of OLS and quantile regressions with CAR (-1,+1) as dependent variable

Program announce- ment type	All						All					
	Sole announcement						Part of acquisition					
	All			All			All			All		
Program rationale	All						Financial					
Method	OLS			OLS			OLS			OLS		
Model	1a	1b	1c	1d	2	3	3a	3b	-	4a	4b	5
Program value	0.03	**	0.01	0.02	0.03	***	0.03	**	0.02	-	0.05	0.02
Program dummy	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)
Program value (Share div.)	-	-	-	-	-	-	-	0.34	-	0.24	-	-
Program length	0.01	0.01	0.00	-0.01	0.01	0.02	-	-	0.01	-	0.01	0.01
Program dummy	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.03)	(0.02)	(0.02)	(0.02)
Program assets	0.00	0.01	0.02	0.01	0.00	0.00	-	-	-0.01	-	0.05	**
named dummy	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Type - Restruct.	-0.01	-0.02	-0.01	0.01	-	-	-	-	0.02	0.01	-0.03	-0.03
program	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.03)	(0.02)	(0.03)	(0.03)	(0.02)
Results - Net profit	-0.04	**	-0.06	**	-0.04	**	0.00	-0.07	-0.01	0.02	-0.06	-0.05
neg.	(0.02)	(0.04)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.04)
Results - Net profit change	-0.01	0.02	-0.01	0.00	-0.01	-0.02	0.00	-	-0.03	-0.03	0.05	0.00
Control - Firm cur- rent ratio	(0.01)	(0.02)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.02)	(0.03)	(0.02)	(0.02)	(0.03)
Control - Firm size	0.00	(0.02)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	-	-	-	-	-
	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)

Table 6 (continued)

Program announcement type	All		Sole announcement		Part of restruct. program		All		All	
	Program rationale	All	All	All	All	All	Financial	Refocusing	Streamlining	All
Method	OLS	Quantile regression	OLS	OLS	OLS	OLS	OLS	OLS	OLS	OLS
Control - Firm leverage	-0.04 (0.05)	-0.07 (0.05)	-0.04 (0.04)	-0.09 (0.05)	-0.05 (0.06)	-	-	-	-	-
Constant	0.08 -0.05	-0.03	0.14 **	0.10	-	-0.02 **	-0.04 **	-	-	-
N	144	144	(0.08)	(0.09)	(0.1)	(0.09)	(0.02)	(0.02)	(0.02)	(0.02)
R ² / Pseudo R ²	0.10	0.10	144	144	101	43	28	13	57	46
Adj. R ²	0.04	0.04	0.06	0.07	0.16	0.06	0.23	-	0.13	0.23
F	2.11	* *	1.57	1.11	4.02	***	2.12	0.73	3.40	-
Root MSE	0.07				0.06		0.07	0.07	0.08	0.06
Ø VIF	1.22				1.20		1.60	2.86	-	1.30

Note: The dependent variable is the CAR (-1,+1) based on a Fama-French-3-Factor model. The estimation window covered one year (255 days) prior to 30 days before the announcement. Announcements w/ confounding events and acquisition announcements were excluded, the top and bottom 2.5% based on the CAR (-1,1) were winsorized. Robust standard errors are reported in parentheses. * $p < 0.10$ ** $p < 0.05$ *** $p < 0.01$

4.3 Cross-sectional regression results

Next, we analyze the effect of program characteristics on the market reaction to divestiture program announcements.¹⁶ Table 6 reports the results of the OLS and QREG regressions with CAR (-1, +1) as the dependent variable.¹⁷ Hypothesis 6 states that program value is a positive determinant of abnormal returns and that this effect is larger for firms with a financial rationale. Indeed, the provision of program value has a positive effect on CAR (-1, +1) at a significant level (Model 1a, $b=0.03, p=0.02$). When regressed at the 25th quantile and median quantile, program value is not significant. For the 75th quantile, program value is a positive and strongly significant predictor (Model 1c, $b=0.03, p=0.007$). This suggests that the provision of program value well explains positive and especially large abnormal returns. For sole program announcements, thus, excluding restructuring programs, the program value dummy is also a significant predictor (Model 2, $b=0.03, p=0.04$). As hypothesized, when differentiating by rationale, the provision of program value seems to drive financially motivated programs (Model 4a, $b=0.05, p=0.02$), but not refocusing or streamlining programs.

Models 3b and 4b support Hypothesis 7. Given that both program length and the naming of specific assets do not increase model fit, and their insignificance is already determined in Models 3a and 4a, they are not included in this analysis. The argument is that the program value as share divested is a positive predictor of abnormal returns for those divestiture programs that are part of a restructuring program or financially motivated. Indeed, for such programs, abnormal returns are not associated with an increase with program value (Model 3b, $b=0.34, p=0.02$; Model 4b, $b=0.24, p=0.07$).

The announcement of program length has no significant effect on abnormal returns in the main model (Model 1a, $b=0.00, p=0.43$). For refocusing programs, the effect is not significant either (Model 5, $b=0.01, p=0.70$). Thus, Hypothesis 8 is not supported by the data.¹⁸

The naming of specific assets to be divested does not have a significant effect on abnormal returns in the main model (Model 1a, $b=0.00, p=0.84$), but, as hypothesized, it is a significant and strong predictor for abnormal returns of programs with a refocusing rationale (Model 5, $b=0.05, p=0.01$). For programs with a streamlining or financial rationale, this is not the case. Thus, Hypothesis 9 is partially supported. The naming of specific assets has a positive effect on the abnormal returns for refocusing programs, and this effect is more pronounced compared to programs following other rationales.

¹⁶ Table 11 presents the correlations among the variables that are part of the subsequent regression. The correlations indicate no multicollinearity issues.

¹⁷ As stated before, acquisition announcements were not included in the total OLS sample. Further, no individual regression is performed for them, given the low number of observations.

¹⁸ Additionally, unreported models tested the impact of program length operationalized in years; no significant effect could be measured.

4.4 Supplementary analyses

We conducted robustness tests for the model, exploring variations in both the sample and the included variables. In terms of the sample, two variations are performed. First, we excluded observations coinciding with results announcements and respective controls, resulting in a sample size reduction by more than half. The program value dummy remained significant in Models 1 and 4a, while program value as a share divested was significant in Models 3b and 4b. For the specific naming of assets in programs with a refocusing rationale, coefficients showed robust direction but lacked significance. Second, we ran the regression without winsorizing. Despite this, the naming of specific assets continued to predict abnormal returns significantly, and the program value dummy remained significant in Model 2. However, for other models, coefficients retained robust direction without significance.

Regarding our variables, three variations of the regression were executed. First, program value and length were operationalized as variables taking a value of 0 if no information was provided, and the share to be divested or the actual length of a program (in years) if information was available. Results of all models, except Model 2, exhibited strong robustness. Second, we introduced dummies to account for the announced usage of proceeds: debt repayment, investment in core or acquisitions, and distribution to shareholders. However, the usage of proceeds did not significantly predict abnormal returns and did not improve model fit. Third, additional control variables for programs announced alongside restructuring or results were considered: downsizing/layoffs dummy, net profit positive dummy, and dividend change (in percent). None of these variables enhanced model fit and were excluded from reported analyses. Fourth, an alternative regression on the antecedents of divestiture programs, rather than program characteristics, was conducted. Only the new blockholder variable demonstrated a positive and significant effect on abnormal returns, aligning with the findings by Bergh et al. (2019) on investors using monitoring, with blockholder equity being such a monitor.

5 Discussion

The results reveal a nuanced decision-making process in which firms, when confronted with uncertainty, change, or distress, opt for divestiture programs over stand-alone divestitures. This finding challenges the traditional preference for stand-alone divestitures in distressed scenarios, particularly evident when new CEOs, especially after turnovers, lean towards comprehensive programs (Weisbach 1995). Notably, stock underperformance emerges as a robust antecedent for divestiture programs during financial distress, reinforcing prior work by Dranikoff et al. (2002) and Ravenscraft and Scherer (1987) on the strategic responses of distressed firms. While divestiture experience predicts stand-alone divestitures (Levitt and March 1988), our findings indicate that recent experience does not significantly impact the likelihood of pursuing divestiture programs. This shift suggests that firms may prioritize signaling a strategic overhaul rather than relying on historical patterns. Industry dynamics also play a critical role; our results indicate that divestiture programs are more com-

mon before and at the peak of industry divestiture waves. This aligns with Brauer and Wiersema's (2012) findings on clustering and McNamara et al. (2008) regarding industry context. Such timing suggests that firms align their strategies with broader industry trends, impacting investor perceptions.

Market reactions to divestiture program announcements reveal positive abnormal returns, particularly from financially distressed firms or following management changes. Drawing from organizational adaptation theory (Meyer 1982; Hannan and Freeman 1977) and path dependence (Garud and Karnøe 2001), the findings highlight that program announcements signal a commitment to strategic change. The credibility of this signal is contingent on providing specific details. A declared program value is a strong predictor of abnormal returns, especially for financially motivated announcements, supporting Haynes et al. (2002) regarding deal value. For programs driven by financial motives, the size of the share to be divested correlates positively with abnormal returns, suggesting larger divestitures enhance perceived credibility. This complements Afshar et al. (1992), Klein (1986) and Mulherin and Boone (2000) who provide evidence that the deal value or transaction price is related to the stock return response at divestiture announcement.

Furthermore, specifying the assets to be divested adds significant stock value, particularly for programs with a refocusing rationale. This detail enhances the credibility of a firm's strategic intent, resonating with Bowman and Singh (1993) and Slovin et al. (1995), who emphasize the importance of precise signaling. Our study thus complements the literature on firm signaling, offering a more granular view that illustrates how firms can effectively communicate their divestiture strategies and navigate investor expectations.

In conclusion, the evidence provided navigates the intricate decision-making processes behind divestiture announcements, offering practical insights for managers. It suggests that the choice between divestiture programs and stand-alone divestitures results from a complex interplay of internal and external factors. Understanding these dynamics helps managers in making effective divestiture strategies that address immediate challenges and contribute to shareholder value creation and investor confidence.

However, this study is not without limitations. It examines a relatively small sample of slightly more than 100 European stock-listed firms, which raises questions about the generalizability of the findings, especially in light of global conglomerates operating across multiple continents. Additionally, the investigation is bound by a specific time frame, and given the dynamic business landscape, diversification announcements may evolve post-COVID-19 or other major events affecting business strategies in Europe (Kiesel and Kolaric 2023). Furthermore, distinguishing between stand-alone announcements and divestiture programs can be challenging, introducing potential ambiguity into the classification process. These limitations emphasize the need for caution in generalizing these findings and highlight the dynamic nature of corporate decisions in response to evolving economic and contextual factors.

6 Conclusion

This study adds to the literature on divestment decisions by highlighting the advantages of divestiture programs over stand-alone divestitures in restoring market trust and signaling commitment during periods of high firm uncertainty, such as management turnover and financial distress. Our findings offer three primary contributions: First, we provide a nuanced understanding of the circumstances prompting firms to announce divestiture programs, challenging the traditional focus on refocusing-centric approaches. This shift allows us to recognize the broader strategic implications of divestiture decisions beyond mere asset sales. Second, we advance the comprehension of divestiture causes and antecedents by contrasting program announcements with stand-alone divestitures. This comparative analysis reveals that factors such as CEO turnover and financial distress, often associated with stand-alone divestitures, primarily precede divestiture programs. This distinction deepens our understanding of the contextual triggers that lead to different divestiture strategies. Third, we investigate stock market reactions to divestiture program announcements, emphasizing the role of information disclosure based on the rationale for the divestiture. By examining how investors respond to disclosed information and the broader strategic context, we contribute to the wealth effects literature on divestitures. Our findings illustrate that the value of information disclosed during divestiture announcements significantly influences investor sentiment and market reactions.

In summary, our research highlights the complexity of divestiture decisions and their signaling implications, providing valuable insights for both scholars and practitioners. By recognizing the multifaceted nature of these strategic moves, firms can better navigate the challenges of uncertainty and enhance their shareholder value creation.

Appendix

See Tables 7, 8, 9, 10 and 11.

Table 7 Exemplary divestiture programs— specifics of the largest programs in the sample

Firm	Program name	Year	Primary program rationale	Announcement type	Program characteristics			Sales to be divested (in EUR)	Program length (in months)	Description
					Program assets named	Program value (in EUR) % to be divested)	Expected proceeds (in EUR)			
Top-5 by program value	Hays	Sale of non-personnel business	2003	Refocusing	Sole announcement	Express mail delivery, document storage, goods distribution	56	n/a	2200	n/a
GEA/MG	Sale of chemicals business	2003	Refocusing	Sole announcement	Dynamit Nobel AG, Solvadis AG	46	n/a	n/a	15	New strategy by new CEO to focus on engineering and exit chemicals.
Alcatel-Lucent	Shift Plan	2013	Streamlining	Part of a restructuring program	Unspecified	44	1000	n/a	30	Three-year plan by new CEO incl. EUR 1B in unspecified asset sales & further measures.

Table 7 (continued)

Firm	Program name	Year	Primary program rationale	Announcement type	Program characteristics			Description
					Program assets named	Program value (in EUR)	Expected proceeds to be divested (in EUR)	
Lonmin	Sale of coal business	1999	Refocusing	Sole announcement (Indication)	Ashanti, coal interests	42	800	n/a
Scottish & Newcastle	Sale of pubs	2002	Streamlining	Sole announcement	Unspecified-1,500 pubs	40	3500	n/a
Top-5 by expected proceeds	Deutsche Telekom	Sale of non-core assets	2001	Financial motives	Sole announcement (Indication)	Real estate, cable assets, Sprint stake, etc.	16500	n/a
Vivendi	Vivendi debt reduction program	2002	Financial motives	Sole announcement	Houghton Mifflin, others	10	10000	n/a

Table 7 (continued)

Firm	Program name	Year	Primary program rationale	Announcement type	Program characteristics			Description
					Program assets named	Program value (in EUR) % to be divested)	Expected proceeds (in EUR)	
Deutsche Telekom	Sale of non-core assets	2002	Financial motives	Sole announcement	Real estate, cable assets, minority stakes	6	8500	n/a
BT group	BT transformation program	2000	Financial motives	Part of a restructuring program announcement.	Unspecified	6	8200	n/a
Rio Tinto	Alcan acquisition financing	2007	Refocusing	Part of an acquisition announcement	Alcan's packaging business, others	13	7300	n/a

Table 7 (continued)

Firm	Program name	Year	Primary program rationale	Announcement type	Program characteristics			Description
					Program assets named	Program value (in EUR) % to be divested	Expected proceeds (in EUR)	
Top-5 by sales to be divested	Thyssen Krupp Portfolio optimization	2011	Financial motives	Sole announcement	Waupaca, Tailored Blanks, others	23	n/a	10000 (EUR) n/a
Siemens	10-Point-Program	1998	Financial motives	Sole announcement (Update)	Components businesses, IC copper com. cables, Siemens Nixdorf, others	14	n/a	8700 n/a
Thyssen Krupp	ThyssenKrupp disposal program	2003	Financial motives	Sole announcement	Unspecified	19	n/a	7000 n/a

Table 7 (continued)

Firm	Program name	Year	Primary program rationale	Announcement type	Program characteristics			Program length (in months)	Description
					Program assets named	Program value (in EUR) % to be divested	Expected proceeds to be divested (in EUR)		
Fiat	Sale of Magneti Marelli units	2001	Financial motives	Sole announcement (Indication)	Unspecified - various Marelli units	8	n/a	4200	n/a
Unilever	Sale of specialty chemicals	1997	Refocusing	Sole announcement	Four specialty chemical businesses	9	n/a	3600	6

Table 8 Industries of sample experiencing divestiture waves

SIC Code	Industry description	Wave date range	Peak year	Total <i>n</i>	First year <i>n</i>	Peak year <i>n</i>	Last year <i>n</i>
2721	Periodicals: Publishing, Or Publishing And Printing	1995–2003	2000	264	19	43	19
2731	Books: Publishing, Or Publishing And Printing	1997–2002	1999	175	14	45	21
2899	Chemicals And Chemical Preparations, Not Elsewhere Classified	1997–2002	2000	181	22	47	21
4412	Deep Sea Foreign Transportation Of Freight	1995–1998	1997	105	–	37	11
4812	Radiotelephone Communications	1999–2004	2000	168	21	43	16
4813	Telephone Communications, Except Radiotelephone	1999–2008	2002	579	37	85	41
7011	Hotels And Motels	1997–2002	1999	246	18	60	28
7376	Computer Facilities Management Services	2009–2014	2010	268	24	66	–
8748	Business Consulting Services, Not Elsewhere Classified	2006–2014	2010	241	15	40	–

Table 9 Sample distribution

Panel A: Distribution by industry (based on Industrial Classification Benchmark, ICB)

Industry	Number of firms
Aerospace & Defense	2
Automobiles & Parts	7
Beverages	4
Chemicals	4
Construction & Materials	8
Fixed Line Telecommunications	6
Food Producers	5
Forestry & Paper	1
General Industrials	6
Health Care Equipment & Services	2
Industrial Engineering	9
Industrial Metals & Mining	2
Industrial Transportation	4
Media	8
Mining	2
Mobile Telecommunications	1
Oil Equipment, Services & Distribution	1
Personal Goods	2
Pharmaceuticals & Biotechnology	4
Software & Computer Services	5
Support Services	5
Technology Hardware & Equipment	2
Tobacco	1
Travel & Leisure	10
Grand Total	101

Panel B: Distribution by country

Country	Number of firms
Denmark	3
Finland	2
France	15
Germany	13
Ireland	1
Italy	5
Netherlands	8
Norway	1
Poland	1
Slowenia	1
Spain	4
Sweden	3
Switzerland	8
United Kingdom	36
Total	101

Table 10 Proportions and proportion tests comparing program announcements by different rationales

Variables	Divestiture program announcements						
	Total	Financial	z-statistic	Refocusing	z-statistic	z-statistic	
CEO turnover	45%	54%	1.69**	38%	-1.14	41%	-0.58
New blockholder	34%	31%	-0.66	40%	1.06	32%	-0.41
Financial distress	60%	79%	3.53***	46%	-2.41***	52%	-1.18
Dividend cut	21%	35%	3.13***	18%	-0.55	7%	-2.70***
Negative net income	25%	42%	3.68***	10%	-2.97***	20%	-0.77
Stock underperformance	41%	50%	1.63*	30%	-1.97**	43%	0.34
Divestiture experience	81%	83%	0.43	76	-1.07	84%	0.66
Divestiture exp. t-1	48%	50%	0.37	50%	0.36	43%	-0.76
Divestiture exp. t-2	51%	48%	-0.47	50%	-0.12	55%	0.61
Divestiture exp. t-3	49%	52%	0.37	44	-0.67	50%	0.33
Divestiture wave	13%	19%	1.66**	8%	-1.30*	11%	-0.39
Before peak	5.4%	9.6%	1.63*	2.0%	-1.33*	4.5%	-0.33
At peak	4.1%	7.7%	1.62*	2.0%	-0.93	2.3%	-0.73
After peak	3.4%	1.9%	-0.74	4.0%	0.28	4.5%	0.49
N	146	52		50		44	

Note: The table shows the results of tests on the equality of proportions. It tests for no difference in proportions for two subsamples. Specifically, it tests the difference of the proportion for programs driven by a specific rationale, e.g., refocusing compared to all programs of a different rationale. A negative z-statistics indicates a lower proportion in comparison, and a positive z-statistics indicates a higher proportion. Significance levels are indicated next to the z-statistics.

* $p < 0.10$ ** $p < 0.05$ *** $p < 0.01$.

Table 11 Correlations for sample (excl. Acq. Announcements, confounded events, $N=144$)

	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.
1. CAR (-1, +1)	1.00										
2. Program value dummy	0.17*	1.00									
3. Program value	0.26*	0.56*	1.00								
4. Program length dummy	0.09	0.21*	0.05	1.00							
5. Program assets named dummy	0.05	-0.05	0.09	-0.05	1.00						
6. Re-structuring program	-0.10	-0.04	-0.12	0.12	-0.21*	1.00					
7. Netprofit negative	-0.18*	0.10	-0.01	0.04	-0.13	0.21*	1.00				
8. Netprofit change	0.06	-0.04	0.05	-0.10	0.00	-0.25*	-	1.00			
9. Current ratio	0.05	0.01	-0.05	-0.13	-0.03	0.01	0.00	-	1.00		
10. Size	-0.08	0.05	-	0.07	-0.06	0.00	-0.01	-	-	1.00	
				0.27*						0.07	0.14
11. Leverage	-0.11	0.01	-0.09	-0.07	0.02	0.02	0.13	-	-	0.05	1.00
										0.06	0.12

* $p < 0.05$.

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