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Corporate Divestment Decision Factors: A Systematic Review

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Abstract

I study the underlying decision factors of corporate business entity divestments. Specifically, I address four questions. Firstly, what are decision factors concerning the business entity (divestment object) itself that influence divestment? I conclude from previous research that negative entity performance, insufficient benefits from the interplay between entities (whether between related or unrelated entities) and entity inferiority to marketplace alternatives (whether concerning costs or market opportunities) each considerably increases business entity divestment likelihood. Secondly, what are the psychological factors within decision-makers that influence divestment? I show from previous research that decision-makers' familiarity with the entity's business segment may distort a decision-maker's entity assessment, thus biasing divestment decisions; escalation of commitment may lead to retaining failing projects despite being aware of their poor performance; and the managerial incentive to conceal investment mistakes may at least postpone divestment as a result of self-interests.

Thirdly, what factors in the organizational context influence divestment? I find from previous research that negative firm performance and path dependence of preceding divestments increase general propensity to divest, whereas units that are perceived to be essential to organizational image and identity are more reluctantly exited.

Fourthly, which external stakeholders are important influencing factors in divestment? I indicate from previous research that the media, political entities, and blockholders may pressure decision-makers significantly and sway divestment decisions.

Keywords: Corporate Divestment, Decision Factors, Psychological Factors, Organizational Factors, External Factors

1. Introduction

In March 2011, a tsunami hit Japan's east coast, heavily damaging the Fukushima Daiichi Nuclear Power Station. The following meltdowns in reactors caused severe nuclear contamination.[1] Approximately three months later, the German Bundestag committed to a nuclear power phase-out.[2] This radical energy turnaround in Germany was widely deemed an unpredictable political change of mind and historic event.[3] Before 2011, Germany had accommodated ca. 25% of its energy demand with nuclear power and the cabinet under Chancellor Angela Merkel had distanced itself from the nuclear phase-out previously politically pursued.[4] The energy transition did not remain without far-reaching effects for utilities. One of the firms that decided to make extensive strategic changes was E.ON. E.ON's spin-off of its entire fossil fuel (including nuclear) business into a new company, Uniper, was completed in 2016.[5] Furthermore, E.ON will fully divest its stake in Uniper until 2018.[6] This reflects E.ON's new strategic orientation toward renewable energy and customer orientation.[7]

The E.ON example illustrates how political changes can result in considerable strategic shifts and divestments within companies. The body of research on divestments has been steadily growing over the past four decades, which suggests a high and continuous pertinence in academia (cf. appendix 1). Furthermore, divestments have been relevant in business practice for a long time and are typically strategically important. Statistically, more than half of the businesses entered between 1980 and 1982 had been divested again by their US parent firms by 1986.[8] Looking back further in time, it is

[1] Cf. Acton and Hibbs (2012).
[2] Cf. Deutscher Bundestag (2011).
[3] Cf. Dempsey (2011).
[4] Cf. World Nuclear Association (2016).
[5] Cf. Timperley (2016).
[6] Cf. Morison and Andresen (2015).
[7] Cf. E.ON SE (2015).
[8] Cf. Sharma and Kesner (1996), p. 651; Chang and Singh (1999), p. 1019.

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shown that about one third of the business lines acquired by sizeable US companies during the 1950s and 1960s was no longer in their business portfolios by 1975.[9] Current estimations for the new millennium predict that about one fifth of acquisitions are later divested.[10]

But what specifically are divestments? Divestment (sometimes also disinvestment or divestiture[11]) generally can be defined as "a firm's decision to dispose of a significant portion of its assets"[12]. Alternative explanations include "the process by which multi-establishment corporations shift or relocate existing capital between their own establishments"[13] and that divestments repeal the economic impact of investments.[14]

Taken together, it can be inferred from these characterizations that divestments concern the voluntary[15] release or shift of capital previously tied up in major organizational resources. For the purpose of this thesis, the focus will be on divestments of business units[16] (BUs), divisions[17] or subsidiaries[18]. 'Business entities' or 'organizational units' as divestment objects (DOs) can stand for BUs, divisions, or subsidiaries in this thesis. Consequently, decisions on distinct assets alone (such as equity stakes in other companies or machinery) as DOs will be excluded from the scope of this thesis. This is because decisions on asset divestment tend to be substantially more rationally methodized and ordered than those concerning whole business entities, which tend to be significantly more complex, less analytical and more emotional.[19] Divestment of organizational units can lead to various kinds of losses accruing to the parent firm, such as strategic, reputational, financial, or human resource and identity related sacrifices.[20] Thus, these two types of divestment decisions can be expected to differ significantly in their determinants and should be distinguished carefully. Furthermore, I do not require divested entities to have been formerly acquired; hence, the DO can be acquired or organically developed. Another aspect of divestment apart from the object to be decided on is the mode of exit from the DO in question. There are different possibilities concerning how divestments can be implemented, such as spin-offs (the equity in the newly created independent entity is fully allocated to the divesting firm's shareholders), equity carve-outs (a fraction of the equity in the newly founded firm is transferred to new investors), management buy-outs (a firm's existing managers acquire a substantial equity stake in the newly formed entity), sell-offs (another company fully purchases the DO), and termination.[21]

To explain why companies divest, it is frequently assumed that poor financial DO performance is the dominant element to drive the divestment decision.[22] However, there is profound evidence that a multitude of factors unrelated to DO performance affect corporate divestment decisions significantly.[23] In fact, research has demonstrated that divestment decisions typically are impacted by and the outcome of different interacting elements.[24] But what are these general factors that influence corporate divestment decisions?

The aim of this thesis is to provide a systematic and concise examination of this question. The purpose is not to provide an exhaustive list of influencing factors, but to summarize and categorize the main theoretical and empirical findings in order to synthesize the different research substreams and hopefully make a modest contribution for future research.

Research subjects I explicitly exclude from the scope of this thesis include divestment characteristics by industry[25] or country[26], decisions on the mode of exit[27], success and effects of divestments[28], legal frameworks and their consequences[29], and privatization efforts[30]. Exemplary studies concerning the specific research topics not analyzed in this thesis can be found in the footnotes for further information. Additionally, I follow several authors and omit organizations whose primary business model is acquiring and selling businesses, as their divestment decisions tend to follow a different, more systematic process and lack a general motivation to retain business entities.[31] A list of the 40 research articles

[9] Cf. Weiss (1983), p. 440; Ravenscraft and Scherer (1987), p. 2.

[10] Cf. Shimizu (2007), p. 1502.

[11] Cf. Nees (1978), p. 68.

[12] Duhaime and Grant (1984), p. 301.

[13] Sheets et al. (1985), p. 219.

[14] Cf. Woehler (1981), p. 8.

[15] Cf. Nees (1978), p. 68.

[16] A BU spans the typical business functions, such as marketing, production, finance, personnel, distribution, etc. (Cf. Mia and Clarke (1999): 142) It has also been pointed out that a) a BU is a specific and distinguishable entity that has authority to make strategic decisions on the BU-level, b) a BU's product line is distinct and independent of the ones of other firm BUs, and c) a BU's financial performance is evaluated by the firm to which it belongs. (Cf. Martin and Eisenhardt (2010): 269)

[17] A division is located "within its parent company, selling a distinct set of products or services to an identifiable group or groups of customers in competition with a well-defined set of competitors." (Biggadike (1979): 104) A BU can comprise several divisions under a common BU management. (Cf. Kazmi (2002): 324)

[18] Whereas the definitions of BUs and divisions include functions and or product lines, subsidiaries are primarily specified based on geography. Thus, a subsidiary can be characterized as for instance "any operational unit controlled by the multinational corporation and situated outside the home country." (Birkinshaw (1997): 207)

[19] Cf. Duhaime and Schwenk (1985), p. 287; Zellweger and Astrachan (2008), p. 357.

[20] Cf. Bergh (1997), p. 726.

[21] Cf. Nees (1978), p. 68; Wright et al. (1994), p. 216; Damaraju et al. (2015), p. 2.

[22] Cf. Duhaime and Grant (1984), p. 301.

[23] E.g. cf. Weston (1989), p. 68; Kaplan and Weisbach (1992), p. 108; Ang et al. (2014), p. 58; Durand and Vergne (2015), p. 1205, Wan et al. (2015), p. 205.

[24] Cf. Duhaime and Grant (1984), p. 311; Duhaime and Schwenk (1985), p. 287.

[25] E.g. Ennew et al. (1992); Saha and Sensarma (2004); Cairns et al. (2008).

[26] E.g. Beaty and Harari (1987); Chen and Wu (1996); Amankwah-Amoah et al. (2013).

[27] E.g. Krishnaswami and Subramaniam (1999); Johnson et al. (2008); Bergh and Sharp (2015).

[28] E.g. Afshar et al. (1992); Haynes et al. (2002); Depecik et al. (2014).

[29] E.g. Elzinga (1969); Baer and Redcay (2000); Dhooge (2006).

[30] E.g. Christensen (1998); Megginson and Scannapieco (2006); Khajar (2014).

[31] Cf. Shimizu and Hitt (2005), p. 58; Bergh (1997), p. 721.

most important for this thesis (out of 263 sources in total) and an overview on the journals they were published in can be found in the appendix 2 .

I clustered the factors that affect corporate divestment decisions according to the entity in which the influence resides. The structure of this thesis reflects these clusters and is organized as follows. I start from the narrow point of focus of the DO characteristics that influence divestment probability and more analytically shape divestment choices. I then move to a broader focus, as I consequently consider individual psychological factors inherent in decision makers that come into effect and expectedly function on a less analytical level from a firm perspective. Furthermore, organizational factors that surround and influence divestment decisions and finally the supra-organizational level of external forces are discussed. As a conclusion, the main research findings will be summarized and implications for business practitioners and future research will be briefly deduced.

2. Divestment Object Factors

The scope of this section shifts from the BU in question, to the entirety of the company's BUs and to the options and benchmark the marketplace provides concerning the specific BU. Negative performance of the BU and possible DO itself will be assessed first. Subsequently, insufficient benefits from the interplay between different units of the same firm will be considered. Finally, the conclusions from comparing a BU to marketplace alternatives form the third divestment decision aspect.

2.1. Negative Business Entity Performance

Ravenscraft and Scherer (1991) documented that for their sample, high-profit business entities had a divestment probability of 2%, whereas low-profit entities had around 30% divestment likelihood.[32] A broad body of research has soundly demonstrated an impact of BU performance on divestment decisions. Performance has been computed for instance as return on assets[33], unit revenue growth, unit competitive strength[34], unit market share and unit performance relative to other units within a firm.[35] Negative business entity performance was consistently found to be significantly associated with higher divestment probability across these different operationalizations.[36] Whereas many studies found a general significant relationship[37] and some studies explicitly identified a linear[38] association between the two variables, Shimizu (2007) found a nonlinear relation, which will be briefly described in the following.

When acquired business entities fail to meet the firm's performance goals, firms typically do not choose divestment right away. Rather, firms tend to turn to relatively simple mechanisms first, for instance stricter monitoring, in order to increase the unit's performance.[39] When these attempts fail, however, companies in many cases opt for more incisive measures, such as divestment of the BU in question. Consequently, the probability of divestment of a business, ceteris paribus, is expected to increase if it performs weakly and its outcomes decline persistently.[40] Shimizu's (2007) summarized research results, however, show a nonlinear relationship between poor unit performance and divestment probability:

Negative performance increases divestment likelihood, but the effect tapers off as performance further deteriorates, i.e. worse BU performance does not necessarily correspond to higher chances of divestment.[41] Consequently, several moderating variables should be analyzed to assess how they interact with the main effect described above.[42] For the purpose of this thesis, I will limit the discussion to unit size.[43]

The relationship between BU performance and divestment expectedly is more pronounced if the unit's size is large relative to the firm as a whole.[44] In this case, an entity's lack of success can be of substantial significance to the viability of the organization as a whole.[45] However, there also are forces that might limit the accelerating effect of large BU size in face of weak performance. Sizeable entities may be more deeply connected to the organization by psychological and commercial ties, which might decrease divestment probability.[46] Furthermore, the size of the BU itself may be a factor to impede divestment efforts because of a lack of interested buy-

[32]Cf. Ravenscraft and Scherer (1991), p. 434.

[33]Return on assets is a profitability indicator. It has been operationalized using different formulas, according to a 2011 study the most common one is: Return on assets = net income total assets. (cf. Jewell and Mankin (2011): 80-82)

[34]This evaluation was obtained by interviewing firm executives who assessed their BUs and used an industry benchmark. (cf. Hamilton and Chow (1993): 483)

[35]Cf. e.g. Duhaime and Grant (1984), p. 306; Ravenscraft and Scherer (1991), p. 433; Hamilton and Chow (1993), p. 483; Bergh (1995), p. 228; Chang (1996), p. 606; Zuckerman (2000), p. 603; Shimizu and Hitt (2005), p. 59; Hayward and Shimizu (2006), p. 547; and Shimizu (2007), p. 1504.

[36]Cf. Duhaime and Grant (1984), p. 311; Ravenscraft and Scherer (1991), p. 434; Hamilton and Chow (1993), p. 481 et seq.; Bergh (1995), p. 237; Chang (1996), p. 606; Cho and Cohen (1997), p. 371; Zuckerman (2000), p. 610; Shimizu and Hitt (2005), p. 60; Hayward and Shimizu (2006), p. 549; Shimizu (2007), p. 1508.

[37]E.g. cf. Duhaime and Grant (1984), p. 311; Hamilton and Chow (1993), p. 481 et seq.; Ravenscraft and Scherer (1991), p. 434; Chang (1996), p. 606; Cho and Cohen (1997), p. 371; Zuckerman (2000), p. 610; Hayward and Shimizu (2006), p. 549.

[38]E.g. cf. Shimizu and Hitt (2005), p. 60.

[39]Cf. Porter (1976), p. 27; Hitt et al. (2001), p. 99 et seq.; Shimizu (2007), p. 1500.

[40]Cf. Shimizu (2007), p. 1500.

[41]Cf. Shimizu (2007), p. 1507.

[42]Cf. Ibid., p. 1508.

[43]Other moderating variables that have been measured include resource availability, potential slack on divestiment, ambiguity, firm performance, firm age and size, board of directors turnover, divestment experience, and mental accounting. (cf. e.g. Shimizu, 2007: p. 1507 et seq.; Shimizu & Hitt, 2005: 53 et seq.; Hayward and Shimizu (2006): 555)

[44]Cf. Shimizu (2007), p. 1501.

[45]Cf. Shimizu and Hitt (2005), p. 54.

[46]Cf. Duhaime and Baird (1987), p. 484-486.

ers.[47] Additionally, the size of an entity might intensify a possible escalation of commitment (cf. 3.3, p. 13).[48] Therefore, BU size supposedly has a multi-faceted and complex moderating impact with regard to the relationship between BU performance and the divestment decision.[49] In other words, because entity performance affects divestment decisions in conjunction with other interconnected factors, some of which will be elaborated on in the following sections, worse unit performance does not necessarily lead to continuously higher divestment likelihood. In summary, entity performance and divestment probability are related significantly, but moderating effects should be taken into account when trying to interpret the particular statistical shape of the association.

Some studies have explicitly found negative entity performance to have the highest explanatory power for divestment decisions in their studies.[50] Additionally, Harrigan (1981) showed that for her set of data, the incurrence of losses increases divestment probability for a declining business unit by around 35%.[51] However, in a study conducted with an underlying sample of firms in the 1970s and 1980s, other authors found that more than half of divested business entities reported a gain or no loss before divestment.[52] Hence, this could constitute further evidence that other considerations may play a significant role in corporate divestment decisions.[53]

2.2. Insufficient Benefits from the Interplay between Business Entities

An additional dimension for the assessment of possible DOs may be the relationship among the firm's different organizational entities. When decision makers (DMs) hold that the firm does not amply benefit from a BU's interrelations with other units, divestment probability for the specific unit could be increased. In the following, I will discuss two distinct ways a company may benefit from integrating different businesses into a whole: firstly, similar and related, and secondly, dissimilar and unrelated firm units. Relatedness could be operationalized as the existence of technological, resource-related or product market relationships between units.[54] The common theme here is that if the either way hoped-for advantages are not sufficiently attained for the DO in question, divestment will be more likely.

Empirically, diversifying acquisitions are found to be almost four times more probable to be divested by their parent firms than related acquisitions, given very similar performance levels.[55] A study interviewing CEOs determined that a high degree of diversification within their firms constituted a highly important decision factor to divest certain BUs.[56] These facts may point to problems arising in firms in which business units are not sufficiently connected strategically, with the possible result of divestment.[57] The main benefits from related organizational units are a result of synergies that are attained by the conjunction of complementary or supplementary resources.[58] Synergy can be defined as "super-additivity in valuation of business combinations"[59] or as "the ability of two or more units [. . .] to generate greater value working together relative to what their value would be separately"[60]. Porter (1976) and Harrigan (1981) argued that specific exit barriers could deter firms from withdrawing from a business despite poor financial performance.[61] Accordingly, they predict higher divestment probability in the absence of these barriers, one of which are synergies and shared resources between related businesses.[62] Synergistic benefits can take different quantifiable forms. Unit interdependency between the DO and the other entities has been measured e.g. as transfer of technology to other units, a common knowledge base (proxied through human resource profile similarities), share of common plant and equipment, proportion of sales to customers of the firm's other entities and fraction of inter-firm sales and purchases.[63]

Divested entities are empirically associated significantly with lower proportions of these figures, i.e. with weak interrelations to other units.[64]

In some cases, however, a certain degree of unrelatedness between the different BUs may be an explicit goal. Hoped-for benefits then do not result from similarities between organizational entities, but rather the lack thereof. In this regard, Bergh (1997) predicted that unrelated units would more likely be divested if four main goals pursued with their former acquisitions are not sufficiently met.[65] Firstly, one motivation for diversifying acquisitions of businesses could be financial synergy.[66] This aims at lowering the firm's cost of capital through less costly internal funding (and the potential for cross-subsidization) or more attractive external financing

[47] Cf. Bing (1978), p. 110 et seq.; Dundas and Richardson (1982), p. 293; (Duhaime and Baird (1987), p. 486-487.

[48] Cf. Staw (1997), p. 204-205; Shimizu and Hitt (2005), p. 54; Shimizu (2007), p. 1501.

[49] Cf. Duhaime and Baird (1987), p. 484 et seq.; Shimizu and Hitt (2005), p. 54; Shimizu (2007), p. 1509.

[50] E.g. cf. Ravenscraft and Scherer (1991), p. 429, Hamilton and Chow (1993), p. 481, Weisbach (1995), p. 177.

[51] Cf. Harrigan (1981), p. 314.

[52] Cf. Kaplan and Weisbach (1992), p. 108.

[53] Cf. Ibid., p. 136.

[54] Cf. Singh and Montgomery (1987), p. 379; Chang and Singh (1999), p. 1019.

[55] Cf. Kaplan and Weisbach (1992), p. 107.

[56] Cf. Hamilton and Chow (1993), p. 483. A high degree of diversification within the firm was ranked second in importance within the category of organizational considerations and around fifth in the overall ranking of decision factors.

[57] Cf. Ravenscraft and Scherer (1991), p. 430.

[58] Cf. Singh and Montgomery (1987), p. 384.

[59] Davis and Thomas (1993), p. 1334.

[60] Goold and Campbell (1998), p. 133.

[61] Cf. Porter (1976), p. 21; Harrigan (1981), p. 306.

[62] Cf. Porter (1976), p. 23; Harrigan (1981), p. 308.

[63] Cf. Porter (1976), p. 31; Harrigan (1981), p. 312; Duhaime and Grant (1984), p. 307; Chang (1996), p. 595.

[64] Cf. Porter (1976), p. 31; Harrigan (1981), p. 314; Duhaime and Grant (1984), p. 311; Chang (1996), p.605; Zuckerman (2000), p. 603.

[65] Cf. Bergh (1997), p. 717.

[66] Cf. Chatterjee (1986), p. 119; Trautwein (1990), p. 284; Walter and Barney (1990), p. 80; Sudarsanam et al. (1996), p. 675; Bergh (1997), p. 716.

conditions, secured by stronger credit worthiness due to e.g. increased cash flow.[67] Secondly, governance efficiency benefits could be expected, if the acquired unit can be managed more efficiently by the parent firm's internal hierarchical systems than by the external market.[68] The firm may allocate financial resources more efficiently between business entities to their highest valued use and control their efficiency more potently than the stock market could if each entity were a separate company.[69] Thirdly, unrelated acquisitions could be carried out because DMs aim to serve their managerial self-interests.[70] One reason here could be to increase their compensation base, such as firm revenues.[71] Finally, coinsurance could be sought to counterbalance negatively correlated earnings cycles and reduce firm risk.[72] Bergh (1997) provided empirical evidence that a business entity is more likely to be divested, ceteris paribus, if one or more of the above mentioned unrelated acquisition objectives are not satisfactorily achieved.[73]

Therefore, a lack of benefits from the interplay of the organizational unit in question with the other units, whether between related or unrelated businesses, can be expected to increase divestment probability.

2.3. Inferiority to Marketplace Alternatives

In the previous section, divestment decisions have been viewed more as an ad-hoc reaction to business entities which are poorly performing or lack benefits from the interplay with other entities. However, a firm might also take the initiative and progressively seek superior opportunities in the marketplace in the course of its broad strategy for international competitiveness.[74] This research subject has not yet been widely analyzed in divestment literature.[75] It has been shown that, should lower-cost production (i.e. efficiency opportunities) or new market opportunities (i.e. market expansion opportunities) in foreign markets exist, a firm might decide to at least partly divest its current operations in order to bring organizational resources to their best use.[76] Therefore, a BU might be divested because it entails higher production costs or offers limited market opportunity compared to other options.

Firstly, I will discuss lower-cost production opportunities. In a survey, companies have expressed their intentions to offshore[77] 23% and shift production between low-cost locations for 24% of their capacity between 2012 and 2014.[78] Because markets abroad can provide access to lower-priced input factors, such as labor or raw materials, and thus potential efficiency gains, a firm might decide to reconfigure and relocate its production operations.[79] Even so, this type of investment would only influence divestment decisions, if these new operations replace others that are subsequently divested. Research has indicated that foreign production often at least partly substitutes and not necessarily complements home country production.[80] These findings are also consistent with Vernon (1966) prediction that production of mature products will be shifted to countries with cheaper input factors.[81] However, there have been mixed results concerning whether certain organizational units are divested subsequent to efficiency seeking investment in new units abroad across different geographies and product lines.[82] One explanation could be to distinguish between high and low research & development (R&D) intensive industries as a proxy for technical know-how and complexity.[83] The hypothesis that investments in lower-cost production subsidiaries in foreign markets significantly increase domestic divestment probability is empirically supported only for industries with low R&D intensity (such as textiles or paper products).[84]

Less complex products typically can frequently be fully produced more efficiently abroad, which may at least partly render domestic production units obsolete.[85]

Secondly, new market opportunities will be discussed. Promising new product and geographic market opportunities by themselves do not necessarily lead to divestment of current BUs and subsidiaries. In case one, new demand could be served by increased production and investment in new operations without substituting business entities.[86] Several studies have indicated that market-seeking foreign investment may augment a firm's current activities, although results sometimes vary across geographies and other dimensions, such as product categories.[87] In addition, internationalization theory predicts that foreign market opportunities enable companies to utilize their existing proprietary assets on a wider scale.[88] Thus, this perspective also predicts that demand opportunities will not increase divestment probability of current BUs. However, in case two, market seeking investments can

[67] Cf. Duhaime and Grant (1984), p. 302; Singh and Montgomery (1987), p. 380; Trautwein (1990), p. 284; Bergh (1997), p. 717.

[68] Cf. Teece (1982), p. 52; Jones and Hill (1988), p. 160; Bergh (1997), p. 716.

[69] Cf. Hill et al. (1992), p. 503.

[70] Cf. Ellert (1976), p. 729; Amihud and Lev (1981), p. 605; Seth (1990), p. 100; Bergh (1997), p. 719.

[71] Cf. Tosi and Gomez-Mejia (1989), p. 169; Seth (1990), p. 100.

[72] Cf. Levy and Sarnat (1970), p. 795; Michel and Shaked (1984), p. 18; Amit and Livnat (1988), p. 156; Lubatkin and Chatterjee (1994), p. 109.

[73] Cf. Bergh (1997), p. 726.

[74] Cf. Berry (2010), p. 380.

[75] Cf. Ibid., p. 381.

[76] Cf. Berry (2010), p. 380, 381.

[77] Offshoring, on the one hand, can be defined as shifting production from domestic to foreign sources, whether or not this coincides with outsourcing the activity. On the other hand, outsourcing means purchasing from an external supplier instead of producing internally, regardless of the production location. (Cf. Abramovsky and Griffith (2006): 595)

[78] Cf. The Economist (2013).

[79] Cf. Berry (2010), p. 381.

[80] Cf. Blonigen (2001), p. 99; Head and Ries (2001), p. 108.

[81] Cf. Vernon (1966), p. 196 et seq.

[82] Cf. Lipsey et al. (2000), p. 296; Blonigen (2001), p. 100 et seq.; Head and Ries (2001), p. 108.

[83] Cf. Berry (2010), p. 385.

[84] Cf. Ibid., p. 392.

[85] Cf. Ibid., p. 392, 393.

[86] Cf. Ibid., p. 382.

[87] Cf. Lipsey and Weiss (1984), p. 304; Blomström et al. (1997), p. 1795; Clausing (2000), p. 203.

[88] Cf. Dunning (1980), p. 9; Berry (2010), p. 382.

substitute current business entities. It has been argued that resource and capability constraints and opportunity costs[89] may induce managers to reallocate resources to their optimal use.[90] This indicates that new market opportunities increase divestment likelihood of present organizational entities, as there are limitations to possible and profitable geographic and product diversification.[91] Therefore, contingencies that determine whether or not the pursuit of new market opportunities abroad will replace operations should be analyzed. In this regard, it has been pointed out that companies with an already broad product portfolio and multigeographic presence are more likely to face trade-offs and the need to allocate their constrained resources to their best use when intending to pursue new growth opportunities.[92] The prediction that product-diversified firms with high levels of foreign expansion are likely to divest domestic subsidiaries after they invest in foreign subsidiaries to leverage market opportunities is empirically supported.[93] Divestment likelihood is not affected, however, in firms with a low level of multigeographic presence. This is consistent with the notion that firms become increasingly impacted by resource constraints when they diversify their product lines and geographies (and thus increase their business complexity) and may face the need to reduce redundancies.[94] Overall, these results suggest that new market opportunities may complement or substitute existing business activities, depending on the specific firm characteristics.

Therefore, more efficient production or promising market opportunities can be superior alternatives compared to current organizational units. In this regard, the opportunity costs of not pursuing a preferable alternative or costly redundancy of not divesting inferior or unnecessary business entities can be seen as increasing divestment probability under certain circumstances.

To summarize this section, each of the factors negative business entity performance, a lack of benefits from the interplay of organizational units and superior marketplace alternatives can significantly increase the probability of a BU to be divested by its parent firm. The motivation to divest when faced with financial failure of a DO or lack of benefits from the interplay between the DO and other business entities can be seen as more reactive and dealing with difficulties, in contrast to the more proactive opportunity seeking that lies in the consideration of marketplace alternatives.[95]

[89] "The opportunity cost of making a particular decision has been defined as the value of the best alternative course of action which must be foregone as a result of making the decision." (Carrington and Battersby (1967): 299)

[90] Cf. Levinthal and Wu (2010), p. 793 and 794; Berry (2010), p. 383.

[91] Cf. Berry (2010), p. 383.

[92] Cf. Ibid., p. 383.

[93] Cf. Berry (2010), p. 392.

[94] Cf. Ibid., p. 392.

[95] Cf. Duhaime and Baird (1987), p. 485; Berry (2010), p. 380.

3. Individual Psychological Factors

From a firm perspective, the three DO factors discussed in section two could be seen as more analytical considerations underlying the divestment decision. However, research has pointed out that other influencing factors might impair firms' attempts to act as systematically and foresightedly as they may perceive to do.[96] As will be shown in this section, there could be individual psychological factors that prevent the firm from divesting organizational units, at least in a timely manner. Divestment decisions typically are a highly confidential and delicate topic within companies.[97] Not only are divestment decisions widely a symbol for failure, but are also of unstructured, ambiguous and complex nature.[98] Therefore, perceptional processes and psychological factors typically shape decision-making.[99] Although several organizational levels can be involved, the top management team (TMT), including the chief executive officer (CEO), plays a central role in deciding whether or not to continue a certain business.[100] Independent of a DM's specific position within the firm, general psychological factors and personal motivations might shape his or her considerations, thoughts, and reasoning. In the following, the aspects of the DM's familiarity with a DO's business segment, escalation of commitment, and the drive to conceal investment mistakes will be discussed.

3.1. Familiarity with the Divestment Object's Business Segment

There is ample evidence that managers and investors generally unintentionally favor the familiar.[101] Research has indicated that similarity induces greater liking (similarity attraction bias), which in turn potentially distorts individual perception, possibly leading to too favorable assessment because of attribution biases.[102] In a recent study, Ang et al. (2014) empirically assessed whether CEO familiarity with business segments (which may consist of several BUs) affects divestment decisions. Thus, they inquire into DMs' social distance to DOs, measured as CEOs' personal ties to business segments.[103]

Firstly, their comparative information hypothesis predicts that CEOs tend to divest business entities from segments familiar to them at a significantly lower probability.[104] A CEO

[96] Cf. Duhaime and Grant (1984), p. 303.

[97] Cf. Nees (1981), p. 119; Duhaime and Grant (1984), p. 308.

[98] Cf. Nees (1978), p. 68; Duhaime and Grant (1984), p. 308; Duhaime and Schwenk (1985), p. 287.

[99] Cf. Duhaime and Schwenk (1985), p. 288.

[100] Cf. Nees (1978), p. 68; Nees (1981), p. 119; Duhaime and Schwenk (1985), p. 290; Shimizu and Hitt (2005), p. 54; Wan et al. (2015), p. 211.

[101] Cf. e.g. Feldstein and Horioka (1980), p. 328; French and Poterba (1991), p. 222; Coval and Moskowitz (1999), p. 2045; Lewis (1999), p. 604; Grinblatt and Keloharju (2001), p. 1053; Huberman (2001), p. 659; Li (2004), p. 47; Parwada (2008), p. 245.

[102] Cf. Dustin and Alfonsin (1971), p. 119; Karylowski (1976), p. 71; Brown (1984), p. 21; Strauss et al. (2001), p. 637; Bates (2002), p. 540; Cialdini and Goldstein (2002), p. 40; Amodio and Showers (2005), p. 818; Westphal and Deephouse (2011), p. 1063.

[103] Cf. Ang et al. (2014), p. 58, 60.

[104] Cf. Ibid., p. 59, 61.

is said to be familiar with a specific firm BU if he or she previously worked there or in another firm BU that operates in the same industry.[105] It is argued that a CEO's career path within a segment grants him or her an information advantage for familiar business fields. Executives are presumed to favor managing familiar segments, as their previous work experience provides them with a more thorough understanding of a segment's business, which in turn strengthens their confidence in evaluating the quality of investment opportunities.[106] Consistent with this line of thought, Heath and Tversky (1991) state that "people prefer [. . .] a context where they consider themselves knowledgeable or competent than a context where they feel ignorant or uninformed"[107]. Additionally, BU managers typically have an incentive to portray their BUs in a too positive light to avoid divestment and gain greater access to resources. Therefore, CEOs broadly discount BU managers' disclosed private information about BUs' future cash flows, which CEOs often have to rely on to assess BUs (information asymmetry[108]).[109] For segments with which the CEO is familiar, however, the conveyed information expectedly will be discounted less. This is because information sharing is facilitated through a higher level of trust and more extensive personal interaction when the CEO and the BU manager share a common background and have informal links.[110] Thus, CEOs expectedly will prefer divesting from unfamiliar business segments for the full length of their tenure.[111]

Nevertheless, should the CEO not be able to carry out his or her preferred divestment choice, familiarity will not have a significant impact on resulting divestments. As Coase (1937) put it, a firm is a "system of relationships"[112]. Thus, Ang et al. (2014) predict, following their political power hypothesis, that CEOs' inclination to divest non-familiar segments is contingent on CEOs commanding the political power to implement their favored choices.[113] BU managers have bargaining power in the divestment decision process due to valuable private information and internal political clout.[114] Newly appointed CEOs are most susceptible to managers' bargaining power because they have not yet built up ample political power themselves.[115] Thus, CEOs try to accumulate political capital by creating goodwill and support among managers of unfamiliar business segments who were not previously affiliated with the CEO.[116] As a result, CEOs expectedly refrain from divesting entities from unfamiliar business segments to gain political capital with the managers of these segments, until they have built up enough political clout to follow their divestment preferences.[117]

Empirical findings support both hypotheses. Indeed, in line with the first hypothesis, units from segments familiar to the CEO are divested around 40% less often than those from non-familiar segments. This favoring of familiar segments within the firm (familiarity effect) is more pronounced in units in which the CEO had previously been employed compared to units for which the CEO has more indirect experience from working in another firm unit operating in the same industry.[118] Nevertheless, both degrees of familiarity are significantly associated with lower divestment risk compared to unfamiliar segments. Additionally, the impact of familiarity is found to be strongest in business segments with high R&D intensity. This supposedly is because information asymmetry between CEOs and unit managers is most severe in these complex businesses, information is typically difficult to transmit without personal contact and the assessment of these businesses is particularly complicated.[119] Consistent with the second hypothesis, increased probability of divestment for non-familiar segment units is predominantly observed in the subsample of CEOs with tenure of three years or more, whereas less powerful new CEOs are found to act contrary to their preferences in divesting BUs from familiar segments more often.[120] This evidence is also concordant with Xuan's (2009) conclusion that new, particularly outside, CEOs, refrain from exiting non- familiar segments at the beginning of their tenure and Huang's (2010) finding that established CEOs tend to divest BUs which do not reflect the CEO's skill set and experience.[121] Therefore, divestment probability is increased if the CEO is not familiar with the business entity in question and has sufficient political power to act according to his preferences.

3.2. Escalation of Commitment

It is a fact that many business entities deteriorate in performance persistently before being divested.[122] For instance, data from Ravenscraft and Scherer (1987) suggests that divested units have experienced below industry profit rates for about seven years before being divested.[123] This can be seen as evidence that personal attachments to entities may impact decision-making, preventing more timely divestment.[124]

[105] Cf. Ibid., p. 59.
[106] Cf. Ibid., p. 59.
[107] Heath and Tversky (1991), p. 7.
[108] Information asymmetry characterizes a situation in which a set of actors (here the BU managers) is systematically better informed about something (here the BU's performance and business prospects) than another set of actors (here the TMT). (Cf. Akerlof (1970): 489-490; Eisenhardt (1989): 61)
[109] Cf. Harris et al. (1982), p. 604; Antle and Eppen (1985), p. 164; Harris and Raviv (1996), p. 1140; Harris and Raviv (1998), p. 260; Bernardo et al. (2001), p. 312; Ang et al. (2014), p. 59.
[110] Cf. Zucker (1986), p. 53; Mayer et al. (1995), p. 710; Gaspar and Massa (2011), p. 841; Duchin and Sosyura (2013), p. 387; Ang et al. (2014), p. 59.
[111] Cf. Ang et al. (2014), p. 59.
[112] Coase (1937), p. 393.
[113] Cf. Ang et al. (2014), p. 59.
[114] Cf. Stein (2003), p. 111; Mudambi and Navarra (2004), p. 385; Glaser et al. (2013), p. 1577.
[115] Cf. Xuan (2009), p. 4921; Ang et al. (2014), p. 59.
[116] Cf. Xuan (2009), p. 4921; Ang et al. (2014), p. 59.
[117] Cf. Ang et al. (2014), p. 59.
[118] Cf. Ibid., p. 59.
[119] Cf. Ang et al. (2014), p. 59.
[120] Cf. Ibid., p. 59.
[121] Cf. Xuan (2009), p. 4945, Huang (2014), p. 348.
[122] Cf. Duhaime and Grant (1984), p. 303.
[123] Cf. Ravenscraft and Scherer (1987), p. 167.
[124] Cf. Duhaime and Grant (1984), p. 303; Cho and Cohen (1997), p. 368.

Porter (1976) and Harrigan (1981) argue that managerial exit barriers exist, which deter economically rational BU divestment and lead to suboptimal results for the company, and that DMs might be reluctant to sacrifice firm assets.[125] It has been pointed out that DMs might hesitate to divest organizational units because they personally identify with and feel attached to a business and its employees, especially if the business has been part of the organization for a long time and is considered a firm's 'home industry'. Thus, DMs may experience psychological aversion to divest.[126]

Consistent with this notion, Staw coined the term escalation of commitment (EOC) to describe the irrational tendency to hang on to a failing course of action and persistently commit further and increasing resources and effort to it instead of withdrawing, despite evidence of poor and declining performance.[127] There have been numerous studies that found evidence for an EOC effect in different settings.[128] It has been argued that the complex, unstructured, and ambiguous nature of divestment decisions make DMs susceptible to cognitive biases[129], such as EOC, as available information exceeds processing capacity.[130] DMs' feeling of personal responsibility and attachment seemingly prompts them to remain with their projects despite poor performance.[131] Apparently, DMs are not alerted to change their course of action by the discrepancy between expected and evidenced performance, but rather seem to use evidence of failure as a signal to commit further capital to make the action pay off.[132]

Individuals may be driven not only to seek future utility but also to rectify past losses. This sunk cost fallacy means that sunk losses (effort, money, time, etc.) incurred in the past do often enter decision calculations and induce DMs to invest further in a losing account, although rational individuals should only allocate resources when future expected benefits exceed future expected costs.[133] Several behavioral causations for EOC have been put forward that help understand the phenomenon and how it may be mitigated more soundly. Five brief explanations can be found in the appendix 4 for further information.

Extreme forms of cognitive biases, such as EOC, induce DMs to consider too few alternatives and data, prompt irrational behavior, and reduce the likelihood that reasonable divestments will be timely.[134] Hence, DMs should try to minimize being involuntarily influenced by EOC in order to be able to make analytical decisions in the best interest of the organization. Research has suggested several factors that may intensify or weaken EOC. In the following, I will concisely discuss six aspects that influence EOC intensity from a firm perspective: whether BUs are internally developed or acquired, TMT turnover, and four facets relating to the DM in question, which are awareness of cognitive biases, perceived competition, active or passive consideration of divestment, and attention to opportunity costs. The notion of EOC is in line with evidence indicating that formerly acquired units are more likely to be divested, ceteris paribus, than organically developed ones.[135] One explanation could be that EOC tendencies operate to a lesser extent here, as DMs may be less attached to an externally acquired unit in contrast to an internally developed and grown unit.[136] However, even with acquired units, after lengthy and complex evaluation and negotiation processes with potential acquisition targets, managers may be highly committed to the units that are eventually taken over.[137] Therefore, EOC may expectedly be weaker but still existent for externally acquired units. Also, TMT turnover is shown to increase general divestment probability.[138] A new CEO or new board member generally, when not promoted from the internal hierarchy, provides an opportunity to assess business entities from a fresh perspective.[139] Furthermore, a new top manager hired from outside the firm typically is less attached to existing business entities, and thus less prone to EOC, because the new DM was not responsible for past business decisions.[140] Therefore, TMT turnover might be a way for a firm to decrease EOC influence on divestment decisions.

Additionally, there also are factors that may help the specific executive in charge to restrain his or her EOC. Firstly, scholars have generally advised awareness and understanding of possible mental pitfalls and developing a clear language to address them in order to be better able to identify and mitigate one's cognitive biases.[141] This may help DMs be sensitive to possible errors in their judgment, such as EOC, and thus limit their influence. Secondly, psychological experiments have demonstrated that EOC effects were higher when subjects believed that they were in competition with other people.[142] Scholars have argued that this due to the desire to save face and be perceived as strong and competent by others.[143] Consequently, DMs may try to

[125]Cf. Porter (1976), p. 23; Harrigan (1981), p. 308.

[126]Cf. Porter (1976), p. 25 et seq.

[127]Cf. Staw (1981), p. 577; Arkes and Blumer (1985), p. 124; Duhaime and Schwenk (1985), p. 290; Brockner (1992), p. 39; Damarju, Barney & Makhija (2015), p. 729.

[128]Cf. e.g. Staw (1976), p. 27; Arkes and Blumer (1985), p. 124; Brockner et al. (1986), p. 109; Garland (1990), p. 728; McCarthy et al. (1993), p. 10; Wong and Kwong (2007), p. 545.

[129]Biases are "systematic errors [...], and they recur predictably in particular circumstances." (Kahneman (2011): 3-4)

[130]Cf. Duhaime and Schwenk (1985), 287, 288.

[131]Cf. Ibid., p. 290.

[132]Cf. Ibid., p. 290.

[133]Cf. Staw (1981), p. 578; Arkes and Blumer (1985) p. 124; Kanodia et al. (1989), p. 60; van Putten et al. (2010), p. 33; Kahneman (2011), p. 345; Hafenbrack et al. (2014), p.2.

[134]Cf. Duhaime and Schwenk (1985), p. 293; Damarju, Barney & Makhija (2015), p. 729.

[135]Cf. Porter (1976), p. 27; Hoskisson and Turk (1990), p. 469; Ravenscraft and Scherer (1991), p. 436; Chang and Singh (1999), p. 1033; Karim (2009), p. 1247.

[136]Cf. Porter (1976), p. 27.

[137]Cf. Duhaime and Schwenk (1985), p. 290.

[138]Cf. Porter (1976), p. 26; Duhaime and Grant (1984), p. 303; Ravenscraft and Scherer (1991), p. 429; Weisbach (1995), p. 176; Shimizu and Hitt (2005), p. 63; Hayward and Shimizu (2006), p. 549; Feldman (2014), p. 824.

[139]Cf. Bigley and Wiersema (2002), p. 708 and 721; Shimizu and Hitt (2005), p. 55.

[140]Cf. Staw (1981), p. 579.

[141]Cf. Kahneman (2011), p. 4.

[142]Cf. Rubin et al. (1980), p. 405; Duhaime and Schwenk (1985), p. 291.

[143]Cf. Rubin et al. (1980), p. 409.

suppress thoughts about potential image and perception consequences to prevent an intensive EOC effect. Thirdly, EOC was also stronger in experimental conditions in which DMs were more passive, i.e. commitment was continued automatically as a default mode (as is typically the case for BUs, which the firm generally tries to retain[144]), instead of having to deliberately choose not to terminate commitment.[145] Hence, DMs could be advised to embrace divestment as a viable and possible option in order to decrease psychological resistance to it. Fourthly, it has been shown that EOC effects were weaker when DMs were presented with opportunity costs, which demonstrated that alternative courses of action were superior to the currently executed one, because that changed the framing of the decision to include the loss incurred with persistence.[146] Thus, DMs may be able to alleviate their EOC tendency by increasing the salience of alternatives and opportunity costs.

To summarize, EOC might impede timely and rational divestment despite significantly negative performance because of managerial attachment and commitment to organizational units. There could be several ways to weaken EOC from a firm perspective, such as implementing control systems that take EOC antecedents into account or educating DMs.

3.3. Incentive to Conceal Investment Mistakes

The preceding two psychological factors of familiarity with a business segment and EOC typically shape DMs' perceptions and reasoning unconsciously and do not depend on the DM's specific interests and motivations. However, in line with agency theory, managers might intentionally pursue their individual goals when deciding on divestments.[147] An agency dependency occurs when a principal (here: business owners) hires an agent (here: managers) to act on his or her behalf and delegates decision authority. Both sets of players are expected to follow their self-interests.[148]

Typically, divestment is interpreted as failure: it is "essentially an admission that an inappropriate project choice was made initially, and hence adversely affects perceptions of [managerial] ability"[149]. DMs might be reluctant to divest BUs that fail to provide value to the firm because managers' and shareholders' incentives may diverge.[150] As a result, there may be too little divestment from the shareholders' perspective.[151] This is because exit from a business typically does not remain without consequences for the responsible executive: divestment may damage DMs' self-esteem as they could view themselves as having been unable to lead the business (back) to success, external judgment of divestment as failure might hamper DMs' future career prospects and mobility due to reputation damage and potential lay-offs of employees may damage relationships to different valued stakeholders[152], just to name a few consequences.[153] Therefore, it could be rational from an individual manager's perspective to deter divestment to maximize personal utility.[154]

However, divestment results are only impacted, if executives can actually act according to their drive to hide perceived investment mistakes. Corporate governance[155] mechanisms are designed to induce agents to seek outcomes congruent to shareholders' interests rather than managerial self-interest.[156] Thus, corporate governance mechanisms, such as the board of directors, concentrated ownership, external auditing, and stakeholder activism could potentially prevent the decision impact of DMs' self-interests.[157] Agency problems concerning divestments and their possible resolution have not yet been extensively researched.[158] Nevertheless, scholars have made several propositions, of which I will briefly name four.

Boot (1992) pointed out that credible firm takeover threats can prompt managers to behave more efficiently from a firm perspective and decide contrarily to their self-interests.[159] Denis et al. (1997)study demonstrates that divestment is more probable following corporate control mechanisms of attempted corporate takeovers, board dismissals, and shareholder activism, which discipline managers.[160] Cho and Cohen (1997) suggested that managers will deter divestment as long as they are able to blur negative BU performance with satisfactory performance of other units.[161]

Investors may not be aware that an unprofitable BU is not divested due to information asymmetries, as they might have access only to firm level performance.[162] Thus, the authors argue that DMs will only divest units when hiding poor BU performance is no longer feasible because the firm experiences significant underperformance relative to industry norms.[163] Finally, Ravenscraft and Scherer (1991) have indicated that senior management turnover can serve to admit to previous investment mistakes through divestment without

[144]Cf. Bergh (1997), p. 721.
[145]Cf. Rubin et al. (1980), p. 409 et seq.
[146]Cf. Northcraft and Neale (1986), p. 354; Staw (1997), p. 193.
[147]Cf. Porter (1976), p. 26; Boot (1992), p. 1401; Cho and Cohen (1997), p. 368.
[148]Cf. Mitnick (1975), p. 27-30.
[149]Boot (1992), p. 1402.
[150]Cf. Porter (1976), p. 26; Boot (1992), p. 1401; Cho and Cohen (1997), p. 367.
[151]Cf. Boot (1992), p. 1402.
[152]A stakeholder can be defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives." (Freeman (1984): 46) Stakeholders could be e.g. employees, governments, customers, suppliers, media, and communities (Cf. Freeman (2010): 25)
[153]Cf. Porter (1976), p. 25-26; Boot (1992), p. 1401.
[154]Cf. Mitnick (1975), p. 29; Boot (1992), p. 1401; Cho and Cohen (1997), p. 368.
[155]Corporate governance is composed of "the whole set of legal, cultural, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated" (Blair (1996): 3).
[156]Cf. Shleifer and Vishny (1997), p. 738; Daily et al. (2003), p. 372.
[157]Cf. Daily et al. (2003), p. 372; Aguilera et al. (2015), p. 37.
[158]Cf. Boot (1992), p. 1418.
[159]Cf. Ibid., p. 1418.
[160]Cf. Denis and Kruse (2000), p. 394.
[161]Cf. Cho and Cohen (1997), p. 367.
[162]Cf. Cho and Cohen (1997), p. 368.
[163]Cf. Ibid., p. 371.

the same degree of fear of negative personal consequences preceding managers would have had.[164] Consequently, the motivation to hide investment mistakes may impede divestment because of managerial incentives and apprehension regarding possible negative personal consequences, if not prevented by corporate governance mechanisms.

All three psychological factors described in section three can each be expected to decrease divestment probability as opposed to the DO factors of section two which increase divestment likelihood. Nevertheless, it should be noted that e.g. managerial attachment expectedly is not an impenetrable barrier to divestment as factors such as poor unit or firm performance may override it and pressure divestment.[165]

4. Organizational Factors

In this section, I will move further outward in the point of focus from the DO and DM in question considered above, to the level of the firm. Executives make divestment decisions that are embedded in the organizational context of the firms they serve.[166] Whereas the factors in the preceding sections can be more broadly generalized in their effects across firms, the organizational dimension itself may help explain divestment decisions. Thus, certain company characteristics may increase or decrease divestment likelihood of (specific) BUs. The aspects that will be discussed here are: negative performance on the firm level, organizational identity and path dependence and preceding divestments.

4.1. Negative Firm Performance

Duhaime and Grant (1984) found that in their sample, approximately three quarters of divestment decisions were made from a position in which the firm experienced inferior performance compared to industry norms.[167] Several researchers have shown consistently that negative performance of the parent firm significantly increases general BU divestment likelihood.[168] In this regard, performance has been measured using different indicators for profitability, liquidity or leverage[169] such as (near) bankruptcy, extended periods of financial loss, (industry adjusted) operating cash flow returns, debt to equity ratio[170], dividends paid as a percentage of earnings, return on equity[171], return on assets, current ratio[172], interest coverage[173], debt to assets ratio, excess return on the stock market and industry-adjusted ratio of earnings before interest, taxes, depreciation and amortization to total assets.[174]

An interesting question is at what level and on which performance scale divestment starts to become more likely due to negative firm results. Whereas Montgomery et al. (1984) find increased divestment probability for firms with severe liquidity problems, such as near bankruptcy, Cho and Cohen (1997) find that firms had experienced four years of declining but still positive returns prior to divestment.[175] This may indicate that firms need not be confronted with an existential financial threat to divest organizational units on a broader scale. However, the latter study also found that while these firms might be unlikely to face a significant threat of bankruptcy, divesting firms still exhibited below industry returns in the year of divestment.[176] Duhaime and Grant (1984) argued that negative performance relative to the firm's own past or to current industry competitors can lead to higher divestment likelihood (although in their study return on equity relative to industry norms had the only statistically significant effect on divestment).[177] Nevertheless, it appears that relative firm performance, at least relative to industry competitors, has an important impact on divestment decisions, in addition to the effect of more severe monetary difficulties, such as extended periods of financial losses.[178]

There are several reasons why poor firm performance could lead to increased divestment: shareholders and firm creditors may pressure divestment in the face of firm financial distress[179], the firm might be interested in using divestment to improve its financial standing[180] (e.g. through a sell-off or hoped-for positive stock market reactions) as it may be difficult to gain access to external capital in the firm's position[181] and the firm may experience shortage of capital[182], or corporate DMs might interpret poor firm performance as a trigger to reevaluate corporate strategy[183].

Therefore, poor financial performance at the firm level commonly causes increased divestment probability. However, as a cautionary note, firms might also decide to postpone divestments to a position of higher financial strength in order to be less vulnerable to possible stock market reactions

[164]Cf. Ravenscraft and Scherer (1991), p. 431 and 436.
[165]Cf. Duhaime and Grant (1984), p. 314.
[166]Cf. Wan et al. (2015), p. 206.
[167]Cf. Duhaime and Grant (1984), p. 310.
[168]Cf. Duhaime and Grant (1984), p. 310; Montgomery et al. (1984), p. 834; Jain (1985), p. 222; Montgomery and Thomas (1988), p. 95; Ravenscraft and Scherer (1991), p. 434; Hamilton and Chow (1993), p. 483; Chang (1996), p. 606; Cho and Cohen (1997), p. 370, Denis and Kruse (2000), p. 413; Zuckerman (2000), p. 613; Shimizu (2007), p. 1503.
[169]Cf. Montgomery and Thomas (1988), p. 94.
[170]Debt to equity is a measure of financial leverage and is directly connected to organizational risk. It is computed as: debt to equity = long-term debt equity. (cf. Bettis and Mahajan (1985): 790-791)
[171]Return on equity quantifies profitability of shareholders' investments by using e.g. the following formula: ROE = profit to shareholders total shareholders' funds. (cf. Pew Tan et al. (2007): 81)
[172]The current ratio can be calculated as: current ratio = pretax assets current liabilities. (Cf. Montgomery & Thomas, 1988: 94)
[173]The formula used for interest coverage is: interest coverage = (pretax income + interest expense) interest expense. (Cf. Montgomery & Thomas, 1988: 94)
[174]Cf. e.g. Duhaime and Grant (1984), p. 305; Montgomery et al. (1984), p. 834; Jain (1985), p. 214; Montgomery and Thomas (1988), p. 94; Cho and Cohen (1997), p. 370, 371; Denis and Kruse (2000), p. 398.
[175]Cf. Montgomery et al. (1984), p. 834; Cho and Cohen (1997), p. 370.
[176]Cf. Cho and Cohen (1997), p. 370 and 371.
[177]Cf. Duhaime and Grant (1984), p. 305 and 310.
[178]Cf. Duhaime and Grant (1984), p. 313; Montgomery et al. (1984), p. 834; Montgomery and Thomas (1988), p. 94.
[179]Cf. Duhaime and Grant (1984), p. 305.
[180]Cf. Montgomery and Thomas (1988), p. 95.
[181]Cf. Sicherman and Pettway (1987), p. 1262.
[182]Cf. Hamilton and Chow (1993), p. 483.
[183]Cf. Montgomery and Thomas (1988), p. 95.

and a potential financial loss following the divestment.[184] Thus, exceptions to the generally observed relationship cannot be ruled out, as firms may interpret their financial standings and assess the opportunities and threats of divestment differently.

4.2. Organizational Identity and Image

The topic of international divestment, i.e. the reduction of a firm's international operations, has not yet been the focus of ample research.[185] Wan et al. (2015) offer the bounded rationality[186] perspective that international divestment decisions could be impacted by an organization's identity and image.[187] Whereas organizational image[188] denotes the attributes a firm's members perceive external constituents to ascribe to the firm, organizational identity means the firm members' collective internal understanding of key distinguishing merits of their firm.[189] Organizations are motivated to create a favorable external evaluation as they seek external approval and status and hope for wide-ranging positive reputation effects.[190] Firm identity gives organizational members an interpretation frame for occurrences and shapes their actions and emotions, creating a sense of belonging and deeper commitment to the organization.[191] Thus, organizational image and identity are of key importance to a firm.

For multinational companies, image and identity are probable to rest on international success.[192] A firm hence may generally hesitate to divest internationally and select very specific international DOs because of its likely concern that divestment could damage how the firm believes external stakeholders and the members themselves internally view the firm and its internationality.[193] The degree to which firms are guided by their images and identities in deciding if, when, and which international divestment to pursue may vary according to the firm's international context (internationalization experience, pace of international growth, directions of internalization, importance of a specific unit to the firm's image or identity etc.).[194]

Wan et al. (2015) propose eight general facets relating to organizational image and identity that shape a firm's overall propensity to divest internationally and the selection of a specific international DO.[195] Two image related aspects that are expected to deter international divestment are: if a firm is newly internationalized (mainly as the firm will tend to protect and avoid conflict with its new image for which it likely had to overcome adversities)[196] and or if the firm originates from an emerging market (primarily because the firm then may have had to overcome unfavorable country-of-origin effects and may be a symbol for success in its home country)[197]. International exit can also be inhibited by two identity related factors: more experience in internationalization (as the firm then expectedly has integrated its internationality into its core identity and members typically seek to maintain cognitive and emotional coherence with this identity)[198] and or consistent growth in international expansion (a similar logic applies to firms that experience success in international expansion, but are less experienced yet)[199]. In addition, the authors predict that two characteristics linked to image will make a business entity a less likely DO: if the foreign operation generates more positive publicity (because in this case the unit is considered more valuable in establishing a positive firm image)[200] and or if the operation is located in a highly developed country (since it then likely offers a more favorable consumer perception and overall stakeholder impression)[201]. Units are also less probable to be divested if the following two aspects concerning image are the case: if TMT members have been employed at the foreign entity (as a result of personal loyalty, cf. 3.1, p. 11)[202] and or if the entity was established early in the company's history (because the firm then supposedly identifies itself more with this entity)[203].

Consequently, organizational image and identity may have a significant influence on general divestment propensity and DO choices.

4.3. Path Dependence and Preceding Divestments

Apart from a firm's current contingencies, its past could also influence divestment decisions. Firm decision-making frequently follows past organizational actions.[204] It has been

[184] Cf. Duhaime and Grant (1984), p. 314.
[185] Cf. Wan et al. (2015), p. 205.
[186] Rationality describes a form of reasoned and often gain maximizing behavior that is appropriate for achieving specific goals within the given framework of conditions and constraints. Bounded rationality denotes the restriction on optimal reasoning imposed by limited information-processing capacity of the DM, which leads to suboptimal results in certain situations. (Cf. Simon (1972): 161 and 162; Mumby and Putnam (1992): 469)
[187] Cf. Wan et al. (2015), p. 206.
[188] Organizational image and reputation are two distinct concepts, as image is the view organizational members believe others to have of their organization and reputation characterizes the actual external assessment of the organization. (Cf. Weigelt and Camerer (1988): 443; Fombrun and Shanley (1990): 234; Dutton and Dukerich (1991)1: 547)
[189] Cf. Dutton and Dukerich (1991), p. 547; Gioia and Thomas (1996), p. 372; Hatch and Schultz (1997), p. 357 and 358.
[190] Cf. Roberts and Dowling (2002), p. 1077; Highhouse et al. (2009), p. 1483; Wan et al. (2015), p. 212.
[191] Cf. Dutton and Dukerich (1991), p. 549; Wan et al. (2015), p. 206 and 215.
[192] Cf. Wan et al. (2015), p. 211.
[193] Cf. Ibid., p. 206.
[194] Cf. Ibid., p. 211.
[195] Cf. Ibid., p. 213.
[196] Cf. Ibid., p. 212-13.
[197] Cf. Häubl (1996), p. 90; Verlegh and Steenkamp (1999), p. 528; Batra et al. (2000), p. 83; Olins (2002), p. 246; Wan et al. (2015), p. 214.
[198] Cf. Festinger (1957), p.1; Benito and Welch (1997), p. 17; Wan et al. (2015), p. 216.
[199] Cf. Santos and Eisenhardt (2005), p. 500; Wan et al. (2015), p. 216.
[200] Cf. Wan et al. (2015), p. 214.
[201] Cf. Roth and Romeo (1992), p. 477; Wan et al. (2015), p. 215.
[202] Cf. Wan et al. (2015), p. 217.
[203] Cf. Chang and Singh (1999), p. 1032; Wan et al. (2015), p. 217.
[204] Cf. Cyert and March (1963), p. 27 et seq.; Boeker (1989), p. 509; Teece et al. (2000), p. 16.

pointed out that firm actions over time are necessarily path-dependent, since a firm's present choices are constrained by its history and hitherto accumulated knowledge base, creating a self-reinforcing pattern.[205] In this regard, the concept of a dominant logic denotes that firms, at least within phases of equilibrium, make decisions within one accepted frame of reference and belief structure which is based, not least, on past experience.[206] When an organization implements a particular course of action repeatedly, the action can become more legitimized and institutionalized within the organization.[207] Especially when faced with financial difficulties or other threats, firms may turn to well-established solutions that have been used before.[208] Thus, in companies that have divested business entities before, it is more likely that divestment will be viewed as an appropriate solution to problems, such as poor unit performance.[209] Additionally, from an organizational learning perspective, competence with different organizational forms, such as acquisitions or alliances, can be built up in the course of repeated and applicable experience.[210] Firms may learn through prior divestments and become more effective at managing business exits, and thus may be able to create more value through divesting than a firm without prior experience ceteris paribus could.[211]

Hence, firms experienced in handling divestments may be more inclined to divest because divestment is more readily accepted and accessible as a solution and because the firm has the potential to create superior value in drawing from its previous experience and knowledge in this field. Indeed, previous divestments have been shown to significantly increase general divestment probability.[212] However, business entity divestments have yet to be the focus of more attention in path dependence research, as current evidence is rather scant.[213]

To summarize this section, a firm's current situation and past, here namely a firm's current negative performance, organizational identity and image and preceding divestments, can have a considerable influence on divestment decisions. Whereas financial difficulties on the corporate level and divestment experience supposedly may increase divestment probability across organizational units, organizational identity and image may serve to make firms inclined to not divest specific units which are deemed to be of key importance to identity or image.

5. External Factors

Organizational DMs may not solely be influenced by DO, individual psychological and organizational factors. Rather, the supra-organizational level of external entities could also exhibit significant influence on important strategic issues, such as divestment, as taking stakeholder interests into account is argued to be critical for firm success.[214] In fact, a corporation itself has been defined as "a system of stakeholder groups, a complex set of relationships between and among interest groups with different rights, objectives, expectations, and responsibilities"[215]. In this section, three stakeholders who may sway divestment decisions are briefly examined: the media, political entities and blockholders.

5.1. Media Influence in Stigmatized Industries

The media's impact on firms derives predominantly from their capacity to focus public attention on the topics they choose to cover.[216] Media coverage considerably shapes public opinion mainly through two mechanisms: exposure to certain subjects and positive or negative framing of information.[217] As a consequence, unfavorable media reports on firms and their executives can considerably damage e.g. perceived firm legitimacy[218], stock market performance, CEO compensation and retention, and business relationships.[219] In this regard, research shows that firms are likely to respond to media attacks by using impression management (IM) tactics.

IM tactics include refuting facts, accepting responsibility, issuing campaigns highlighting positive firm merits and reframing the situation more positively to prevent possible negative consequences.[220] As Ashforth and Gibbs (1990) put it, "managers prefer to offer symbolic assurances rather than substantive action since the former usually preserves flexibility and resources."[221] However, these symbolic or rhetorical means are argued to be ineffective for firms operating in stigmatized industries in which there is social contestation, audience hostility and scrutiny (e.g. by advocacy groups and non-governmental organizations) toward firms and a pronounced

[205] Cf. David (1985), p. 332; Arthur (1994), p. 1; Teece et al. (2000), p. 16; Chang (1996), p. 591; Teece et al. (1997), p. 522; Margolis and Liebowitz (1995), p. 206; EEriksson et al. (2000), p. 307; Shimizu (2007), p. 1501; Sydow et al. (2009), p. 704; Feldman (2014), p. 816; Greve and Seidel (2015), p. 475.

[206] Cf. Prahalad and Bettis (1986), p. 490 and 492; Bettis and Prahalad (1995), p. 7 and 13.

[207] Cf. Ocasio (1995), p. 317 et seq.; Crossan et al. (1999), p. 525; Shimizu (2007), 1501.

[208] Cf. Meschi and Métais (2015), p. 409.

[209] Cf. Shimizu (2007), p. 1501.

[210] Cf. Haleblian and Finkelstein (1999), p. 51; Kale and Singh (1999), p. 1; Anand and Khanna (2000), p. 313; Hayward (2002), p. 21; Kale et al. (2002), p. 762; Haleblian et al. (2006), p. 366; Rothaermel and Deeds (2006), p. 429.

[211] Cf. Villalonga and McGahan (2005), p. 1186.

[212] Cf. Villalonga and McGahan (2005), p. 1199; Shimizu (2007), p. 1505; Alscher and Brauer (2015), p. 300; Meschi and Métais (2015), p. 413 and 417.

[213] Cf. Alscher and Brauer (2015), p. 288.

[214] Cf. Clarkson (1995), p. 107; Harrison and Freeman (1999), p. 479; Freeman (2010), p. 24.

[215] Clarkson (1995), p. 107.

[216] Cf. Deephouse (2000), p. 1095; Rindova et al. (2005), p. 1037.

[217] Cf. Pollock and Rindova (2003), p. 631.

[218] Legitimacy can be defined as "not only the normative justification of organizations but also the cognitive validation of an entity as desirable, proper, and appropriate in a widely shared system of beliefs and norms". (Rao (1994): 31)

[219] E.g. cf. Zuckerman (1999), p. 1428-1429; Pollock and Rindova (2003), p. 631; Wu (2004), p. 219; Core et al. (2008), p. 23; Bednar (2012), p. 133, 143; Chen et al. (2013), p. 436-439; Durand and Vergne (2015), p. 1207; Ferguson et al. (2015), p. 3; Nguyen (2015), p. 3.

[220] Cf. Elsbach and Kramer (1996), p. 442; Bansal and Clelland (2004), p. 95; Durand and Vergne (2015), p. 1207.

[221] Ashforth and Gibbs (1990), p. 182.

distance between industry outsiders and insiders.[222] Stigma concerns the very core of a firm's activities and is of relative permanence.[223] One example is the arms industry, being typically associated with questionable behaviors and values, such as to be intensifying tragic effects of war.[224] Organizations that have BUs operating in such stigmatized industries typically utilize concealment tactics and seek to evade media coverage of any tenor in order to not be associated with the denounced industry and minimize negative spillover effects to other businesses and network partners.[225] As a result, when a firm operating in a stigmatized industry is the subject of media attacks, ceteris paribus, it is more likely to divest some assets or whole BUs from that industry to distance itself from it and visibly demonstrate its willingness to take action and go beyond symbolism.[226] This is because routine IM tactics are unlikely to alleviate highly unfavorable coverage and only attract increased unwanted scrutiny and discreditation.[227] Divestment likelihood is also increased, but to a lesser extent, if other industry members are attacked (the more similar the target and the specific firm, the more pronounced the threat and ergo the effect).[228] Additionally, the effects of unfavorable media coverage of the focal firm and its peers are additive, i.e. each additional media attack increases divestment likelihood further.[229]

Therefore, organizations in stigmatized business fields are more likely to divest parts of or whole BUs from these negatively perceived industries when being attacked by the media.

5.2. Political Pressure

It can be seen as politics' rightful role to regulate companies and enforce e.g. anti-trust laws in public interest.[230] Political entities that can exercise political influence on organizations include local, national and foreign governments, agencies such as the World Bank, courts, citizen initiatives and legislators.[231] These entities could for instance limit the amount of credit available, implement legal changes (e.g. tax and depreciation, regulations etc.) or offer subsidies.[232] Thus, firms might be forced or motivated to change their strategy and divest organizational units because of political pressures.[233] Anecdotal evidence, such as the German nuclear phase-out mentioned in the introduction, suggests that companies might have to adapt to changed environmental conditions imposed by political entities and accordingly divest businesses rendered unattractive. Firms may also divest proactively in the anticipation that divestment might otherwise be forced in the future.[234]

In addition to that, executives may decide to divest operations because of personal costs of continuing a certain business built up by constant political pressure.[235] One example could be the widespread pressure to exit South African business US firms experienced in the 1980s as a result of severe moral concerns pertaining to the treatment of black South Africans by the minority white South African government.[236] Personal costs of not divesting under these circumstances accruing to executives could be e.g. a deteriorating public image, being perceived as morally insensitive to questionable apartheid practices, and political denunciation.[237] Divestment decisions as a result of personal utility maximization are consistent with Jensen and Murphy (1990) conclusion that TMT personal incentives may be decoupled from firm performance, despite variable remuneration components.[238] Wright and Ferris (1997) interpreted significantly negative stock market reactions to US withdrawal from business in South Africa as evidence for the underlying agency problem outlined here.[239] They argued that many divested BUs likely were profitable and represented an efficient utilization of corporate endowments.[240] Political pressure may hence lead to divestments that are in conflict with value-enhancement goals, i.e. that are costly to shareholders, because executives act in their self-interests.[241]

Therefore, divestment decisions could be influenced by political power because of an organizational need to adhere to legal and other circumstances and as a result of managerial selfinterests. However, noneconomic forces, such as political pressure, remain hard to document and measure, as they operate in ways that are difficult to observe.[242]

5.3. Blockholder Ownership Impact

It is argued that because publicly traded firms are dependent on a high firm valuation, control exercised by investors powerfully constrains organizational strategy.[243] Generally, stockowners' primary goal is maximizing the return on their investment.[244] Blockholders own at least five percent of a company's shares and expectedly are more capable and incentivized to monitor and control managerial activities than are smaller shareholders.[245] This is because they have a lot at stake financially, higher voting power, and can credibly

[222] Cf. Ashforth and Gibbs (1990), p. 183; Hudson (2008), p. 259; Devers et al. (2009), p. 157; Durand and Vergne (2015), p. 1205, 1207, 1218.
[223] Cf. Durand and Vergne (2015), p. 1208.
[224] Cf. Ibid., p. 1210.
[225] Cf. Devers et al. (2009), p. 165; Hudson and Okhuysen (2009), p. 134, 142; Durand and Vergne (2015), p. 1205.
[226] Cf. Durand and Vergne (2015), p. 1218.
[227] Cf. Ibid., p. 1208.
[228] Cf. Ibid., p. 1214.
[229] Cf. Ibid., p. 1214.
[230] Cf. Freeman (2010), p. 13.
[231] Cf. Ibid., p. 15.
[232] Cf. Hillman and Keim (1995), p. 196; Freeman (2010), p. 16 et seq.
[233] Cf. Murtha and Lenway (1994), p. 113; Cho and Cohen (1997), p. 373.
[234] Cf. Wright and Ferris (1997), p. 80.
[235] Cf. Ibid., p. 79.
[236] Cf. Ennis and Parkhill (1986), p. 32.
[237] Cf. Wright and Ferris (1997), p. 79.
[238] Cf. Jensen and Murphy (1990), p. 262.
[239] Cf. Wright and Ferris (1997), p. 81.
[240] Cf. Ibid., p. 79.
[241] Cf. Ibid., p. 77.
[242] Cf. Wright and Ferris (1997), p. 79.
[243] Cf. Zuckerman (2000), p. 615.
[244] Cf. Ibid., p. 613.
[245] Cf. Demsetz (1983), p. 387; Bethel and Liebeskind (1993), p. 16.

threaten to sell their shares and facilitate a takeover, should corporate executives not make the desired policy changes.[246] Hence, when blockholders perceive managerial actions to be inconsistent with their interests, they will often try to influence outcomes in their favor to what they deem appropriate.[247] Research has confirmed that powerful blockholders may markedly influence BU divestment decisions.[248] There are different underlying reasons why blockholders should demand divestment in their interest, two of which will be briefly discussed in the following.

Firstly, blockholders may seek to correct strategic mistakes of value-destroying over-diversification of the past.[249] Scholars have e.g. argued that managers overly expanded size and scope of their firms before the 1970s without creating sufficient value, as they were lead to diversify by personal wealth and bankruptcy risk concerns, coupled with exaggerated self-confidence in their abilities.[250] It has been demonstrated that blockholder ownership significantly increases divestment probability in this situation, i.e. that they effectively bring about divestment to fix past organizational investment errors.[251]

Secondly, blockholders may successfully demand divestments in order to make the firm's stocks more easily understood by analysts and thus increase stock valuations.[252] Zuckerman (2000) has shown that stocks of firms which are diversified across several industries are traded at an 'illegitimacy discount'.

This discount is at least partly due to the fact that analysts specialize by industry and stocks are evaluated within the context of industry categories.[253] Per definition, diversified firms operate across multiple industries and defy this categorization, which impedes risk and return comparison to other stocks under a common frame of reference and hence leads to reduced coverage and endorsement by analysts.[254] Since analysts' recommendations and profit forecasts significantly influence demand, shareholders have successfully pressured de- diversification to mitigate these disadvantages and increase stock valuations.[255] Consequently, important shareholders can influence divestment decisions in their favor when they perceive that the organization fails to pursue value-maximization.

Therefore, the media, political entities and blockholders can considerably shape divestment decisions under specific circumstances. Each of these stakeholders can be expected to have different motivations and hence try to influence divestment decisions in different situations. Whereas shareholders arguably primarily care about firm value, the media and political entities may act more in public interest.

6. Conclusion and Outlook

Divestments typically are of major strategic importance and can potentially lead to substantial firm performance improvements.[256] Thus, it is crucial for DMs to make sound divestment decisions to increase the likelihood that divestments are appropriate and successful.[257] However, a 2002 study found that more than 75% of divestments were not only done under strained circumstances, but also after long time delays, when problems had become so pressing that action became inevitable.[258] In this final section, I will summarize the scope and results of this thesis and briefly draw several conclusions for business practice and future research.

The goal of this thesis is to provide a systematic overview of several determinants of divestment decisions in order to better understand the entirety of significant influencing factors. A visual overview of the influencing factors discussed in this thesis can be found in the appendix 5. Executives generally seek to retain businesses. Nevertheless, should DMs come to the conclusion that a certain unit fails to provide sufficient value to the company, they may contemplate divestment.

I have thus started with the DO itself as the narrowest point of focus and demonstrated that negative BU performance, insufficient benefits from the interplay between BUs, whether between related or unrelated entities, and BU inferiority to marketplace alternatives, whether concerning costs or market opportunities, each considerably increases unit divestment likelihood. Because subjective individual psychological factors also have an impact, observed decisions may diverge from decisions that would be made, were only objective DO factors considered. Familiarity with the DO's business segment may distort a DM's DO assessment, escalation of commitment may lead to retaining failing projects despite being aware of their poor performance and the managerial incentive to conceal investment mistakes may at least postpone divestment as a result of self-interests. These forces may deter (timely) divestment. On a broader point of focus, the organizational context was shown to have an impact on divestment decisions, pressuring or inhibiting exit from certain BUs and influencing general divestment risk across BUs. Negative firm performance and path dependence and preceding divestments increase general propensity to divest, whereas units that are perceived to be essential to organizational image and identity are more reluctantly exited. The

[246] Cf. Demsetz (1983), p. 387; Shleifer and Vishny (1990), p. 746 et seq.; Bethel and Liebeskind (1993), p. 18.
[247] Cf. Zuckerman (2000), p. 592.
[248] Cf. Bethel and Liebeskind (1993), p. 27; Denis et al. (1997), p. 135; Zuckerman (2000), p. 591; Sanders (2001), p. 484; Villalonga & McGahan (2005), p. 1197.
[249] Cf. Bethel and Liebeskind (1993), p. 15; Denis et al. (1997), p. 135.
[250] Cf. Amihud and Lev (1981), p. 605; Roll (1986), p. 212; Jensen and Murphy (1990), p. 262; Bethel and Liebeskind (1993), p. 15; Cf. Lang and Stulz (1994), p. 1248; Berger and Ofek (1995), p. 39; Zuckerman (2000), p. 592.;
[251] Cf. Bethel and Liebeskind (1993), p. 27; Denis et al. (1997), p. 158; Sanders (2001), p. 484.
[252] Cf. Zuckerman (2000), p. 591.
[253] Cf. Zuckerman (1999), p. 1398; Zuckerman (2000), p. 593.
[254] Cf. Zuckerman (2000), p. 596, 611.
[255] Cf. Stickel (1992), p. 1811; Womack (1996), p. 137; Zuckerman (2000), p. 591; Brown et al. (2013), p. 1.
[256] Cf. Montgomery et al. (1984), p. 831.
[257] Cf. Porter (1976), p. 21; Duhaime and Grant (1984), p. 301.
[258] Cf. Dranikoff et al. (2002), p. 76.

dimension of external stakeholders, the media, political entities, and blockholders, may also pressure DMs considerably and sway divestment decisions.

Further research subjects which would have been relevant but were beyond the scope of this thesis are e.g. whether it may be rational to delay divestment decisions as current BU value may not be a very good performance predictor (real options theory)[259], organizational threat rigidity and inertia, resistance from numerous entities within the organization, divestment as part of overall corporate portfolio strategy, divestment patterns over time and DMs' overconfidence and additional cognitive biases.

There are several implications for business practice that can be inferred from divestment research. Recognition of divestment influences can help put BUs to a viable position within the film and render divestment unnecessary or initiate timely divestment when needed.[260] For the scope of this thesis, I will limit the discussion to five suggestions. Firstly, DMs themselves should generally be aware of what forces may unconsciously drive their divestment decisions (e.g. EOC or familiarity) apart from the factors that are analytically assessed (e.g. BU performance) in order to better be able to mitigate cognitive biases.[261] Executives could e.g. actively seek perspectives from outside their social circles and organizations to lessen perception-distorting effects of attachment and familiarity to certain entities.[262]

Secondly, performance evaluation and control systems and other organizational factors (e.g. culture) should encourage DMs to take a proactive and future-oriented view and facilitate overcoming the current failure connotation of divestments and prevent delayed decisions in order to support unbiased decision-making.[263] Generally, scholars have urged to accept divestment as an appropriate and often necessary strategic decision.[264] Thirdly, managerial self-interests and biases concerning divestment should nevertheless be monitored by corporate governance systems in order to prevent egoistic decisions. Fourthly, organizations as a whole should acknowledge their tendency to implement well-established solutions, especially when confronted with a problem or threat, and actively consider new solutions in order to reach optimal results.[265] New approaches could e.g. be tested on small experimental scales to gain a broader repertoire of possible tactics and e.g. TMT turnover and outside members, as well as collaborating with universities, forming alliances with other firms, etc. could be means to develop these new solutions. Fifthly, the results underscore the need to cooperate with stakeholders and anticipate and include their interests in firm management and leadership.[266]

A general direction for future research could be towards a more integrated and contingency-based multi-motive model of corporate divestment decision-making. This would help understand the interplay of different factors, their specific decision weights and under which circumstances each factor is influencing divestment to what degree. Thereby, divestment decisions would be more easily predictable and DMs could be better supported.

Additionally, divestment literature could be augmented by further research to address the current shortcomings of measurement challenges, limited access to detailed information on divestment decision-making processes and relatively one-sided geographic sample coverage. Further field and laboratory experiments and interviews should be conducted to overcome measurement difficulties of the decision impact of e.g. individual psychological and organizational forces and the challenge of gaining access to such sensitive strategic decision-making processes as divestment.[267] Conducting interviews and distributing questionnaires within companies could complement research in this regard, although, however, this could potentially bring a range of other problems, such as limited sample size, nonresponse bias, possibly skewed results and interview effects, which should be paid attention to.[268]

Apart from that, factors that have been demonstrated to significantly affect divestment until now could be tested for robustness across different geographies and on a longitudinal time frame, as there currently is a strong US focus in divestment research. This is because firm data availability typically constrains sample construction to large publicly held US firms.[269] Furthermore, country culture itself could provide another dimension that affects divestment decisions. A country culture could e.g. facilitate or impede admitting failure or could foster or obstruct a tendency to keep trying to turn around a struggling BU. Numerous other particular divestment research questions, such as the influence of DMs' character and past experiences or industry-related dimensions, that could be interesting to address in the future are listed in the appendix 6.

In conclusion, there still remains much opportunity to learn about the phenomenon of divestments and the underlying interplay of economic and noneconomic factors, to extend our understanding of divestment from research conducted so far.

259 Cf. Damarju, Barney & Makhija (2015), p. 729.
260 Cf. Duhaime and Grant (1984), p. 314.
261 Cf. Staw (1981), p. 585; Shimizu (2007), p. 1511.
262 Cf. Staw (1981), p. 585; Shimizu (2007), p. 1511.
263 Cf. Staw (1981), p. 585; Duhaime and Grant (1984), p. 314.
264 Cf. Porter (1976), p. 21; Montgomery et al. (1984), p. 838.
265 Cf. Shimizu (2007), p. 1511.
266 Cf. Bethel and Liebeskind (1993), p. 30.
267 Cf. Duhaime and Grant (1984), p. 294.
268 Cf. Hamilton and Chow (1993), p. 480.
269 Cf. Shimizu (2007), p. 1511; Damarju, Barney & Makhija (2015), p. 742.

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