Chapter 15
The Evolution of Corporate Divestment:
Towards a New Research Paradigm?

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ABSTRACT

When compared to other fields of research such as mergers and acquisitions, corporate divestment is under researched. There are at least three main reasons for this: the environment in which corporate divestment research has taken place has caused divestments to be understood as acquisition-driven rather than strategy-driven, the scope and distinct modes of divestment, and the difficulties in isolating the divestment phenomena. The objective of this chapter is to review the main theoretical approaches used in the study of divestment, to analyze their contribution to the field, and to discuss whether new approaches are needed in divestment research. Most studies of divestment are based on the concept that divestment is the outcome of poor unit performance, and the reversal of previous over-diversification and growth strategies that expanded the company size beyond optimal control. This chapter proposes four future lines of research into corporate divestment: the international business strategy, the network perspective, the stakeholders' perspective, and the institutional theory.

INTRODUCTION

In a continuously changing world, flexibility and responsiveness emerge as some of the key competitive factors for businesses. Corporate divestment is a "*firm's decision to dispose of a significant portion of its assets*" (Duhaime & Grant, 1984; p. 301). Corporate divestment is a common and growing phenomenon. Johnson (1996) found 1200 divestments worth 59.9 billion dollars in 1986 alone. Bergh & Lawless (1998) mentioned that during the 1980s and into the 1990s, almost one half of Fortune 1000 companies had engaged in divestments, acquisitions or both. More recently, Gadad, Stark, & Thomas

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(2009) observed that the scale of divestments in the United Kingdom was on average 40% of the activity in the merger market and reached levels as high as 70% in some years. Nowadays examples of corporate divestment can be found everywhere. According to UNCTAD (2016), European firms have divested from developing economies like Asia or Latin America. Caterpillar announced the shutdown of its plant on Illinois, cutting 800 jobs (Reuters, 2017). General Motors closed five of its factories in the US during 2017 (Fortune, 2017). US hard drives and data storage manufacturer Seagate closed one of its largest factories, the Suzhou China plant, in 2017, laying off 2,127 employees on what China's Ministry of Commerce classified as a "*normal business decision*" (Xinhua, 2017).

Corporate divestment is an important topic with an impact on company performance and competitive position. Dranikoff, Koller, & Schneider (2002) highlight how divestments were a keystone of General Electric strategy under the leadership of Jack Welch in the first four years of his tenure as CEO, as he divested 117 businesses accounting for 20% of General Electric's assets. Greg Summe, CEO of PerkinElmer, used divestments and acquisitions to reshape the company from a supplier with low margin services to an innovative high-tech company. A McKinsey & Company study shows that companies that actively manage their business portfolio through acquisitions and divestments deliver more value to shareholders than those that passively hold them. Dranikoff, Koller, & Schneider (2002), argue that divestment is a way to dispose of a business whilst ensuring that the remaining divisions reach their full potential and the overall company grows stronger. Thus, divestments can strengthen and rejuvenate a company and may constitute an important strategic tool for management. Nonetheless, there seems to be a bias against divestment as managers are traditionally reluctant to divest because of its association with weakness and failure (Dranikoff et al., 2002; Porter, 1976).

Regardless of its importance, corporate divestment has received scarce attention when compared to other forms of restructuring such as mergers and acquisitions (M&A) and strategic alliances (Gadad et al., 2009; Lee & Madhavan, 2010). As a result, still relatively little is known about the reasons as to why companies divest (Berry, 2013). Existing literature has examined the divestment phenomenon using a variety of theoretical approaches including the internationalization theory, imperfect market conditions and the governance issues caused by directional conflict between shareholders and managers. With the development of globalization, the traditional theories used to explain divestment have been increasingly challenged. Villalonga & Mcgahan (2005) claim that the various divestment theories, rather than being mutually exclusive, appear to be closely related and complementary.

In this chapter we review the main theories used in divestment research and their contribution to the field. Then, we develop a framework comprising the knowledge generated through the use of these approaches, discussing whether other theoretical approaches in the field are needed. Through this process, the following additional research objectives will be addressed:

- What corporate divestment is;
- How divestment research has evolved through time;
- What the main typologies of divestment are;
- What the main theories used to examine corporate divestment and their contributions to the field of research are.

The chapter is structured as follows. After this introduction, section two provides the background on the history of divestment research. Section three discusses existing typologies on divestment. Section four presents the review of the main theories used in divestment and their contributions, from which a

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