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Financial Need vs Core Business Focus:
Which is Essential in Divestiture?

Oktaviyani[1,*] Lily Sudhartio[1] Sari Wahyuni[1]

[1] *Universitas Indonesia*
[*]*Corresponding author. Email: oktaviyani@ui.ac.id*

ABSTRACT
The purpose of this paper is to review existing research on industrial divestment to identify the reasons for divesting. This study reports literature as well as examples of divestment cases that occurred in several developed countries. The finding in this study that divestment decisions about finance and efficiency do not always underlie their implementation, strongly imply that the divestment motivation influence of the similarity of the target asset divestment strategy tends to reflect the management of the acquirer's managerial dominance. Gaps in this research can be potential for future research. This literature review systematically analyses the findings of 15 journal articles about divestment, identifying the main thematic categories according to the main topics of this paper. This review offers a comprehensive synthesis of how the motives divestment. The factors such as environmental conditions and entry mode strategies are important in determining divestment of subsidiaries.

Keywords: *Divestment, Divestiture Motives, Management Strategy.*

1. INTRODUCTION

This paper contributes to the growth of research on the most frequently chosen motives for divestment. The focus of this article is to see how the parent company or division head makes decisions, whether to get funding, or focus on the core business. Because this activity is part of the exit strategy, this is also a decision for the company's future strategy. The performance of these companies will also be seen from the portfolio of these companies. In this paper, several related articles from previous research serve as comparisons to study the interests that are used in making decisions on divestment. This article will take a deeper look at the effect it has on company management by reviewing several related articles from the past 9 years.

Several articles found that divestment is not only the company's goal to dispose of parts of the company, but there are many considerations to do so, and is also a very good strategy for the future of the company. Divestment looks like a negative thing, such as showing the inability of the parent company to manage the company, or even insufficient money to continue operations. In the article that the author found, financial problems were also a major factor. Financial risks as well as the image of the company are challenging. In the literature, it was also found that on the other hand, divestment pushes the company to its best performance to grow.

2. LITERATURE REVIEW

Can the parent company synergize with its subsidiaries or not? Is it time for parents to work out an exit strategy? Many companies, especially large organizations, are diverse, constantly reviewing ways in which they can increase shareholder value by changing the composition of their assets, liabilities, equity, and operations. An exit strategy can be implemented for the purpose of leaving an investment that is not productive or to close a business that does not generate profits. The purpose of the exit strategy is to limit losses or to gain more profit. The exit process needs to be proactively and deliberately managed and dynamic capabilities are essential and indispensable for the successful execution of exit strategy [1]. Exit strategy can also be implemented when an investment or business venture has met its profit goal [2]. Other reasons can include legal reasons, such as inheritance planning and lawsuits for accountability. It could also be because the owner or business investor retires and wants to cash it in.

Many parent companies release their subsidiary companies to get fresh funds and support the parent companies from divestment. The decision to choose a

divestment must be right, the company must have knowledge of it. A study by Peruffo [3] contains strong evidence about the effect of divestment learning. Before the decision was made, why should the company let go of it or even stop the operation? [4]. A divestiture is the sale of a portion of a firm's assets to an outside party, generally resulting in a cash infusion to the parent [2]. Many theories link the divestment as relinquishment based on the desire of the company to get fresh funds, but in doing so, the company actually divested based on diverse motives, such as the desire of the company to conduct good corporate governance. Several articles show divestment as part of a strategy to consider the nature of the process and isolate the critical points for managerial decision making [5]. Others also said that divestiture is a leadership management decision, in which mostly the new chief executive officers are more likely to undertake the legacy divestiture than their longer-tenured peers [6]. What about a subsidiary that is quite profitable but the parent company leaves it with the consideration of focusing on the core business? Doing this would certainly be contrary to the principle of profitability, which aims for the highest profit.

3. RESEARCH METHODOLOGY

In conducting this literature review, the systematic literature review guidelines are in accordance with the discussion of this paper, namely divestment to obtain funds or linkages from the financial side of the company, or to deepen core business.

3.1. Keyword search

Databases perform: JSTOR and Emerald Insight. These divestment keywords are combined with the following core business keywords: "Divestiture", "Finance", "Strategy", & "Core business". The full text of the search is carried out, and the results are scanned by title and abstract to match this paper. This is the first review to examine this topic. The time frame is set to the search date from 2001 to 2019 with a focus on the Q1 journals, as well as journals not within Q1 as an addition to the information needs.

3.2. Article base

To search for additional articles and ensure search coverage, additional keyword searches were conducted in 15 selected journals, which were applied in a systematic literature review examining the relationship of divestments with their financial problems and business units [4], [7]. The journals include works from various literary streams, concentrating on corporate governance and finance, which are very important for this review topic. The following seven step process wass used to select articles such as Worek, [8] explained, namely: Select the most accurate journal for the topic, referring review of articles in this divestment study [4] , [7], searching for keywords in an electronic database (a database search is performed first, followed by a journal search), scan and sort the results, eliminating some duplicates, eliminating references that are not relevant to topic, read the full text of the paper and consider its suitability for the theme (articles that do not report the results of divestments regarding business and financial governance are not selected), look for additional articles by scanning references from the included articles, and includes additional literature that the author has learned in course of corporate restructuring.

Articles that are not in accordance with the material in this paper were removed. Because the articles reviewed represent several fields of research, from finance to leadership, there is no specific framework applied in the categorization. Rather, it is based on the author's analysis. The main factor in categorizing the studies is the main topic of this research.

4. RESULT

This section briefly describes the selected articles, followed by a description of the definitions, methodology, samples, and theories applied in the analysed articles. 15 articles were included in the analysis published from 2001-2019, (see Table I).

4.1. Descriptive findings

Most of the articles that discuss divestment are examined to be in the field of strategic management and financial management journals. There are 7 journal articles in the strategic field, and 3 journal articles in the finance field as can be seen in Table I. The remaining articles are placed in other fields. From the writer's findings, it is considered sufficient to fulfil the simple research in the field of strategic management in the subject of corporate restructuring for divestiture.

4.2. Definition

Corporate divestment is a major corporate restructuring decision that enables a company to refocus its core business, pay off debt, develop new products or finance attractive projects. Substantial research has sought to address the reasons why companies divest, or the results of these actions [9]. Divestment is also reactive; it is intended to correct past strategic mistakes, mostly to refocus on the core business after unsuccessful diversification efforts [3]. However, in recent years, a positive outlook regarding divestment strategies appears to have emerged [5] and companies tend to be more proactive in their divestment decisions. Companies are involved in divestment, not only to correct over diversification and performance problems but often to proactively change the company's strategy

Table 1. Category of divestment discussion journals

Journal Field / Years	2001	2002	2004	2006	2009	2010	2011	2013	2014	2018	2019
Baltic Journal of Management											1
Corporate Governance: The international journal of business in society			1								
Industrial and Commercial Training		1									
International Journal of Managerial Finance											1
Journal of Business Strategy									1		
Journal of Knowledge Management										1	
Journal of Strategy and Management						1					1
Managerial Finance					1						
Review of Accounting and Finance										1	
Strategic Management Journal	1						1	1	1		
University of Sheffield Management School				1							

[7]. In other words, companies can use acquisitions and divestments to restructure their business portfolios to improve performance [10].

Before doing this, the company must set its objectives first, according to Cummins and Xie [11]. Companies that do not achieve this goal are assumed to exit the market. In reality, some companies may survive even if they do not perform at the optimal level. Empirical evidence regarding corporate restructuring has documented that disposition of assets outside the company's core business is seen by the market as increasing value but the release of core assets is not seen as so [12]. Divestment can complement acquisition practices to reduce risk or manage company resources [10]. Resource management carried out in the divestment can be seen in the business unit release model. Although there are many advantages to using a discontinued operation to identify divestments, there are some limitations to this approach. First, when the company reports a halted operation, it is not clear what happened to the disposal unit [4]. It may have been sold, separated or abandoned. The divestment decision in several companies has also led to different perspectives, whether related to the motive, whether the company is doing efficiency, or doing corporate governance. As noted by Teece in 2000, the company's core capabilities depend on the ability to create, transfer, integrate, and exploit knowledge [3].

4.3. Methodologies, measures, and samples of the reviewed articles

A majority of the article studied (66.67% percent) use quantitative methodologies, along with regression analyses of several forms. Five journal articles (33.3% percent) examined the phenomenon using qualitative methods, mainly focusing on case studies with interviews and exploratory views. Only one study has put forward a model theory without empirical results [13]. This study focuses on measuring divestment performance from a financial perspective [9], [11]. An article by Lord & Saito, 2019 discusses the finance side of the reason behind the company choosing to undergo divestiture. This article analyses market responses to the acquisition and divestment of their entities after they occur in a vulnerable time, by conducting longitudinal research. Among the different articles, there are multiple industries studied [9], [4] including from specialized insurance industries [11].

The results strongly imply that the acquisition and divestment of insurance is driven by the motivation of maximizing value rather than seeking managerial leases. This shows that the analysis of book value efficiency can be useful in decision making for managers who maximize value and that the stock market is effective enough in processing information to identify and reward companies with relatively efficient operations. In the longitudinal studies, it can be seen that when the core business units of companies do divestment, this will show the impact of the manager's personal power or leadership [7], [12], corporate governance [3], [14], [15] as well as other structural strength factors in divestment [16] [17] are also elaborated by strategic articles. This study averages out how to effect after divestment and analyses the actions that should be taken by management before and after determining the release. From the sample results shown from various types of companies, the most striking is the approach that can

advance our understanding of sub-divestment units because it takes more attention to the core business. The divestment performance is also measured empirically in a number of journal articles taken from a sample of public companies in the USA and Europe [18], [13], [19], [5], [10]. Public companies are more interested in seeing performance after divestment [10], [19] as well as technology companies [13].

Research from Xia & Li [14] shows that parent companies show the relationship to sub-units can change over time as sub-diversification. Therefore, the power of this subunit increases outside the exchange relationship with the parent company through subsequent inter-industry activities reduces the effect of interdependence on the retention of other sub-units. Capron [15] showed different opinions in business divestment, saying that resource transfer and divestment of assets were part of the business reconstruction process figuration which are the company tried to recommend, combine capabilities and combine business, the results emphasizing acquisition as an important part of business dynamics, helping companies reconfigure their resources to deal with the constraints of change.

4.4. Theories applied in the articles reviewed

The theories applied in this paper are shown in Table 3.

5. DISCUSSION

Divestment is highlighted from the general characteristics of the company that makes the decision to release its subsidiary. From the findings, it appears that the entity that disposes assets is far more diverse and shows weaker operating performance than the control sample.

5.1. Essential motives of divestiture

Empirical study of the effect of financial constraints on this divestment choice, companies that stop operations are more limited to a broad factors sample: they have higher financial leverage,

Table 2. Synoptic Journal

Author	Region	Industry	Case study/ Secondary	Purpose	Qualitative/ Quantitative
Helmer, Jill Harris	USA	For Air Products and Chemicals	Case	To share tools and techniques that have been designed to help leaders communicate and manage the change that accompanies divestments, acquisitions, and joint ventures.	Qualitative
Ojiako, G. Udechukwu Maguire, Stuart	UK & USA	Technology	Case	To see what action that NITEL should take or can learn from the progress made by its peers (such as BTand AT&T) in developed countries such as the UK and the United States, especially in the areas of regulation and divestment.	Qualitative
SchöNhaar, Sebastian Pidun, Ulrich Nippa, Michael	European & USA	Multiple	Secondary	Addresses this research gap by investigating the development of sample portfolios from 100 of Europe's largest companies and 100 North Americans during the 1998-2010 period.	Qualitative
Moschieri, Caterina	USA	Logistic	Secondary	The existing literature on divestment value creation focuses on their antecedents, usually related to the financial performance of the parent company.	Qualitative
Amiri, Sina King, David DeMarie, Samuel	USA	Technology	Secondary	Develop and empirically test different explanations for divestment of previous acquisitions.	Quantitative
Pham, Dung Nguyen, Thanh Adhikari, Hari	USA	Multiple	Secondary	Examine two different corporate divestment options for US companies: selling assets to public companies or issuing shares in an equity carve-out.	Quantitative

Table 2. Synoptic Journal (Continued)

Author	Region	Industry	Case study/ Secondary	Purpose	Qualitative/ Quantitative
Cummins, J. David Xie, Xiaoying	USA	Insurance	Secondary	Determine the market value relevance of frontier efficiency scores and to test hypotheses of firm and production control theory by analyzing the market response to US acquisitions and divestments of property-liability (P-L) entities.	Quantitative
Lord, Richard A. Saito, Yoshie	French	Multiple	Secondary	Re-examine the firm's focus hypothesis to establish the characteristics of the company that is discontinuing operations.	Quantitative
Silva, Pedro Moreira, Antonio Carrizo	Multi	Multiple	Secondary	Review existing research on industrial divestment to identify the reasons, the process of achieving it, and the results of industry sales and closures.	Qualitative
Peruffo, Enzo Marchegiani, Lucia Vicentini, Francesca	European	Multiple	Secondary	Analyze the idea that experience acts as an antecedent to divestment and triggers an organizational learning process that enables divestment firms to convert experience into knowledge.	Quantitative
Krishnan, Venkat R. Sivakumar, Ranjini	USA	Multiple	Secondary	This longitudinal study looks at the impact of top manager personal strength and structural strength on the divestment two years later.	Quantitative
Brauer, Matthias Schimmer, Markus	USA	Insurance	Secondary	Expand extant research on the source of divestment benefits by suggesting a new program-based perspective on divestment and analyzing the performance of divestment programs compared to a single "stand alone" divestment.	Quantitative
Seemantini Pathak, Robert E. Hoskisson And Richard A. Johnson	USA	Multiple	Secondary	Examine the relationship between strategic change and CEO compensation by studying how a company's refocusing program affects CEO compensation after completing the change.	Quantitative
Xia, Jun Li, Sali	USA	Multiple	Secondary	The objective is to explore how 'mutual dependence' (Casciaro and Piskorski, 2005) and 'subunit strength' (Pfeffer and Salancik, 1978) simultaneously and co-affect future subunit divestments.	Quantitative
Capron, Laurence Mitchell, Will Swaminathan, Anand	Multi	Multiple	Secondary	Examines the causes of future asset divestments of the following horizontal acquisitions. Divestiture assets are the sale or disposal of part or all of the physical and organizational assets, closure of facilities, and reduction in the workforce of the target or acquirer's business.	Quantitative

Table 3. Basic theory of the Article

Base theory	Definition	Article
Agency theory & Entrenchment/ alignment effect	Agency theory elaborates a relationship between the principal and the agent, where the principal is the party that gives the mandate to the agent. Principals delegate responsibility for decision making to agents where the rights and obligations of both parties are described in a mutually beneficial employment agreement. (Jensen & Meckling, 1976 as cited in Anton, 2010)	(Brauer & Schimmer, 2010), (Ojiako & Maguire, 2006), (Silva & Moreira, 2019), (Lord & Saito, 2019), (Seemantini Pathak, 2014)
Stewardship/ stagnation perspective	Stewardship theory is theory which describes a situation where managers are not motivated by individual goals but rather aimed at their main outcome goals for the benefit of the organization.(Donalson and Davis, 1991 as cited in Anton, 2010)	(Cummins & Xie, 2009), (Krishnan & Sivakumar, 2004), (Moschieri, 2011), (Xia & Li, 2013), (Capron et al., 2001)
RBV (Resource Based View)	A company's competitive advantage is based on its resources (Barney,1991)	(Peruffo et al., 2018), (Helmer, 2002), (Krishnan & Sivakumar, 2004), (SchöNhaar et al., 2014), (Xia & Li, 2013), (Moschieri, 2011), (Capron et al., 2001)
Strategy process theory	Strategy as an organic process and Porter's somewhat more analytical and deterministic about strategy, and this is often viewed as conflicting. However, we believe that these two scholars have shed light on important truths about the nature of strategy (Mintzberg, 1980). Strategy is a process of understanding and forming competitive "forces" and an endless process of discovery and incrementalism objectives (Schumpeter, 1928).	(Pham et al., 2018), (Amiri et al., 2019), (Xia & Li, 2013)

they are far more likely have higher financial leverage, they are far more likely to be historically negative and they have low share cash [4]. The company divests with higher efficiency resulting in lower abnormal returns around the announcement. These results are consistent with the takeover literature: efficient buyers are more likely to pursue synergies and realize potential synergies than inefficient buyers, and inefficient sellers have the potential to increase efficiency by restructuring their assets [11]. However, the assets of the parent company are experiencing positive stock performance for sell and buy, and there are also those who experience poor stock performance. The long-term performance of post-divestment shares between asset sales and holding companies can give from differences in the reduction of their post-divestment diversification discounts [9].

Companies can use acquisitions and divestments to restructure their business portfolios to improve performance. Furthermore, divestments can complement acquisition practices to reduce risk or manage company resources [10]. This portfolio transformation confirms and expands the previous literature which postulates that poor performance and excessive diversification are the main motives for portfolio restructuring. This is especially true for companies with transformation refocuses that show, on average, a higher level of diversification and weaker performance than their counterparts who have not transformed and succeeded in greatly reducing their diversification and improving performance on their transformation journey [19]. The results show a positive relationship between the acquisition and return of the next divestment announcement, indicating that the better acquirer benefits from divesting. For example, General Electric (GE) has a history of divestment, and Jack Welch divested 20 percent of GE's assets in its first four years as CEO [2]. Continuous corporate restructuring that includes acquisitions and divestments can explain why GE is the last company left on the Dow Jones Industrial Average from the original 1896 list. One promising option is to consider acquisition and divestment together using a portfolio. This is also supported by the statement of Brauer & Schimmer [16] that analyses the causal and temporal interrelationships in corporate divestment behaviour. Both are proven to significantly affect the divestment market returns. In the face of the current financial crisis, when cross-industry companies are restructuring their business portfolios.

Comparison divestment shows that the process participated in explaining the performance of the divestment unit. The results of this study from [5] show that, although its predecessor divestment is important for unit performance, the overall success of operations is related to its implementation and structuring. Divested units are more likely to form well if the divestment process is well managed. This approach can advance our understanding of sub-divestment units. The parent company inter-unit linkages can change over time as

sub-diversification also can add different businesses. Therefore, the power of sub-units increases outside the exchange relationship between the parent company and the subunit of inter-industry activities subsequently reducing the effect of interdependence on sub-unit retention [14]. But in the NITEL case study in Nigeria, it did not succeed in divesting a unit that related to government policies and market regulations. NITEL has lessons to learn from previous monopolies such as BT and AT&T, especially in the business unit divestment field. However, the question remains whether NITEL, with its history will be willing or able to adopt theories and practices that have worked for previous monopolies such as BT and AT&T [13]. So, this depends on the involvement of unit managers, on the creation of independent companies with new identities and strategies, and on developing management's sense of opportunity and also the influence of environmental uncertainty.

Managers are advised to carry out this divestment carefully. "Fire sales" that are scheduled too tight tend to reduce returns from divestment [16]. Managers must strive to encourage knowledge management practices that support organizational sensing [3]. Companies divest when their top managers have less structural strength. Divestment effect also for the top managers having less structural strength compared to non-relinquishing companies [12]. This study provides initial support for the relationship between top manager power and company divestment which continues to remain significant even after controlling for well-known divestment predictors traditionally. More research should be done to provide greater support, understanding and capacity to manage corporate divestment. The management decision should have the best knowledge to bring the company’s portfolio a good result. These findings can be seen in Table IV.

6. CONCLUSION

A positive outlook can be a deliberate strategic choice to adapt to other companies and benefit from synergies. Not all divestments are the result of choice in the release on the basis of financial need, this can be shown by the managerial carried out by GE Electric by making divestment a strategy in achieving company performance and this is thanks to the success after the CEO turnover [10], [2]. General Electric announced in late 2006 that it was selling $ 3.4 billion in silicon and its quota business to private equity firm Apollo Management. GE's corporate portfolio has changed since the current CEO, Jeffrey Immelt, took control in September 2001. Since then, GE has completed transactions valued at more than $ 110 billion in the purchase and sale of various operating units. This is also reinforced by Seemantini Pathak's research, 2014, on the managerial or CEO role in managing the company before divestment, based on the action also needing knowledge from the management and the leader itself [3].

The findings of the study strongly imply that the divestment motivation influence of the similarity of the target asset divestment strategy tends to reflect the management of the acquirer's managerial dominance. This study has limited the review of the subjects motives, and still need to explore and consider from other aspects, such as empowerment, uncertainty, and business settings. This study shows that the motive for divestment here is clear that there are other factors for exit with resources consideration such as empowerment of employees and management that must be aligned when future divestments occur for the company.

From the results of the discussion and exposure of the journals there are strategy recommendations in undergoing the divestment process as an exit strategy as the below statements: Managers are expected to provide more support, understanding and capacity to manage corporate divestment so that it can be improved. Before divesting an entity or sub-unit, the manager can think of the consequences of the release whether it will affect the performance of individuals and the company. Consideration of these two things becomes important, in the interests of managers as the company's stakeholder. Managerial can provide an opportunity to gather information about many things in the dimension of resource replacement and future divestment. The creation of an independent company with a new identity and strategy, managers can look towards developing a management sense of opportunity. Managers must be able to empower existing resources to set-up the business future model, in order to continue the sustainability of the company and to value the saving or asset.

Although this research topic was developed before the Covid-19 pandemic, the divestment can be adapted for this current situation. Financial motives and uncertain environment impact such as the current pandemic, are an important part of refocusing the core business and undertaking disengagement. This can be an opportunity for researchers to explore for the next coming more motives of the disposal, and how the company keeps sustaining.

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