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A systematic review of the literature on industrial divestment

Pedro Silva and Antonio Carrizo Moreira
Department of Economics, Management, Industrial Engineering and Tourism, Universidade de Aveiro, Aveiro, Portugal

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Abstract

Purpose – The purpose of this paper is to review the existing research on industrial divestment in order to identify the reasons for it, the process whereby it is achieved, and the outcomes of industrial sell-offs and closures. The study reports the main findings that have gained acceptance in the literature, gaps in the research and potential directions for future research.
Design/methodology/approach – A three stage systematic literature review protocol was used to conduct this review. The results are organized according to an "Antecedents – Process – Outcomes" framework.
Findings – The traditional accounts of industrial divestment have been framed in terms of firms' weak performance and over-diversification as antecedents to divestment, leading to corporate governance issues. However, the list of antecedents of industrial divestment is more extensive. There is no consensus over the impact of some factors on divestments, as is the case of firm and unit size. The results are not conclusive as to whether firm performance improves after divesting.
Research limitations/implications – Future research should analyze the relationship between the antecedents of investment and divestment. The divestment process is not well studied and more studies that engage in theory building are needed, namely, on primary data and examining the short-term and long-term impacts of divestment on performance.
Practical implications – This review offers a comprehensive synthesis of the antecedents, the process and outcomes of divestment through sell-offs and closures. Factors such as environmental conditions and the entry mode strategy are important in determining the divestment of subsidiaries. Divestments may be positively or negatively regarded by shareholders, depending on the context of the firm. Promoting managerial changes facilitates divestment.
Originality/value – This paper synthesizes knowledge of the main reasons as to why firms completely dispose of their assets, contributing to this under-researched field.

Keywords Divestment, Review, Closure, Sell-off

Paper type Literature review

1. Introduction

Divestment is "a firm's decision to dispose of a significant portion of its assets" (Duhaime and Grant, 1984, p. 301). It is a growing contemporary topic. Early on, Boddewyn and Torneden (1973) and Nees (1978) drew researchers' attention to the way in which divestments were increasing in the USA in the 1960s and 1970s. Bernard and Jensen (2007) claimed that from 1992 to 1997, more than 30 percent of US manufacturing plants were shut down. Announcements of plant closures in the news media remain fairly common. For example, General Motors announced the closure of seven plants worldwide by the end of 2019 (Bloomberg, 2018).

Understanding divestment is important for several reasons. Divestment can be used as a strategic tool for a firm's renewal, and it is important to understand why firms restructure their operations (Dranikoff *et al.*, 2002). From an acquirer's perspective, divested units may feel unwanted by their current owners. Divestment has many social and economic implications for those involved. The closure of subsidiaries leads to job losses and lost productivity (Bernard and Jensen, 2007). Retaining investment is also of crucial importance for the wealth of host countries, especially for developing economies (Benito, 1997).

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However, despite increasing numbers of divestments, the literature on the topic is still limited (Kotabe and Ketkar, 2009). Not much is known on why firms divest (Berry, 2013; Soule *et al.*, 2014), and there is a lack of reviews of the field of divestment (Lee and Madhavan, 2010).

Several factors contribute to the difficulties of conducting research on this topic. First, the topic is very broad. Divestments have often been understood as a small research trend of its main parent, corporate restructuring, which involves changes in firm assets, capital structures and organizational structures (Singh, 1993). Second, there are inconsistencies in the vocabulary used. Divestments have been referred to as disinvestments, divestitures, exits, closures, liquidations and abandonments, among many other expressions. Third, divestments have mistakenly been conceptualized as a mirror image of mergers and acquisitions (M&A) rather than as an independent strategic option for corporate renewal (Brauer, 2006). In addition, research in this field has dealt with different types of restructuring which has generated confusion about the strategic changes being studied (Johnson, 1996). Also, many corporate restructuring activities happen simultaneously (Hoskisson *et al.*, 1994), making it difficult to draw unbiased conclusions. Fourth, it is difficult to isolate divestment phenomena clearly. Divestments involve voluntary and involuntary actions (Benito, 1997) as well as the partial or complete disposal of assets (Capron *et al.*, 2001). They can be driven by strategic or tactical reasons, or in response to distress (Montgomery and Thomas, 1988), and conducted through sell-offs, closures, spin-offs, spin-outs, carve-outs, split-offs, split-ups, leveraged buyouts and management buyouts. Finally, as divestment is a highly sensitive and confidential topic often associated with failure, and because it might reflect a firm's future strategic choices, obtaining quantitative (Benito, 1997; Berry, 2010) and qualitative (Hamilton and Chow, 1993; Duhaime and Grant, 1984) data is difficult.

To date, at least two reviews have tried to synthetize this field of knowledge. Johnson (1996) examined articles published between 1980 and 1996 on the antecedents and outcomes of corporate refocusing through sell-offs, spin-offs or split-ups. Brauer (2006) reviewed the literature from strategic management journals on portfolio restructuring between 1980 and 2006, presenting findings on firms' ownership adjustments via spin-offs, equity carve-outs, split-ups or sell-offs. However, considering the diversity of corporate restructuring and wide range of divestment research, the present review has a more specific aim. The objective of this paper is to review systematically the literature on industrial divestments through closures and sell-offs. Closures and sell-offs are the only modes of divestment where the parent firm relinquishes ownership and control over the divested asset. Moreover, closures have an impact on trends in industrial productivity, on the dynamics of employment and on the development of economies and industrial restructuring.

Divestments can be analyzed either involving industrial firms or service firms, which include distinct characteristics and roles. Services are based on intangible characteristics, are more heterogeneous and require a higher customer involvement than industrial activities. Despite the growing importance of services, industrial activities are still key to economic growth and employment. For example, several services are dependent on manufactured goods and around 80 percent of world trade is merchandise trade, compared to 20 percent of services trade (World Trade Organization, 2017). Recent findings underline the value added of the manufacturing industry and employment contribution to world wealth and employment (Haraguchi *et al.*, 2017). As these industries behave differently, the target of this review is on industrial divestments only.

The paper is structured as follows. After this introduction, Section 2 describes the systematic literature review (SLR) protocol used to identify the most relevant articles on divestment. Section 3 reports and synthesizes the results using an "Antecedents – Process – Outcomes" approach. Section 4 presents the discussion, the future research directions and the managerial implications of the findings. This review concludes with the limitations of the present research.

2. Method

This paper follows the SLR protocol proposed by Tranfield *et al.* (2003). SLRs are different from traditional reviews because the process is reported openly in the same way as empirical research (Pittaway and Cope, 2007). According to Tranfield *et al.* (2003), SLRs include three main stages:

(1) Stage I – planning the review (including the definition of the review's objective and the research question).

(2) Stage II – conducting the review (a rigorous method for the implementation of the review based on the identification of the relevant literature using explicit and reproducible criteria for inclusion and exclusion, supported by an assessment of the quality of the reviewed studies and the strength of their findings).

(3) Stage III – reporting and dissemination (including the report, recommendations and getting the evidence into practice).

The purpose and objective of the review (Stage I) has already been established in the introduction of the paper. The remainder of this method section focuses on the approach used to identify and select the most relevant literature (Stage II). Then, the next section of the paper (Stage III) presents the analysis based on the relevant data extracted from the selected articles.

2.1 Identification and selection of the relevant articles

We began by identifying a set of keywords and search terms based on the purpose of the review, other journal articles, and previous experience. Then, those keywords were constructed into a search string – a process that is interactive and susceptible to rearrangement (Pittaway *et al.*, 2004). To search for studies, we used: the keyword "divest*" to capture all research using the divestment and divestitures labels simultaneously, which are the most widely used terms in the literature; and a secondary criterion for articles to have at least one of the substantive keywords, "asset*" OR "facilit*" OR "factor*" OR "firm*" OR "plant*" OR "subsidiar*" OR "subunit*" OR "unit*," in an effort to capture the types of industrial assets divested[1].

To select the sources of information, we followed David and Han's (2004) and Light and Pillemer's (1984) recommendations to use only scholarly peer-reviewed published journal articles.

The next decision concerned which databases to use in the search process. The choice was to rely on five databases: EBSCOhost, Emerald Insight, ISI Web of Science, ScienceDirect and Scopus, which appear sufficiently comprehensive and offer an acceptable degree of search customization.

After having identified what to search and where to search, a series of filters were developed to help select the articles. This is a procedure that has been used before by authors when conducting SLRs (David and Han, 2004; Leseure *et al.*, 2004; Pittaway *et al.*, 2004). There was no restriction on the date of publication.

The search with the root keyword resulted in 2,413 articles, which, after the use of the full search string, shrank to 1,374. The number was further reduced after the deletion of duplicates, resulting in a dataset of 897 articles. To refine the article selection further, a filter was adopted based on David and Han's (2004, p. 43) assumption that "single journal hits … [a]re less likely to be both substantively and methodologically relevant than those that [a]re published in journals with multiple articles identified." The use of this filter contributed to reach a more manageable sample of articles while identifying those composing the core tenets of the theory on divestment. Nonetheless, several iterations were run to ensure that relevant articles were not removed even if they came from a single journal. This left us with 684 titles and abstracts to be reviewed.

Following previous reviews (David and Han, 2004; Pittaway *et al.*, 2004), the articles' journal of publication, title and abstract were evaluated by each author individually, allowing us to determine whether an article was suited for the review's purpose. The articles marked by both authors for exclusion were excluded, whereas the ones in which consensus was not reached were integrally read and their content discussed until a consensus was reached on their inclusion/exclusion[2]. After the analysis, 76 articles survived this round.

In the second round, the articles were again analyzed individually by each author (Denyer and Tranfield, 2009), and the Academy of Management (2019) journal guidelines for reviewers were used as evaluation criteria for the selection of articles. After the individual analysis, the authors cross-checked their results and articles were classified as: A – relevant for the review; B – require further evaluation; and C – excluded. The A, B, C approach has been used in previously reviews (Leseure *et al.*, 2004; Pittaway *et al.*, 2004). Because in this round the focus was on the decision of exclusion, articles A and B retained their classification as they were further scrutinized in the third round on their final inclusion or exclusion. After applying the selection criteria to the full text of articles, 23 articles were classified as A, 32 as B and 21 were immediately discarded.

The last round of the analysis was conducted based on a quality assessment table adopted from Pittaway *et al.* (2004) to examine A and B articles under the same assumptions. The goal was that both authors agreed on the relevance of the paper for the review; thus, the analysis was conducted jointly by both authors. This last quality assessment stage resulted in 24 articles being moved into the A category, creating a total sample of 47 core articles. Table I provides an overview of the results after each filter.

3. Results

We begin the analysis of the results with a description of the sample of articles. While early studies date back to the 1970s, the field of divestment experienced a steady increase in the number of published items after the 1990s. The articles included in this review were taken from 26 academic journals. The journal with most core articles is the *Strategic Management Journal*, which is among the leading journals in the scientific field of Strategic Management. The core sample includes two reviews of the literature (Johnson, 1996; Brauer, 2006), two meta-analyses of the impact of divestment on performance (Lee and Madhavan, 2010) and divestment antecedents (Kolev, 2016), and a theory building article (Dranikoff *et al.*, 2002). Of the remaining 42 papers, two articles employed case study approaches (Nees, 1978; Griffin, 2003), but most papers employed regression approaches (31 studies used Cox or logistic regressions). The results underline the lack of research that builds theory and the lack of

Table I. Database search results

Filter No.	Filter type	Description	Total	Excluded	Included
No. 1	Substantive	All articles with "divest*" ("*" indicates variations on word endings permitted) in their title, abstract or keywords	2,413		2,413
No. 2	Substantive	At least one keyword from "asset*" OR "facilit*" OR "factor*" OR "firm*" OR "plant*" OR "subsidiar*" OR "subunit*" OR "unit*" also in their title, abstract or keywords	2,413	1,039	1,374
No. 3	Duplicates	Deletion of duplicate articles	1,374	477	897
No. 4	Substantive	Articles in a journal that has returned more than one item from the filters above	897	213	684
No. 5	Substantive	Remaining titles and abstracts assessed for quality and relevance	684	608	76
No. 6	Substantive	Remaining full articles read for substantive theoretical/conceptual relevance	76	29	47

qualitative studies on divestment, underlining the difficulty of collecting primary data in this field. The analysis of the papers indicated the predominance of agency theory, organization life cycle theory (particularly early studies), portfolio theory, the resource-based view (RBV) and transaction cost economics (TCE). Table II provides a detailed description of the sample.

In order to structure the divestment field of knowledge, we adopted an "Antecedents – Process – Outcomes" framework (see Johnson, 1996; Paul and Benito, 2018; Schmeisser, 2013). This framework was considered suitable for our research purpose because it is simple yet comprehensive (Paul and Benito, 2018) and the research on divestment has been dominated by two questions: the antecedents and the post-performance implications of divestment (Brauer, 2006). Figure 1 presents the review scheme and provides a guideline for organizing the reviewed studies according to their research objective in a comprehensible, coherent and pragmatic way.

Publication year	
1973–1980	4
1981–1990	4
1991–2000	10
2001–2010	15
2011–2016	14
Publication source	
Strategic Management Journal	13
Journal of Management	5
Organization Science	3
Others	26
Type of paper	
Review/meta-analysis	4
Theory building	1
Qualitative	2
Quantitative	40
Sample	
US firms only	24
UK firms only	4
Other locations	14
Not applicable	5
Main theoretical perspective	
Agency theory	9
Organization life cycle	4
Corporate portfolio	3
Transaction cost economics	3
Resource-based view	3
Others	7
Not applicable/not available	18

Table II. Characterization of the sample of articles

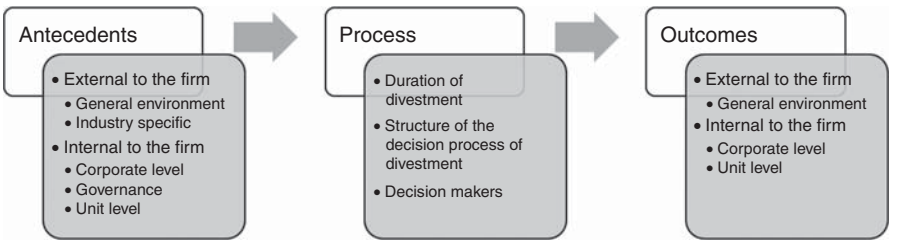

Figure 1. Review scheme

3.1 The antecedents of divestment

The first category – "Antecedents" – includes the articles examining the main drivers of divestment. The multiple antecedents of divestment have been arranged within different frameworks (Brauer, 2006; Johnson, 1996; Kolev, 2016). However, some models are limited because they fail to distinguish between categories of antecedents that overlap, or to distinguish between antecedents acting at different organizational levels (e.g. performance concerns both the firm as a whole and its sub-units). To overcome these difficulties, we adopted a different approach. The antecedents are divided into two categories: external and internal to the firm. The external antecedents are further organized into those originating in the general environment and those that are industry specific. The internal drivers are arranged at three levels: antecedents with an impact at a corporate level only, antecedents with an impact at corporate level, and implications for the unit and antecedents at unit level only.

3.1.1 External antecedents: general environment. The literature recognizes and accepts the importance of a country's economic growth in contributing to the prevention of divestments. Hamilton and Chow (1993), using a survey of New Zealand managers, showed that rising unemployment and economic decline influences the extent to which divestments are seen as strategic options. Subsidiaries are less likely to be divested when the economic growth in the host country is comparatively strong (Benito, 1997; Berry, 2013). Countries with favorable economic conditions, such as market growth, are more attractive to inward investment, and economic growth is a proxy for the ability of a country to remain attractive (Benito, 1997).

Environmental uncertainty is an important driver of divestment. Environmental uncertainty may stem from factors such as market uncertainty, the risk and political characteristics of the host country, or from external pressures on the firm. Bergh and Lawless (1998) showed that diversified firms in the USA divested when the market for their product became increasingly uncertain. Berry (2013) found support for the positive impact of policy instability and exchange rate volatility on divestment among US firms. Song (2014), using a sample of South Korean firms, also found that a country's level of risk and currency appreciation exerts a positive effect on subsidiary exits. Increasing uncertainty reduces a firm's ability to manage its subsidiaries efficiently, increasing the costs and governance issues of managing a diverse portfolio, leading to divestment in order to restore hierarchical control. Soule *et al.* (2014) found that protest activity and external pressures from stakeholders and relevant reference groups in the home country against the host country led firms to divest from Burma. The impact of external pressures from the media and similar peers (Durand and Vergne, 2015), from lenders (Hillier *et al.*, 2009) and from takeover threats (Haynes *et al.*, 2003; Hillier *et al.*, 2009) were also found to have an impact on divestment. Takeover threats or reports of takeover bids in the press stimulate management to respond and management may be pressured into divestment by their boards, underlining the important role of the market in corporate control.

Increasing labor costs are widely agreed to have an influence in triggering divestments. In conditions of increasing labor costs, firms search for a better use of their resources and more favorable conditions elsewhere (Berry, 2010), relocate production as host countries become less attractive (Fisch and Zschoche, 2012) or divest due to the loss of price competitiveness (Song, 2014).

3.1.2 External antecedents: industry specific. Industry-specific antecedents are among those that have been studied least. The presence of foreign firms seems to decrease divestment, while increased industry competition seems to have a positive effect on divestment.

Mata and Portugal (2000) showed that the presence of foreign firms in Portugal contributes to the survival of subsidiaries because it signals the existence of favorable conditions in that location that attract foreign ownership.

Industry competition increases the likelihood of divestment. Hillier *et al.* (2009) showed that asset sales are preceded by an increase in external competition, as higher competition decreases business margins and increases survival difficulties in periods of low demand. Kaul (2012) used a sample of US firms and concluded that rivals' innovativeness influenced changes in corporate portfolios through acquisitions or divestments, as firms threatened by the success of their rivals refocused by divesting non-core businesses.

Divestment is contingent on the characteristics of each industry. Berry (2010) examined US firms and argued that divestment depends on characteristics such as the type of industry in which firms compete (e.g. labor-intensive or R&D-intensive industries). Durand and Vergne (2015) used a sample composed of worldwide firms and claimed that divestments are more likely in more stigmatized industries (e.g. tobacco, arms and gambling) because of media attacks. As is the case for the economic growth of countries, growing industries are also found to be more attractive to investors (Hamilton and Chow, 1993). Capron *et al.* (2001), using a sample of US and European firms, found that industry characteristics such as over-diversity or price changes influenced divestment decisions in both acquirers and targets.

3.1.3 Internal antecedents: corporate level. Corporate characteristics such as strategy, performance, diversification, shareholder concentration, firm size, managerial changes and organizational flexibility have been found to have an impact on divestment.

Corporate strategy plays an important role on divestment. Firms may divest as part of strategic reconfiguration of their portfolio or to raise funds to finance other strategic options (Duhaime and Baird, 1987), when the original reasons for the initial investment cease to exist (Griffin, 2003), to focus on their core activities (Hoskisson *et al.*, 1994), to search for new market opportunities (Berry, 2010) or as a reaction to their own or a rival's innovations by reconfiguring the portfolio of resources (Kaul, 2012). More recently, the study by Feldman *et al.* (2016), using a sample of US firms, indicated that family firms are less likely to divest unrelated activities because they pursued other objectives than the maximization of shareholder value (e.g. they wanted to suit family preferences), and, consequently, they do not fully exploit the economic opportunities available to them, such as divestments.

Corporate performance and financial issues have been found to be the strongest predictors of divestment.

Poor performance indicates poor organizational efficiency and divestments are one way to recover efficiency levels (Johnson, 1996). Performance issues in over-diversified firms also increase the pressure on managers to divest (Haynes *et al.*, 2003). In turn, subsidiary divestment is unlikely when firms are experiencing an average or superior performance in their primary businesses (Montgomery and Thomas, 1988). However, the impact of performance on divestment is not unchallenged. Hoskisson *et al.* (1994) showed that neither a high accounting performance nor good market performance alone is sufficient to prevent divestments. Hayward and Shimizu (2006) found that acquired units with low performance were more likely to be divested when firms experienced stronger overall performance because managers took a particularly harsh view of underperforming units when the core business was performing well, creating the context for divestments.

The evidence shows that firms occupying weaker financial positions than their counterpart firms (Montgomery and Thomas, 1988) or experiencing financial difficulties (Ravenscraft and Scherer, 1991) are more likely to divest. Selling assets is an operational response to a poor financial condition of the firm (Hillier *et al.*, 2009). Regarding financial concerns, divestments can be used to decrease debt levels and meet the need for liquidity (Hamilton and Chow, 1993; Hoskisson *et al.*, 1994; Khan and Mehta, 1996; Pashley and Philippatos, 1990) and to relax credit constraints (Chen and Guo, 2005; Schlingemann *et al.*, 2002).

There is some consensus in the literature that high levels of diversification are one of the main drivers for divestments (Berry, 2010; Haynes *et al.*, 2003; Hoskisson *et al.*, 1994; Kolev, 2016; Schlingemann *et al.*, 2002). The arguments are threefold. First, divestments may be the reversal of past managerial diversification and expansionist strategies that prevent firms from being efficiently managed, thus requiring them to increase their internal focus and synergies by decreasing diversification. Second, due to inefficient resource allocation and units that drain valuable resources in diversified firms, the latter traditionally exhibit poorer performance than equivalent firms. Third, diversified firms may divest non-core activities when their specific resources can be managed more efficiently by others. Nonetheless, Porter (1976) found that high diversified firms were more unlikely to divest unprofitable businesses because these firms had the financial resources to carry a loser indefinitely and due to existing managerial barriers to exit.

The agency theory suggests that a diversification strategy is a self-serving action that managers use to increase their compensation and prestige or to decrease their personal risk by reducing their firm's total risk. Excessive diversification is also the outcome of inadequate governance mechanisms caused by the diffusion of shareholders, outside owners and board passivity. Large inside blockholders, board compensation and active monitoring help align managers' and shareholders' interests, mitigating agency issues and stimulating managers to divest when necessary (Hoskisson *et al.*, 1994; Villalonga and Mcgahan, 2005; Nguyen and Rahman, 2015).

The impact of firm size on divestment is not fully agreed. Larger firms have been found to be responsible for most divestments (Chopra *et al.*, 1978). This may simply be a matter of size, as the larger the firm, the more potentially divestible assets it has (Haynes *et al.*, 2003). Larger firms may also experience control problems associated with size, complexity and diversity (Haynes *et al.*, 2003; Kolev, 2016). Other conflicting rationales have been presented in the literature. Shimizu and Hitt (2005) used a sample of US firms and concluded that the likelihood of divestment decreases in the case of old and large firms due to the concept of organizational inertia that makes firms more rigid, bureaucratic and unable to react quickly to environmental changes.

Previous experience of divestment, both at the firm level (Kolev, 2016; Shimizu and Hitt, 2005) and managerial level (Nees, 1978), increase the likelihood of divestment. Previous divestments generate organizational knowledge and embedded routines on how to conduct these processes, facilitating future divestments.

The role of management has been demonstrated to be important in divestment. The departure (Weisbach, 1995) or arrival (Shimizu and Hitt, 2005; Hayward and Shimizu, 2006) of managers can trigger divestments. This is attributed to new managers' motivation to perform necessary actions. In addition, they can blame the previous management for poor decisions about previous acquisitions and performance issues, without damaging their own reputation. Managers' attachment to, and knowledge of, businesses also influences their behavior toward divestment. Ravenscraft and Scherer's (1991) research conducted in the USA indicated that managers were more likely to sell off businesses to which they were weakly attached, as this was psychologically easier for them. Moreover, managers over-value their ability to manage some businesses (Weisbach, 1995), choosing to divest assets in non-familiar segments rather than familiar segments because of their comparative information advantage with respect to familiar segments (Ang *et al.*, 2014). New inside managers were also found to be related to a greater scale of divestment and new outside managers with a greater scope of divestment (Chiu *et al.*, 2016).

Recent research has drawn attention to the negative impact of corporate flexibility (i.e. the flexibility to transfer resources between locations in different countries) on divestment (Fisch and Zschoche, 2012; Song, 2014). Greater corporate flexibility allows firms to react to environmental changes by shifting production within the firm and explore cost differentials

on a global scale, decreasing subsidiaries' exposure to divestment as investors seek to preserve their networks and shift back production when conditions reverse.

3.1.4 Internal antecedents: corporate governance. Some corporate governance decisions are made at the firm level but have implications for the sub-units of the firm. Governance-level divestment antecedents have been dominated by two topics: the impact of entry mode (i.e. greenfield vs acquisitions) and the ownership structure (i.e. wholly owned vs partially owned).

There is agreement in the existing research that acquired units face a higher risk of divestment than greenfield entries (Ravenscraft and Scherer, 1991; Benito, 1997; Mata and Portugal, 2000). Bergh (1997) suggests that divestments are failed acquisition attempts that are dependent on the motives, expectations, and initial conditions at the time of acquisition. Benito (1997) notes that the synergistic value of units originally acquired to increase synergies for the company's core business may weaken or vanish over time, constituting a reason for divestment. On the other hand, greenfield investment represents a greater and longer-term commitment to an investment than an acquisition (Mata and Portugal, 2000).

The second topic is the impact of the firm's ownership structure on divestment. Higher levels of ownership such as majority joint-ventures and fully-owned subsidiaries experience a lower likelihood of failure (Mata and Portugal, 2000). Ushijima and Iriyama (2015) conducted research in Japan and showed that sold units are typically joint-ventures, as these structures are more subjected to decision deadlocks between partner firms and they can be sold more easily.

3.1.5 Internal antecedents: unit level. Some subsidiary- and corporate-level antecedents are common, as is the case of performance and size.

Empirical evidence indicates that poor unit performance is one of the main drivers for divestment (Ushijima and Iriyama, 2015; Kolev, 2016; Berry, 2013; Ravenscraft and Scherer, 1991; Duhaime and Grant, 1984). Ravenscraft and Scherer (1991) argue that a unit's below average performance is the primary reason they are divested. Capron *et al.* (2001) claim that firms rarely divest profitable units. Poorly performing units are a burden to the organization and may reflect their inability to meet performance aspirations, making them suitable to divestment (Kolev, 2016).

Often related with performance is unit size, which has been measured using sales volume (Nees, 1978; Duhaime and Baird, 1987), number of employees (Bergh, 1997), total assets (Shimizu and Hitt, 2005) and amount of investment (Song, 2014). While most of the literature supports the idea that larger units are less likely to be divested, there is not complete agreement over the findings. It is easier to dispose of smaller rather than large investments (Song, 2014). Also, large investments of resources often satisfy managerial self-interests and consequently are more likely to be retained (Bergh, 1997). However, a survey of managers of US firms produced somewhat contradictory results, as small units were found to be less likely to be divested if they were highly profitable and required little attention from top management (Duhaime and Baird, 1987). The results can also be explained because in Duhaime and Baird's sample, the divestment of larger units was associated with lower firm performance.

A higher degree of unit interdependencies with other units of the firm (Duhaime and Grant, 1984) and higher mutual dependence (Xia and Li, 2013) reduce the likelihood of divestment. Porter (1976) found that units that are customers to other units of the firm have a lower likelihood of divestment, as it is politically impossible to divest closely related businesses. Complementary and linked units may become economically unprofitable but nevertheless unsuitable for shut-down because closure would lead to high immediate losses, as divesting them affects the sales and costs of other units (Porter, 1976). Units are easier to separate when they are less embedded in intra-firm production and resource sharing networks (Ushijima and Iriyama, 2015). Additional factors such as being an unrelated, a joint-venture or belonging to

an industry where firms actively trade assets through M&A contribute to an asset's liquidity and probability of divestment (Schlingemann *et al.*, 2002; Ushijima and Iriyama, 2015).

The relatedness of units with the parent firm's core activity is well-accepted as having a negative effect on divestment (Benito, 1997; Ushijima and Iriyama, 2015). Unrelated units have more difficulty in achieving economies of scale and in building linkages, and increase the costs of governance (Benito, 1997).

Porter (1976) demonstrates that asset specificity is relevant to divestment, as the more particular and durable assets are, the less it pays to shut them down (even if they are unprofitable) and the greater the difficulty of finding potential buyers (decreasing the recovery value for the selling firm).

3.2 Divestment process

The second category – "The Process" – is the least researched of the three. There is little evidence on how firms divest. The lack of studies on the process of divestment is intimately connected with the dominance of static research methods such as regressions, and with the limitations of the almost exclusive use of secondary data sources. The development of research on the dynamics of organizational change processes would benefit from the use of more exploratory approaches and primary data (Brauer, 2006).

An exception is perhaps Nees (1978), who used 14 case studies composed of US and European firms to investigate the process of divestment. Her research brought knowledge on the characteristics of the process of divestment such as the duration of divestments, the structure of the decision process and the decision makers. Nees (1978) found that divestments lasted from a minimum of nine months to over 18 years and consisted of four stages: the identification (the awareness that something should be done); the development (the decision makers analyze what can be done); the selection (based on decision makers' personal judgment and confrontation of alternatives as to what to do); and the implementation (which is mainly the political means of how to implement the decision). Nees (1978, p. 93) concluded that divestment processes are not the outcome of "one decision taken by one person at one particular moment," but rather the result of several actions undertaken by various persons or coalitions based on the overall situation. The decision making is mostly taken at a corporate level, but unit managers may also play a role on these decisions, although they are rarely the initiators.

3.3 Divestment outcomes

The third category the – "Outcomes" – examines the implications of divestment. Despite their importance for an array of stakeholders (e.g. firms, divested units, employees, communities and regions), research on divestment outcomes is limited. The findings were grouped into general environment, corporate and unit level.

3.3.1 External outcomes: general environment. Research on the UK examines whether sell-offs generate real economic gains or are simply means of transferring wealth between buyers and sellers, and concludes that divestments generate real economic gains, as the operational performance of both buyer and sellers increases after a sell-off (Gadad *et al.*, 2009). Building on theory-based research, Dranikoff *et al.* (2002) propose that divestment is crucial for the creation of new firms that can grow and prosper, replacing the unwanted, divested ones.

3.3.2 Internal outcomes: corporate level. Hillier *et al.*'s (2009) evidence suggests that firms become more focused following asset divestments. After sell-offs, the intensity of firms' investment increases as new funds are available to the firms' remaining operations (Ushijima and Iriyama, 2015).

Most research on the outcomes of divestment focuses on post-divestment firm performance. However, despite the number of studies on the topic, there is a lack of consensus, and evidence

can be found supporting a positive, negative or contingent impact of divestment on performance. Dranikoff *et al.* (2002) argue that firms that actively manage their businesses through acquisitions and divestments should create more value for shareholders than those that do not. Evidence collected in the UK supports the conclusion that divestment increases a firm's profitability (Haynes *et al.*, 2002) and operating performance (Hillier *et al.*, 2009).

Other findings indicate that post-divestment gains are contingent on divestment reasons and that divesting firms remain underperformers.

Montgomery and Thomas (1988) compared divesting and non-divesting firms and found that in the USA, divesting firms were able to improve their position but remained below the average control group.

Pashley and Philippatos (1990) compared groups of US firms demonstrating that post-divestment performance varies according to the divesting firm's life cycle stage, as firms undertake divestments with different purposes according to their stage in the life cycle.

Lee and Madhavan (2010) conducted a meta-analysis of the relationship between divestment and subsequent firm performance, and concluded that, overall, divestments have a positive impact on a firm's performance. However, this is particularly valid for strategic rather than non-strategic divestments. Earlier, Montgomery and Thomas (1988) noted that stock markets reacted more favorably to strategic than to tactical divestments or divestments that were a response to financial distress. There are also empirical findings of the negative impact of divestment on performance. Zschoche (2016), using German firms, found that divesting production locations led to short-term performance declines in the firm's network, brought about by the interruption of established processes and routines.

While no empirical research has been conducted on the topic, the literature emphasizes that divestments decrease managers' professional pride and self-esteem, have consequences for their reputation, and their status in their organization, and future employability (Porter, 1976; Dranikoff *et al.*, 2002).

3.3.3 Internal outcomes: unit level. Based on rare empirical research on divestment at unit level outcomes of divestment, Ravenscraft and Scherer (1991) examined whether the performance of poorly performing divested units improved under the new owner. They showed that, although some units registered accounting profits, their performance remained below average. Table III presents a summary of the reviewed studies and factors with an impact on divestment arranged by category and study.

4. Discussion, directions for future research and managerial implications

The objective of this review is to map the relevant literature on industrial divestment. To achieve this, Tranfield *et al.*'s (2003) review methodology was used to identify the most relevant articles on divestment. The findings were analyzed based on a review scheme that follows an "Antecedents – Process – Outcomes" logic to structure and report the main contributions to the field. Figure 2 presents the main evidence identified in each of the categories in an integrating framework for the literature on industrial divestment.

Research on the antecedents of divestment is the most developed category. The antecedents were grouped into those that were external to the firm and those that were internal to the firm. The eclectic paradigm emphasizes the importance of host countries favorable environment, as nations compete to attract and retain FDI, whereas the TCE highlights how factors such as environmental uncertainty may increase a firm's internal transaction costs, leading to divestment.

The factors internal to the firm were organized into: firm, governance and unit levels. While corporate strategy has an important role in divestment, the initial use of the corporate life cycle conceptualized divestment as a natural phenomenon. Subsequent studies have nonetheless resorted to more intricate theoretical approaches to divestment. The agency

Study	Antecedents: General Environment: Unemployment	Economic growth	Uncertainty	External pressures	Market opportunities	High labor costs	Industry specific: Foreign firm's presence	Industry's competition	Industry's characteristics	Corporate level: Low performance	High diversification	Shareholder concentration	Large size	Older firms	Divestment experience	Management characteristics	Managerial changes	High flexibility	Strategy	New innovations	Firm type	Governance: Greenfield	Acquisition	High ownership	Unit level: Low performance	High interdependencies	Relatedness w/ parent firm	High specificity	High liquidity	Large size	Outcomes: General Environment: Economic wealth	Creation of new businesses	Corporate level: Performance	Strategy	Employees' morale	Unit: Performance
Boddewyn and Torneden (1973)															●																					
Porter (1976)											–															–		–								
Chopra *et al.* (1978)		●								●			●						●													●				
Nees (1978)		●	●		●											●	●		●						●					●						
Duhaime and Grant (1984)										+															+	–				–						
Duhaime and Baird (1987)																									+					+						
Montgomery and Thomas(1988)										+																						+				
Pashley and Philippatos (1990)																																±				
Ravenscraft and Scherer (1991)										+						±	+					–	+		+											+
Hamilton and Chow (1993)	●	●							●	●	●														●											
Hoskisson *et al.* (1994)										+	+	±																								
Weisbach (1995)																±	+																			
Johnson (1996)		●	●	●						●	●	●	●												●								●	●	●	
Khan and Mehta (1996)										+																										
Benito (1997)		–																				–	+				–								
Bergh (1997)											–																		–						
Bergh and Lawless (1998)			+																																
Mata and Portugal (2000)							–															–	+	–											
Capron *et al.* (2001)									±																+											
Dranikoff *et al.* (2002)																															●	●	●	●		
Haynes *et al.* (2002)																																+				
Schlingemann *et al.* (2002)										+	+														+		–		+	–						
Griffin (2003)										●									●																	
Haynes *et al.* (2003)				+						+	+		+																							
Chen and Guo (2005)										+																				+						
Shimizu and Hitt (2005)												±	–	–	+		+													–						
Villalonga and Mcgahan (2005)			±								±	±			±												±	±		±						
Brauer (2006)								●	●	●	●	●	●	●					●						●		●			●			●	●	●	
Hayward and Shimizu (2006)										–						±	+																			
Gadad *et al.* (2009)																															+		+			
Hillier *et al.* (2009)				+				+		+	+						+		±														+	±		
Berry (2010)					+	+			±	+	+																									
Lee and Madhavan (2010)																																	+			
Fisch and Zschoche (2012)																		–																		
Kaul (2012)								+												+																
Berry (2013)		–	+																						+		–									
Xia and Li (2013)																										–										
Ang *et al.* (2014)																±																				
Song (2014)			+			+													–						+					–						
Soule *et al.* (2014)				+																																
Durand and Vergne (2015)				+					±																											
Nguyen and Rahman (2015)												±																								
Ushijima and Iriyama (2015)										+															+	–	–		+				±	±		
Chiu *et al.* (2016)																±																				
Feldman *et al.* (2016)																					±												+			
Kolev (2016)											+	±	+		+										+											
Zschoche (2016)																																	–			

Table III.
Main findings on the relationship between the antecedents and outcomes of divestment

Notes: +, empirical support for the positive impact on/of divestment; –, empirical support for the negative impact on/of divestment; ±, empirical support for the contingent impact on/of divestment; ●, found or mentioned in the study but not empirically tested

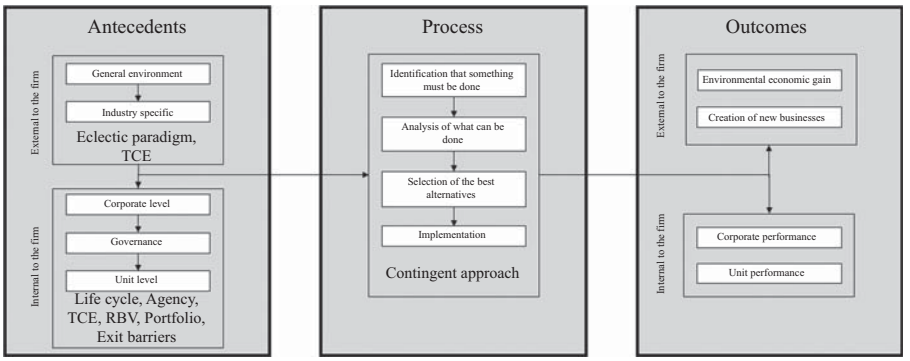

Figure 2.
Integrating framework for the literature on industrial divestment

theory is the theory that has been explored most, generating insights particularly at firm and governance levels. Divestments were used to restore firm's efficiency levels by reversing previous acquisitions and decrease the level of diversification produced by previous expansionist strategies adopted by managers because of agency issues. This means that divestments contributed to an increase in the focus on the core business and shaping the size of the firm to an efficient level.

Like the agency theory, the RBV and the TCE have also been related to the reversal of previous acquisitions. The RBV suggests that firms reorganize their businesses, acquiring subsidiaries to obtain new skills to adapt to environmental changes, which, in turn, leads to divestments in the same businesses where those resources are redeployed. The TCE has a broader scope, as it has been associated with the divestment of previous acquisitions, the entry mode and the importance of a unit's relatedness to the parent firm. Accordingly, divestments are used as a mean to adjust the optimal managerial curve by deciding to produce internally (acquiring assets) or buying in the market (divesting assets). The TCE also underlines the importance of the entry mode, the ownership structure and of the unit's relatedness to decrease internal transaction costs.

The theories relating to portfolio building and the exit barriers have been used to generate more insights at a unit level. Divestments are a means for firms to actively manage their portfolio of assets and evidence shows that high performing, larger and stronger units are less likely to be divested. As for the exit barriers, the evidence shows that highly specific and interrelated units are less likely to get divested because, even if unprofitable, they may still contribute to the overall activity of the firm and may be difficult to find buyers for specific units in the market for assets.

Regarding the process of divestment, research is scant, but findings show that divestments are a four-stage complex and lengthy process, in which the decision making is often taken at a headquarters level and on a case by case basis.

Finally, research on the outcomes of divestment have mostly targeted post-divestment firm performance showing strategic divestments to increase firm's performance, and the opposite for non-strategic divestments. As for the divested units, their performance increases but remains below average when compared to peer units.

As follows, we identify several gaps in the literature, propose recommendations for future research and discuss the managerial implications of this study.

4.1 The conceptualization of divestment as a mirror image of M&A

The first limitation is the conceptualization that many studies employ that divestment is the reversal of a previous acquisition. This conceptualization of acquisition-driven rather than strategy-driven divestment hindered the development of alternative strategic approaches to divestment.

Two paths are proposed to move the literature forward. On the one hand, the research on how firms' strategies influence divestments should be extended, and an effort made to establish a nexus of causality between investment and divestment drivers. Including variables such as headquarters strategy, internationalization strategy, geographic distance to headquarters and the level of engagement with units could constitute a starting point. On the other hand, there should be encouragement to use less explored theories and to develop more theory building articles. For instance, the use of the network theory could contribute to explain the implications of divestments for the firm's remaining network and its reconfiguration.

4.2 Sampling and measurements issues

The second major limitation relates to sampling issues. The empirical research on divestment have extensively used the same databases (Compustat, Datastream, Securities Data Company and M&A), examined the same group of firms (Fortune 500) and used

samples from a small group of countries (mostly from the USA). In addition, many articles fail to indicate the divestment modes examined and do not provide explicit information about the firms or the sectors of activity included.

This generates several shortcomings, including: the field's conclusions are mostly drawn from the same data sources, where the dominant paradigm of over-diversified firms dominates, which may not be applicable to other contexts, such as emerging economies; existing knowledge on divestment outside the US and on small and midsize firms is scant; the basic knowledge about divestments has been generated almost exclusively through static research methods applied to antecedents and outcomes such as logistic and Cox regressions; firms competing in different industries can diverge substantially (e.g. regarding capital requirements); and the lack of information on the modes of divestment included in the analysis may lead to biased interpretations.

Some paths are proposed to overcome these limitations. Considering the difficulties of transferring current findings into new contexts, there is the need for further studies on divestment to be conducted on other countries than the USA or the UK and using other data sources. Moreover, because divestments have traditionally examined large firms, there is the need for future studies to focus on divestments conducted by small- and mid-sized firms. These firms face different challenges from large firms, such as limited access to external capital markets, and divestment constitutes a portfolio tool that provides quick access to capital.

It is also essential that further studies explicitly specify the extent of divestments analyzed and provide detailed information about the sector and the firms included in the analysis. Modes of divestment vary greatly in terms of parent and unit information and the expected benefits and objectives. Industry characteristics have been shown to influence divestment, and firms competing in different industries are expected to differ in their capital requirements. Overall, this would generate more accurate conclusions.

As shown, the field of divestment lacks exploratory and qualitative studies. Because the existing studies traditionally use large samples, the particularities of single cases become diluted within the sample, and crucial findings may be lost. Moreover, qualitative approaches assume crucial importance for research on the process of divestment, which is more focused on "describing the how."

Qualitative studies may provide different perspectives on divestment and more in-depth insights, constituting an invaluable tool for expanding knowledge and theories about divestment.

Some of the measures used in the divestment literature to address divestment, firm performance and unit size have not been accepted without debate. Methodologies using change scores usually mean subtracting one year's data from another and using the difference in analyses. However, this approach does not consider the different purposes of acquisitions or divestments, as firms may have reorganized themselves or experienced inconsistent sales throughout the intervening years. Also, analyzing divestment using a binary approach may be flawed because it fails to capture partial divestments.

Performance measures have also been subject to discussion, as the use of different measures (i.e. market vs accounting) may generate contradictory results. This can be extended to unit size, which has been measured using sales, total assets, investments and employees, generating various results. While no measure can capture all characteristics, employing distinct measures has led to contradictory results which require further exploration.

4.3 Unexplored antecedents and lack of consensus among existing ones

The general environmental and industry antecedents have been studied much less than other antecedents. Future studies could examine divestments in countries with unstable political environments or under international sanctions and assistance programs. New contributions could be made by integrating strategy and social movement research into the

study of divestment in countries with weak political institutions. As for industry antecedents, future research should be conducted to clarify the differences between R&D intensive and labor-intensive industries in relation to divestment.

New studies dealing with firm performance, size and age, and unit size and age could contribute to a better understanding of their relationship with divestment.

Three additional future research avenues for studies on the antecedents of divestment are proposed. First, future studies could examine the impact of the personal characteristics of managers, such as risk aversion, self-interest, international experience or cultural traits. This could be extended to organizational culture, as no study has examined the way in which this variable influences divestment.

Second, further studies are needed to understand the main differences between single and multiple divestments and comparing the antecedents of multiple divestment events as compared with single divestments.

Finally, divestments have been linked with contradictory assumptions. They have been associated with corporate refocus, signaling to shareholders that performance improvement is expected. Conversely, divestments have been related to failures and poor managerial decisions. There is a need for future studies to understand how shareholders' and stakeholders' perceptions differ in divesting firms.

4.4 Lack of research on the divestment process

Considering the lack of studies on the process of divestment, the field is in need of new and up-to-date studies that can generate more knowledge about the stages of divestment, the decision makers, and the roles that agencies and governments play on these processes.

4.5 Post-divestment firm performance and implications for stakeholders

The research on the outcomes of divestment has been dominated by studies assessing post-divestment firm performance. However, there is no consensus about the findings. To further clarify the topic, we propose that future studies examine: differences between short-term and long-term impact of divestment; and combine the use of market and accounting performance measures.

Ravenscraft and Scherer (1991) mention that bought units may disappoint their buyers. This highlights the importance of potential buyers of divested units carefully evaluating whether sell-offs are worth acquiring. Nonetheless, there is still little empirical evidence. More studies are required dealing with this topic and focusing on the conditions in which divested units produce a surplus for their new owner.

Divestments are mentioned as bringing a negative array of externalities for investors' mind-sets, the firms' image, the host country's attractiveness and wealth, managers' pride and employees' future employability. As there is little empirical evidence on these issues, future studies should examine the impact of divestment on those variables.

4.6 Managerial implications

Managers can draw several conclusions from this study. Investment decisions should be carefully planned. When making investment decisions, managers should consider country level indicators, such as growth or employment levels, as a proxy for the attractiveness and duration of an investment. Likewise, managers should continuously monitor changes in the countries' external environment. An important decision associated with divestment is the market entry mode. Greenfield investments last longer but in the case of high specific units exploring ownership-specific advantages may be difficult to sell off. Acquisitions allow a rapid market entry but are more likely to be divested, also because they are more difficult to integrate.

Improving the governance mechanisms stimulates managers to divest when necessary and the offering of financial incentives and the deployment of close supervision prevents the

agency issue and manager's opportunistic behavior. Firm boards may introduce managerial changes to facilitate the decision to divest.

Divesting managers should properly assess the context of the firm and ensure the correct message is passed to shareholders because strategic divestments are understood as proactive management and are positively valued by stock markets, but non-strategic divestments may signal that the firm is in a poor position, damage its reputation and deter potential investors. Managers acquiring divested units should evaluate the strategic benefits of acquiring these units other than their financial performance, or alternatively, be prepared to undertake the necessary structural changes to acquired divested units.

5. Limitations of the review

Although the current review attempts to synthetize the literature on industrial divestment, it has some limitations. First, the focus of the review was intentionally kept narrow and concentrated only on industrial divestments, excluding divestments in the services sector (e.g. financial entities, education, retail, transport, food) from the scope of the review. Service firms differ from manufacturing firms regarding their characteristics and pose distinct managerial challenges.

The second limitation concerns the methodology itself. Among the strengths of SLRs is the transparency of the process. SLRs rely on the use of sophisticated search strings to analyze citation databases and data. The construction of the search terms needs to be carefully considered as quite small changes can influence the articles found. While we chose to use the search term "divest*," as it comprised all divestment modes, using other search terms and keywords would have defined another sample (Newbert, 2007). Following that preliminary selection, the first criterion used for the selection of the articles was the quality of the written abstracts. Relevant articles may have been excluded, since abstracts and titles have word limitations and fixed structures dictated by journals. While the criteria used regarding the exclusion of single-journal articles contributed to reducing the sample to a more manageable size, it could have inadvertently excluded any relevant paper.

As with any methodology, SLRs have weaknesses and strengths, but among the advantages is the fact that it is a method that is transparent and open to scrutiny, constituting an improvement over narrative forms that do not report the rationales used for the collection of articles.

Notes

1. While "closure" and "sell-off" could have been used as search terms, divest is a broader concept. Moreover, several articles only mention the divestment modes included in the analysis in the method section. Those articles would be excluded from the initial sample if searching for "closure" and "sell-off" rather than divest. Finally, divestment and divestiture are often the most common terms used in the abstracts to designate the full disposal of assets.
2. Several articles were excluded because they concerned to divestments in education, electricity systems, etc., or featured any divestment mode that did not include closure or sell-off.

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Corresponding author
Pedro Silva can be contacted at: silva.pedro@ua.pt

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