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경영학석사학위논문

Shackles of the Past:

**Why firms divest too late and when they can
free themselves from the shackles of
organizational inertia**

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김 영 혁

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지도교수 조 동 성

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2012 년 12 월

위 원 장 송 재 용 (인)

부위원장 이 제 호 (인)

위 원 조 동 성 (인)

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ABSTRACT

Young Huk Kim

International Business, Strategic Management

The Graduate School

Seoul National University

While divestiture was often regarded as a simple mirror image of M&A or even a symbol of failure in the past, more people are now recognizing it as “a badge of smart, market-oriented management.” Its role as an independent, purposeful strategic option to make a breakthrough or achieve sustainable growth is further magnified in the current era of low-growth. Yet, many firms are still reluctant to divest. Consequently, most divestitures are done in response to some kind of pressure, majority of which take place after a firm has suffered from weak performance for many years. To date, the majority of strategic management research on divestitures has given its main focus largely on the triggers of divestitures. Research regarding the response speed of vendor remains relatively unexplored and calls for a close investigation. To identify specific factors that lead to reactive divestitures, this study integrated research on organizational inertia and corporate governance, and hypothesized that vendor responsiveness is contingent on organizational tenure of a CEO, a vendor’s prior divestiture experience, relative size of the unit to the total size of the vendor, and board independence. This study incorporated the concept of financial distress of finance research to operationalize the vendor responsiveness. The results indicate that long organizational tenure, low divestiture

experience, and a large chunk of divested unit delay divestitures, and that the accumulation of divestiture experience and independent board are important to overcome the inertia caused by long organizational tenure. The effects of CEO tenure in the position vis-à-vis CEO organizational tenure on vendor responsiveness as well as outside director ownership as a superior proxy to board demography for effective independent board are discussed.

Keywords : divestiture, seller responsiveness, organizational inertia
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CHAPTER I. INTRODUCTION

“After reviewing all possible options, we decided it was in the shareholders’ interest to remove the financial burdens and risks Snapple brought to the portfolio and better focus on our value-driving businesses” William Smithburg, formerly CEO of Quaker Oats, on announcing the 1997 sale of Snapple for \$300 million, crystallizing a \$1.4 billion loss. (Deogun & Lipin, 1999)

When explaining why the company sold its aluminum business despite its strong cash flow, Pactiv’s CEO Wambold says, “It was using resources and management time we could use better elsewhere, and its cyclical nature [made Pactiv] more difficult for investors to understand. It didn’t offer the same potential as the other businesses.” (Dranikoff, Koller, & Schneider, 2002)

Divestiture, understood as “a firm’s adjustments of its ownership and business portfolio structure via spin-off, equity carve-out, split-up, or unit sell-off”^① (Brauer, 2006) is a crucial and high-impact event which has been reckoned among the key elements of the “third industrial revolution” (Jensen, 1993). The importance of this radical activity is further highlighted nowadays as both the number and value of

^① Lee and Madhavan(2010) defines a sell-off as the transaction in which divested assets are purchased by and become part of another firm (Rosenfeld, 1984: 1437), a spin-off as the transaction in which a firm distributes to its current shareholders all of the common stock it owns in a controlled subsidiary, thus creating a separate publicly traded company (Rosenfeld,1984), a carve-out as the transaction in which a portion of the divested unit’s stock is sold to investors by means of an initial public offering (IPO; e.g., Frank & Harden, 2001), and a leveraged buyout a transaction in which the stocks or assets of a company, including subsidiaries, are purchased by an investor group, often including the incumbent management (Schipper & Smith, 1983: 51). For the complete summaries of the different types of divestiture: sell-offs, spin-offs, carve-outs, and leveraged buyouts, see Woo, C. Y., G.E. Willard, et al.(1992) and Buckley, F.(1991).

divestitures have been on the rise amid contracting transactions of the overall mergers and acquisition (M&A) deals in 2009 (Deloitte, 2010) and as they are expected to grow even more in the future (Deloitte, 2010; 2011; Ernst & Young, 2012)^②. In addition, more business practitioners now widely recognize and actively use divestiture as a viable means of growing a firm's core business, exploiting growth opportunities, or repositioning a company, and sometimes consider it even as a prerequisite for being able to create new businesses rather than a mere tool of reversing previous investment mistakes as the vast majority of divestitures were in 1980s (Brauer, 2006; Hamilton & Chow, 1993). In the second quarter of 2012 only, we saw at least \$2.6 billion in disclosed value related to divestitures, including \$950 million sale of AT&T's online, mobile and print Yellow Pages advertising business to PE firm Cerberus, IBM's \$850 million deal to sell its point-of-sale systems business to Toshiba, and many other deals divested by TE Connectivity Ltd. (formerly Tyco electronics Ltd.), Nokia Corporation, Polycom Inc., Google and etc. (Ernst & Young, 2012). Yet, in the realm of strategic management research, divestiture has still received relatively little attention, and even when it did receive, quite a number of existing studies have either regarded divestiture as only a

^② According to Deloitte report in 2010, divestitures continued to be a significant driver of total M&A activity during 2009, accounting for 31 percent of overall M&A volume and representing 39 percent of the total M&A transaction value.

mirror image of M&A, or integrated it with and summoned it under the even broader phenomena such as corporate restructuring; Divestitures were not granted an independent research identity (Bowman & Singh, 1993; Brauer, 2006; Lee & Madhavan, 2010). Conceptualizing divestitures as a part of restructuring programs would make it hard to distinguish specific antecedents and individual effects of divestitures from the restructuring “bundle” (Brauer, 2006).

Meanwhile, there is considerable evidence to believe that firms that actively manage their business portfolio in a way to balance acquisitions and divestitures perform better than those passive ones (McKinsey & Co, 2001) (Dranikoff et al., 2002). Many anecdotes of some leading firms such as GE, General Dynamics, IBM, Philips, and Doosan who accomplished sustainable growth or made a breakthrough through proactive divestitures support this, too. Yet, a substantially large number of firms are found to have done more acquisitions than divestitures (McKinsey & Co, 2001) (Markides, 1992a). Many firms tend to be reluctant to divest, and even if they do divest, most divestitures seem to be conducted in response to some kind of pressure (Dranikoff et al., 2002; Hayward & Shimizu, 2006). It is intriguing to see why firms are reluctant to divest resulting in reactive divestitures when they know faster, proactive divestitures are better.

To date, research, paying focal interests on why firms differ in

the timing or responsiveness in making divestiture decisions, has been relatively unexplored (Brauer, 2006; Buchholtz, Lubatkin, & O'Neill, 1999). Rather, the focus of divestiture research has been frequently on identifying and understanding the antecedents and consequences of divestiture (Brauer, 2006; Shimizu & Hitt, 2005). Quite a number of divestiture research contends that poor firm performance is the strongest predictor of divestiture (Duhaime & Grant, 1984; Hoskisson & Johnson, 1992; Johnson, 1996; Markides, 1992a). Other reasons, found to have motivated divestitures, include unrelatedness of the divested units to the core business of the parent firm (Bergh, 1995, 1997; Harrigan, 1981), excessive diversification (Bergh, 1997; Chang & Singh, 1999; Duhaime & Grant, 1984), and weak internal governance or agency problems (Chatterjee, Harrison, & Bergh, 2003; Hoskisson, Johnson, & Moesel, 1994; Johnson, Hoskisson, & Hitt, 1993). Drawing on economic and agency theory perspectives, those earlier studies have mainly based their underlying logic on the assumption that the divestiture decision is determined by economic performance and governance effectiveness (Hoskisson et al., 1994). However, the economic and agency problem view is not sufficient to capture the whole picture of divestitures, as mentioned. The two stories aforementioned in the beginning, for example, describe two different situations in which the prior theoretical lens that has dominated in this

field may not be adequate to fully explain the differences of the two firms' (or two managers') behaviors –one situation in which a firm had no choice but to divest one of its units due to the unit's uncorrectable financial underperformance and had to bear staggering loss; and the other in which a firm voluntarily divested one of its businesses when the unit was generating strong cash flow and thus earned a profit (premium) from the divestiture transaction. The conventional economic agency theory perspectives are not strong enough in explaining why the former had to end up with reactive divestiture which refers to the one that was done under some pressure, after long delays, when problems became so obvious that action became unavoidable (Buchholtz et al., 1999; Dranikoff et al., 2002) and how the latter, on the other hand, was able to divest the unit proactively that is when the firm was not under any pressure.

This paper extends our knowledge of divestiture by drawing on organizational inertia perspectives (Amburgey, Kelly, & Barnett, 1993; Staw, Sandelands, & Dutton, 1981) and corporate governance perspectives and aims to identify and empirically test decisive determinants of seller responsiveness, in the process identifying potential moderating variables. Particularly, I believe CEO's organizational tenure, prior divestiture experience, relative size of the divested unit to the parent firm, and board independence are among the

most important factors in deciding seller's responsiveness. Using logistic regression analysis, I empirically tested the above variables with 149 divestiture deals by U.S. based, high-technology firms between 2006 and 2011.

The contributions of this paper are threefold. First, on the basis of organizational inertia and corporate governance perspectives, it empirically assesses the intertwined relationship of the above factors in deciding seller's responsiveness to divestiture. By integrating research on those two perspectives, it provides a framework for understanding the conditions that constrain or facilitate proactive divestitures. Second, it examines the underinvestigated area of divestiture research, seller responsiveness (or response speed to divestiture cues), by borrowing and integrating the well-known concept of "financial distress" in economics and finance research. It suggests a way to measure how reactive or proactive divestitures were. Lastly, it considers not only those of divested units that were previously acquired by the parent firm but also those that the firm originally initiated. While most of the earlier studies on divestiture have confined the sample only to the units that were previously acquired (Brauer, 2006), expanding the scope of divestiture samples would provide us with better understanding of the specific characteristics of divestiture phenomenon as a whole.

In the following sections, I briefly examine the literature and

develop theory and hypotheses regarding the constraints of proactive divestiture and the moderators of the constraints-reactiveness relationship. I further explain the methodology and discuss the results and implication from this research.

CHAPTER II. THEORETICAL FRAMEWORK

1. Extant Divestiture Research

As mentioned earlier, strategic management scholars have paid relatively little attention on divestitures compared to other forms of corporate strategy action, such as M&A and strategic alliances and there have been only a few number of reviews on firm divestiture (Lee & Madhavan, 2010). These extant narrative reviews including the most recent work by Brauer (2006) have indicated mixed results in the literature and suggested a range of theoretical and empirical issues that remain worthy of exploration (Lee & Madhavan, 2010). Existing strategy research on divestitures can be broadly classified into three major streams: research on the antecedents, on the outcomes of divestitures, and on the actual process of divesting (see Brauer (2006), for a good complete review of extant divestiture studies).

In an effort to identify specific triggers of divestitures, researchers have mainly examined industry-specific determinants as well as firm- or unit-specific determinants. Some of the prominent industry-specific determinants brought up by strategic management scholars include industry concentration (Chang & Singh, 1999), industry growth (Ilmakunnas & Topi, 1999; Sembenelli & Vannoni, 2000), technological change (Harrigan, 1982; Jensen, 1993),

environmental uncertainty (Bergh, 1998; Chatterjee et al., 2003), and changes in the industry's institutional setting such as tax policy changes, or deregulation (Hoskisson & Hitt, 1990; Shleifer & Vishny, 1991). Yet, their empirical evidence has remained ambiguous and sometimes contradictory (Brauer, 2006). In regard to firm- or unit-specific determinants, a lot of research seems to come to a consensus that economic reason is the main driver for divestiture. Therefore, poor firm performance at the corporate level (Dranikoff et al., 2002; Duhaime & Grant, 1984; Harrigan, 1981, 1982; Johnson, 1996; Markides, 1992b) or weak performance at the business unit level (Chang, 1996; Duhaime & Grant, 1984; Hamilton & Chow, 1993; Hitt, Hoskisson, Johnson, & Moesel, 1996; Hoskisson & Johnson, 1992) have been found to trigger divestitures, and overwhelming evidence has supported this. In addition, unrelatedness between the unit and the core business of the parent (Bergh, 1995, 1997; Hoskisson et al., 1994; Zuckerman, 2000) and excessive diversification (Bergh, 1997; Chang & Singh, 1999; Hoskisson et al., 1994) have also been argued to be associated with divestitures. They argued that over-diversified firms are doomed to inefficient resource allocation generating negative synergies and end up with eventual divestitures (Brauer, 2006).

The studies dealing with the outcomes of divestitures have most commonly examined firms' postdivestiture performance based on

accounting (industry-adjusted ROA or ROS or EBITDA), market (Jensen's Alpha, Treynor or Sharpe Ratio), and announcement return (cumulative abnormal returns; CAR) measures (Brauer, 2006). However, they found both positive (Bergh, 1998; Hoskisson & Johnson, 1992; Markides, 1992a, 1995; Wright & Ferris, 1997) and negative (Bergh, 1995; Montgomery & Thomas, 1988; Wright & Ferris, 1997) postdivestiture accounting performance.

Finally, some of the research that has shed light on the divestiture process include the works by Johnson et al. (1993), Ghertman (1988), and Gopinath and Becker (2000) which examined the involvement of boards, corporate and divisional managers, and employees in the decision-making process, but this field of divestiture process has been relatively unexplored mainly due to a lack of data (Brauer, 2006; Chang, 1996).

In studies of divestiture, the majority have regarded divestiture as a simple reversing tool of M&A, or integrated it with and summoned it under the even broader phenomena such as corporate restructuring (Bowman & Singh, 1993; Brauer, 2006; Lee & Madhavan, 2010). This may be partly due to the managerial fashion in 1980s. The period is often marked as the 'era of restructuring' in which many firms conducted divestitures after the conglomerate acquisition boom in 1970s (Abrahamson, 1996; Markides, 1995). Nonetheless, the

“bundling” divestitures with restructuring would make it hard to distinguish specific antecedents and individual effects of divestitures when they can also be a viable means to further grow businesses (Brauer, 2006). The most dominant theoretical perspective used in the aforementioned research is the combination of transaction cost economics and agency theory, in which poor decisions are attributed to top management team (TMT) behaviors and weak governance system (Brauer, 2006; Hoskisson et al., 1994). The underlying assumption of their reasoning is that the economic performance and the effectiveness of governance mechanisms determine the firm’s responsiveness (Hoskisson et al., 1994; Shimizu & Hitt, 2005). However, organizational theories imply that the firm’s responsiveness can be also substantially influenced by noneconomic factors such as organizational inertia since managerial decision-making processes are embedded in organizational contexts (Cyert & March, 1963; Nelson & Winter, 1982).

2. Divestiture Responsiveness

Drawing on organizational inertia perspectives, Buchholtz et al. (1999) also argued that divestiture delays are resulted from “structural inertia, rigidity, and a resistance to respond” (1999; 640) and provided very important insight as to “why two firms facing very similar economic and strategic environments will make different decisions regarding

divestiture” (1999; 634). This conceptual paper on seller responsiveness, defined as “the ability of management to perceive the need to adapt to changing contextual circumstances in a timely fashion” (1999; 646), argued that the determinants of seller responsiveness are in four a priori contextual forms: decline (poor performance at corporate or business unit level, or declining attractiveness of a business unit’s industry), failed merger, proactive, and turnaround. They discussed a variety of factors that may affect the responsiveness of seller to the need to divest but lack any empirical supports.

Meanwhile, they also contended that the agile seller responsiveness improves the seller’s premium through its influence on the information and auction asymmetry advantages of the seller, suggesting selling in advance generates much higher returns. It is no wonder that a divesting financially healthier unit than poorly performing unit will bring forth more wealth from the transaction as Dranikoff et al. (2002) confirmed earlier sales generating much higher return for their samples. Many legendary anecdotes of successful executives or firms who conducted proactive divestitures as a strategic tool to make a breakthrough in long-held, low-growth businesses back this argument as well. To give you one example, the defense giant, General Dynamics, proactively divested several substantial businesses during the early 1990s in advance, before the industry plunged after the

Cold War, and with the cash and premiums earned from the aggressive divestitures were they able to improve dramatically the company's returns to shareholders. A study of the 200 largest US corporations from 1999 to 2000 conducted by McKinsey & Co. further found that companies that actively manage their business portfolio in a way to balance acquisitions and divestitures created substantially more shareholder value than those that passively hold their businesses. Foster and Kaplan (2001) provided somewhat different logic as to why proactive divestitures are better. They argued that a business's shareholder returns decrease as it ages throughout its life cycle, suggesting that all firms should divest after their peak because over time, even the best, most operationally sound businesses will eventually cease to perform.

However, the majority of firms are known to have done more acquisitions than divestitures (Markides, 1992a). Markides (1992a) found that firms completed 34% more acquisitions than divestitures during the 1980s, and the aforementioned study by McKinsey & Co. also found 200 companies bought 40% more businesses than they sold. In addition, Dranikoff et al. (2002) argued that executives spend more time in creating and acquiring businesses but rarely devote attention to divesting them, and thus, often end up selling businesses too late at a too low price, sacrificing shareholder value. By analyzing their samples

of 50 divestitures, they concluded that more than three-quarters of the divestitures were reactive, done in response to pressure on the parent or the unit, and two-thirds of the reactive divestitures were done after long delays when problems became so obvious that action became unavoidable.

Clearly, although proactive divestitures, the ones that are initiated in advance in more positive performance context, or quick-responded divestitures, the ones conducted right after the recognition of the cues, are much desirable, many firms divest too late. As Buchholtz et al. (1999) put it, research on the timing of divestiture has been largely unexplored, and calls for an assessment of not only “where you sit,” but “when you sit” (Mintzberg, 1987).

3. Organizational Inertia

As discussed earlier, organizational inertia provides a strong theoretical foundation to explain procrastination of divestiture and complements the extant economic-and-agency-theory-based understanding of this phenomenon by providing noneconomic reasons. Organization theorists have argued that routines and established patterns of thinking and activities can create resistance to change and lead to organizational inertia (Hannan & Freeman, 1984; Nelson & Winter, 1982), defined as “an overarching concept that encompasses personal commitments,

financial investments, and institutional mechanisms supporting the current way of doing things” (Huff, Huff, & Thomas, 1992: 55). Louis and Sutton (1991) contended that the routines, commitments to established patterns of behaviors, and institutionalized mechanisms generate bureaucracy and habits of mind. As a result, these inertial forces can altogether wield their power within the organization, procrastinate any changes including divestitures.

A study by Shimizu and Hitt (2005) is one of the few that linked divestiture with organization inertia perspectives. With the sample of 70 U.S. firms that acquired another U.S. company and divested between 1988 and 1998, they successfully proved that divestiture of a poorly performing acquired unit was often impeded by organizational inertia resulting from large size and high age, lower experience in making divestitures, larger relative size of an acquired unit, and small change of unit performance. However, their study entails several limitations. First, it only examined those that were formerly acquired considering divestiture as only a means of reversing past mistakes, and consequently failed to understand divestiture as a pre-planned independent strategic tool. Second, it failed to take a close look at the detailed process of divestiture while it tested the organization inertia in the context of dichotomous likelihood of divestiture. Third, possibility of procrastination or temporal aspects of

decision process was not considered. They regarded divestitures all same as long as they were divested without particular attention to response speed although it is very plausible that inertia exerted its power on the delays of the divestitures.

Accordingly, the current study aims to observe the effect of organizational inertia on the divestiture decision making process more closely by examining how late divestiture decision was made in the presence of strong inertia compared to that of weak inertia, and better understand intertwined relationships among the factors that enhance inertia in relation to the vendor responsiveness to divestiture. Particularly, I argue factors that enhance organizational inertia will constrain proactive divestitures making them more reactive. Conversely, factors that contribute to reduce or break inertial momentum will pull the timing of divestiture decision earlier.

CHAPTER III. HYPOTHESES

1. CEO Tenure

Upper echelon theorists suggests that organizational strategies are “reflections of the values and cognitive bases of powerful actors in the organization” (Hambrick & Mason, 1984: 193). Over time, these values and cognitive processes change as the time a CEO spends in the position (tenure) influences the ways in which information flows to and from that CEO (Buchholtz et al., 1999). As tenure increases, top managers pay less attention to accumulating knowledge about the task at hand (Hambrick & Fukutomi, 1991) and come to rely more on internal sources of information developing a parochial perspective (Aguilar, 1967). In other words, longer stays of top managers with the firm reduces the likelihood of making changes (Wiersema & Bantel, 1992). The longer the CEOs’ tenure in the firm, the stronger the ties of the unit to be divested and of the personnel associated with, and the more difficult it becomes to make that divestiture decision (Dial & Murphy, 1995). As Buchholtz et al. (1999) further argues, long tenure increases the manager’s ability to block a divestiture proposal because longer tenure increases the power to influence the board (Finkelstein, 1992), control over information (Hill & Phan, 1991), and control over resource flows (Pfeffer & Salancik, 1978). In the case of divestiture,

“tenure influences not only the manager’s awareness of the need to divest, but also the level of resistance, and the likelihood of successfully acting on that resistance, irrespective of the divestiture context” (Buchholtz et al., 1999: 644). While some of the earlier studies (Hayward & Shimizu, 2006; Shimizu & Hitt, 2005) of divestiture have already examined the CEO effect based on the similar logic, they all have operationalized the measure binomially and overlooked the fact that the level of inertia is a continuously scaled and multidimensional construct. By examining it with a continuous measure of CEOs’ organizational tenure, I believe we can reflect each CEO’s individual level of affiliation with the firm and better understand the relationship of it with divestiture.

H1: The longer the organizational tenure of the CEO, the more reactively the firm initiates divestiture.

2. Prior Divestiture Experience

Experience and routines play an crucial role in the process of organizational decision-making (Cyert & March, 1963; Nelson & Winter, 1982). Particularly, the vendor’s past divestiture experience have a material impact on the organization’s decision on whether to

divest or not, significantly influencing the vendor's response speed it takes to recognize the need to divest and to announce and complete the divestiture. When the vendor has ample divestiture experience, the managers better understand not only the costs and benefits of a divestiture but also administrative processes involved in implementing it. Prior experience may help a firm establish routines for making divestitures (Shimizu & Hitt, 2005). Thus, such experience enhances the validity of a decision to divest and expedite divestiture process. Conversely, a divestiture may not be considered a legitimate alternative if a firm has little or no divestiture experience, partly because it violates past routines (Amburgey et al., 1993; Hannan & Freeman, 1984; Shimizu & Hitt, 2005). Furthermore, such a firm with little or no divestiture experience will have no established rules to divest units, making such action more undesirable and difficult to implement (Shimizu & Hitt, 2005). As a result, the whole process of decision making for divestitures may be delayed with no prior experience. Therefore, the discussion here leads to the following hypothesis.

H2: The less the firm has prior divestiture experience at the time of divestiture, the more reactively the firm initiates divestiture.

The two factors aforementioned are known to be strongly associated with organizational inertia in a way to enhance and solidify the inertia (Hannan & Freeman, 1984; Kelly & Amburgey, 1991; Shimizu & Hitt, 2005), but in the context of my theory development regarding divestitures, the two factors are exercising their effects in the opposite direction: CEO tenure is negatively correlated with response speed while divestiture experience is positively related. Therefore, it is meaningful to examine the situation in which CEO tenure and divestiture experience co-exist and affect each other, and explore if one offsets the effect of the other and how much it can moderate the other if it does. Particularly, I argue that although a CEO has been with the firm for many years wallowed in the firm's inertia and thus is subjected to reactive divestitures, accumulation of divestiture experience can lessen the lingering effect of long tenure and draw the response speed faster, making divestitures more proactive.

H3: Even when the CEO is long-tenured, the more prior divestiture experience, the more proactively the firm initiates divestiture.

3. Relative Size

Firm size or divested unit's size has also been identified to be

associated with the likelihood of divestitures. If the relative financial and managerial resources spent in the investment are large, this may produce sunk cost biases and significant pressure for the investment not to divest but succeed because divesting a such unit may mean the stigma of manager's inability (Bergh, 1995; Dranikoff et al., 2002; Staw, 1981). A high investment in money and managerial effort often represents the firm's strong commitment to the business, thus making divestiture of a large business more difficult (Shimizu & Hitt, 2005). Furthermore, removal of a relatively large business unit can create problems and confusion among the remaining units because of the complex interdependencies among many divisions and people (Tushman & Romanelli, 1985). In contrast, divestiture of a relatively small unit can be less demanding because of the smaller resource commitment and relatively marginal effects on the organization (Duhaime & Baird, 1987). Thus, a firm with abundant divestiture experience might recognize the opportunity for further growth in several units, but the implementation of divesting those units may be hampered or significantly delayed if the units to be divested are relatively large, leading to the following hypothesis.

H4: Even when the firm has ample divestiture experience, the larger the relative size of the unit

**to be divested to the vendor, the more reactively
the firm initiates divestiture.**

4. Board Independence

The board of directors is responsible for monitoring and overseeing managerial decisions and actions to make certain that those managers are representing the best interests of the shareholders. Many theorists argue that outside directors fulfill that function because they are not coopted by ties to the firm or its management (Walsh & Seward, 1990). For instance, Kosnik (1987) contended that firms with a higher proportion of qualified outside directors are less likely to pay “greenmail” to corporate raiders and Smart and Hitt (1994) found that such board is less likely to engage in inappropriate diversification. Although outsiders are not committed to day-to-day operations and have less knowledge than insiders (Boyd, 1994), they are also less entrenched in organizational routines and prior strategic decisions. With greater objectivity, they can question the assumptions embedded in the top executives’ cognitive models and actions (Johnson, 1996; Walsh & Seward, 1990). It follows, therefore, that greater outsider representation in the board will make the final decisions free from inertial, unresponsive management.

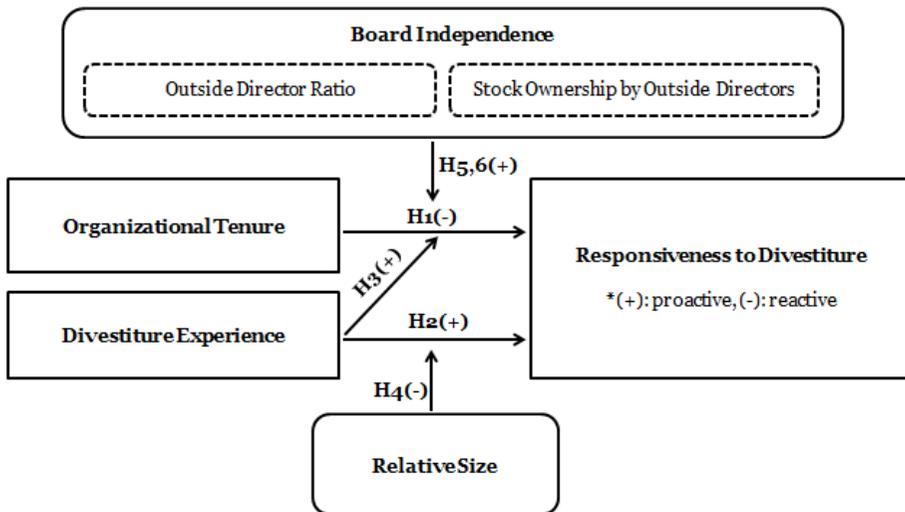
H5: Even when the CEO is long-tenured, the more qualified outsiders on the board of directors, the more proactively the firm initiates divestiture.

Board directors are also more likely to effectively represent the interests of shareholders when their personal wealth is closely aligned with that of the shareholders. As Buchholtz et al. (1999) puts it, board directors with higher equity stakes are more likely to be influential upon board decisions (Miller & Komorita, 1987) and less likely to resist a shareholder wealth-maximizing takeover offer (Buchholtz & Ribbens, 1994). Hoskisson et al. (1994) also found that firms are less likely to become overdiversified when independent outside directors comprise a large proportion of the total board membership and own significant amounts of stock. In addition, while Johnson et al. (1993) found that board involvement in restructuring increased with both outsider representation and outsider equity ownership, Chatterjee et al. (2003) found strong correlation between follow-up refocusing and ownership holding by outside directors but no relationship with board demography. This suggests that board independence measured by outside director's ownership holding should be investigated as well.

H6: Even when the CEO is long-tenured, the

greater the level of outside director stock ownership, the more proactively the firm initiates divestiture.

Figure 1. Research Model



CHAPTER IV. METHODOLOGY

1. Sample & Data Collection

The sample consists of U.S.-based, publicly held high-tech firms that divested its division or sub-business between 2006 and 2011. In previous studies (Bergh, 1998; Ilmakunnas & Topi, 1999; Ketkar, RAJA, & SALEEM, 2012; Latham, 2009), they argue that, in economic downturns, firms are more likely to divest their non-core businesses as a strategic goal. Given that the years of 2008 and 2009 are highlighted as the high volume of divestiture mainly due to the economic downturn (Deloitte, 2011), the suggested time window, which is ± 2 years of economic downturn, would be therefore the best time period to capture the both proactive and reactive divestitures. The decision to restrict the sample to U.S.-based, public firms was motivated mainly to ensure access to financial information on divested units and vendors and avoid potentially confounding factors such as country risks and different institutional arrangements (e.g., legal and regulatory issues related to divestiture or independent board of directors). Also, unlike the general samples of earlier studies on divestiture where they have confined their sample only to the units that were previously acquired (Brauer, 2006), this study considered all division or business divestitures including units that the parent firm originally initiated. This way, I believe, this

research can better grasp the characteristics of divestiture phenomenon as a whole. Furthermore, firms whose operating revenue is over US\$50 mil. were examined to remove small firm effect (Hoskisson et al., 1994).

Finally, only divestitures whose vendor is in high-technology industries were considered because divestitures are high-impact managerial decisions in which the influence of CEO values and cognitive bases is great (Buchholtz et al., 1999; Hayward & Shimizu, 2006), and because high-technology industries are known to have high managerial discretion (Finkelstein & Hambrick, 1990; Hambrick & Abrahamson, 1995; Hambrick & Finkelstein, 1987). Also, many divestiture reports show divestiture transactions were active high technology industries (Deloitte, 2010; 2011; Ernst & Young, 2012). Thus, restriction to high-tech vendors is appropriate in this research design. In studies of high-tech divestitures (Benou, Madura, & Ngo, 2008; Reuer & Shen, 2004), high technology industries are usually defined as those “that are engaged in the design, development, and introduction of new products and or innovative manufacturing processes through the systematic application of scientific and technical knowledge.” (Technology, Innovation, and Regional Economic Development, 1982), and firms in SIC 28 (biotechnology and manufacturing), SIC 35 (industrial and commercial machinery and

computer equipment), SIC 36 (electronic and other electrical equipment and components, except computer equipment manufacturing), SIC 38 (measuring, analyzing, and controlling instruments; photographic, medical and optical goods; watches and clocks manufacturing), SIC 737 (computer programming, data processing, and other computer related services) have frequently been examined. Following the definition of high-tech industries, the current study targets at all those industries mentioned the above.

The sample selection process is as follows. First, all completed divestiture deals between 2006 and 2011, of which vendors and acquirers are U.S.-based and of which vendors have operating revenue over US\$50 mil. and in SIC 28, 35, 36, 38, 737 were identified from Bureau van Dijk Zephyr database: 392 deals. CEO and board of director information was acquired from SEC EDGAR proxy statements (mainly Def-14a, and 10-k), and forbes.com. In this stage, 109 deals with missing information were removed. Then, COMPUSTAT data were used to obtain other financial information. Segment data on divested units are hard to come by even for U.S. companies (Hayward & Shimizu, 2006; Ravenscraft & Scherer, 1991); the lack of such data explains the winnowing of our sample. Final screening of excluding samples with missing data yielded the final sample size of 149 deals with 117 corresponding vendors. A list of the final sample is provided

in the appendix.

2. Dependent Variable

Responsiveness: The lack of research in investigation of temporal or timing aspects of divestiture may be due to its ambiguity to measure. Again, proactive divestiture is defined as divestiture initiated in advance in more positive performance context, while reactive divestiture is the one conducted in response to some kind of pressure such as low profitability. The key standard that distinguishes reactive and proactive divestitures is whether the firm initiated divestiture under financial pressure or not. The essence that needs to be measured here is this pressure; if there was pressure and how much this pressure existed if there was any or how much the firm was away from this pressure if divestiture was done under no pressure. Meanwhile, the term, financial distress, is commonly used in the realm of finance and economic research to refer to the situation in which the firm's cash flow is insufficient to cover its current obligation (Whitaker, 1999; Wruck, 1990). Jensen (1989) argues that financial distress forces management to institutes efficiency-enhancing actions which reverse a declining trend in firm performance. Whitaker (1999) further argues "a substantial portion of the effects of financial distress are incurred well prior to default since much of the loss in firm value occurs during the

years preceding default or bankruptcy rather than after,” and “financially distressed firms frequently undertake major asset divestitures to raise cash to satisfy creditor demands or more efficiently structure the operations of the firm.” The interpretation of “financial distress” in finance research aligns with the explanation of financial pressure in strategic management research that vendors of reactive divestiture feel. Therefore, this paper gauges the level of responsiveness to divestiture following the same measure many finance studies have applied to measure the financial distress (Whitaker, 1999) as follows:

$$\text{Responsiveness} = [\text{cash flow}^{\textcircled{3}}] - [\text{current maturities of long-term debt}^{\textcircled{4}}]$$

The positive responsiveness value refer to how much a firm was away from financial distress, and therefore is interpreted as the level of proactiveness; the negative value means the level of financial distress (or pressure) a firm underwent, and is interpreted as the level of reactiveness.

3. Independent Variables

Organizational Tenure: CEOs’ organizational tenure was measured as

^③ Whitaker (1999) defines cash flow as net income plus non-cash charges. Each firm’s cash flow was calculated as follows (each item name as appeared in COMPUSTAT): [Operating Activities Net Cash Flow] – [Extraordinary Items and Discontinued Operations (Cash Flow)]

^④ [Long-Term Debt Due in One Year] values found in COMPUSTAT were used.

the total number of years the CEO was employed within the organization in the year of divestiture. CEOs' organizational tenure would be a better proxy than CEO's tenure in the position to examine how much CEO has been affected by the organization's specific inertia. In order to prove this, I also included *CEO tenure*, measured as the total number of year in the CEO position in the model and compared its effect with that of organizational tenure.

Divestiture Experience: The prior divestiture activities until the year of divestiture by vendors were counted. 3-year window was often used to measure prior experience(Amburgey et al., 1993; Shimizu & Hitt, 2005), but I believe the total number of prior divestiture activities better depicts the firm's level of experience accumulation that affects the formation of organizational inertia.

Relative Size: Relative size of a divested unit to a vendor was calculated by dividing the deal value by its parent firm's (i.e., vendor's) total assets.

Board Independence: As discussed earlier, two measures, outside director ratio and relative outsider ownership, were used to represent board independence. Outside director ratio was operationalized as the number of directors who are not officers in the company divided by the total number of directors (Bigley & Wiersema, 2002; Shimizu & Hitt,

2005). Relative outsider ownership was calculated as the sum of shares held by outside directors divided by the total number of shareholdings by all directors and executive officers. Formerly, relative outsider ownership was often measured as the shareholdings by outsider directors divided by the total number of outstanding shares (Chatterjee et al., 2003; Hoskisson et al., 1994), but I used the one divided by shareholdings by all directors and TMT to focus more on the effectiveness of independent directors. This measure, I believe, provides better and deeper understanding of the relative influence of outside directors among decision makers.

4. Control Variables

In order to exclude alternative explanations, I carefully reviewed 32 studies in divestiture and corporate governance research related to the current study, identified other important factors that may alter the result of this research, and controlled those 7 factors as follows:

Firm size and firm age are known to have a significant effect in creating organizational inertia (Hayward & Shimizu, 2006) and were included in the model as control variables. The number of the employees was used as a proxy for size (Shimizu & Hitt, 2005). I calculated the firm size by taking the logarithms of the number of employees (Hoskisson et al., 1994). Firm age was calculated by

subtracting the year of the firm's incorporation from the year of divestiture.

The insider/outsider distinction was also included as a control variable because outsider CEOs have been known to be agents of change (Bigley & Wiersema, 2002), and because the level of attachment or commitment of CEOs may be different although CEOs have the same (even long) organizational tenures. Insider/outsider status was constructed as a dichotomous variable, such that if the CEO's previous employment before the current position as CEO is same as the current firm, it was coded 1; otherwise 0).

Since the effectiveness of independent board of directors can be distorted if a CEO has overwhelming power in the board (Jensen & Zajac, 2004), CEO power was controlled. In doing so, *CEO duality* (dummy variable: 1 if a CEO also chairs the board, 0 otherwise) was used as an indicator of CEO power.

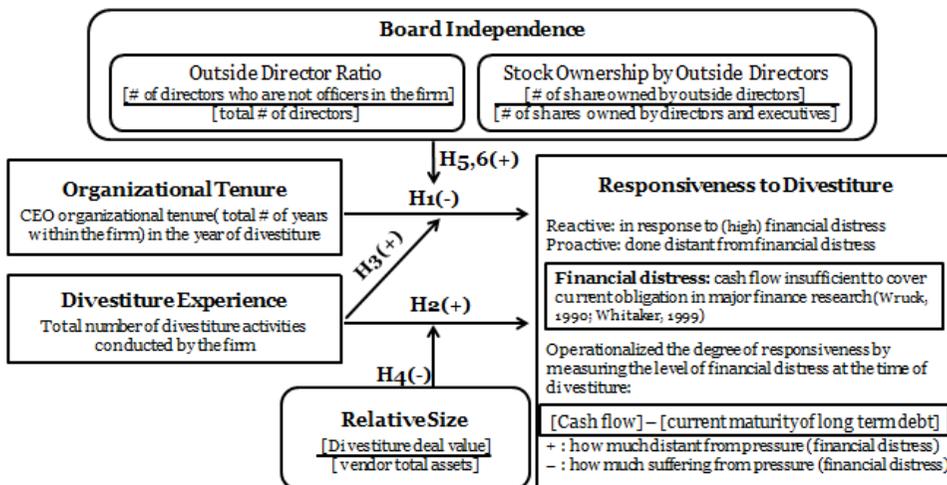
A board composed of senior directors is found to be more inertial (Johnson et al., 1993) and may have significant impact on the result. *Outside director tenure*, therefore, was calculated by averaging the number of years each director served on the board of directors, and included in the model as well.

The length of time to divestiture may be associated with riskiness of the

deal or levels of experimentation (Klein & Klein, 2001) and may affect the responsiveness of vendor. Many prior studies on divestiture usually concerned with the likelihood of divestiture and the length of time for divestiture process was not significant factor. This study, however, is dealing with the timing or responsiveness of divestiture and thus, *duration* of divestiture was also controlled.

The vendors in the sample are all in high-tech industries, but since the vendors are from a total of 5 different SIC code industries, different SIC codes may exhibit some differences. To control for *industry* effects, five industry dummy variables (1 = SIC 28; 2 = SIC 35; 3= SIC 36; 4= SIC 38; 5= SIC 73) were included.

Figure 2. Research Model with Measurement



CHAPTER V. RESULTS

The hypotheses were tested using logistic regression analysis. Five models were analyzed; model 1, the control model, consisted of responsiveness of divestiture regressed on the control variables only; model 2, the direct-effects model, included the addition of CEO's tenure and divestiture experience; model 3, the moderating-effects model for experience, included the addition of the interaction term of experience and organizational tenure; model 4, the moderating-effects model for relative size, included the addition of the interaction terms of relative size and organizational tenure, and relative size and divestiture experience; model 5, the last moderating-effects model for board independence, included the addition of the interaction terms of outside director ratio and organizational tenure, and outside director ownership and organizational tenure. Table 1 contains definitions for all the variables used in the OLS regression specifications and summarizes the models to be estimated for each hypothesis.

Table 2 presents the means, standard deviations, minimum and maximum values, and correlations of the variables. Table 2 shows that only a few variables are marginally correlated. To ensure there is no multicollinearity issue, the variance inflation factor (VIF) check was conducted in each model. The VIF values ranged from 1.17 to 3.70

Table 1. Definition of Variables and Model Specifications

Variable Name	Definition
dum1(SIC 28)	dummy variable, =1 if firms belong to SIC 28, 0 otherwise
dum2(SIC35)	dummy variable, =1 if firms belong to SIC 35, 0 otherwise
dum3(SIC36)	dummy variable, =1 if firms belong to SIC 36, 0 otherwise
dum4(SIC38)	dummy variable, =1 if firms belong to SIC 38, 0 otherwise
lvendor_emp age	Natural log of the number of employees in the year of divestiture [the year of the firm incorporation] – [the year of divestiture]
duration	Total number of days from the date of announcement to the date of deal completion
ceo_duality	dummy variable, =1 if a CEO also chairs the board, 0 otherwise
ceo_status	dummy variable, =1 if a CEO's previous employment before the current position as CEO is same as the current firm, 0 otherwise
od_tenure	Average number of years each director served on the board of directors in the year of divestiture
rel_size	[deal value] / [vendor's total assets]
od_ratio	[the number of outside directors] / [the total number of directors]
od_ownership	[the sum of shares held by outside directors] / [the total number of shareholding by all directors and executive officers]
ceo_tenure	The total number of years the CEO has hold the position in the year of divestiture
org_tenure	The total number of years the CEO was employed within the organization in the year of divestiture
experience	Total number of divestiture activities done by the firm until the year of divestiture
responsiveness	[cash flow] – [current maturities of long-term debt] for firm <i>i</i> in the year of divestiture
Hypothesis	Model specification
H1	$Y_i = \beta_0 + \beta_1 X_{1i} + e_i$ where $y = [\text{responsiveness}]$, $X_1 = [\text{org_tenure}]$
H2	$Y_i = \beta_0 + \beta_1 X_{2i} + e_i$ where $y = [\text{responsiveness}]$, $X_1 = [\text{experience}]$
H3	$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{1i}X_{2i} + e_i$ where $y = [\text{responsiveness}]$, $X_1 = [\text{org_tenure}]$, $X_2 = [\text{experience}]$
H4	$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{1i}X_{2i} + e_i$ where $y = [\text{responsiveness}]$, $X_1 = [\text{experience}]$, $X_2 = [\text{rel_size}]$
H5	$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{1i}X_{2i} + e_i$ where $y = [\text{responsiveness}]$, $X_1 = [\text{org_tenure}]$, $X_2 = [\text{od_ratio}]$
H6	$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{1i}X_{2i} + e_i$ where $y = [\text{responsiveness}]$, $X_1 = [\text{org_tenure}]$, $X_2 = [\text{od_ownership}]$

with the mean VIF value of 1.80, suggesting that multicollinearity is not a major concern in this research (Hamilton, 2009). Table 3 shows the results of the regression analyses. Of the control variables, variables for SIC 36 industry (dummy variable 3), firm size (log of the number of

Table 2. Descriptive Statistics and Correlations

	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
1. responsiveness	1145.413	4025.517	-1861.6	25460	1																	
2. dum1(SIC28)	0.217	0.414	0	1	-0.016	1																
3. dum2(SIC35)	0.164	0.372	0	1	-0.077	-0.234	1															
4. dum3(SIC36)	0.257	0.438	0	1	0.273	-0.309	-0.261	1														
5. dum4(SIC38)	0.132	0.339	0	1	-0.07	-0.205	-0.173	-0.229	1													
6. lvendor_emp	1.256	2.048	-6.908	5.857	0.473	-0.005	0.182	0.058	-0.007	1												
7. duration	53.618	96.405	0	944	0.266	-0.088	-0.029	0.06	-0.095	0.088	1											
8. age	35.893	27.368	1	127	0.023	0.054	0.304	0.002	-0.102	0.272	-0.001	1										
9. rel_size	0.365	1.368	0.001	16.548	-0.066	-0.08	-0.052	-0.075	-0.015	-0.137	0.047	-0.08	1									
10. ceo_duality	0.48	0.501	0	1	0.106	0.165	-0.071	0.008	-0.101	0.08	0.06	0.082	0.052	1								
11. ceo_status	0.533	0.501	0	1	0.135	0.141	0.06	-0.024	-0.026	0.174	0.098	0.043	-0.109	0.161	1							
12. od_ratio	0.797	0.117	0.364	1	0.195	0.075	0.034	0.083	-0.125	0.306	-0.068	0.122	-0.056	0.12	-0.115	1						
13. od_ownership	0.277	0.782	0.002	9.44	-0.052	0.145	-0.019	-0.081	-0.051	-0.011	0.017	-0.095	-0.028	0.028	-0.105	0.128	1					
14. od_tenure	7.057	3.312	1	23.167	0.067	-0.082	-0.062	0.214	0.049	-0.039	-0.04	0.091	0.011	0.082	0.224	-0.12	0.005	1				
15. ceo_tenure	5.408	7.007	0	44	-0.03	-0.026	-0.105	0.186	0.075	-0.214	-0.021	-0.009	-0.032	0.295	0.327	-0.1	-0.09	0.583	1			
16. org_tenure	12.276	11.723	0	49	0.046	0.176	-0.085	0.087	-0.004	0.095	0.043	0.238	-0.073	0.265	0.704	-0.075	-0.12	0.49	0.563	1		
17. experience	4.75	7.202	0	49	0.536	0.043	-0.093	0.172	-0.081	0.509	0.148	0.067	0.147	0.204	0.054	0.269	-0.026	-0.052	-0.133	0.065	1	

Table 3. Results of Logistic Regression

	Model 1	Model 2	Model 3	Model 4	Model 5
dum1(SIC 28)	0.07 (0.82)	0.07 (0.86)	0.08 (0.89)	0.09 (1.06)	0.10 (1.20)
dum2(SIC35)	-0.04 (-0.46)	-0.03 (-0.38)	-0.04 (-0.47)	-0.03 (-0.34)	-0.06 (-0.74)
dum3(SIC36)	0.23* (2.53)	0.18* (2.09)	0.18* (2.10)	0.20* (2.26)	0.19* (2.14)
dum4(SIC38)	0.00 (0.06)	0.02 (0.20)	0.02 (0.30)	0.01 (0.13)	0.03 (0.41)
lvendor_emp	0.45*** (5.80)	0.27** (3.06)	0.25** (2.87)	0.30** (3.26)	0.31*** (3.45)
age	-0.12 (-1.53)	-0.04 (-0.55)	0.02 (0.21)	-0.03 (-0.41)	-0.04 (-0.50)
duration	0.23** (3.20)	0.20** (2.93)	0.22** (3.29)	0.20** (2.90)	0.23** (3.26)
ceo_duality	0.04 (0.54)	0.01 (0.18)	0.05 (0.69)	0.03 (0.40)	0.01 (0.19)
ceo_status	0.01 (0.17)	0.17† (1.73)	0.20* (2.05)	0.20† (1.98)	0.15 (1.50)
od_tenure	0.06 (0.86)	0.15† (1.68)	0.19* (2.18)	0.16† (1.82)	0.16† (1.81)
rel_size	0.00 (0.01)	-0.07 (-1.07)	-0.05 (-0.70)	0.62 (1.46)	-0.06 (-0.94)
od_ratio	0.08 (1.11)	0.05 (0.66)	0.04 (0.56)	0.06 (0.80)	0.04 (0.35)
od_ownership	-0.07 (-0.91)	-0.06 (-0.92)	-0.07 (-1.03)	-0.06 (-0.92)	-0.27* (-2.20)
ceo_tenure		0.04 (0.38)	0.10 (1.00)	0.04 (0.44)	0.09 (0.88)
org_tenure		-0.26* (-2.15)	-0.50** (-3.07)	-0.26* (-2.05)	-0.38 (-0.67)
experience		0.35*** (4.16)	0.18 (1.61)	0.36*** (4.27)	0.31*** (3.66)
org_tenure X experience			0.28* (2.16)		
org_tenure X rel_size				-0.10 (-0.85)	
experience X rel_size				-0.66† (-1.68)	
od_ratio X org_tenure					-0.06 (-0.10)
od_ownership X org_tenure					0.28* (2.03)
<i>N</i>	149	149	149	149	149
<i>R</i> ²	0.367	0.455	0.474	0.467	0.472
adj. <i>R</i> ²	0.306	0.389	0.406	0.393	0.399

Standardized beta coefficients; *t* statistics in parentheses† $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

vendor employees), and deal duration were found to be significant constantly in all models and CEO insider/outsider status and outside director tenure were marginally significant when direct-effect variables were all included.

Hypothesis 1 examined the relationship between organizational tenure and vendor responsiveness of divestiture. Model 2 shows that the coefficient is negative and statistically significant, suggesting that longer organizational tenure of CEO delays divestiture making the firm suffer more financial distress as hypothesized in hypothesis 1. Hypothesis 2 predicted a positive relationship of divestiture experience with reactivity of divestiture and model 2 shows very strong support for this. This is interpreted that the more a firm had divestiture experience, the more proactively the firm initiated divestitures; and the less a firm had divestiture experience, the more reactively the firm divested its sub-businesses. Based on hypotheses 1 and 2, hypothesis 3 examines the interaction effect of organization tenure and divestiture experience. As predicted, model 3 shows that the coefficient of the interaction term is positive and statistically significant, suggesting accumulation of divestiture experience help firm overcome the negative effect of long organization tenure. Hypothesis 4 investigated the effect of relative size when divestiture experience was high. The interaction term of relative size and experience in model 4 shows that its

coefficient is negative and marginally significant, indicating that the big relative size of a divested unit to the parent firm made divestiture more reactive even though firm had lots of divestiture experience. Although the direct effect of relative size is not significant, it significantly moderated the strong, positive relationship of experience and proactive divestitures. Thus, hypothesis 4 was supported. Finally, hypotheses 5 and 6, which concerned the effect of board independence, were tested in model 5. Specifically, hypothesis 5 examined the role of outside director ratio in the board in alleviating the negative effect of organization tenure on proactive divestiture while hypothesis 6 concerned with the moderating effect of the shareholding by outside directors. Of the two hypotheses, only hypothesis 6 was supported. The next section further investigates the intertwined relationships of aforementioned factors and elaborates the implications of these results, expanding our depth of understanding in making divestiture decisions.

CHAPTER VI. SUMMARY & DISCUSSION

Overall, the result of this study supported the direct-effect hypotheses that responsiveness to divestiture is impeded by organizational inertia resulting from long tenure and lower experience of divestiture. In addition, most of the interactive-effect hypotheses were supported except one –supported are those arguments that larger relative size negatively moderates the positive relationship of responsiveness and experience of divestiture (Figure 4) and that experience and outside director equity holding positively moderate the negative relationship of responsiveness and organizational tenure (Figure 3 and 6 respectively); unsupported is that the outside board representation positively moderates the negative relationship of responsiveness and organizational tenure (Figure 5). Figure 3 shows a clear contrast

Figure 3. Interactive effects between organizational tenure and experience

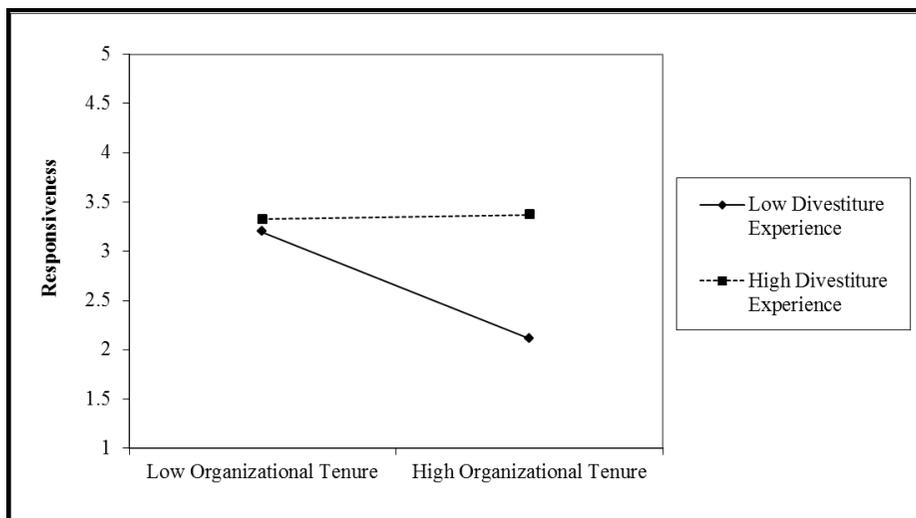
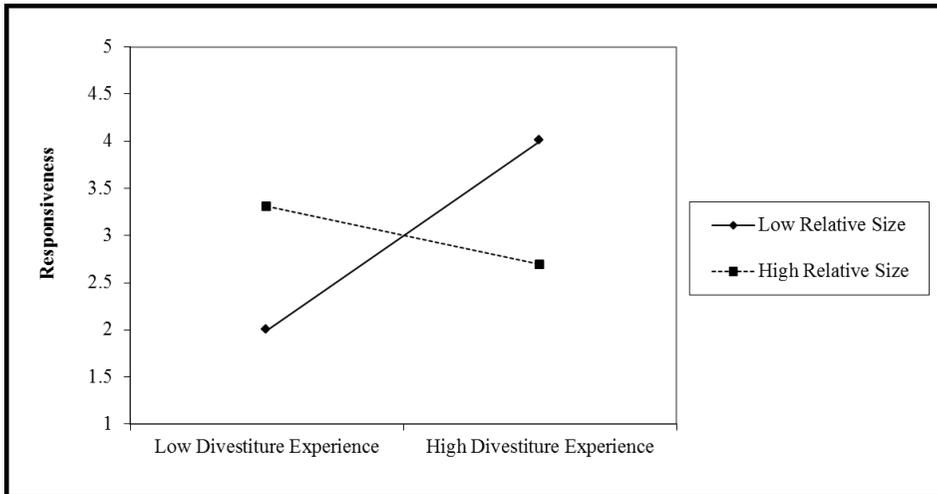


Figure 4. Interactive effects between experience and relative size



between the low and high divestiture experience line. While low divestiture experience line is downward, high divestiture experience line is slightly facing upward, suggesting that the effect of long organizational tenure to make divestiture reactive is offset in the presence of high experience. As discussed earlier, past divestiture experience may help a firm establish routines for making subsequent divestitures and expedite the divestiture process (Shimizu & Hitt, 2005). The moderating effect is even greater in the case of relative size as shown in Figure 4. The graph reveals that the relative size significantly languishes the positive effect of experience on vendor responsiveness suggesting that the main deterrent to proactive divestiture when the firm has bountiful experience is larger relative size of the unit to be divested.

Figure 5. Interactive effects between organizational tenure and outside director ratio

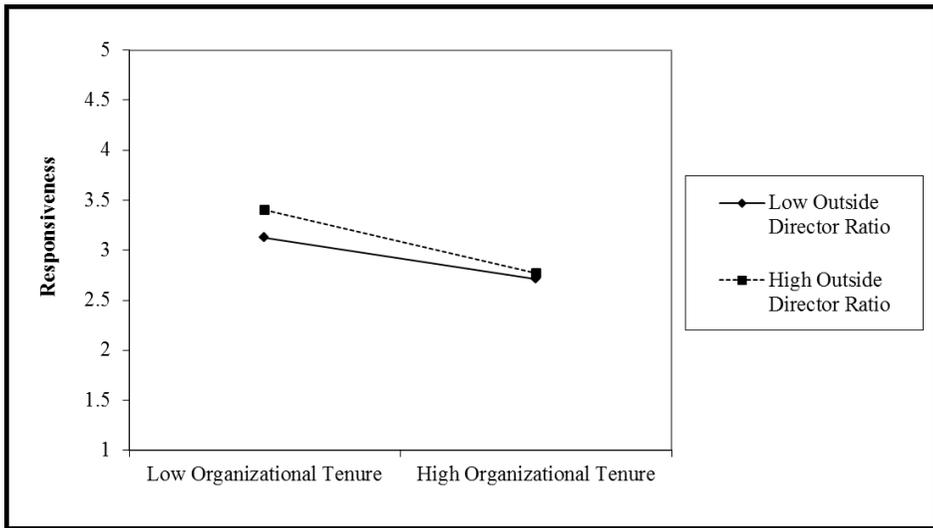
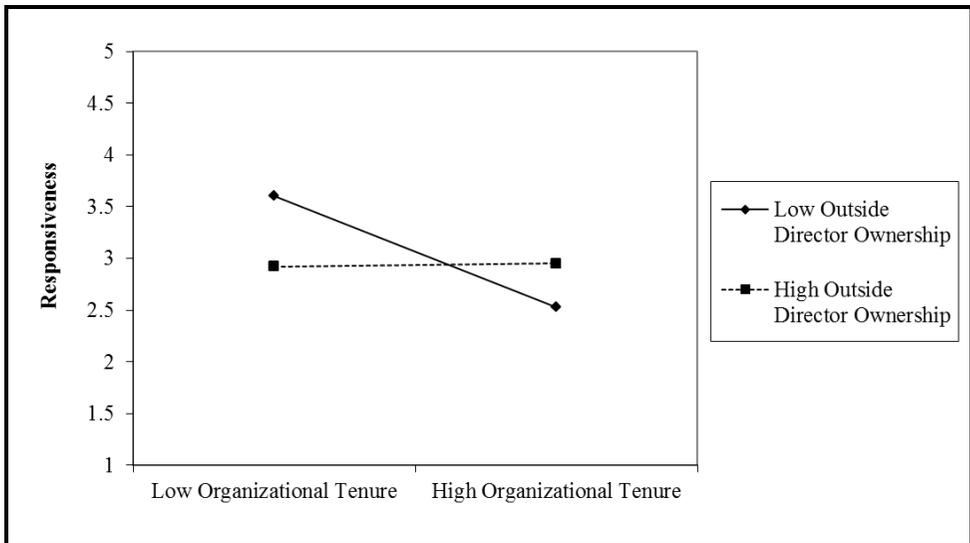


Figure 6. Interactive effects between organizational tenure and outside director ownership



The remaining two figures represent the effect of board independence on the responsiveness. Only difference between the two is how to measure the board independence: while it was operationalized

with equity holding by outside director in Figure 5, outside director ratio was used in Figure 6. As the graphics demonstrate, the moderating effect is only significant in the case of director ownership. Figure 5 illustrates the downward sloping of organizational tenure is almost flattened and even slightly upward. This implies that the more the outside director holds equity ownership, the more proactive divestiture decisions become. This further bolsters our background theory that independent board objectively monitors top managers in the interests of the shareholders and lead to higher firm performance (Dalton, Daily, Ellstrand, & Johnson, 1998). Johnson et al. (1993) also argued that potentially controversial decisions such as divestitures are more likely originated from outside board members. On the other hand, the effect of board independence measured by outsider representation in the board was found to be insignificant. Additionally, Figure 6 shows that the high outside director ratio make the line even more downward albeit slightly. Johnson et al. (1993) noted that the motivation of outside directors to become involved in the strategic direction of the firm is heightened by equity ownership in the firm. Miller and Komorita (1987) found that directors with large equity holdings were likely to lead coalitions and have substantial influence on board decisions, and Chatterjee et al. (2003), in their study of board independence in four aspects (board demography, outsider holding,

insider holding, and CEO duality), found significant result only with those with ownership holding. Therefore, the lack of significance in the outsider director ratio may be an indication that what really influences on executive decisions is stock ownership by outside directors and not simply their board seats (Chatterjee et al., 2003).

It is also worthwhile to compare CEO's tenure in the firm and in the position. As expected, CEO's organization tenure within the firm was found to be significant while CEO tenure in the position was insignificant. It implies that organizational tenure is a better construct to capture how much the inertia has permeated the individual. It is somewhat striking that coefficients for CEO tenure are all positive in all models though insignificant. It means that CEO tenure has weak yet positive correlation with responsiveness. This is the opposite of what I expected. This may be due to the fact that new outside CEOs, who lack attachment to the firm or unit compared to insiders, may want to initiate divestiture not right upon the appointment of CEO but after he or she learns about the business. Even after a number of years as CEO, outside CEOs may be more patient with organizational inertia. Many studies associated corporate restructuring including divestitures with CEO succession (or zero CEO tenure). However, this did not hold true here. Divestiture upon the arrival of new CEO may be restricted to more firm-level units, not division-level. Since the sample of this study only

investigated division-level divestitures, this may be attributed for the insignificance and even positive coefficient of CEO tenure.

Finally, it is relevant to discuss the significance of the control variables. Among the industry dummies, dummy 3, which is SIC 36 (electronic and other electrical equipment and components, except computer equipment manufacturing), was slightly significant. Also, firm size, operationalized as the log of the number of vendor employees, and deal duration were very significant. Firm size is not surprising; it has been identified as a strong factor that increases divestitures by many extant studies (Bergh, 1997; Hamilton & Chow, 1993; Sembenelli & Vannoni, 2000). What's interesting is deal duration. Research on the temporal dynamics of divestitures as to how long the average divestiture process takes or what timing and speed implies has relatively been unexplored. Close examination of the length of time of divestiture process would provide precious insights to managers as to how to pace the divestiture process, for example (Brauer, 2006; Buchholtz et al., 1999). As mentioned earlier, the length of time to divestiture may be associated with riskiness of the deal or levels of experimentation (Klein & Klein, 2001) and may affect the responsiveness of vendor.

In conclusion, this study assessed the intertwined relationship of the factors that determine the seller's response speed to divestiture

cues, based on organizational inertia and corporate governance perspectives. I believe this would bring richer explanation for divestiture behaviors since the majority of extant divestiture research has been based on economic and agency theory perspectives and has paid little attention on temporal aspects of divestitures (Buchholtz et al., 1999). By introducing and incorporating the concept of financial distress of economics and finance research, it suggested a way to explore the differences of responsiveness how fast firms react to divestiture signals. Furthermore, it tried to understand divestiture as an independent strategic tool rather than a simple reversing means of past investments in examination of all divestitures conducted in U.S. between 2006 and 2011 by high-tech firms, which include not only those of divested units that were previously acquired by the parent firm but also those that the firm originally initiated. Specifically, it argues that factors contributing to organizational inertia (Hannan & Freeman, 1984; Huff et al., 1992) delay divestiture decisions leading to reactive divestitures. Conversely, factors that break or reduce inertia attenuate the lingering effects of those pro-inertia factors, facilitating proactive divestitures. As discussed, the current study offered important research and managerial implications and insights into effective governance mechanisms (Dalton et al., 1998) and strategic flexibility (Buchholtz et al., 1999; Shimizu & Hitt, 2005). It suggests that practitioners can use

divestiture to rejuvenate their firms only if they look beyond the stigma associated with selling off businesses and embrace as a vital strategic tool (Dranikoff et al., 2002). The key to achieve sustainable growth and even make a breakthrough in the era of low-growth is to think ahead and resolutely divest currently healthy yet unpromising units casting off their shackles of inertia.

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APPENDIX

-Sample firms (vendors) with divested units and acquirers

No	Vendor name	Target name	Acquirer name
1	ADVANCED MICRO DEVICES INC.	ADVANCED MICRO DEVICES' DIGITAL TV (DTV) BUSINESS	BROADCOM CORPORATION
2	ADVANCED MICRO DEVICES INC.	ADVANCED MICRO DEVICES INC.'S MANUFACTURING OPERATIONS	FOUNDRY COMPANY, THE
3	AGILENT TECHNOLOGIES INC.	AGILENT TECHNOLOGIES INC.'S NETWORK SOLUTIONS BUSINESS	JDS UNIPHASE CORPORATION
4	AIR PRODUCTS AND CHEMICALS INC.	AIR PRODUCTS AND CHEMICALS INC'S HIGH-PURITY-PROCESS-CHEMICALS BUSINESS	KMG CHEMICALS INC.
5	AIR PRODUCTS AND CHEMICALS INC.	AIR PRODUCTS AND CHEMICALS INC'S PRESSURE-SENSITIVE ADHESIVES AND ATMOSPHERIC EMULSIONS BUSINESS	ASHLAND INC.
6	ALLEGHENY ENERGY INC.	ALLEGHENY ENERGY INC.'S OHIO SERVICE TERRITORY	COLUMBUS SOUTHERN POWER COMPANY
7	ALLIS-CHALMERS ENERGY INC.	ALLIS-CHALMERS ENERGY INC'S CAPILLARY TUBING ASSETS	BJ SERVICES COMPANY
8	AMERICAN ELECTRIC POWER COMPANY INC.	AMERICAN ELECTRIC POWER CO. INC.'S PLAQUEMINE POWER PLANT	DOW CHEMICAL COMPANY, THE
9	AMERICAN MEDICAL SYSTEMS HOLDINGS INC.	AMERICAN MEDICAL SYSTEMS HOLDINGS INC.'S OVION PATENTS	CONCEPTUS INC.
10	AMERICAN MEDICAL SYSTEMS HOLDINGS INC.	LASERSCOPE'S LASER AESTHETICS BUSINESS	IRIDEX CORPORATION
11	ANALOG DEVICES INC.	ANALOG DEVICES INC.'S NETWORK PROCESSOR UNIT	IKANOS COMMUNICATIONS INC.
12	ANALOG DEVICES INC.	ANALOG DEVICES INC'S CPU VOLTAGE AND PC THERMAL MONITORING BUSINESS	ON SEMICONDUCTOR CORPORATION
13	ANDREW CORPORATION	ANDREW CORPORATION'S SATELLITE COMMUNICATIONS BUSINESS	RESILIENCE CAPITAL PARTNERS
14	APPLIED MICRO CIRCUITS CORPORATION	APPLIED MICRO CIRCUITS CORPORATION'S 3WARE® RAID ADAPTER BUSINESS	LSI CORPORATION
15	ARCHER DANIELS MIDLAND COMPANY	ARCHER DANIELS MIDLAND CO'S ARKADY AND DISTILLED MONOGLYCERIDES BUSINESS	CARAVAN INGREDIENTS
16	ARIBA INC.	ARIBA INC.'S SOURCING SERVICES AND BUSINESS PROCESS OUTSOURCING BPO SERVICE ASSETS	ACCENTURE INC.
17	ASHLAND INC.	ASHLAND INC.'S ROSIN AND TERPENE RESINS BUSINESS	PINOVA INC.
18	ASHLAND INC.	ASHLAND INC.'S ROSIN AND TERPENE RESINS BUSINESS	NEXEO SOLUTIONS LLC
19	ATARI INC.	GAMES.COM	GAMES INC.
20	ATMEL CORPORATION	ATMEL CORPORATION'S TEXAS-BASED WAFER FABRICATION FACILITY	MAXIM INTEGRATED PRODUCTS INC.
21	AUTOBYTEL INC.	AUTOBYTEL INC'S RETENTION PERFORMANCE MARKETING BUSINESS	CALLCOMMAND
22	AUTOBYTEL INC.	APPLIED VIRTUAL VISION'S DATA EXTRACTION AND CUSTOMER RELATIONSHIP MANAGEMENT SOFTWARE BUSINESS	DOMINION ENTERPRISES
23	AUTOMATIC DATA PROCESSING INC.	AUTOMATIC DATA PROCESSING INC.'S CLAIMS SERVICES GROUP	SOLERA INC.
24	BOSTON SCIENTIFIC CORPORATION	BOSTON SCIENTIFIC CORPORATION'S FLUID MANAGEMENT BUSINESS	AVISTA CAPITAL HOLDINGS LP
25	BOSTON SCIENTIFIC CORPORATION	BOSTON SCIENTIFIC CORPORATION'S NEUROVASCULAR INTERVENTION	STRYKER CORPORATION

		BUSINESS	
26	BOSTON SCIENTIFIC CORPORATION	GUIDANT CORPORATION'S VASCULAR INTERVENTION AND ENDOVASCULAR BUSINESSES	ABBOTT LABORATORIES INC.
27	BROOKS AUTOMATION INC.	BROOKS SOFTWARE	APPLIED MATERIALS INC.
28	CAREFUSION CORPORATION	CAREFUSION CORPORATION'S RESEARCH SERVICES DIVISION	ERESEARCH TECHNOLOGY INC.
29	CHARTER COMMUNICATIONS INC.	CHARTER COMMUNICATIONS INC.'S CABLE SYSTEMS IN ILLINOIS AND KENTUCKY	NEW WAVE COMMUNICATIONS INC.
30	CHASE CORPORATION	CHASE ELECTRONIC MANUFACTURING SERVICES	MC ASSEMBLY INC.
31	CHECKPOINT SYSTEMS INC.	CHECKPOINT SYSTEMS INC.'S BARCODE BUSINESS	SATO AMERICA INC.
32	CHEMTURA CORPORATION	CHEMTURA CORPORATION'S PVC ADDITIVES BUSINESS	GALATA CHEMICALS
33	CHEMTURA CORPORATION	CHEMTURA CORPORATION'S EPDM BUSINESS	LION COPOLYMER GEISMER LLC'S OPERATIONS AND CERTAIN ASSETS
34	CNET NETWORKS INC.	CNET NETWORKS INC'S ONLINE PHOTO SHARING BUSINESS	AMERICAN GREETINGS CORPORATION
35	COMPUTER HORIZONS CORPORATION	COMPUTER HORIZONS CORPORATION'S COMMERCIAL SERVICES BUSINESS	TEKSYSTEMS INC.
36	CONEXANT SYSTEMS INC.	CONEXANT SYSTEMS INC.'S BROADBAND ACCESS BUSINESS	IKANOS COMMUNICATIONS INC.
37	CREDENCE SYSTEMS CORPORATION	CREDENCE SYSTEMS CORPORATION'S DIAGNOSTICS AND CHARACTERISATION BUSINESS	DCG SYSTEMS INC.
38	CURTISS-WRIGHT CORPORATION	CURTISS-WRIGHT CORPORATION'S TWO MANUFACTURING FACILITIES	WP CAREY & COMPANY LLC
39	CYPRESS SEMICONDUCTOR CORPORATION	CYPRESS SEMICONDUCTOR CORPORATION'S CMOS IMAGE SENSOR BUSINESS UNIT (ISBU)	ON SEMICONDUCTOR CORPORATION
40	CYPRESS SEMICONDUCTOR CORPORATION	CYPRESS SEMICONDUCTOR CORPORATION'S STANDARD NETWORK SEARCH ENGINE CERTAIN ASSETS	NETLOGIC MICROSYSTEMS INC.
41	CYTEC INDUSTRIES INC.	CYTEC INDUSTRIES INC.'S BUILDING BLOCK CHEMICALS BUSINESS	HIG CAPITAL LLC
42	DATASCOPE CORPORATION	DATASCOPE CORPORATION'S VASCULAR CLOSURE ASSETS	ST JUDE MEDICAL INC.
43	DDI CORPORATION	DDI CORPORATION'S ELECTRONICS ASSEMBLY BUSINESS	VERITEK MANUFACTURING SERVICES LLC
44	DEERE & COMPANY	DEERE & COMPANY'S NORTRAX SOUTH CONSTRUCTION EQUIPMENT DEALERSHIPS IN LOUISIANA AND EAST TEXAS	WL DOGGETT LLC
45	DOW JONES & COMPANY INC.	DOW JONES & COMPANY INC.'S SIX COMMUNITY NEWSPAPERS	COMMUNITY NEWSPAPER HOLDINGS INC.
46	DRESSER INC.	DRESSER INC'S CERTAIN FLOW CONTROL BUSINESSES	COOPER CAMERON CORPORATION
47	EASTMAN CHEMICAL COMPANY	EASTMAN CHEMICAL COMPANY'S POLYETHYLENE BUSINESS	WESTLAKE CHEMICAL CORPORATION
48	EASTMAN CHEMICAL COMPANY	EASTMAN CHEMICAL COMPANY'S PERFORMANCE POLYMERS BUSINESS	DAK AMERICAS LLC
49	EMRISE CORPORATION	EMRISE CORPORATION'S CIRCUIT DIVISION ASSETS	SIERRA CIRCUITS INC.
50	EMRISE CORPORATION	DIGITRAN SWITCH DIVISION	ELECTRO SWITCH CORPORATION
51	EMS TECHNOLOGIES INC.	EMS TECHNOLOGIES INC'S WIRELESS DIVISION	ANDREW CORPORATION
52	ENTEGRIS INC.	ENTEGRIS INC'S GAS DELIVERY BUSINESS	CELERITY INC.
53	EQUIFAX INC.	EQUIFAX INC.'S DIRECT MARKETING SERVICES DIVISION	ALLIANCE DATA SYSTEMS CORPORATION
54	EXTERRAN HOLDINGS INC.	EXTERRAN HOLDINGS INC.'S CERTAIN	EXTERRAN PARTNERS LP

		ASSETS	
55	EXTERRAN HOLDINGS INC.	EXTERRAN HOLDINGS INC.'S OIL AND GAS COMPRESSION AND PROCESSING ASSETS	EXTERRAN PARTNERS LP
56	FINISAR CORPORATION	FINISAR CORPORATION'S NETWORK TOOLS BUSINESS	JDS UNIPHASE CORPORATION
57	HARSCO CORPORATION	HARSCO GASSERV	WIND POINT PARTNERS
58	HAWK CORPORATION	HAWK CORPORATION'S PRECISION COMPONENTS BUSINESS	SAW MILL CAPITAL
59	HEALTHTRONICS INC.	HEALTHTRONICS INC'S AK SPECIALITY VEHICLES DIVISION	OSHKOSH TRUCK CORPORATION
60	HEWLETT-PACKARD COMPANY	HEWLETT-PACKARD COMPANY'S VISUAL COLLABORATION BUSINESS	POLYCOM INC.
61	HEXCEL CORPORATION	HEXCEL CORPORATION'S ELECTRONICS, BALLISTICS & GENERAL INDUSTRIAL REINFORCEMENT PRODUCT UNIT	JPS INDUSTRIES INC.
62	HOLLYWOOD MEDIA CORPORATION	HOLLYWOOD MEDIA CORPORATION'S SOURCE BUSINESS	WEST WORLD MEDIA LLC
63	HONEYWELL INTERNATIONAL INC.	HONEYWELL INTERNATIONAL INC'S CONSUMABLES SOLUTIONS BUSINESS	B/E AEROSPACE INC.
64	HOSPIRA INC.	HOSPIRA INC.'S CRITICAL CARE PRODUCT BUSINESS	ICU MEDICAL INC.
65	HUDSON HIGHLAND GROUP INC.	HUDSON HIGHLAND GROUP INC.'S ENERGY AND ENGINEERING STAFFING BUSINESSES	SYSTEM ONE HOLDINGS LLC
66	HUNTSMAN CORPORATION	HUNTSMAN CORPORATION'S US BUTADIENE AND MTBE BUSINESS	TEXAS PETROCHEMICALS LP
67	HUNTSMAN CORPORATION	HUNTSMAN CORPORATION'S US BASE CHEMICALS AND POLYMERS BUSINESS	FLINT HILLS RESOURCES LLC
68	ILLINOIS TOOL WORKS INC.	ILLINOIS TOOL WORKS INC'S MECHANICAL ROOFING FASTENER BUSINESS	OMG INC.
69	INFOSPACE INC.	INFOSPACE INC.'S MOBILE SERVICES BUSINESS	MOTRICITY INC.
70	INFOSPACE INC.	SWITCHBOARD INC.	IDEARC INC.
71	INTEGRATED DEVICE TECHNOLOGY INC.	INTEGRATED DEVICE TECHNOLOGY INC.'S NETWORK SEARCH ENGINE ASSETS	NETLOGIC MICROSYSTEMS INC.
72	INTEL CORPORATION	INTEL CORPORATION'S OPTICAL PLATFORM DIVISION'S ENTERPRISE-FOCUSED ASSETS	EMCORE CORPORATION
73	INTEL CORPORATION	INTEL CORPORATION'S OPTICAL PLATFORM DIVISION'S TELECOM-RELATED ASSETS	EMCORE CORPORATION
74	INTEL CORPORATION	INTEL CORPORATION'S OPTICAL NETWORK COMPONENTS BUSINESS	CORTINA SYSTEMS INC.
75	INTERNATIONAL RECTIFIER CORPORATION	INTERNATIONAL RECTIFIER CORPORATION'S POWER CONTROL SYSTEMS BUSINESS	VISHAY INTERTECHNOLOGY INC.
76	INVERNESS MEDICAL INNOVATIONS INC.(Alere)	IVC INDUSTRIES INC.	INTERNATIONAL VITAMIN CORPORATION
77	JOY GLOBAL INC.	LETOURNEAU TECHNOLOGIES DRILLINGS SYSTEMS INC.	CAMERON INTERNATIONAL CORPORATION
78	JUPITERMEDIA CORPORATION(Webmediabrands inc)	JUPITERMEDIA CORPORATION'S JUPITERRESEARCH DIVISION	JUPITERKAGAN INC.
79	KAMAN CORPORATION	KAMAN CORPORATION'S 40MM FUSING SEGMENTS DAYRON OPERATION	DSE INC.
80	KENNAMETAL INC.	KENNAMETAL INC.'S J&L INDUSTRIAL SUPPLY BUSINESS	MSC INDUSTRIAL DIRECT COMPANY INC.
81	KENSEY NASH CORPORATION	KENSEY NASH CORPORATION'S ENDOVASCULAR BUSINESS	SPECTRANETICS CORPORATION
82	KING PHARMACEUTICALS INC.	KING PHARMACEUTICALS INC'S MICHIGAN STERILE MANUFACTURING FACILITY	JHP PHARMACEUTICALS LLC

83	KING PHARMACEUTICALS INC.	ALPHARMA INC'S CERTAIN ASSETS RELATED TO ALPHARMA'S DRUG KADIAN	ACTAVIS ELIZABETH LLC
84	LOCKHEED MARTIN CORPORATION	LOCKHEED MARTIN CORPORATION'S ENTERPRISE INTEGRATION GROUP BUSINESS	VERITAS CAPITAL
85	LSI LOGIC CORPORATION	LSI LOGIC CORPORATION'S CHIP PLANT BASED IN GRESHAM, OREGON	ON SEMICONDUCTOR CORPORATION
86	LUBRIZOL CORPORATION, THE	LUBRIZOL CORPORATION'S FOOD INGREDIENTS AND INDUSTRIAL SPECIALTIES BUSINESSES	SUN CAPITAL PARTNERS
87	MACE SECURITY INTERNATIONAL INC.	MACE SECURITY INTERNATIONAL INC.'S 4 CAR WASHES IN FLORIDA	WASH DEPOT
88	MACROVISION SOLUTIONS CORPORATION(Rovi)	TRYMEDIA SYSTEMS INC.'S ASSETS	REALNETWORKS INC.
89	MACROVISION SOLUTIONS CORPORATION(Rovi)	MACROVISION CORPORATION'S SOFTWARE BUSINESS UNIT	ACRESSO SOFTWARE INC.
90	MAGNETEK INC.	MAGNETEK TELECOM POWER GROUP'S ASSETS	MYERS POWER PRODUCTS INC.
91	MAGNETEK INC.	MAGNETEK INC'S POWER ELECTRONICS GROUP	POWER-ONE INC.
92	MANITOWOC CO INC.	KYSOR/WARREN'S ASSETS	LENNOX INTERNATIONAL INC.
93	MANITOWOC CO INC.	THE MANITOWOC COMPANY INC.'S ENODIS ICE MACHINE OPERATIONS	WARBURG, PINCUS & CO.
94	MATERIAL SCIENCES CORPORATION	MATERIAL SCIENCES CORPORATION'S MIDDLETOWN OHIO PLANT AND COIL COATING ASSETS	NCI GROUP INC.
95	MATERIAL SCIENCES CORPORATION	MATERIAL SCIENCES CORPORATION'S COIL COATING ASSETS AND BUSINESS	ROLL COATER INC.
96	MEADE INSTRUMENTS CORPORATION	SIMMONS OUTDOOR CORPORATION'S THE SIMMONS (R) BRAND AND CERTAIN OTHER ASSETS	BUSHNELL INC.
97	MGP INGREDIENTS INC.	MGP INGREDIENTS INC.'S FACILITY IN KANSAS CITY	SERGEANT'S PET CARE PRODUCTS INC.
98	MIPS TECHNOLOGIES INC.	MIPSTECHNOLOGIES INC.'S ANALOGUE BUSINESS GROUP	SYNOPSIS INC.
99	MOBILITY ELECTRONICS INC.(iGo)	MOBILITY ELECTRONICS INC.'S HANDHELD CRADLE BUSINESS	CRADLEPOINT INC.
100	MONSANTO COMPANY	MONSANTO COMPANY'S NEXGEN COTTON SEED BRAND	AMERICOT INC.
101	MONSANTO COMPANY	MONSANTO COMPANY'S POSILAC BRAND BUSINESS	ELI LILLY AND COMPANY
102	MOTOROLA INC.	MOTOROLA INC'S EMBEDDED COMMUNICATIONS COMPUTING BUSINESS	EMERSON NETWORK POWER, ENERGY SYSTEMS, NORTH AMERICA INC.
103	MURPHY OIL USA INC.	MURPHY OIL USA INC.'S SUPERIOR, WISCONSIN REFINERY AND ASSOCIATED OPERATING ASSETS AND INVENTORIES	CALUMET SPECIALTY PRODUCTS PARTNERS LP
104	NATURAL ALTERNATIVES INTERNATIONAL INC.	REAL HEALTH LABORATORIES INC.'S CATALOG AND INTERNET BUSINESS	MILES KIMBALL COMPANY
105	NORTHEAST UTILITIES	NE ENERGY INC.	ENERGY CAPITAL PARTNERS LLC
106	OIL STATES INTERNATIONAL INC.	OIL STATES INTERNATIONAL INC'S HYDRAULIC WELL CONTROL BUSINESS	BOOTS & COOTS INTERNATIONAL WELL CONTROL INC.
107	OLIN CORPORATION	OLIN CORPORATION'S METALS BUSINESS	GLOBAL BRASS AND COPPER HOLDINGS INC.
108	OMNOVA SOLUTIONS INC.	OMNOVA SOLUTIONS INC'S GENFLEX BUILDING PRODUCTS BUSINESS	FIRESTONE BUILDING PRODUCTS COMPANY
109	PARLUX FRAGRANCES INC.	PARLUX FRAGRANCES INC.'S PERRY ELLIS BRAND	PERRY ELLIS INTERNATIONAL INC.
110	PATRICK INDUSTRIES INC.	PATRICK INDUSTRIES INC.'S ALUMINUM EXTRUSION OPERATION'S CERTAIN ASSETS	PATRICK ALUMINUM INC.
111	PCTEL INC.	PCTEL INC'S MOBILITY SOLUTIONS	SMITH MICRO SOFTWARE INC.

		GROUP	
112	PERKINELMER INC.	PERKINELMER INC.'S SEMICONDUCTOR BUSINESS	TARA CAPITAL LTD
113	PFIZER INC.	PFIZER'S CORTIZONE HYDROCORTISONE ANTI-ITCH BUSINESS	CHATTEM INC.
114	PRESTIGE BRANDS HOLDINGS INC.	PRESTIGE BRANDS HOLDINGS INC.'S 3 SHAMPOO BRANDS	ULTIMARK PRODUCTS
115	PRIMEDIA INC.	PRIMEDIA INC'S ENTHUSIAST MEDIA DIVISION	SOURCE INTERLINK COMPANIES INC.
116	PROXYMED INC.	NATIONAL PREFERRED PROVIDER NETWORK	COALITION AMERICA INC.
117	RADNET INC.	SOUTH JERSEY MRI	TRISTATE IMAGING CONSULTANTS LLC
118	RICHARDSON ELECTRONICS LTD	BURTEK SYSTEMS CORPORATION	HONEYWELL INTERNATIONAL INC.
119	RICHARDSON ELECTRONICS LTD	RICHARDSON ELECTRONICS LTD'S RF, WIRELESS AND POWER DIVISION	ARROW ELECTRONICS INC.
120	ROCKWELL AUTOMATION INC.	ROCKWELL AUTOMATION INC.'S POWER SYSTEMS BUSINESS	BALDOR ELECTRIC COMPANY
121	SAIC INC.	SAIC INC.'S TACTICAL COMMUNICATIONS PRODUCTS BUSINESS	ULTRALIFE CORPORATION
122	SAVVIS INC.	SAVVIS INC'S ASSETS RELATED TO TWO CALIFORNIA DATA CENTERS	MICROSOFT CORPORATION
123	SIMPLETECH INC.(stec)	SIMPLETECH INC'S CONSUMER PRODUCT BUSINESS	FABRIK INC.
124	SPARTECH CORPORATION	SPARTECH CORPORATION'S WHEELS BUSINESS	HAMILTON ROBINSON LLC
125	STEWART & STEVENSON SERVICES INC.	STEWART & STEVENSON SERVICES INC.'S ENGINEERED PRODUCTS DIVISION	MR HUSHANG ANSARY
126	STEWART & STEVENSON SERVICES INC.	STEWART & STEVENSON SERVICES INC.'S POWER PRODUCTS DIVISION	MR HUSHANG ANSARY
127	SYNOVIS LIFE TECHNOLOGIES INC.	SYNOVIS LIFE TECHNOLOGIES INC'S INTERVENTIONAL BUSINESS	HERAEUS VADNAIS INC.
128	TECUMSEH PRODUCTS COMPANY	TECUMSEH PRODUCTS COMPANY'S AUTOMOTIVE & SPECIALITY BUSINESS	SUN CAPITAL PARTNERS
129	TECUMSEH PRODUCTS COMPANY	TECUMSEH PRODUCTS COMPANY'S ENGINE AND POWER TRAINS BUSINESS	PLATINUM EQUITY
130	TELEFLEX INC.	TELEFLEX INC.'S POWER SYSTEMS BUSINESS	FUEL SYSTEMS SOLUTIONS INC.
131	TEXAS INSTRUMENTS INC.	TEXAS INSTRUMENTS INC.'S SENSORS AND CONTROLS UNIT	BAIN CAPITAL
132	TIMKEN COMPANY, THE	TIMKEN COMPANY'S BALL AND ROLLER BEARING FACILITY IN TORRINGTON	STATE OF CONNECTICUT
133	TRIPOS INC.	TRIPOS INC.'S DISCOVERY INFORMATICS BUSINESS	VECTOR CAPITAL
134	UNISYS CORPORATION	UNISYS CORPORATION'S RTGO RT BUSINESS	FLO CORPORATION
135	UNISYS CORPORATION	UNISYS CORPORATION'S CERTAIN ASSETS	DELTA DESIGN INC.
136	UNISYS CORPORATION	UNISYS CORPORATION'S HEALTH INFORMATION MANAGEMENT (HIM) BUSINESS	MOLINA HEALTHCARE INC.
137	UTSTARCOM INC.	UTSTARCOM INC.'S SEMICONDUCTOR DESIGN BUSINESS DIVISION	MARVELL SEMICONDUCTOR INC.
138	VERISIGN INC.	VERISIGN INC.'S MESSAGING BUSINESS	SYNIVERSE TECHNOLOGIES INC.
139	VERISIGN INC.	VERISIGN INC.'S COMMUNICATION SERVICES GROUP	TNS INC.
140	VERISIGN INC.	VERISIGN INC.'S AUTHENTICATION SERVICES BUSINESS	SYMANTEC CORPORATION
141	VERIZON COMMUNICATIONS INC.	BELL INDUSTRIES INC'S REMAINDER OF THE SKYTEL DIVISION	BELL INDUSTRIES INC.
142	VERIZON COMMUNICATIONS INC.	NORTHERN NEW ENGLAND SPINCO INC.	SHAREHOLDERS
143	VERIZON COMMUNICATIONS INC.	NEW COMMUNICATIONS HOLDINGS INC.	FRONTIER COMMUNICATIONS CORPORATION

144	VIVUS INC.	VIVUS INC.'S EVAMIST ASSETS	K-V PHARMACEUTICAL COMPANY
145	WESTELL TECHNOLOGIES INC.	WESTELL TECHNOLOGIES INC.'S CUSTOMER NETWORKING SOLUTIONS ASSETS	SYMPHONY TECHNOLOGY GROUP LLC
146	WESTERN POWER & EQUIPMENT CORPORATION	WESTERN POWER & EQUIPMENT CORPORATION'S SELECT DEALERSHIP ASSETS	CASE CONSTRUCTION EQUIPMENT
147	WIRELESS FACILITIES INC.(Kratos Defense)	WIRELESS FACILITIES INC.'S WIRELESS DEPLOYMENT BUSINESS	PLATINUM EQUITY
148	WIRELESS FACILITIES INC.(Kratos Defense)	WNS ENGINEERING	LCC INTERNATIONAL INC.
149	ZILOG INC.	ZILOG INC'S CHIP FABRICATION FACILITY IN NAMPA, IDAHO	MICRON TECHNOLOGY INC.

국 문 초 록

Shackles of the Past: Why firms divest too late and when they can free themselves from the shackles of organizational inertia

서울대학교 대학원

경영학과 국제경영전공

김 영 혁

과거에 “divestiture”는 단순히 M&A의 반대의 개념 또는 실패의 상징으로 간주되었지만, 이제는 많은 사람들이 이를 “a badge of smart, market-oriented management.” 로서 이해하고 있다. 특히, 작금의 이른바 저성장의 시대에서 divestiture는 지속적인 성장을 가능케 하거나, 불황에서의 돌파구를 마련해주는 독립적이고 전략적인 수단으로서 각광을 받고 있다. 하지만, 많은 기업들은 전략적인 계획에 의거하여 “proactive divestiture”를 실시하기 보다는, 대부분 저조한 실적, 재정난 등 어떠한 압력에 반응하여 divestiture를 실시하며, 많은 경우가 회생불가 상태에 이르러서야 divestiture를 실시하고 있다.

한편, 기존의 많은 divestiture 연구들은 어떤 동인(trigger)이 divestiture에 이르게 하였는가에 대한 연구에 치우쳐져 있었으며, 기업들의 divestiture 신호(cue)에 대한 반응속도(response speed) 차이에 관해서는 많이 연구되지 않았다. 따라서, 본 연구는 organizational inertia와 corporate governance literature를 기반으로 어떤 요소들이 기업들로 하여금 수동적인(reactive) divestiture를 하게 만드는지 살펴보았고, 로

지스틱 회귀분석(logistic regression)을 통해 기업의 divestiture 신호에 대한 반응속도는 CEO의 organizational tenure, 기업의 과거 divestiture 경험, divested unit의 상대적 크기 및 이사회 독립 정도와 큰 관련이 있는 것을 증명하였다.

본 연구는 기존의 많은 divestiture 연구가 Transaction cost economics 또는 Agency theory 관점에서 많이 연구되어 있는 상황에서 organizational inertia 관점의 심리적인 이유들을 고려하였다는 점, finance research에서 널리 쓰이고 있는 “financial distress” 개념을 도입하여 divestiture 신호에 대한 반응속도를 측정하였다는 점, 그리고 단순히 과거에 인수하였다가 재매각하는 기업 뿐 아니라 그렇지 않은 기업들도 고려함으로써 divestiture sample의 폭을 넓혔다는 점 등에서 divestiture 연구에 공헌하였다.

주요어 : divestiture, seller responsiveness, organizational inertia

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