DIVESTITURES, VALUE CREATION, AND CORPORATE SCOPE.*

Elena Vidal
Zicklin School of Business
Baruch College, The City University of New York
Elena.Vidal@Baruch.CUNY.edu

Abstract

This paper exposes the relatively limited understanding we have of divestitures as a tool for corporate renewal. I argue that divestitures can be used by managers to generate slack in non-scale free resources, particularly managerial capacity, which are needed to support corporate renewal. I provide a review of the literature, using it to highlight the need for future research. In particular, this is a call for us to gain a better understanding of the drivers and consequences of divestitures and the different ways in which they can be implemented; moreover, this is a call to consider how divestitures are used either in combination or sequentially with other governance modes that affect corporate scope and can lead to corporate renewal, namely build, borrow, buy decisions.

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Divestitures, Value Creation and Corporate Scope.

For almost a century, scholars and practitioners have attempted to shed light on the decisions that influence the boundaries of the firm, focusing their attention on how firms can achieve and sustain organizational growth. Extensive work in corporate strategy has concentrated on the role that scope—the range of businesses a firm chooses to compete in (Chandler, 1962; Rumelt, 1982; Teece, 1982)—plays in organizations' growth and survival. Attention to the drivers and consequences of altering the scope via internal development, acquisitions, and alliances, or through a combination of different modes (Anand, Mulotte, and Ren, 2016; Anand and Singh, 1997; Bennett and Feldman, 2017; Lee and Madhavan, 2010) has recently begun to clarify how managers oversee these decisions (Feldman, *forthcoming*). Relatively fewer studies have looked at the role of divestitures and the part they play in corporate scope, thus leaving us with relatively less understanding of the antecedents and consequences of this corporate scope decision. This essay will highlight the extent to which we have a limited understanding of divestitures, provide a synthesis of the work done in this area, and provide avenues for future research investigating the role that divestitures have on corporate scope and renewal.

The strategic management literature offers numerous examinations of decisions related to corporate scope. Scholars in strategic management and finance as well as corporate strategy practitioners have long been interested in corporate scope decisions, both in terms of what drives organizations to alter their scope and how these changes in scope affect an organization's growth (Penrose, 1959) and ultimately performance (Montgomery, Thomas, and Kamath, 1984; Rumelt, 1982; Villalonga, 2004). The value creation of scope decisions comes from the capacity of corporate executives to monitor different businesses within their organizations and their ability to maintain, utilize, and allocate resources across these businesses (Chandler, 1991). This managerial capacity poses a constraint to organizational growth (Penrose, 1959), as it is a non-scale free resource needed to support scope renewal (Levinthal and Wu, 2010). As I will argue here, renewing corporate scope requires some slack in non-scale free managerial capacity, slack that can be readily generated through divestitures.

Strategic management scholars have long attempted to understand scope decisions and renewal. Table 1 provides descriptive statistics relating to articles on corporate strategy published in *Strategic Management Journal*—the core journal in strategic management—between 1980 and 2018. Of the 468 articles identified as related to corporate strategy (Feldman, *forthcoming*), 31.7% address corporate scope in general and a large portion primarily focused on ways to expand the scope of the firm, with 35.6% studying mergers and acquisitions and 24.8% alliances.[†] Most interestingly, however, only 37 out of 468 articles addressed the question of divestitures, a number that translates to less than 8% of all articles on corporate strategy.

***** Insert Table 1 About Here *****

In spite of the limited emphasis on them in the literature, practitioners frequently engage in divestitures as part of their decisions regarding corporate strategy. In 2016, global divestiture announcements totaled over $200 billion compared to $150 billion in 2014 (Deloitte, 2017a), showing a steady increase in this activity by practitioners. BCG, a leading consulting company, estimates that divestitures represented 48% of all transactions in 2013, compared to about 40% in the 1990s (Kengelbach, Roos, and Keienburg, 2014b). Investors have even changed their views on divestitures: in a survey conducted by BCG asking investors whether they believed firms'

[†] We follow Feldman (forthcoming) in identifying the following keywords (and variants thereof). Corporate scope includes corporate scope, scope, diversifi*, firm boundar*, and corporate strategy. Acquisitions include acqui*, M&A*, merg*. Alliances includes ally and allianc*. Divestitures include divest*, asset sale, spin-off, spinoff, sell-off, and selloff.

should pursue divestitures that aligned with their strategy, more than half were ambivalent to them in 2012, whereas by 2014 almost 80% thought firms should pursue divestitures (Kengelbach *et al.*, 2014b).

Industry-wide trends support these ideas. SDC Platinum, a Thomson Reuters database that is a leader in tracking global deals, recorded about 7,000 divestitures in 2002—that number had risen to 12,000 by 2012. Figure 1 plots the number of deals per year across all industries as reported by this database. The pattern is simple: companies are engaging in an increasing number of divestitures. Yet while trends in divestitures continue to identify poor performance as a driver for divesting, practitioners are starting to highlight the role that divesting plays in creating value. Indeed, it is an activity firms often engage in when attempting to improve the strategic fit of their portfolios, raising capital, and eliminating businesses with limited growth potential (Deloitte, 2017b). Investors also show support and even encourage firms to aggressively pursue divestitures when done for strategic reasons (Kengelbach *et al.*, 2014b).

***** Insert Figure 1 About Here *****

The combination of the rise of divestiture activity and the lack of emphasis scholars have placed on the role that this tool plays in corporate strategy underscores a gap in our understanding of corporate scope. In particular, this essay will shed light on divestitures as a core element of corporate strategy with a dual role: reducing the scope of firms and sustaining the expansion of scope. The goal of this approach is three-fold: first, to highlight the need for scholars to understand the role of divestitures in corporate scope. Second, to review the literature on divestitures and highlight what we know of their drivers and consequences, as well as the proposed mechanisms via which divestiture influences scope reduction. Third, since changes in corporate scope require resource slack, I will argue that divestitures are a tool that can be utilized to redeploy resources, creating the slack necessary to sustain expansion and altering the scope of the firm overall.

DIVESTITURES AND REDUCTION IN CORPORATE SCOPE

A core set of issues faced by management is to "set and oversee the scope" and to "coordinate how resources are utilized and deployed within the boundaries of their firms" (Feldman, *forthcoming*). As stated in the introduction, extensive work in this area has been done in the strategic management field, with about 40% of the articles published in *Strategic Management Journal* in the last few years relating to corporate strategy topics (Feldman, *forthcoming*), though less than 10% of these relate to divestitures. Figure 2 shows the number of articles published in *Strategic Management Journal* related to corporate strategy, averaging 19 articles per year since 1980 and a year-over-year growth of 16.5% in the number of articles. Divestitures, however, average a mere 1 article per year since 1980, increasing to 1.5 from 2000 onwards. Figure 3 plots the number of articles on divestitures published per year in *Strategic Management Journal*; even though there seems to be an exponential increase in the number of publications on divestitures, the actual number of articles published remains small (at most 5 per year) and we still know relatively little about the role divestitures play in corporate scope decisions, despite several calls to address this shortfall (Karim and Capron, 2016; Moschieri and Mair, 2008).

***** Insert Figures 2 and 3 About Here *****

Research on corporate scope has highlighted the benefits of reducing the scope of firms. Divestitures, defined as the sale, liquidation, or spinning-off of resources from an ongoing corporation, are a mechanism through which firms can alter their corporate scope. Prior work has looked at what drives firms to engage in divestitures (Brauer, 2006; Duhaime and Baird, 1987;

Duhaime and Grant, 1984) as well as their consequences (Lee and Madhavan, 2010; Vidal and Mitchell, 2018). A strong emphasis within this body of research has been the mechanisms through which divestitures can affect organizations by reducing scope, rendering benefits by allowing firms to refocus on their core operations, eliminate or reduce information asymmetries, and reduce the costs of managing multiple units.

First, by divesting and reducing scope, firms can regain focus in their core businesses, which can lead to improvements in profitability (Markides, 1995), particularly when the focus is on operations that match the CEO's industry experience (Huang, 2014). For firms with broad scope—e.g., conglomerates—research has shown that divestitures can lead to improvements in profitability (Love and Nohria, 2005; Markides, 1992a, 1992b), primarily for those firms that are able to reduce their scope and regain operational focus (Kose and Ofek, 1995). Many conglomerates that arose in the 1960s and 1970s through a series of acquisitions soon began showing inefficiencies as they sought to manage multi-businesses while continuing to diversify risk and enhance their growth. The divestitures that followed signaled the failure of this ongoing scope expansion. Ravenscraft and Scherer (1991) estimate that over 30% of these conglomerates' acquisitions were later divested, though that percentage is higher in cases where expansions in scope included acquisitions in unrelated industries (Kaplan and Weisbach, 1992; Porter, 1987). Even though firms can gain from refocusing, the process can also impose meaningful, though transitory, adjustment costs (de Figueiredo Jr, Feldman, and Rawley, 2019).

Second, reducing the scope of firms through divestitures can decrease information asymmetries between the organization and stakeholders, such as those that may arise between internal stakeholders—i.e., managers and owners—due to diversification in scope (Bergh, Johnson, and Dewitt, 2008). Divestitures can also reduce information asymmetries between a firm and external stakeholders, such as analysts, as the reduction in scope allows the latter to more effectively estimate forecasts (Feldman, 2016a; Feldman, Gilson, and Villalonga, 2014).

Third, reducing scope allows firms to decrease the costs of managing multiple units. While engaging in scope expansion, firms may have made strategic mistakes, preventing them from benefiting from expected synergies or value creation. For example, firms can benefit from divesting failed prior acquisitions (Kaplan and Weisbach, 1992; Porter, 1987), especially when top managers can argue that the poor performance of these units is not related to their skills or when the divestitures are arguably needed to improve overall firm performance (Hayward and Shimizu, 2006). Environmental conditions, such as increases in environmental uncertainty (Bergh and Lawless, 1998) and the firm not being in a position to benefit from economies of scope (Liebeskind, Opler, and Hatfield, 1996), may also alter the complexity of managing multiple units. Furthermore, reducing scope through divestitures can lead to improvements in internal governance (Haynes, Thompson, and Wright, 2002). For instance, by divesting, firms can improve the alignment of managerial incentives and make governance more effective (Chen and Feldman, 2018; Kaul, Nary, and Singh, 2018; Pathak, Hoskisson, and Johnson, 2014). As such, reducing scope via divestitures can reduce the complexity and therefore the costs of managing the remaining operations.

DIVESTITURES AND CORPORATE SCOPE RENEWAL

Less emphasis in the literature has been placed on how divestitures may help firms accomplish renewal in their scope, or at the very least alter their scope in ways that go beyond simple reduction. By divesting, firms can reallocate resources internally (Bower, 1970, 2017) and benefit from "intertemporal economies of scope" (Helfat and Eisenhardt, 2004), withdrawing resources from one business and redeploying them to other areas (Folta, Helfat, and Karim, 2016; Sakhartov and Folta, 2014). Diversified firms can reallocate resources to their most productive uses (Bergh and Holbein, 1997; Kengelbach *et al.*, 2014a), with divestitures becoming a critical tool to manage operations more effectively (Kaul, 2012) since they allow firms to improve internal labor markets (Ito, 1995) and give them a real option to potentially avoid external capital markets (Matsusaka and Nanda, 2002).

Professionals have advocated for divestitures to be assessed not only in terms of their role in reducing scope, but also as a tool to tackle opportunities and renew scope. Experts at Boston Consulting Group have indicated that divesting one line of business to support another, to raise financial resources to deleverage, or to invest in core resources is crucial to creating value, particularly while financial markets are strong (Kengelbach *et al.*, 2014a, 2014b). In spite of the insights that experts and practitioners have raised, scholars have yet to assess the extent to which these insights are generalizable, or how they relate to corporate strategy, corporate scope, and corporate renewal.

These issues and questions are not new. Drawing from the Resource Base Theory (RBT), organizations are considered to be bundles of resources, and the combination of these resources leads companies to obtain sustainable competitive advantages (Barney, 1991, 2001; Wernerfelt, 1984). Decisions about scope have been at the center of the discussion on RBT, with a particular emphasis on how firms can sustain growth in their resource base (Carroll and Karim, 2009; Karim, 2009; Karim and Mitchell, 2004; Penrose, 1959). This traditional focus on value creation and scope stems from a desire to understand how firms use multiple modes of reconfiguration—e.g., internal development, alliances, and/or acquisitions—to support corporate scope renewal (e.g., Anand *et al.*, 2016; Anand and Singh, 1997; Carroll and Karim, 2009; Folta *et al.*, 2016). However, firms' capacity to manage diverse operations is constrained by management's capacity to effectively make decisions.

Corporate executives serve an entrepreneurial role within the organization, creating value by monitoring the performance of the different businesses that make up a firm, determining strategies to maintain and utilize resources, and allocating resources—capital and managerial skills—to pursue various strategies and, when necessary, redefine the scope of the organization (Chandler, 1991). This allocation of resources is the essence of strategy (Bower, 1970), and it is a complex process. A crucial constraint on a firm's ability to expand, therefore, is its managerial capacity—the so called "Penrose effect" (Penrose, 1959).

Divestitures can allow firms to generate slack, particularly on non-scale free resources. Divesting can allow firms to transform non-scale free resources into liquid resources that can more easily be redeployed within the organization, for example turning physical plants and subsidiaries into financial assets (Brown, James, and Mooradian, 1994). By disposing of certain assets, firms can use the financial slack to repay debt (Shleifer and Vishny, 1992) or improve their financial standing more generally (Deloitte, 2017a; Lang, Poulsen, and Stulz, 1995). For diversified firms, divestitures can provide a way to improve their inefficient capital allocations and minimize the diversification discount they experience (Levinthal and Wu, 2010; Matsusaka, 2001; Villalonga, 2004). Financial slack can also allow firms to redeploy non-scale free resources to support other areas (Hamilton and Chow, 1993). Firms can transform operations that are not providing enough growth opportunities into financial resources to be reinvested in new opportunities (Joy, 2018a), such as pursuing new acquisitions (Vidal and Mitchell, 2018).

More importantly, divestitures are a critical way for firms to change their scope, and we can consider them to be complementary to the Penrose effect (Penrose, 1959; Vidal and Mitchell,

2018) in the sense that they can be used to generate slack in managerial capacity. Managerial capacity is a non-scale free resource: it faces opportunity costs and implies a choice about the use to which capacity will be allocated (Teece, 1982). As such, it needs to be carefully considered, since non-scale free resources constrain the growth opportunities of firms (Levinthal and Wu, 2010; Montgomery and Wernerfelt, 1988; Penrose, 1959). Any time a firm expands its scope, managers will be needed to support activities such as training new managers and implementing the expansion (Slater, 1980). Because of this, firms will face opportunity costs on their managerial capacity with regards to managers' more limited time and attention (Rosen, 1982). However, by divesting parts of the organization, corporate executives can generate slack in managerial capacity, allowing them to reallocate their attention to the remaining businesses and reevaluate new areas of corporate expansion. In other words, using divestiture to redefine a firm's scope does not necessarily imply a reduction, but rather an alteration that can lead to scope renewal.

Divestitures are not the only way for firms to generate slack in managerial capacity, or in other non-scale free resources. Firms can also hire new corporate executives and managers to expand their capacity. Larger teams of top managers can provide firms with benefits as they bring in more capabilities (Eisenhardt and Schoonhoven, 1990), and the capacity available to a team is the result of how many people comprise it (Hambrick and D'Aveni, 1988, 1992). However, larger teams have higher coordination and communication costs (Blau, 1970) and may take longer to reach consensus and make decisions (Thomas and Fink, 1963). Therefore, the benefits of expanding managerial slack by increasing the size of the top management team may come with higher costs for organizations, thus making divestitures an attractive alternative.

There may also be a timing factor, where firms may need to act quickly, and developing, training, or acquiring the managerial talent necessary to generate slack may not be in line with more immediate goals. In this sense, divesting allows a firm to generate slack in the short term, quickly redeploying it to other uses within the organization. Particularly when the need for slack is transitory, investing resources in the long-term development of managerial capacity may ultimately prove detrimental to the company.

Taking this view of divestitures as a governance mode aimed at the reallocation of resources can provide avenues for future research. In this view, divestitures are not simply the mirror image of acquisitions, but rather a tool that may complement other modes of resource reconfiguration and reallocation to support alterations of scope beyond reduction and including renewal.

FUTURE RESEARCH DIRECTIONS

A view of divestitures as a governance mode that supports firms' resource reallocation provides opportunities for future research at two levels: a micro level to understand the drivers and consequences of divestitures and a macro level to understand how divestitures can be a mode of reconfiguration when used as part of the portfolio of strategic activities for corporate renewal. There are a number of ways in which future research can prove useful to our better understanding of divestitures at both these levels.

Divestiture as a Solo Event: Micro-Level Drivers and Consequences

At a micro level, future research should continue to explore how divestitures effect scope when they are considered as solo events. First, we need to gain a better understanding of how divestitures truly alter the scope of the firm, both vertically as well as horizontally. In the former case, most existing work has focused on how firms use divestiture to reduce the scope of the organization (Huang, 2014; Kose and Ofek, 1995; Markides, 1992a); in the latter, scholars have highlighted how divestitures can be used to eliminate redundant resources within the firm (Kaul, 2012). To begin, one possible direction of future work would be to consider the process through which divestitures alter corporate scope and renewal. For instance, seen through the lens of resource redeployment, divestitures have the potential to temporarily free managerial capacity and other non-scale free resources, yet we know little about how those resources are subsequently reinvested within the organization. Some research has shown that diversified firms tend to have more inefficient internal capital allocations than external capital allocations(Flickinger, 2009; Gertner, Powers, and Scharfstein, 2002; Scharfstein and Stein, 2000), as well as misalignments in managerial incentives (Feldman, 2016b). Therefore, we still need more research to help us gain a better understanding on how the managerial slack freed by divesting is reallocated within the organization.

Second, we need new work to identify the external drivers that affect the need for managerial slack required for corporate renewal. For instance, we know little on the role the environment plays on divestiture activity, particularly for firms that are managerially constrained. In this sense, we need to shed light on how managers may react to industry patterns (Brauer and Wiersema, 2012) when their capacity is constrained, and the short and long term consequences these decisions may have on scope. Similarly, we need more research highlighting how changes in the institutional environment may further constrain managerial capacity, making divestitures perhaps appealing as an alternative way to alter scope. Furthermore, temporal trends may push firms to engage in divestitures to legitimize managers' corporate actions (Flickinger and Zschoche, 2018), and diversification may be valued differently at different times. While some studies have touched on these factors, we still need to gain deeper insight into what drives firms to engage in divestitures and the contingencies that may influence these choices.

Third, what is the role that internal factors may play when a firm needs to generate managerial slack as part of efforts to alter or renew scope? For example, in diversified firms, structure has been shown to influence corporate strategic decisions and the ability of executives to effectively manage the organization (Chandler, 1962, 1991), in particular when undertaking activities such as reorganizations (Raveendran, 2020). Structure and structure complexity influence the extent to which managerial capacity may be altered, or how easily or not it is to redeploy it within the organization. Therefore, structure and structural complexity also influence the extent to which divestitures may be needed to generate slack in efforts to alter scope. Moreover, organizational structure may create different managerial capacity constraints for different organizations, and this may be particularly relevant in the execution of the divestiture and its aftermath. Structure may cause varying degrees of adjustment costs (de Figueiredo Jr *et al.*, 2019) and coordination costs post-divestiture, which may hinder the extent to which a firm can benefit from the managerial slack generated by a divestiture. For instance, we know little about how firms deal with post-divestiture costs such as transaction service agreements—contracts whereby the divesting firm agrees to provide services to the acquirer for a certain number of months or even years after completing the transaction. These post-divestiture costs are usually not heavily considered when managers make the decision to divest, but they can have long-term consequences and pose risks for the divesting firms (Joy, 2018b).

Fourth, we need more work to identify different types of divestiture strategies. There are many different ways to implement divestitures, and the choice of which to pursue is not random. What are the conditions under which firms opt to pursue different types of divestitures, such as equity carve-outs, sell-offs, spin-offs, minority stake sales or majority stake sales? Given that they differ in the extent to which managerial slack is generated, what are the consequences these choices may have on scope renewal? Researchers have begun to disentangle the drivers of these different types of divestitures; for example, Vidal and Mitchell (2015) find that prior performance may lead to different patterns of divestitures, with struggling firms more likely to pursue a higher rate of divestitures of entire lines of business—a reduction in scope—whereas strong firms are more likely to fine-tune operations by relying on the divestiture of partial units. Bergh, Johnson, and Dewitt (2008) show that spin-offs are used when firms are attempting to eliminate information asymmetries from related businesses, whereas sell-offs are better suited to disposing of peripheral units. Work in corporate finance has also tackled this question, highlighting differences across different types of divestitures, including carve-outs, spin-offs, and sell-offs (Slovin, Sushka, and Ferraro, 1995). Corredor and Mahoney (*forthcoming*) attempt to disentangle the drivers and consequences of pursuing carve-outs and spin-outs and call for future research in divestiture governance modes. Along this line of thought, the question of when to divest vs. when to pursue a turnaround strategy is crucial. In a forthcoming paper, Harrigan and Wing (*forthcoming*) ask, "What is the role that managerial slack may play in a firm's capacity to turn a business around?" I join them in this call, and push for added research to show both how each of these divestiture governance modes may alter scope by providing mechanisms to free varying levels of managerial capacity and the consequences that they may have for how those freed resources are redeployed within the corporation.

Last, what drives the choice of the resource to be divested? Research looking at expanding the scope of firms has thus far studied how firms choose which resources, capabilities (Mitchell and Shaver, 2003), and markets (Martin, Swaminathan, and Tihanyi, 2007) to expand into. However, research on divestitures has been less nuanced, with the focus primarily on whether the resources divested are core or peripheral to the organization (Bergh, 1995, 1997). We need to expand beyond this dichotomy and gain a better understanding of what drives a firm's choice of which resources to divest and the consequences of that choice for the ongoing corporation in terms of its scope as well as innovation and performance.

Divestitures as Part of a Portfolio of Governance Modes: Macro-level Drivers and Consequences

The role that divestitures play in corporate renewal should also be studied in a larger context. Divestitures are rarely isolated or independent managerial decisions. Rather, they are a response to an evaluation of the portfolio of businesses that a company operates (Bergh and Lawless, 1998; Chandler, 1962). As firms alter their scope, some areas may become relatively less profitable, either because of changes in the industry of the particular unit, or because operations have shifted to areas with higher yields. Indeed, managers tend to think of divestitures not as the opposite of mergers and acquisitions, but as complex transactions that allow them to maximize shareholder value (Joy, 2018a).

To provide context for how firms use these tools, I obtained data from SDC Platinum tracking all divestitures and acquisitions pursued by firms operating in the pharmaceutical industry between 1985 and 2017. As Table 2 shows, of the 1,730 public firms operating in this industry during this time, about 48% performed either an acquisition or a divestiture, showcasing how the market for corporate control is quite active in this industry. More strikingly, 359 firms (20.8% of the total number) conducted both acquisitions and divestitures.

***** Insert Table 2 About Here *****

Table 3 provides an overview of patterns of divestiture and acquisition activities by pharmaceutical firms over time. On average, there are about 186.6 yearly acquisitions and divestitures. Of these, the average number of divestitures done in isolation (i.e., not done along with an acquisition) is 10.6 events per year; this represents an average 5.7% of the yearly deals. In comparison, acquisitions done without divestitures are much more common, averaging 100 deals per year, or about 56% of all deals. More striking, however, is that, on average, 38% of yearly events involve both acquisitions and divestitures. This provides some preliminary evidence suggesting that managers may use multiple governance modes to engage in decisions potentially altering the scope of the firm; in other words, firms may execute changes in scope both via acquisitions and divestitures, quite often within the same year.

***** Insert Table 3 About Here *****

Divestitures that are linked to overall corporate scope decisions are valued, and firms that undertake them are not simply engaging in sales of units that are not aligned with their growth goals or that are otherwise unwanted (Montgomery *et al.*, 1984). In some circumstances, decisions to alter scope may not be implemented by using a single governance mode. Instead, they may often involve the need to rely on multiple modes—Figures 4 and 5 further highlight how frequently firms pursue acquisitions and divestitures concurrently. This evidence suggests that we, as scholars, must work to understand divestitures as part of a complex decision process with an overall impact on scope. We have, at this point in time, only a limited understanding on the role that they play in the larger context of other governance modes.

First, we need to gain a better understanding of how firms use different modes of governance: What are the conditions under which some firms will engage in multiple modes of governance as compared to a solo one? Some research has looked at acquisitions as an interdependent series of events or program over long periods of time (Laamanen and Keil, 2008), pairing these cycles with periods of organizational restructuring (Barkema and Schijven, 2008). With regards to scope, some acquirers may not have the skills necessary to manage unrelated businesses, and hence may rely more heavily on divestitures (Maksimovic, Phillips, and Prabhala, 2011). In industries such as pharmaceuticals, divestitures are increasingly being used within the same year as acquisitions, a trend evidenced by Figure 4. In the early 1990s, pursuing acquisitions and divestitures in the same year was rare— there were only a few cases—yet over 100 such instances occurred by the early 2000s. In fact, as Figure 5 shows, it is much rarer for firms to pursue only divestitures in a given year than it is for firms to engage in both acquisitions and divestitures. In this view, we need to gain a better understanding of the constraints that managerial capacity may create when firms are planning on renewing their scope through internal sources or through external ones (e.g., acquisitions) and the role that divestitures can play to support scope decisions.

***** Insert Figures 4 and 5 About Here *****

Second, we need to build a more comprehensive view of firms' pools of governance modes and how they interact. Research has made strides looking at build, borrow, buy decisions and how they are used not in isolation but in combination as part of a portfolio of strategic alternatives (Capron and Mitchell, 2012; Castañer *et al.*, 2014; Jacobides and Billinger, 2006; Lungeanu, Stern, and Zajac, 2015). In this view, divestitures can become a way to support subsequent changes in scope when used in sequence along with other modes of governance. Given that divestitures can generate temporary managerial slack, they can allow for timely reinvestment of non-scale free resource in other opportunities. So how is managerial capacity redeployed? For instance, a firm may redeploy slack in managerial capacity created through spin-offs into pursuing acquisitions (Bennett and Feldman, 2017). New research is needed to incorporate the role that sequential and concurrent divestitures play into existing understandings of build, borrow, buy activities.

Third, we need to understand the consequences when divestitures are used sequentially with other governance modes. If divestitures antecede acquisitions, generating slack needed to support ongoing growth and expansion by freeing managerial attention (Bennett and Feldman, 2017) or financial resources (Joy, 2018a), or by increasing slack to appropriate new resources elsewhere in the organization (Moschieri and Mair, 2008), then what is the impact on corporate renewal? The sequential use of multiple modes of reconfiguration that include divestitures may enhance the innovation capacity of the divesting firm as well as the divested unit (Moschieri, 2010; Moschieri and Mair, 2011). If we wish to gain a better sense of how organizations change and renew their scope, we need to shed more light on how divestitures, when used alongside other governance modes, may affect corporate renewal through expansion into new areas.

Answering this call to study divestitures from both a micro and macro perspective will require multiple empirical strategies. Qualitative work is needed to explore the mechanisms and processes of divesting, as well as the different choices available in executing divestitures. Quantitatively, we must disentangle the drivers and consequences of divestiture and their different implementation modes; with data available, the field will benefit from gaining a better, more in-depth understanding of divestitures as a mode of governance used both in isolation and jointly with others as a tool for scope renewal.

DISCUSSION AND CONCLUSION

There are considerable opportunities for future research in the area of divestitures and scope. First, scholars should pay closer attention to divestitures and how they influence scope decisions. Second, there is a need for studies to consider divestitures as value-creating tools through which firms can loosen constraints on non-scale free resources, in particular financial assets and managerial capacity. Last, we must gain a better understanding of how divestitures are a tool used in combination with other modes of reconfiguration to restructure the scope of the organization.

Practitioners are actively pursuing divestitures—they represent almost half of yearly transactions—yet only 8% of corporate strategy articles published in strategic management's core journal discuss them. There are still many unanswered questions regarding the role that divestitures play in operational scope, particularly when it comes to our understanding of how they are used as a tool to create value by freeing non-scale free resources such as capital and managerial capacity. How do firms select the resources they are going to dispose of through divestitures? How does this choice vary based on external environmental factors such as uncertainty, or internal factors such as financial performance? The emphasis so far has been placed on whether the divested resource was or was not previously acquired, or how related the resource is to the "core" of the organization. However, managers are now defining core not just along the lines of relatedness, but also with regards to the growth opportunities that businesses bring to the table. Thus, we need to focus on the drivers of divestitures, as well as the selection of what assets firms choose to dispose of, and the overall impact these decisions will have on scope.

Following this line of thought, the goal is to view divestitures as an opportunity for firms to free themselves from the constraints imposed by non-scale free resources, particularly capital and managerial capacity. As firms strive to achieve and sustain growth, pruning is critical to maintain efficient capital allocation. Perhaps more importantly, managers' time and attention are limited, and the opportunity cost of investing these resources in low-growth businesses may hinder the long-term value of the organization. Scholars must therefore work to understand the process of implementing divestiture strategies. How do organizations go about carving parts off of the organization to support growth? And how do different implementation plans for divestitures impact the organization? For example, Corredor and Mahoney (*forthcoming*) suggest that divesting's impact on innovation for both the firm and the unit will vary based on whether a divestiture is a spin-off or carve-out. If practitioners and scholars suggest that disposing of smaller parts of the organization can create more value (Deloitte, 2017a; Vidal and Mitchell, 2015), how do firms choose among different implementation plans and what impact do these plans have on scope and performance?

However, the most critical question remains: What are the conditions under which divestitures can create value for organizations?

If scholars, practitioners, investors, and analysts, among other stakeholders, are focused on how firms change the scope of the organization to achieve and sustain growth, we need to focus on the conditions under which value can be created by using divestitures in support of these goals. Divestitures logically follow acquisitions to reconfigure and redeploy resources and eliminate inefficiencies and unwanted or obsolete businesses, and they can also precede acquisitions as a way of freeing the managerial capabilities and financial resources needed to support expansion. However, the evidence provided here shows that decisions about acquisitions and divestitures are not separate events, but rather both activities are part of firms' overall plans to adjust their scope. Yet this relationship with acquisitions is the least understood area of divestitures. They are not the counterpart of acquisitions; they are in some cases used complementarily with acquisitions, alliances, and internal development to support growth, fine tune scope, and ultimately create shareholder value.

Divestitures can be considered a complementary tool to the buy, borrow, or build dilemma firms face as they try to achieve and sustain growth (Capron and Mitchell, 2012). In this case, divestiture plans can be considered as part of the toolkit available to firms, and research could focus on further understanding the conditions under which they are used as a standalone strategy versus those that are in play when they are used in combination with an ongoing set of decisions about internal development, alliances, and acquisitions as tools that affect the evolution of corporate scope.

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Table 1. Published Articles by Category in *Strategic Management Journal*, 1980–2018.

	No. of Articles
Corporate Scope	148
Acquisitions	166
Alliances	116
Divestitures	37
Total	467

Table 2. Firms Involved in Corporate Scope Activities

Firm Type	No. of Firms	% of Firms	Cumulative %
Acquirer only	224	12.95	12.95
Divester only	251	14.51	27.46
Acquirer & Divester	359	20.75	48.21
None	896	51.79	100.00
Total	1,730	100.00	

Table 3. Acquisitions and Divestitures Used by Pharmaceutical Firms, 1985–2017

Year	Acquisitions		Divestitures		Both		Total Events
	Count	Pct. of Total	Count	Pct. of Total	Count	Pct. of Total	
1985	17	60.7%	1	3.6%	10	35.7%	28
1986	42	67.7%	4	6.5%	16	25.8%	62
1987	38	74.5%	4	7.8%	9	17.6%	51
1988	29	80.6%	3	8.3%	4	11.1%	36
1989	43	78.2%	4	7.3%	8	14.5%	55
1990	27	31.4%	8	9.3%	51	59.3%	86
1991	91	63.2%	3	2.1%	50	34.7%	144
1992	102	68.9%	10	6.8%	36	24.3%	148
1993	93	68.9%	3	2.2%	39	28.9%	135
1994	93	62.0%	3	2.0%	54	36.0%	150
1995	108	54.8%	2	1.0%	87	44.2%	197
1996	122	61.6%	11	5.6%	65	32.8%	198
1997	132	68.0%	9	4.6%	53	27.3%	194
1998	125	53.0%	6	2.5%	105	44.5%	236
1999	128	54.9%	13	5.6%	92	39.5%	233
2000	138	58.5%	9	3.8%	89	37.7%	236
2001	120	45.6%	10	3.8%	133	50.6%	263
2002	92	46.5%	19	9.6%	87	43.9%	198
2003	155	62.8%	22	8.9%	70	28.3%	247
2004	147	52.1%	20	7.1%	115	40.8%	282
2005	119	43.9%	23	8.5%	129	47.6%	271
2006	118	43.5%	22	8.1%	131	48.3%	271
2007	125	42.7%	28	9.6%	140	47.8%	293
2008	89	38.9%	22	9.6%	118	51.5%	229
2009	108	44.1%	12	4.9%	125	51.0%	245
2010	89	45.2%	10	5.1%	98	49.7%	197
2011	100	43.9%	4	1.8%	124	54.4%	228
2012	92	49.7%	7	3.8%	86	46.5%	185
2013	122	71.8%	15	8.8%	33	19.4%	170
2014	110	51.9%	7	3.3%	95	44.8%	212
2015	171	58.2%	14	4.8%	109	37.1%	294
2016	127	60.2%	7	3.3%	77	36.5%	211
2017	87	50.0%	14	8.0%	73	42.0%	174
Average	**100.0**	**56.3%**	**10.6**	**5.7%**	**76.1**	**38.0%**	**186.6**

Figure 1. Number of Divestiture Events per Year

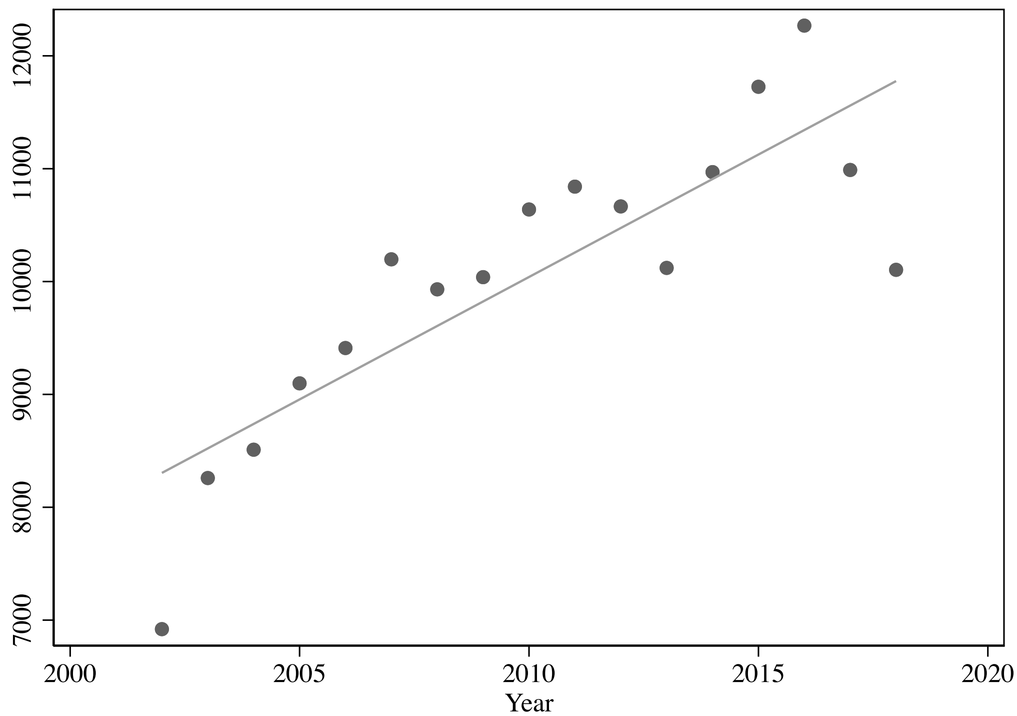

Figure 2. Articles Published on Corporate Strategy by Year

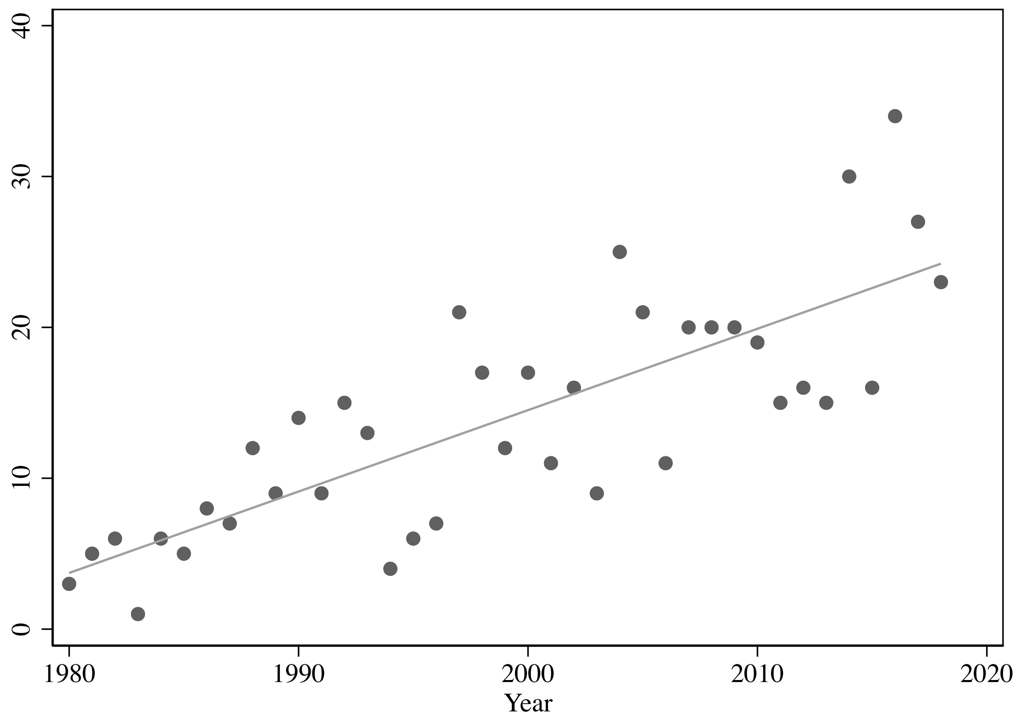

Figure 3. Number of Divestiture Articles Published by Year

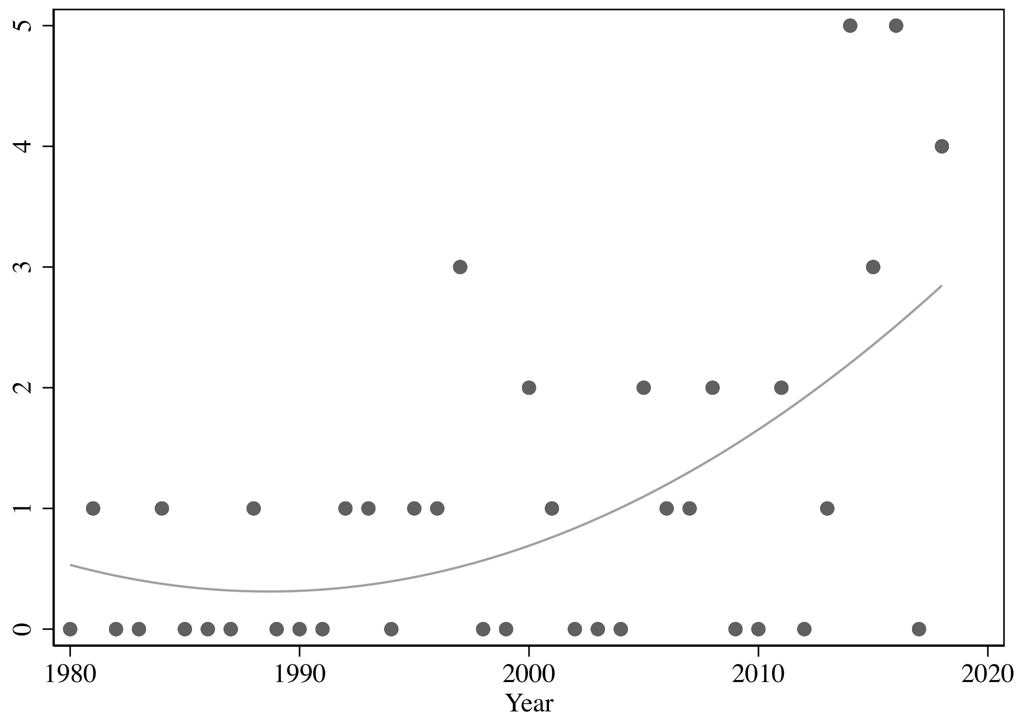

Figure 4. Number of Concurrent Acquisitions and Divestitures per Year – Pharmaceutical Industry

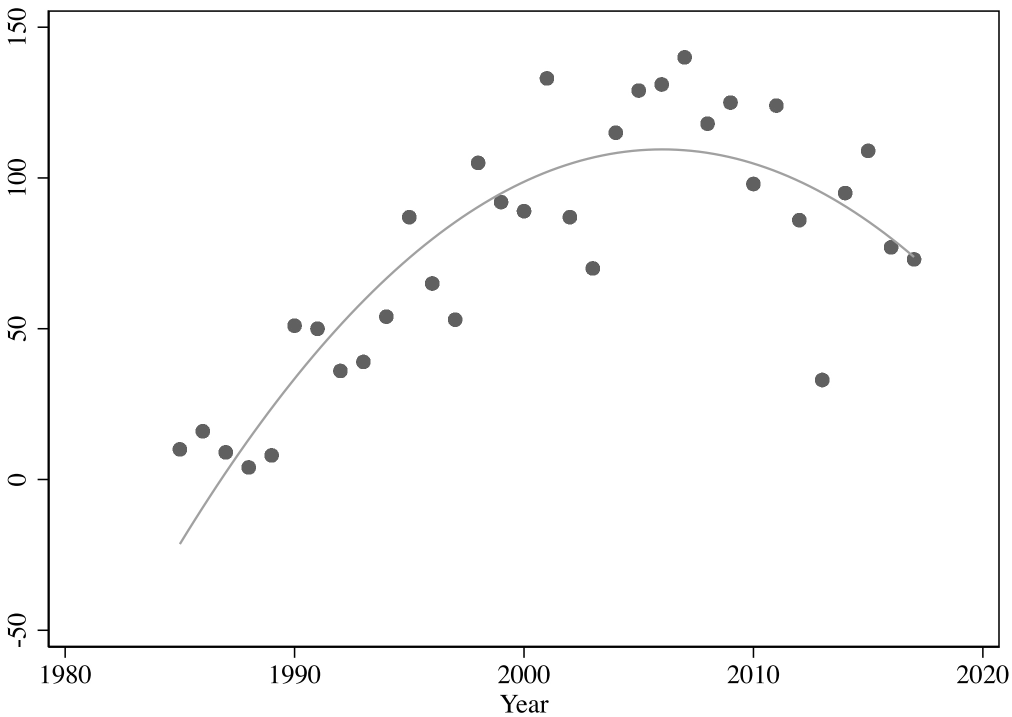

Figure 5. Comparison of Acquisitions, Divestitures, and Concurrent Acquisitions and Divestitures per Year – Pharmaceutical Industry