THE IMPLEMENTATION AND STRUCTURING OF DIVESTITURES:

THE UNIT'S PERSPECTIVE

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ABSTRACT

Existing literature on value creation of divestitures focuses on the antecedents of divestitures, typically relating them to the parent company's financial performance. Whether and how divestitures can create value for the divested unit remains unexplored. This study presents an exploratory study based on multiple cases, to examine which factors of the implementation and structuring of a divestiture may increase the performance of a divested unit. The emergent granular framework consists of previously unreported aspects of the divesting process and provides new insights into divestitures and their outcomes. Results indicate that antecedents alone may be insufficient for understanding the outcomes of divestitures. Sense of opportunity emerges as the key element of the divesting process for the success of divested units. Different combinations of understanding and perceived capabilities in the divesting process affect the perception of feasibility of the operation and the success of the divested unit. Factors that concur with sense of opportunity in determining the success of divested units are further considered in the theoretical framework.

KEYWORDS: Case study, Divestiture, Restructuring, Process, Spin-off.

INTRODUCTION

A company undertakes a divestiture when it disposes of or sells a business-unit. In the last three decades, divestitures have become increasingly common operations. We know that companies undertake a divestiture to improve their strategic, organizational, and financial performance (Hite and Owers, 1983; Johnson, 1996; Miles and Rosenfeld, 1983; Montgomery *et al.*, 1984; Schipper and Smith, 1986), to extend the frontiers of their corporate capabilities, and to discover additional synergies (Burgelman, 1983). Previous studies in corporate finance suggest that, with a divestiture, a company can maximize the firm's equity value, i.e. the sum of the equity values of the parent and the divested unit, and that this sum will be greater than the value of the joint organization in the absence of a divestiture (Chemmanur and Yan, 2004).

In existing literature, the dominant theoretical arguments for explaining the value creation of divestitures tend to focus on the antecedents of divestitures and relate them to the financial performance of the parent company (for a review see Brauer (2006)). According to agency theory, the benefits of divestitures spawn from a reduction in diversification (Amihud and Lev, 1981; Bethel and Liebeskind, 1993). Highly diversified companies can dominate standard principal-agent contracts (Aron, 1991) by using divestitures to help achieve the delegation of formal authority (Baker *et al.*, 1999) and expand managerial discretion (Wright *et al.*, 2000).

However, the understanding of divestitures still needs theoretical development (Corley and Gioia, 2004). Previous studies provide only a partial view of the effects of divestitures on the divested unit (with a few exceptions, such as Woo, Willard, and Daellenbach (1992)), or the effects of the implementation and structuring of a divestiture – including external marketing, unit manager's collaboration and internal communication (Gopinath and Becker, 2000; Nees, 1981) –

on the outcome of the operation. Although the success of corporate strategies typically depends on the effectiveness of their implementation(Bergh *et al.*, 2008; Chandler, 1962; Hrebiniak and Joyce, 1984), scholars have so far devoted scant attention to the study of the divesting process.

This study addresses these gaps by focusing on the structuring and implementation of divestitures and on the performance of divested units. Understanding whether the performance of a unit increases post-divestiture can also provide an explanation to the objectives pursued by the divesting parent. The increase in the firm's total equity value (Chemmanur and Yan, 2004) could also derive from an increase in the unit's performance post-divestiture. Gaining insights into the process by which companies manage and structure the divestiture of a unit can provide deeper theoretical understanding of divestitures in general. This study examines the economic performance of the divested unit and disaggregates the antecedent-outcome nexus of divestitures to focus on the intervening factors at process level: how are divestitures implemented and structured? And do the implementation and structuring of a divestiture influence the performance of the unit post-divestiture?

Given the limits of previous research, I conduct an exploratory study entailing fine-grained methodologies in the form of intensive case studies. Case studies are well suited for this type of research, because they can address questions about the process, context, and customization of change strategies that lead to sustainable performance (Pettigrew *et al.*, 2001). My data include 12 companies: six parent companies plus six divested units. Within these cases, I look at the aspects that characterize well performing and under performing divested units. From the comparison of each group of divestitures emerges a detailed picture of the key influences at process level affecting the performance of divested units.

Results suggest that the antecedents of a divestiture, such as the unit's characteristics, are important for the unit's performance post-divestiture. Yet, they are neither the only reason nor the most important one for the success of the operation. Divested units are more likely to be successful if unit managers see the operation as an opportunity. Sense of opportunity is a collective state wherein organizational members see the change as beneficial to them because it offers opportunities not available within the parent's structure. It moderates the effect of process factors – such as managerial involvement through a special task force and ad hoc incentives, and the setting up of the unit as an independent company – on the performance of the unit post-divestiture. The results of this study suggest that two factors are particularly important for the development of sense of opportunity: understanding of the divestiture and perception of capabilities in the divested unit. These factors refer respectively to the unit managers' understanding of the reasons for the divestiture and to their perception of the fact that they have the means for managing the new company. If these factors develop in the divesting process, the divestiture is likely to be perceived as an opportunity and the unit will be successful as a standalone company. On the contrary, if these factors do not develop in the divesting process, the divestiture may be perceived as abandonment or as a challenge instead of an opportunity.

Managing a divestiture is not an homogeneous process. Likewise, managerial involvement and unit independence are not a one-size-fits-all solution, but can vary in type and amount, spawning different combinations of understanding and perceived capabilities. This variation may generate different assessments of the feasibility of the divestiture, which, in turn, affects the development of sense of opportunity and hence the success of the divested unit.

This study expands current theoretical explanations of divestitures by indicating that the antecedents of divestitures themselves may be insufficient for understanding the outcomes of such operations – including their economic implications – and that some intervening implementation factors also matter. The relationship between divestitures and the unit's performance is clarified and deepened by accounting for how divestitures are conducted. Overall, the picture that emerges from this study is one of companies simultaneously and continuously balancing several considerations when divesting a unit. In successful divestitures, companies seek to ensure understanding and acceptance of the operation. During the divesting process, they perform actions meant to convey a credible commitment to the parties affected by the change. These efforts bring internal motivation and identification, and external legitimacy for the unit as a new, independent company.

This study is organized as follows. I first describe the research method and the data. Then, I present, analyze, and interpret the data. Finally, I discuss the results and propose some broader contributions of the paper.

METHODS

In order to formulate an inductive model of how the implementation and structuring of divestitures may affect the performance of a divested unit, this study utilizes case data to zoom in on the divesting process. Inductive methods based on multiple-case studies are well suited to the study of longitudinal processes over time (Eisenhardt, 1989; Santos and Eisenhardt, 2008) and the introduction of performance outcomes in process studies builds an anchor to this type of research (Pettigrew et al., 2001).

This study uses an inductive, multiple-case, embedded design to understand the divesting process. Prior work on divesting decisions also uses this methodology (see for example Duhaime & Grant, 1984). Moreover, multiple cases enable a replication logic in which each case serves to confirm or disconfirm the inferences drawn from the others (Yin, 2003). A multiple-case study typically results in better-grounded and more general theory than a single case (Eisenhardt, 1989; Glaser and Strauss, 1967). I also employ an embedded design with three units of analysis (Yin, 2003). This includes the parent firm, the divested unit, and their relationship. Embedded designs allow the development of rich theories because they uncover aspects of a phenomenon that occur at multiple levels.

The research setting is comprised of multinational, multi-business companies that undertook a divestiture during the last decade. This setting is particularly attractive because divestitures happened frequently over this period. Furthermore, because it is recent, data collection is more detailed and accurate.

Case selection

The research sample consists of six divestitures that took place between 1999 and 2005. These cases were chosen according to four criteria. First of all, the divestitures were voluntary, i.e. not forced by governments or by changes in the legislation. An involuntary divestiture is normally a reaction to legal and/or regulatory difficulties (Hite and Owers, 1983; Montgomery *et al.*, 1984; Vijh, 2002). By contrast, a company may voluntarily decide to divest part of its business for strategic, financial or organizational reasons. For this study, I selected only voluntary divestitures in order to understand the strategic implications, the reasons behind, and the outcomes of divestitures.

A second criterion was that the divesting operation had been finalized and the ensuing processes were traceable for at least two years after its conclusion. To truly understand the outcomes, it was important to follow the life of the unit after a divestiture. I compared the six divested units two years after the conclusion of the operation in order to understand how and which process factors affected the performance of the divested unit.

Third, the parent companies were operating in a number of different industries. Specifically, as shown in Table 1, Scout, Pressed, and High in high-technology, Imitator in telecommunications, TruckCo in transportation, and ProductCo in metal works (product development). This variance in the sample allows controlling for possible industry biases and facilitates generalizability. To rule out possible increases or decreases in performance due to booms or busts in a specific industry, I compared the performance of each divested unit with a sample of peers provided by public sources (e.g. Reuters, Thomson One Banker).

Finally, all the divested units were operating as independent companies on the market post-divestiture. This means that I did not analyze any divestiture where the unit was sold by the parent company to a third party (sell-offs), and allowed comparisons across recurrent characteristics typical of these divestitures, such as managerial discretion. An advantage of the cases analyzed is that these particular divestitures are not pure divesting forms. As shown in Table 2, they have elements of a buyout together with elements of a spin-off or a carve-out. Previous empirical literature has relied mostly on public datasets that categorized divestitures as "pure forms" – that is spin-offs only (distribution of 100% of the unit's shares to the parent's shareholders) – or carve-outs only (100% IPO of the unit's shares). Because it does not rely on such pre-classified databases, this study can analyze mixed forms of divestitures. For example, Talent is structured as a carve-out, but its managers retain a role that is typical of management buyouts as they own 50% of the new company. The analysis of different divesting modes allows one to see which factors of the divesting process are equal across different types of divestitures. At the same time, I can compare the six cases across recurrent characteristics, such as managers' ownership and analysts' pressure.

Case description

I first selected twenty companies that met the criteria discussed above and that could also be contacted through institutional or personal relationships. Of these companies, eight agreed to participate. However, at an early stage of the interview process, two decided to drop out of the study, because they believed that the issues discussed were too sensitive and confidential. This was not surprising as divestitures are often associated with failure, may reflect strategic choices, and might be used as an indicator of future strategic directions (Duhaime and Grant, 1984; Porter, 1987). The final sample consisted of six companies, Scout, TruckCo, Imitator, Pressed, High, and ProductCo, each of which undertook a voluntary divestiture. All the divested units were operating as independent companies on the market post-divestiture and had elements of a buyout together with elements of a spin-off or a carve-out.

Scout is a world-leading high-tech company. In 2001, it needed to develop a new product very quickly and feared that this would not be possible under its bureaucratic structure. Therefore, it decided to divest Talent. The new company would have one specific goal: the timely development of this one product. Scout involved a selected group of Talent employees and managers in the operation right from the beginning. They decided whether to join the divested unit and could participate in structuring the new company. The divestiture gave them the opportunity to work in a more entrepreneurial company, with a more dynamic culture, and to earn higher salaries and accelerate their career. One year after the divestiture, Talent had already achieved its objectives, i.e. it had developed the intended product.

TruckCo is a private medium-sized company in the logistics industry. In 2004, its owners wanted to sell it. Its managers did not want it sold and managed to convince the owners to postpone the sale. They hoped that they could instead buy the company themselves and started looking for the capital to do it. TruckCo managers believed that “the company has great potential” and that the buyout was a unique opportunity for them to grow their company, enter foreign markets, increase their range of products, and increase the company’s value. They found a venture capitalist to sponsor them and purchased TruckCo. Four years after the operation, the new company, LogiCo, was worth almost five times more than when it was divested.

Imitator is a world leading telecommunication company. In 1999, during the Internet boom, it wanted to sell Focus, its internet division, because at the time its value was very high. "Everybody else is going public, and with impressive growth" (Focus manager). However, Focus's managers were not involved in the divesting process. The operation was not structured with a clear strategy and Focus had no specific objectives, other than becoming a leader in the Internet industry. The new company was designed to be a replica of its parent. Imitator remained Focus's major client. Two years after the divestiture, Focus was performing very badly and had not yet gained a strong position in the Internet industry.

Pressed is a world leading high-tech company. In 2004, it was receiving a huge amount of pressure from institutional investors to undertake a divestiture. Offspring, the chip production unit, was to be divested, because it accounted for a major share of the losses of the company as a whole, and "because the chip production has a much higher beta than the rest of the company" (Pressed Director). The objectives and capabilities of Offspring were clearly specified from the beginning. Offspring would focus on the production and commercialization of chips. With the divestiture, Offspring was set up to be an independent company on the market. Pressed eased the separation of the unit by structuring the operation as a two-step spin-off, divesting at first only 50% of the unit, and after six months the remaining 50%. Overall the divestiture forced the new company "to come out much more dynamic, looking at the market, understanding where the opportunities are and developing the chips there" (Pressed Director). Offspring created a new commercial network and was showing a positive performance post-divestiture.

High is a leading high-technology company. At the end of the 90s it decided to invest in products that would provide higher margins than its current main activities. Therefore, it decided to divest the semi-conductor division, which was divested under the name Next. Next was set up as an independent company over which High retained 20% ownership and certain commercial agreements. Next could also use High's brand for some years in order to give it legitimacy in the market and smooth the separation process. As a standalone company, Next managed to gain a good position in the market and maintain satisfactory performance.

ProductCo is a medium-sized multinational company that processes metals and develops metal-based products. At the beginning of 2000, it decided to restructure its operations and to separate the metal works from the product development. All product development activities were transferred to ProductCo, while the unit, MetalCo, would focus solely on lower margin activities such as metal works. As a result of this strategy, in 2004 MetalCo started performing badly and ProductCo divested it. MetalCo fell under the law for turnaround management. Under the new management, MetalCo "turned back the clock, made the unit one of the attractive businesses of our company. We couldn't have done it without the divestiture" (ProductCo CEO). After the divestiture, MetalCo showed a steady performance, although it was not out-performing its major competitors.

Data collection

Data were gathered through semi-structured interviews with individual respondents, between September 2005 and May 2007. I selected participants who had personally experienced the divestiture and stayed with either the parent or the divested unit afterwards in order to have narrative continuity both before and after the operation. Interviews were conducted in person, and, when this was not possible, over the phone, always using an interview guideline. On average they lasted 60 minutes and were recorded whenever possible. Detailed notes were taken during the interviews and typically transcribed within 24 hours.

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Insert Table 1 about here

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I triangulated the data gathered through the personal interviews in two ways (Eisenhardt, 1989; Yin, 2003). First, for each divestiture I interviewed individuals at two levels: those who worked in the parent company and those who worked in the divested unit. This allowed me to juxtapose and compare stories and impressions between informants in the divested unit and informants in the parent. I asked about the situation before the divestiture and about the divesting process. I requested the informants to first tell their history with the company and then, if applicable, with the unit and only afterwards to provide their opinions about the divestiture. To minimize changes in respondents' perceptions, this study relies on several respondents per company, who were interviewed at different times, spreading the interviews within the same company over several months and contacting the respondents more than once during this period.

Secondly, the interview data were double checked using secondary sources, such as archival data, press releases, corporate documents, and analysts' reports. I also interviewed industry experts in order to have an external and broader perspective of the events. This helped in understanding the industry trends and the competitive landscapes of the focal companies. Such a strategy, and specifically the presence of three different types of informants – at unit level, parent level, and external to either company – mitigated potential subject biases (Miller *et al.*, 1997) and minimized cognitive biases and impressions in retrospective data collection (Huber and Power, 1985). Respondents occupied different functional and hierarchical positions, thus providing a richer range of perspectives and helping to develop a more elaborated theory (Schwenk, 1985). The Appendix presents some extracts from individual interviews.

Overall, this study relies on 33 individual respondents, including six field experts and three speakers in public presentations, for a total of 43 interviews (36 from direct respondents and seven public speeches). Table 2 and Table 3 provide a description of the companies and of the interviews conducted there. Names are fictitious and numbers are rounded to guarantee anonymity to the respondents. To make sure I captured the reasons behind the operation and the divesting process, I also collected data about the periods before and after the divestiture.

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After the interviews, I summarized the notes taken or the transcripts and coded them (Strauss and Cobin, 1998), building analytical tables to navigate through the data (Eisenhardt, 1989; Miles and Huberman, 1994). Throughout the process of data analysis, other colleagues validated the coding decisions, analytical tables, evolving categories, and the final interpretations and conclusions from the raw data (Galunic and Eisenhardt, 1996). Specifically, another researcher external to the study read the cases independently in order to form her own views of each narrative and check the coding used. Subsequently in several brainstorming sessions, three other researchers discussed the analysis, interpretation, and conclusions from the cases. In three cases, I also re-contacted the participants to the study to share with them my interpretation of the events and the conclusions I was drawing.

The data analysis began by building individual case studies. I had no specific a priori hypotheses and I allowed a construct to emerge that described the process experienced by a single focal firm. To maintain the independence of the replication logic, the analysis began once all case write-ups were completed (Brown and Eisenhardt, 1997). Afterwards, I moved to the cross-case analysis, comparing the cases to identify common dilemmas and refine unique aspects of each particular case (Eisenhardt, 1989). I looked for similarities and differences among cases and grouped the companies according to potential variables of interest. The replication logic helped to test the emerging relationships, moving back and forward from the raw data. Typically, I compared a series of two or three cases before starting to generalize the constructs across the whole sample. I looked at the factors characterizing well performing and under performing divested units. From the comparison of either group of divestitures emerged a fairly broad understanding of the key process aspects that affect the performance of divested units.

An important body of finance and strategic management literature examines whether divestitures are value creating or value destroying for the parent company. This literature focuses mainly on the market or book value effect of divestitures on the parent company. Instead, this study examines the performance of the divested unit. Measuring the performance of a new company is difficult. Performance measures for new companies should differ from traditional measures of performance (Van de Ven *et al.*, 1984) and should include criteria such as financial accounting criteria or market criteria (Chakravarthy, 1986). I considered a divested unit well performing if it is outperforming its industry average and / or its major competitors (the peer groups are provided by public sources, such as Reuters or Thomson One Banker), based on data from Compustat, CRSP, Thomson One Banker, and Reuters. However, because data on economic performance are available only for public companies, in some cases I had to rely on the information retrieved from corporate documents, analysts' reports, or through the interviews. As reported in Table 4, Talent, LogiCo, Next, and Offspring show a positive performance post-divestiture, while Focus and MetalCo show a negative performance.

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Insert Table 4 about here

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To guarantee that the divesting process itself does have an impact on the long-term performance of the company, it was imperative to rule out alternative explanations for improved performance. These explanations include the characteristics of the parent and of the unit prior to the divestiture, such as the parent's performance and level of diversification and the unit's performance and relative size with respect to its parent (Table 4). First and most important, I examined the unit's performance prior to the operation. If a company was performing well (poorly) before a divestiture and continued to perform well (poorly) after the divestiture, there was no reason to believe that the implementation or the structuring of the divestiture was causing the good (poor) post-divestiture performance. For this reason, situations where there were performance changes pre- and post-divestiture were particularly interesting. Table 5 illustrates the performance pre- and post-divestiture in the six units. In four cases the units showed a change in performance after the divestiture: Focus (from positive to negative), and LogiCo, Offspring and Next (from negative to positive). The study also includes two control cases, Talent and MetalCo, of units whose performance did not change after a divestiture. These two cases offer an anchor to compare situations of increased or decreased performance to cases where the unit's performance remained stable post-divestiture, be it positive (Talent) or negative (MetalCo).

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Insert Table 5 about here

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DATA ANALYSIS: THE DIVESTING PROCESS

This study seeks to examine whether and how the implementation and structuring of a divestiture affect the performance of a divested unit. I first clustered the divested units according to their performance and then analyzed the factors at the level of the implementation and structuring of a divestiture that appeared as relevant during the interviews. From the comparison of either group of divestitures emerges a detailed picture of the key influences at process level that affect the performance of the divested unit. The analysis of the six divestitures shows the importance of the divesting process. In the words of directors from Pressed and High:

> These soft issues, how I manage the divestiture, how the value is retained. You've got the structural tangible issues. But this valuation may not be the same valuation for the managers. What is the best way to structure a divestiture? How do you take your people through it? How do you make it set and ready to actually move outside? I think if you rush that, then you make your employees very uncomfortable. They'd just feel that they're thrown into a war. If you don't manage through that process, you are going to get a negative result. (Pressed Director).
>
> The way you unlock the value is actually the culture, the structure, and the communications, that you wrap around tangible things, such as expertise, technical facilities. These intangibles, and people's motivation, attitude etcetera, that's where you get your value over time. Managing the culture, the structure, the communications, and the managers' transition, for me it is the most important part (High Director).

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Insert Table 6 about here

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When a company's executives separate a unit from the core of the organization, they have to decide about the distribution of assets and liabilities, the strategic relationship, and eventual refinancing operations and employees' downsizing for the divested unit. Table 6 reports the process factors that recurred during the interviews and through the data analysis, highlighting specifically those factors that were relevant for the success of the divested unit. These theoretical concepts and categories are grounded in, and emerge from, the data and its analysis. They are reported after the data analysis and an ex-post consultation of extant relevant literature.

Management of divestiture at unit level

In the cases analyzed it emerged that unit managers' participation was an important factor of the divesting process that characterized successful divestitures. The cases of Next and Offspring illustrate why managerial participation is important and how companies can ensure it.

> *The management* of the unit that will be divested will also participate in the *preparation of the divestment process* (High Vice President, italics added).
>
> At the beginning, it was Pressed top management who decided to separate Offspring. But then, all the organizational changes were started by Offspring management (Offspring Manager).

During the interviews, participants noted that in successful divestitures, unit managers' participation affected the success of the divested unit for three main reasons: managers could influence (a) the design of the new company, (b) the understanding of the operation, and (c) the parent-unit relationship. First, respondents highlighted the importance of managerial participation in the design of the new company to define its specific competences, structure, and strategy.

> After the split, in Offspring we [the managers] did a lot of *restructuring, and made changes in organizational structure*. For example, production and sales were divided. Now they are more connected. Now it's better. This was the effect of top management changes. The spin-off especially helped us to *reorganize* our internal *structure* (Offspring Manager, italics added).
>
> The discussion went on between Next managers and the private equity on the *strategy* for going forward. Management talked to all of them, about what they wanted to do, what is your position, how do you want to move forward with your *strategy*? (High Vice President, italics added).
>
> Managers know how to *position* their company in the best way (High Vice President, italics added).

Interview data suggest that unit managers can ameliorate the design of the new company and the definition of its specific competences, because they are a repository of both general and firm specific knowledge such as operational knowledge (e.g. production and sales) and knowledge of corporate resource allocation (e.g. strategy and positioning). If unit managers participate in the design of the structure, strategy, positioning, and portfolio of capabilities of the divested unit, they can find ways to meet the requirements of the new company, set up a new set of practices, and improve the design of the new company overall.

A second set of ideas reiterated during the interviews in successful cases focuses on the importance of managers to facilitate the understanding of the operation within the separated unit.

> We start nominating a divestment project leader, who will form a project team to support him and will involve the communication group to prepare the *internal and external communication* (High Vice President, italics added).
>
> [Unit managers see that] if the company doesn't fit in the strategic scope of the parent, then they are better off with another owner or partner, or independently; that they get more possibilities and better focus, than if they remain within the parent, because the parent won't spend money and attention on it. In their strategic plan, that we make together with them, in the independent dimensions they will have better possibilities in the market, they can do more investments. We have a series of meetings *to convince them and help them to develop* their own strategic thinking (High Vice President, italics added).

This evidence suggests that, when managers participate in the divestiture, they are more likely to recognize, understand, and accept the rationale for the divestiture. Managerial participation eases the process of understanding the operation because it convinces and helps organizational members to accept the reasons for the divestiture and for the existence of the unit as a standalone entity. Consequently, it facilitates the transition to the new company.

Third, in successful divestitures, respondents reiterated that unit managers influenced the relationship between the parent company and the divested unit. Once a unit is divested, managers could participate in deciding how to distribute assets and liabilities between the parent company and the divested unit and how to structure the strategic relationship between the two entities. The importance of the parent-unit relationship is supported by participants' comments for example in the case of Next. Next could decide whether to keep selling its products to High, while High continued to provide the unit with operational support and collaboration.

> *This relationship is maintained* because there is a request from the customers, because of the specific technology involved, because the parent's brand is used, the parent's technology or IT is used. We want to make sure that the business they are acquiring has *continuity*. At least they have the parent's *commitment* to *support* it (High Vice President, italics added).

Once the divestiture was decided, Next managers could participate in shaping the structure of the new company and of its relationship with the "central company".

> We have a central company which is doing the business management and the product development, the outsourcing, organizing our offshore activities in China, in Korea, in Japan, in Germany. [With the divestment manager] we start an inventory ourselves: how much of those *shared resources* are being used? Then as a second step, we start disentangling (High Vice President, italics added).

The data analysis reveals that the parent-unit relationship – which can be based on ownership, non-ownership control mechanisms, or simply on commercial agreements - is important because it gives a sense of continuity and legitimacy to the internal and external stakeholders of the newly created company. Managers can help solve tensions and clashes that may arise in the new relationship, especially at the moment of the divestiture, when resources have to be split and reallocated and connections to the parent's various departments have to be decided.

By contrast, data from unsuccessful cases show that all decisions about the divestiture are taken at parent level with no participation of the unit managers.

> I am 99% certain that the decision was taken purely by Imitator. No managers in Focus were involved in the decision making. People internally found out through the grapevine (Focus Director).

The cases where all decisions about the divestiture were taken with no participation of unit managers ended up being unsuccessful. The lack of managerial involvement at unit level affected the design of the new company, the understanding of the operation, and the parent-unit relationship.

How to ease managerial participation

The importance and difficulty of ensuring managerial collaboration emerged during the interviews. The cases analyzed portray two ways to ease managerial participation in the divesting process and in the unit post-divestiture: the creation of a special task force and the design of ad hoc incentives. The first element promoting managerial participation is the set up of a “special task force”, created either within the parent, within the unit, or across the two companies, in order to define the objectives, the structure and the strategy of the new company. For example, Scout internally recruited the managers that it considered necessary to guarantee success to the divested unit and LogiCo managers collaborated with TruckCo to choose the best way to sell the unit.

> The new company was created by 30 employees from Scout who joined the new company (Scout employee).
>
> The group that was transferred to Talent knew how to make people work, had clear ideas about the strategy to follow, and knew how to implement it and make it work (Scout Manager).
>
> We were four directors in charge. We worked closely with the venture capitalists from the beginning. We were free to manage the company, but we received support and advice (LogiCo Director).

Similarly, High set up a special task force, to deal with the divestiture of Next and Pressed involved Offspring top management in the divesting process.

> [This task force] takes the decision about the best moment for getting active on the external market with this company. Sometimes [with other units] we decided that we’d better keep the company and grow it a little bit further. Or restructure it, or reshape it, reshape the business (High Vice President).
>
> The top management people were more involved. The organization was moved down to the lower levels of the structure later. All the organizational changes were started by Offspring management (Offspring Manager).

Second, participants emphasized the importance of ad hoc incentives to promote managerial participation. In successful divestitures, managers received special incentives linked to their involvement in the divested unit, such as ownership of the new company (share distribution at the time of the divestiture, typically accompanied by stock options), fast career plans and high bonuses, linked to the direct impact of the individual’s work on the unit’s performance. For example, Talent managers owned part of the divested unit. If the unit performed as expected, it would be reacquired by Scout and Talent managers would receive further salary, bonus, and career benefits. Managers in Next received two different types of incentives. The first one was linked to the performance of the unit after the divestiture. The second was linked to their permanence within the unit after the divestiture. With these incentives, managers could be convinced to move from the parent to the unit and new talent could be attracted from the market.

> They were directly *impacted by the stock value* of the company (Talent CEO, italics added).
>
> We make a *special bonus scheme* with the management that if they stay onboard for a certain period and that if they support the divestment process, they then have the possibility of gaining an additional bonus (High Senior VP, italics added).

In other cases, such as LogiCo, managers wanted to create their own company.

> They wanted to lead their own company. *Personal issues* always play an important role. The fact that employees and managers participate in the operation makes them feel *accountable and responsible* for their job and role in the new company (TruckCo Director, italics added).

In the successful cases, incentives regulated and channelled managerial action so as to focus on and resolve the issues that were most important for the success of the divested unit.

In unsuccessful cases, such as Focus, data indicate that incentives were not used to promote managerial involvement in the divesting process and in the divested unit.

> There were stock options for the employees, but I think it was a mistake. They were not well organized (Focus employee).

In less successful divestitures, incentives existed but failed to create a sense of ownership and impact for the managers of the divested unit. They were badly designed and handled and created frustration. They appeared to be detrimental for the new company and hampered its chances of being successful.

Existing literature argues that unit managers can: influence employees' perceptions of procedural justice of the divestiture; build trust in the new organization; and influence employees' commitment to the new company (Gopinath and Becker, 2000). They are often the agents who know the most about the unit (Nees, 1981). Overall, these data provide an expanded and fine-grained view of the reasons *why* managerial participation may affect the success of divestitures and of *how* to involve unit managers to ensure the success of the operation. The literature highlights the difficulty of involving unit managers in divestitures. On the one hand, the parent company may be reluctant to disclose information to unit managers (Nees, 1981). On the other hand, because divestitures are often associated with failure, unit managers may be reluctant to be separated from the parent company (Duhaime and Grant, 1984). However, literature on new venture creation shows that the success of new ventures depends on the founder or founding team (Chandler and Hanks, 1993). This contradiction is particularly relevant for companies willing to set up a successful divested unit. How can they ease the process and guarantee that unit managers participate in it? Evidence from this study shows that managers can be involved in divestitures through a special task force and ad hoc incentives.

Multiple explanations can fit these data. One explanation is that managerial participation in the form of a special task force leading the operation eases the process of understanding the divestiture because: it brings cognitive order for managers (McKinley and Scherer, 2000); helps people make sense of change (Brown and Eisenhardt, 1997); and facilitates the transition to the new company. A second explanation is that incentives promote the pursuit of new and perhaps risky opportunities. Incentives can encourage risk-taking behavior and reward the pursuit of opportunities (Barringer and Bluedorn, 1999; Kuratko *et al.*, 1993; Morris and Kuratko, 2002); they can also ease the mental shift from a managerial mindset to an entrepreneurial mindset (Markides, 1998; Shane and Spell, 1998; Wright *et al.*, 2000). A third explanation is that incentives can ease agency issues. Ad hoc incentives can motivate unit managers by aligning their objectives with those of the unit (Bethel and Liebeskind, 1993; Bruining and Wright, 2002; Hoskisson *et al.*, 1994; Seth and Easterwood, 1993). If unit managers can participate in the implementation and structuring of the divestiture and of the new company, they can feel accountable and responsible for their jobs and their roles in the divested unit as they have greater latitude of action in governing the new company than within the parent organization.

These results complement and challenge previous research, as they link and juxtapose managerial participation to other process factors in a meaningful way. Specifically, they indicate that incentive systems are effective if they are embedded in a “positive loop” that includes other aspects of the divesting process. When they are part of a “negative loop”, incentives tend to be ineffective. Unit managers may lack motivation not only because they do not receive the right rewards for their work but also because they are not involved in the divesting process. They do not identify with the new company. As a consequence, the divestiture is more likely to be unsuccessful. From the data analyzed thus far, I advance the following propositions.

P1a: Units whose managers participate in the divesting process are more likely to perform well after the divestiture.

P1b: Unit managers’ participation can be eased with the creation of a special task force and with ad hoc incentives.

Independence of the divested unit

During the interviews, unit independence emerged as a salient and recurrent trait in successful cases, such as High. In these cases, the unit was set up as an independent company through a process of disentanglement and separation of the unit from the rest of the organization. This process included the separation of activities (production, sales, marketing etc.), departments (R&D, HR, etc.), employees, the physical separation of offices, and the presentation internally and externally of the separate companies and of the relationship between the two.

> Before the divestment, we started disentangling the company from High. Often the business organization is not the same as the legal organization and we shaped the legal organization to be disentangled from High (High Vice President).

Interview data appear to reflect the importance of this disentanglement to create the new company. Divested units may have a collection of established practices, characteristic ways of doing things, and values which may characterize them as independent entities, but these typically are inherited from the parent. So when a unit is divested, what defines the distinctiveness of the newly created company as a standalone and with respect to its parent? From the analysis of these cases, it appears that independence of (a) identity, (b) strategy, and (c) the activities of the unit from its parent characterizes successful divestitures. The case of Offspring illustrates this point.

> It is easier to put an advertisement in the technical press now than before. Before, we had to be presented to the customers as a unique company with a long history. Without any details and specifications of the segments. It was a monolith. A big brand name (Offspring Manager).
>
> [We had] some type of *freedom* from Pressed structure, freedom in marketing policy and behavior (Offspring Manager, italics added).

In successful cases, the creation of an independent company post-divestiture depended on the design of a new business model and a strategy for the divested unit. Talent could hire the employees it needed, regardless of the legal restrictions imposed by the government on Scout. LogiCo could restructure its operations to offer a new set of logistic and support products to its clients.

> There was a cap for hiring new engineers which was a big question mark for employees in Scout. This problem didn't exist in Talent (Scout Manager).
>
> LogiCo was innovative in its processes (HR, technology and culture) and also in its product. We started offering our clients complementary services, also at the clients' site (LogiCo Director).

Offspring and Next were able to expand their networks, tackling new clients, including their former parents' competitors, and starting a strategy of acquisitions in foreign markets.

> Because it is no longer Pressed, Offspring is *free to sell* to anyone; to a number of chip buyers. Now people like [Pressed's major competitor], who would have never bought integrated circuits from Pressed, are buying [from Offspring] (Pressed Senior Director, italics added).
>
> [In High] we were deprived of the right of investing, to [do] M&As. We had a feeling that if we had to stand on our own feet, we would be allowed to participate much more as an ordinary semiconductor company in the market. Moves could be made early. For example, [the acquisition of a company]… that was an investment that I presume would have never happened within the High group (Next Executive Vice President).

These data suggest that decoupling creates a more efficient environment for contacting new suppliers, customers, and other external parties. The divested unit can increase focus, and follow a specific strategy, even if not aligned to its parent's.

By contrast, participants in unsuccessful divested units noted that they could not decide their strategy independently from their parents. The divestitures of Focus and MetalCo were undertaken with the main strategic objective of reinforcing the parent's strategy and performance. In these cases managers felt that they were part of their former parent. For example, in Focus they did not identify with the new company, because they did not perceive Focus as a new company.

> People had the impression of working for Imitator in the Focus division, even when Focus had an independent identity on the stock exchange (Focus employee).

The retained parent-unit relationship created additional confusion internally and externally, and hampered Focus' business operations.

> Focus was a company belonging to Imitator from a business perspective. But it had different shareholders and this caused the relationship not to be fluid. There were a series of small shareholders and blockholders, who in many cases triggered many decisions about the future of Imitator. Decisions different from those that would have been taken in another Internet company (Focus Director).

Collectively, these data suggest that in successful divestitures the distinctiveness of the new company is associated with the creation of a new network and the design of a new strategy, independent from the parent. The set up of a new, independent company leads to success probably because it eases the achievement of internal coherence in the unit's activities, structure, and identity.

Several studies stress the importance of organizational identity in divested units (Corley and Gioia, 2004). Once divested, the unit loses its previous identity. It is generally hierarchically decoupled from its parent and is presented both to internal and external stakeholders as a new, standalone company. While previous literature argues that after a divestiture the ambiguity about identity increases in contrast to the sense of clarity held before the transformation (Corley and Gioia, 2004), the cases analyzed suggest that divestitures can decrease ambiguity. A divestiture can help reduce the ambiguity previously present in the broader organization (the parent), by increasing the focus and distinctiveness of the unit as an independent entity.

Ambiguity within the parent's structure may derive from the fact that maintaining an optimal amount of structure and internal coherence is a challenge. The parent's culture, strategy, and structure may be unsuited for hosting change, developing new products, entering new markets, contacting new clients, and retaining employees or attracting new ones. Retaining distinct resources and activities within a unique structure may imply increased costs of coordination and integration (Karim and Mitchell, 2000), and may be difficult to justify within the organization and externally to investors and analysts.

The results of this study provide new insights about what defines distinctiveness in a divested unit as a standalone and with respect to its parent. In divested units, internal and external forces urge managers to design new structures, processes, and operations for the newly created company. Divested units can establish a structural context encompassing administrative and cultural mechanisms that facilitate the achievement of internal coherence, and can shape the organizational space for supporting specific activities, thus avoiding internal clashes. Unit managers can set up an independent strategy as an overall reorientation of the company with respect to its former parent (Campbell *et al.*, 2003; Normann, 1977a, 1977b; Tushman and Romanelli, 1985). This orientation can involve major changes in the organization design in order to realign the unit with new environmental conditions.

In sum, these data suggest that independence may lead divested units to be successful because it reduces ambiguity, eases the development of a new identity, and increases internal coherence between the structure and the strategy of the unit. Therefore, I advance the following proposition.

P2: Units that set up as independent companies during and after the divestiture are more likely to perform well after the divestiture.

The results on managerial participation and unit independence taken together suggest that in divestitures there are contrasting forces taking place. On the one hand, there are forces pulling against the separation of the unit. Unit managers may prefer to remain within and connected to the parent structure. They may lack the entrepreneurial mindset necessary to work in a new venture (Markides, 1998; Shane and Spell, 1998; Wright *et al.*, 2000) and may fear that the resources (Covin and Slevin, 1991), the integration across departments and functions (Ghoshal and Bartlett, 1994; Kanter, 1985), and the network access (Stevenson and Jarillo, 1990) available within the parent's structure would not be accessible to the unit post-divestiture. On the other hand, the results of this study show that independence may lead to the success of the unit. As an independent entity, the unit can pursue new commercial and strategic partners, design a new strategy and structure, and new reward mechanisms, and develop new products. These results imply that the focus of attention in the implementation and structuring of divestitures needs to shift from the decision about whether to create an independent unit, to the active management of how to create an independent unit. These results suggest that, when involved and properly "incentivized", unit managers can better understand the situation (Brown and Eisenhardt, 1997; McKinley and Scherer, 2000), shift towards an entrepreneurial mindset (Markides, 1998; Shane and Spell, 1998; Wright *et al.*, 2000), and successfully migrate to and work in the new company .

Sense of opportunity within the new company

One benefit of process research is that it can deal with the evolution of relationships between people or with the cognitions and emotions of individuals as they interpret and react to events (Isabella, 1990). In this study, numerous comments highlight that divestitures can create a window of opportunity in which managers must look beyond the basics of running their businesses. These data suggest that two factors are particularly important for the unit managers to perceive the divestiture as an opportunity: understanding of the operation; and perceived capabilities. *Understanding of the operation* refers to the fact that the unit managers understand the reasons for the divestiture. *Perceived capabilities* refer to the fact that unit managers believe to own the means for managing the unit as an independent company. These two factors spawn four combinations of understanding and perceived capabilities and consequent differences in the perception of the divestiture as an opportunity. These variations generate four different possible scenarios, represented in Figure 1, of how decision-makers interpret (Dutton and Duncan, 1987) and enact strategic issues.

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Insert Figure 1 about here

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In the first scenario, unit managers reported that they did not understand the reasons for the divestiture (low understanding) and that they perceived themselves as lacking the means to manage the new company (low perception of capabilities). A good illustration is the case of MetalCo.

> MetalCo perceived that ProductCo didn't know what they were talking about (MetalCo CEO).
> The previous management left the unattractive products in the unit (ProductCo CEO).

The data analysis reveals that in this case the parent failed to involve unit managers in the divesting process and failed to convey to them the reasons for the divestiture. It also transferred to the unit only unattractive, low revenue products and did not provide any incentives to unit managers to guarantee their permanence within, and commitment to, the unit post-divestiture. Unit managers had the perception that they had neither the supply of, nor the access to, the resources needed to manage the new company.

> Fear is never the best source of motivation. If you have fear, you go in the fire, but you will burn. It works only in the short-run (MetalCo CEO).

They felt powerless as they believed they lacked both the knowledge and the means for managing this situation. Consequently they perceived that they were abandoned by the parent company.

In the second scenario, unit managers appeared to make a different set of judgements about the divestiture. They believed that they knew how to deal with the situation (high understanding), but did not have the resources to manage the new company (low perception of capabilities). For example, respondents in Offspring argued that the involvement of unit managers in the divesting process generated a generally high understanding of the operation. But incentives were unattractive and failed to retain and attract capable managers in the unit (low perceived capabilities).

> Pressed took the decision, but with the interests of Offspring managers […] There is a lot of talk about the company being more aggressive with regard to its employees. It wasn't said maybe quite explicitly, but there was some implicit threat. It's that if you weren't a fit with the company, you no longer could be guaranteed your position (Offspring employee).
>
> We were a smaller company, in an industry of big guys, we had less resources (Offspring employee).

Low perceived capabilities coupled with high understanding generated uncertainty, a perceptual discrepancy, where a sense of threat and a sense of opportunity coexisted.

> It is always a threat *and* an opportunity. I think it is in the human nature that people obviously look at it as a threat. Especially when you come from a huge comfort factor. It's a change of culture that goes from that cosy environment to having to stand commercially alone and therefore to be both competitive and profitable (Pressed Senior Director).
>
> I think it wasn't just individually that I thought it was an opportunity. It was at division or group level that it was felt we should be in charge of our own fate. I think this was in part due to our general managers, who gave us this kind of vision (Offspring employee).

These data suggest that in this scenario unit managers perceive the divestiture as a capabilities challenge because of their lack of capabilities for managing the company, although they understand what they should do. In this scenario, the outcome of the divestiture may vary, and in some situations, like in the case of Offspring, the divestiture can be successful.

In the third scenario, respondents described a different feasibility assessment. This situation, illustrated by the case of Focus, spawned from a high presence of resources in the unit (high perceived capabilities) and from a low involvement of unit managers in the divesting process. This generated a general low understanding of the operation.

> [Imitator] believed that [the unit] had enough value to have its own identity in the stock exchange. And what was done was to put all these assets in the company (Focus Director).
>
> I think it didn't work out because the management team didn't work out fine (Focus Director).

Analysis reveals that with high capability and low understanding unit managers perceive that they have the resources to manage the divested unit but lack the understanding necessary to deal with the new situation. As shown above, while proper incentives were set up in Focus, unit managers were perplexed by their lack of means-end understanding and were likely to view the new situation as ambiguous and uncertain, and as an information challenge.

In the fourth scenario, respondents appeared to perceive the divestiture as most feasible. Unit managers perceived that they understood the reasons for the divestiture (high understanding) and that they owned the resources to manage the new company (high perceived capabilities). In this situation, exemplified by the cases of Talent, Next, and LogiCo, data suggest that perception of capabilities was derived from the presence of talent transferred from the parent or attracted from the market. This talent attraction and retention was achieved by offering unit managers ad hoc incentives, specifically rewarding their permanence within the divested unit and their efforts in enhancing the performance of the unit.

> For Talent, they took the best engineers and managers. They retained them and could hire new talent, also foreign (Scout manager)
>
> Managers were chosen by word of mouth, if the manager was good. And I think it was a good method, because in Scout one knew who was good (Scout manager).

In this scenario, the divestiture is likely to be seen as an opportunity.

> There was a young environment as in a start-up, because of the willingness to do things, to work a lot, because the employees were young people and for them it was an opportunity (Scout employee).
>
> We knew that we could bring the project ahead and that it could develop greatly. The three directors, we knew that LogiCo had a bigger value than what was recognized (LogiCo Director).
>
> You can get the majority of the population of your staff embracing it, because of that change, of the opportunities (High Senior Director).

Divestitures can force organizational members to switch their thinking to consider a broad set of alternatives that go beyond their current way of managing and structuring their activities. In successful divestitures, unit managers see the change as beneficial to them because it offers opportunities not available within the parent's structure. This feasibility assessment during the divesting process is important as it affects the adaptive responses of the members of the divested unit. It also propels efforts to resolve the divestiture as a momentum for change, and may trigger the success of the unit. The more unit managers understand the situation and perceive to own the capabilities to successfully operate the company as a standalone, the greater is the sense of opportunity. Sense of opportunity develops from and is distributed through communications and the social structure in which the overall understanding of the new situation takes place (Ocasio, 1997) eventually extending beyond the single individuals residing in the unit. From interviews with key informants (Daft and Weick, 1984; Kumar *et al.*, 1993), sense of opportunity emerges as a collective state wherein organizational members see the change as beneficial to them because it offers opportunities not available within the parent's structure.

Therefore, from the data analyzed in this section, I advance the following proposition.

P3: Units that develop sense of opportunity during the divestiture are more likely to perform well after the divestiture.

The interaction effect of process factors on the success of divested units

Previous literature, grounded on the threat-rigidity hypothesis, shows that sense of opportunity is linked to positive, controllable, and potential gains and is associated with a feeling of control (Dutton and Dukerich, 1991). People perceive a situation as an opportunity, if they believe that they may gain (but they will not lose), and that they have the autonomy and the qualifications to solve the issues and the choice to decide whether to act, that the resolution of the issue is achievable and that they can control the situation (Dutton and Dukerich, 1991; Ocasio, 1995). Opportunity recognition is often associated with an entrepreneurial mindset (Markides, 1998; Shane and Spell, 1998). Previous research reports that in forms of divestitures such as management buyouts characterized by high managerial discretion, managers can shift towards an entrepreneurial mindset (Wright *et al.*, 2000). At the same time, sense of opportunity is associated with less "positive" characteristics. People may see an opportunity as a challenging situation, associated with a sense of urgency or difficulty, and with large stakes involved (Dutton and Dukerich, 1991).

An upshot of the findings of this study involves the interaction of understanding and perceived capabilities in the development of sense of opportunity and their conjunctive effect on the success of the divested unit. Results suggest that assessment of the feasibility of the operation depends on managerial involvement and incentives, which in various types and amounts can be present in all types of divesting forms (such as carve-outs and spin-offs) that are typically characterized by a low level of managerial discretion and an entrepreneurial culture. This variation in managerial involvement and incentives spawns different combinations of understanding and perceived capabilities. Understanding and capabilities are intertwined, as they complement each other and operate simultaneously on strategic action (Daft and Weick, 1984; King and Tucci, 2002). Their interaction can affect the adaptive responses of the members of the divested unit and their ability to recognize and exploit the divestiture as an opportunity.

This detailed, nuanced picture of the development of sense of opportunity reveals that sense of opportunity has a resonance with the other factors of the divesting process that suggests deep-structure connections. As presented in Figure 2, the process factors of divestitures build up in a framework that includes managerial involvement, the set up of an independent company, sense of opportunity, and can result in the eventual success of the divested unit. The involvement of unit managers can be achieved through the creation of a task force to design the divestiture and the new company and through ad hoc incentives. The independence of the new company is accompanied by a new identity and strategy. Managerial participation and the independence of the unit have a direct effect and an indirect effect, moderated by the development of sense of opportunity on the success of the unit. If sense of opportunity develops, it can affect the performance of the divested unit.

From a more overarching view, the picture that emerges from this study is one of companies simultaneously and continuously balancing multiple considerations when divesting a unit. In successful divestitures, companies seek to ensure the understanding and acceptance of the operation. During the disentanglement process, they perform actions meant to enhance the understanding of the operation and the perception of capabilities within the unit, because strategic action is shaped by how managers notice and interpret change (Daft and Weick, 1984; Dutton and Duncan, 1987; Dutton and Ashford, 1993; Dutton and Jackson, 1987; Kaplan, 2008).

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Insert Figure 2 about here

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DISCUSSION AND FUTURE RESEARCH

The findings of this case-based study help to illuminate how and why divestitures can be successful. They complement and challenge current knowledge on divestitures with the depth and diversity specifically allowed by comparative case research. Case studies are well suited for this type of research, because they can address questions about the process, context, and customization of change strategies, such as divestitures, that lead to sustainable performance (Pettigrew *et al.*, 2001). Furthermore, by examining performance outcomes of divestitures, this study provides new insights about the results of change processes themselves, the processes that lead to change, and the dynamics between process and outcomes (Pettigrew et al., 2001).

The results of this study help to advance current knowledge on divestitures in several ways. First, by offering insights into the process by which companies manage divestitures, this study questions previous literature, which portrays divestitures as homogeneous actions, making little distinction among implementation variables and considering the implementation stage either negligible or equal across different situations. The findings of this study across a comparative research design suggest that how companies implement and structure a divestiture is not a-one-size-fits-all decision (Bergh *et al.*, 2008). When divesting a unit, managers face a complex scenario that includes more than simply the antecedents that led to the divesting decision. Different implementation factors also appear to matter. The theoretical model of this study extends and refines conceptual frameworks and logical relationships of divestitures, collectively providing a more integrative explanation of these operations, and shedding light on how and why variations in the process affect performance outcomes.

Secondly, the results of this study also make a twofold contribution to existing agency theory research on divestitures. From the perspective of the organizational members, agency theory proposes to use divestitures, to achieve the delegation of formal authority (Baker *et al*, 1999) and to expand managerial discretion (Wright *et al*, 2000). This study adds that from a corporate perspective, the divested unit may be regarded as an agent of the parent company (i.e. the principals). Although existing literature suggests that in divestitures the use of incentives and issue-selling can ease the principal-agent conflict (Gopinath and Becker, 2000; Haynes *et al.*, 2007; Phan and Hill, 1995; Wright *et al.*, 2000), it offers little guidance about how to align the managers' interests with those of the (soon-to-be-divested) unit, and the unit's objectives to those of its parent. From the cases analyzed, divestitures emerge as governance mechanisms aiming to align managers' and owners' interests in the divested unit. At the same time, divestitures can prompt the unit to pursue a specific objective, such as new market entry or product development, thereby alleviating conflict and easing frictions between its objectives and those of the parent. In both cases, managerial participation through a special task force facilitates the transition to the new company as it brings cognitive order for managers (McKinley and Scherer, 2000), helps people make sense of change (Brown and Eisenhardt, 1997), and offers managers a greater latitude of action in governing the new company, than they would have had within the parent company. Ad hoc incentives ease the mental shift from a managerial mindset to an entrepreneurial mindset (Markides, 1998; Shane and Spell, 1998; Wright *et al.*, 2000). Overall, these results suggest that understanding the issues at stake during a divestiture can ease this convergence of interests.

Third, this study also contributes to our understanding of how to manage and frame the changes associated with a divestiture. Bowman and Singh (1993) called for more research on the employees and communities involved in divestitures. When companies design and launch a planned change effort, such as a divestiture, they frequently have a visionary image of the structure, process, performance, and prestige they want to create and implement (Gioia *et al.*, 1994). The results of this study suggest that a divestiture is successful if it is accompanied by actions that convey a credible commitment to the parties affected by the change. During a divestiture, it is important to ensure both understanding and acceptance of the new strategy, goals, and structure among key constituents. In the divested unit the prior implicit contracts between management and the unit's owners may be broken and may need to be replaced. If well managed, this change enhances organization members' motivation and identification, and finally brings internal and external legitimacy for the new company. These actions also help relieve organizational stress, often associated with the novelty of the situation and the size and age of the new company, while presenting change as obtainable and desirable to employees. Overall, these actions can participate in framing the divestiture as an opportunity, instead of a threat, and can help avoid rigid responses from the parties involved (Staw *et al.*, 1981). The results of this study suggest that the success of divestitures depends not only on the organization's ability to implement new structures and processes, but also on its ability to convey the new mission and priorities to its many stakeholders.

This analysis also allows an exploration of the link between sense of opportunity and performance in divestitures. Research on new ventures typically examines the nature and dynamics of opportunity recognition (Gaglio, 2004; Shane, 2000) and whether it leads to new company formation (Gartner, 1985; Simon and Houghton, 2000), thereby restricting the study of the effect of opportunity recognition on corporate performance. In the case of divested units, the formation of the new company is decided by the parent company and does not depend on the unit managers' preferences or perceptions. This means that sense of opportunity has a limited effect, if any, on the creation of the new standalone entity. The results of this study link the adaptive responses of the members of the divested unit (Dutton and Duncan, 1987; Dutton and Ashford, 1993; Dutton and Jackson, 1987) to the development of sense of opportunity and to corporate performance.

Finally, the findings of this study can help managers engaged in defining the strategic position and structure of a unit post-divestiture. Managers make the decisions on how to divest, and they may benefit from the evidence herein provided for how those decisions tend to impact a unit's economic performance. The results of this study show what can go wrong, when and if the divesting process is badly managed. Managers should be aware of divestitures not only because they are common operations, but also because they seem to have some accrued benefits. This understanding should enable them to manage their companies to proactively shape the change efforts embedded in divesting actions. In this way they can increase the probability that their divestitures will be profitable, rather than financially unsuccessful. They can take a more forward-looking stance in the outcomes of divestitures, while they participate in their implementation and structuring. Being aware of these results, managers can also selectively position themselves in the divested unit to derive possible benefits as well – be it economic or career related. In conclusion, the understanding and recognition of the dynamics of the implementation and structuring of divestitures can benefit managers before, during, and after the operation. In this respect, this study seeks to bridge existing theory and practice on divestitures and to translate the results of this comparative research in practical directions for managers involved in divestitures.

Future research

The results of this study may provide a starting-point for further theoretical development on divestitures and change management in general. Overall, it offers a comprehensive view of the process factors that may affect the outcome of a divestiture. The emergent model of a "successful" divestiture also provides an initial grounding that future studies may leverage to build a more complete model of divestitures. This study reports factors that previous literature did not identify, such as sense of opportunity and the independence of the unit, as well as details of factors already indicated by previous literature such as why and how to involve unit managers in the divesting operation. Although this list represents a concrete and tangible advancement to our understanding of divestitures, it may not be exhaustive.

This may depend on one important limitation of the study, which observes divestitures ex-post, i.e. once the operation is concluded, and follows the evolution of the unit after the divestiture. Future research could observe divestitures in "real time". "Real time" observation of companies undertaking a divestiture would undoubtedly raise more research questions and shed more light on the observations that are made in this study. The observation of a divestiture from start to finish would help determine more details of the process factors that affect the outcome of the divestiture.

Another key consideration applicable to qualitative research is the generalizability of its findings. Examining the possibilities of generalizability and application of these results opens new avenues for future research. Although this study embraces several cases of divestitures and several different divesting forms, it would be interesting to test its insights on a larger database. Ideally, future research could tests these intuitions using a panel data set. Scholars could collect data following a given set of companies over time, and providing multiple observations on each company. Such panel data would allow us to draw causal inferences between variables. It would provide more general results about the outcome of better or worse managed divesting processes.

A final limitation of this study is that it examined voluntary divestitures only. It is possible that the proposed model might not apply to involuntary divestitures. For example, a divestiture spawning from a change in legislation or from court-orders or a divestiture that forms part of a takeover defence might lead a company to neglect considerations about the performance of the unit post-divestiture. The results of this study might not apply to circumstances where a unit's value maximization is not a priority. Linked to these considerations is the fact that this study does not examine all types of divestitures. It focuses on divestitures where the unit becomes an independent company. Yet companies can sell a unit to a third party (sell-off). It is possible that the factors identified in this study may not be relevant in these other types of divestitures.

CONCLUSION

This study enlightens the divesting process and its effects on the divested unit and provides an important contribution to the theoretical development of divestitures. The emergent model of a "successful" divestiture provides an initial grounding that future studies may leverage to build a more complete model of divested units. The comparison of successful and unsuccessful divestitures shows that a lack of focus on the divesting process and on the structuring of the divestiture itself concurs in explaining the performance of divestitures. What specifically emerges from this study is that, although the antecedents of a divestiture are important for the unit's performance post-divestiture, the overall success of the operation is associated with its implementation and structuring. Divested units are more likely to perform well, if the divesting process is well managed. This depends on the involvement of unit managers, on the creation of an independent company with a new identity and strategy, and on the development of sense of opportunity. The proposed theoretical framework expands current explanations of divestitures by looking at the performance of the unit and disaggregating the antecedent-outcome nexus. The relationship between divestitures and a unit's performance is clarified and extended. The picture emerging from this study provides a deeper and more complete understanding of divestitures than current knowledge on antecedents and outcomes at parent level.

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TABLES AND FIGURES

Table 1: Industries where parents and units were operating

Parent	Main industry	Unit	Industry
Scout	High-technology	Talent	High-technology
Imitator	Telecommunications	Focus	Internet
TruckCo	Transportation	LogiCo	Logistics
Pressed	High-technology (miscellaneous)	Offspring	Semi-conductor
High	High-technology (miscellaneous)	High	Semi-conductor
ProductCo	Metal works (product development)	MetalCo	Metal works

Table 2: Divestitures description

Company	Duration of divesting operation	Divesting mode
Scout / Talent	1.5 years	50% parent, 50% mgrs
Imitator / Focus	1.5 years (restructuring) 3 months (divestiture)	30% IPO, 30% parent, 30% blockholders (approx)
TruckCo / LogiCo	1 year	30% mgrs, 70% VCs.
Pressed / Offspring	6-12 months	Two step spin-off: 50% + 50%
High / Next	6-12 months	Two step spin-off : 50% + 50%
ProductCo / MetalCo	(1 year)	100% free (turnaround management)

Table 3: Data source: Interviews

Company	Interviews						Public presentations
	At parent level		At business-unit level		Industry expert	Total interviews	
Scout / Talent	6 (4)	Employee, manager	3 (3)	CEO, Manager, employees	1 (1)	10 (8)	1 (Scout CEO)
Imitator / Focus	3(2)	Manager, Director	3 (3)	Managers, employee	2 (1)	8 (6)	
TruckCo / LogiCo	2 (2)*	CEO, director*	1 (1)*	CEO, director*	1 (1)	4 (4)	
Pressed / Offspring	3 (2)	Director	2 (2)	Employee	1 (1)	6 (5)	4 (Offspring CEO)
High / Next	3 (2)	Exec. VPs	1(1)	Exec VP	1(1)	5 (4)	2(Next CEO)
ProductCo / MetalCo	1 (1)	CEO	1 (1)	CEO	1 (1)	3 (3)	
Total						**36 (30)**	**43 (33)**

Numbers in parentheses refer to the number of interviewees (Scout, Imitator, TuckCo, Pressed, High, and ProductCo are the parent companies. Talent, Focus, LogiCo, Offspring, Next, and MetalCo are the divested units).
* The CEO and the directors remained the same for the divested unit.

Table 4: Characteristics of parents and units pre- and post-divestitures

Company	**Unit relative size** (1)	**Pre-divestiture: parent diversification** (2)	**Pre-divestiture: Unit performance** (3)	**Post-divestiture unit performance: Peers comparison (2 years after divestiture)** (4)	**Post-divestiture unit performance: Other financial considerations**
Scout / Talent	1/3	4	(Over performing)	Over performing (respondents' data)	Share price: from 14c to >20$
Imitator / Focus	1/4	2	Over performing other units within parent	ROA -76% peers' median	Share price: from 20€ to 2 €. Book value decreases greatly (accumulated change: -1100) ROA: about -1%
TruckCo/ LogiCo	1	1	Under performing other units within parent	Over performing (respondents' data)	Book value increased 5 times
Pressed / Offspring	1/12	6	Under performing other units within parent	ROA -22% peers' median	Book value increased (+12%), but finally company purchased by VC ROA: -11%
High / Next	1/39	8	Under performing other units within parent	ROA +20% peers' median	Aligned to the market and major competitors: ROA: +20%
ProductCo / MetalCo	1/3	2	Under performing other units within parent	Under performing (respondents' data)	Negative (respondents' data)

(1) Assets or sales, as measures of "size" for a new venture, provide limited insights. Hence herein "size" refers to the proportion between the number of segments divested with the unit and the number of segments or divisions in the parent company pre-divestiture. (2) Diversification indicates the number of different industries (four digit SIC codes) in which the parent is operating pre-divestiture. (3) Compared to the performance of other units and divisions of the parent company (public data or data provided from respondents). (4) Comparison to other companies in the same industry (peers group or reference index provided by Reuters, Thomson One Banker, Amadeus).
Data source: Thomson One Banker, Compustat, and data retrieved from corporate sources and interviews.

Table 5: Success of divestitures as performance of the divested unit: Analysis of change in performance pre- and post-divestiture

Unit \ Performance	Pre-divestiture	Post-divestiture
Talent	+*	+
Focus	+	–
LogiCo	–	+
Offspring	–	+
Next	–	+
MetalCo	–	–

* Talent was set up as a unit within Scout with the objective of divestiture. Its performance was positive before the divestiture, according to the respondents, but because of the unit's origins, it is difficult to evaluate it.

Table 6: Key factors of the divesting process*

	Unsuccessful divested units		Successful divested units			
	Imitator / Focus	ProductCo / MetalCo	Scout / Talent	TruckCo/ LogiCo	High / Next	Pressed / Offspring
Prior to divestiture						
Unit products belongs to / complement the parent's value chain	Yes	Yes	Yes	Yes	Yes	**Yes**
Parent is underperforming	No	Yes	No	Yes	No	Yes
Unit is underperforming	No	Yes	No	Yes	Yes	Yes
Structure of divestiture						
Focus on product / market	x	x	x	x	x	x
Talent attraction and retention			x		x	x
Set up of dedicated task force		x	x	x	x	x
External task force (e.g. VCs, turnaround management)		x		x		
Unit managers decide unit's strategy		x	x	x	x	x
Divestiture to reinforce parent's strategy	x					
Divestiture for short -term financial benefits for parent	x					x
Involve managers through ownership / new incentives	x		x	x	x	x
Involve managers in structuring of unit		x	x	x	x	x
Unit is disentangled within parent's structure before divestiture	x	x	x		x	x
Strategy is independent from former parent		x		x	x	x
New culture at unit level is created			x	x	x	x
New and independent identity			x	x	x	x
Parent-unit relationship: Ownership	x		x		x	
Parent-unit relationship: Non-ownership	x	x	x	x	x	
Parent-unit relationship: Commercial agreements	x	x	x		x	
Parent-unit relationship: Unit uses parent's brand/name	x	x	x	x	x	
Low leverage			x	x	x	x
Internal task force			x	x	x	x
Directors from parent or unit	x		x		x	x
Directors hired from the market		x		x	x	x
Cost cutting plans		x		x	x	x
Growth strategy, incl. acquisitions and new ventures in new areas	x	x		x	x	x

*In italics (first two columns), the units that were underperforming after the divestiture; in bold, the factors that characterize well performing divested units.
Balance sheet and financial values and other details, such as product names, firm's leverage, number of directors, cannot be displayed to guarantee anonymity to the respondents.

Figure 1: Factors of the divesting process

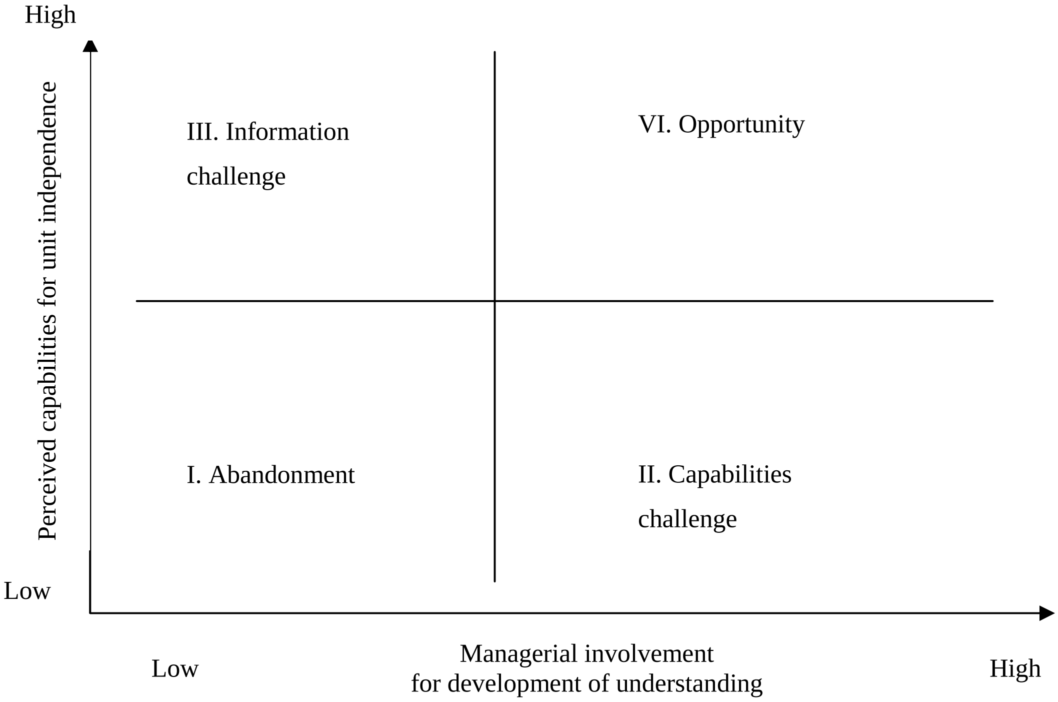
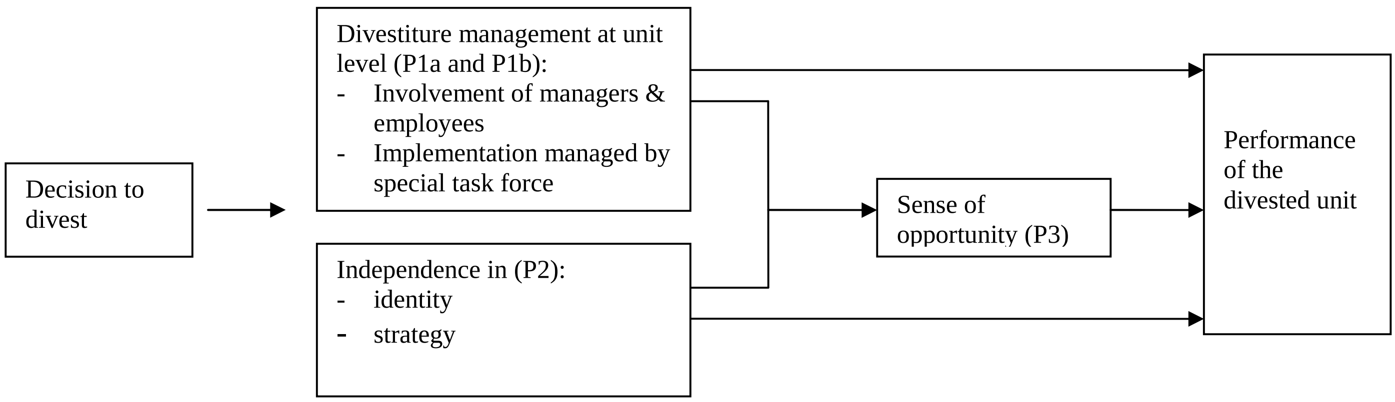


Figure 2: The divesting process and the factors leading to the success of the divested unit



APPENDIX: Key factors of the divesting process: selected quotes from individual interviews

	Imitator / Focus	ProductCo / MetalCo	Scout / Talent	TruckCo/ LogiCo	High / Next	Pressed / Offspring
Prior to divestiture						
Unit products belong to / complement the parent's value chain	Was Focus Imitator or was it not? Imitator was competing with its own ADSL, but it also had the Focus access (Focus Director).	They reckoned they needed a third site [MetalCo], with new machinery (CEO MetalCo).	Talent technology was complementary to Scout's, but in sectors not touched by Scout (Scout Manager).	We maintained the same business, but offered new services to our clients, such as process management (LogiCo CEO).	Like before, the internal relationship was already one of customer-supplier (High VP).	They are part of the value chain. This circuit is vital to our products (Pressed Senior Director).
Structure of divestiture						
Focus on product / market	Focus always had three main revenue streams: advertising, ISP, and e-commerce (Focus Director)	The previous management left the unattractive products in the unit (ProductCo CEO).	Talent focused on doing just one thing, well, and quickly (Scout manager). To produce a complex product in a short time. To design new incentives for employees, enter a market "new" to Scout. To focus only on engineering products and processes. (Talent manager)	We started a strategy of growth, also towards foreign markets. This includes new acquisitions (LogiCo CEO). We focused on the process and on the product (LogiCo Director).	Now it's much clearer what they are going to focus on and where they are going to put their money (High VP).	We had 3 divisions: transportation, wireless, and networking (Offspring manager).
Talent attraction and retention	NO: People who worked in the Internet were young people with no family who could easily get another job. They said: let's take the money and run (Focus Director).		For Talent, they took the best engineers and managers. They retained them and could hire new talent, also foreign (Scout manager).		We created a special bonus scheme with the management that if they stay onboard for a certain period and if they support the divestment process, they then have the possibility of gaining an additional bonus (High Senior VP)	Employees were given performance-measure-based stock options and bonuses. It was much more performance driven. There was a big focus on self-ownership (Offspring employee).
Set up of dedicated task force	NO: I am 99% certain that the decision was taken purely by Imitator people (Pressed Director).	We had a turnaround management team (ProductCo CEO).	The group that was transferred to Talent knew how to make people work, had clear ideas about the strategy to follow, and knew how to implement it and make it work (Scout manager).	I (the CEO), with the venture capitalists, selected the directors (LogiCo CEO) The divestiture was directed by [the CEO] plus two managers. Then there were nine more managers with a smaller, symbolic participation of 1% (LogiCo CEO).	We will have a divestment manager who will act as a program manager. He knows that, at one point, he has to involve communication, has to start talking to employee councils, management teams (High Senior VP).	The top management people were more involved. The organization was moved down to the lower levels of the structure later. All the organizational changes were started by Offspring management (Offspring Manager).
Unit managers decide unit's strategy	NO: Imitator had all the control (Focus manager)	With better managers, we could operate freely, contacting new clients and customers (MetalCo CEO).	Scout had no say on the choice of market that the team of engineers was choosing to go into. Talent was completely independent from Scout (Talent CEO).	We were free from the old shareholders and the venture capitalists to decide our own strategy (LogiCo CEO).	We were finally free to choose (Next Exec VP) [We] had to find out the strategic directions we would follow, to be free to buy or merge or whatever (Next Exec VP)	Offspring needed to gain market share to compete in its market. I was telling my customers that the spin-off was a good thing and they were understanding (Offspring employee)
Divestiture to reinforce parent's strategy	At the time, everybody was going public. All the Internet companies in the US were going on the stock market and with spectacular growths. That was the reason: to take advantage of this trend in high	NO: They lost control of the unit. This is why it was put on sale. When they were independent, they became a competitor to us. They showed us how strong they are. In 2004 it was sold and in 2005 we		NO: I believed that the dynamics of the company could be improved and changed. We also bought new, more modern equipment. We started taking more care of our	NO: Our role consisted of a total disentanglement from the High group and subsequently of the disposal of that group to become a separate entity, to be free to buy or merge or whatever (Next Exec VP).	NO: When we were inside Pressed, our customers were buying because of our technology, but they were not good clients, they were not telling us what they were doing, their projects etc. After

	tech (Focus manager). Focus was not Focus but just one new form of Imitator. The dinosaur, starting to walk on new territories (Focus Director)	already felt the competition (ProductCo CEO).		providers and clients. We offered them new products and services (LogiCo Director).		the spin-off, there was no official control from Pressed over Offspring (Offspring employee).
Divestiture for short -term financial benefits for parent	The divestment decision was taken for the market and the shareholders. The decision was just to put the company on the market (Focus manager)			NO: The shareholders wanted to sell TruckCo. They wanted to cash in the money. We convinced them to wait (LogiCo CEO).	NO: The key reason is strategic. There's no financial reasoning behind it. Sometimes a company performs very well financially and still if it strategically doesn't fit, we divest it (High Senior VP). It is not that we take these actions under direct pressure of shareholders or analysts (High Senior VP).	There were a lot of politics in Pressed to carve-out Offspring, because chip production has a much higher beta than the rest of the company (Pressed Senior Director) There was a huge amount of pressure for us to divest this particular organization. We have large institutional shareholders that put a lot of pressure. So you can actually look at some of what's happened from a short-term business-driven requirement. (Pressed Senior Director).
Involve managers through ownership / new incentives	NO: We had stock options. But because of the bad way in which they were managed, they worked as the opposite of an incentive (Focus manager). In Focus we had stock options that were worth nothing. That we couldn't use. There was no real incentive, no reward for your efforts. Our morale was so low (Focus Director).	We changed the structure of the salaries and bonuses. We linked the bonus to the company EBIT. Managers received a bonus of 30% of their salary, blue collars received two monthly checks to a total of 24% (MetalCo CEO).	The bonus ratio was 1 to 5 with respect to Scout (Scout manager).	The managers owned something less that 30% of the shares. They saw it as a strategic operation. At the end, they owned almost 40% of the shares of the company. (LogiCo CEO).	We created a special bonus scheme with the management that if they stay onboard for a certain period and that if they support the divestment process, they then have the possibility of gaining an additional bonus (High Senior VP).	You've got the salary and then you've got your bonus, and bonuses are tied to two different drivers. One is the performance of the organization and the other is personal performance. There are cash bonuses and also share options (Pressed Senior Director).
Involve unit managers in structuring of unit	NO: No managers in Focus were involved in the decision making. People internally found it out through the grapevine (Focus Diretcor)	[The management] was part of a turnaround project (ProductCo CEO).	They started from zero, putting on the market a new company with a new product. They set up the start-up to begin from zero, and to organize everything…the structure of the new company, its employees, product, marketing, sales, and the product marketing (Scout manager).	We knew we could handle the project. We knew we could develop the company and transform it into something more interesting (LogiCo Director).	The management of the unit that will be divested will also participate in the preparation of the divestment process (High Senior VP).	The new CEO was appointed and then brought in some new people himself (Offspring employee).
Unit is disentangled within parent's structure before divestiture	We first created the brand in 1999. Then we started the campaign to announce Focus with commercials. When we launched Focus on the market, everybody already knew about it (Focus manager).	The previous management left the unattractive products in the unit and moved the interesting things to ProductCo. They lost control over the unit (ProductCo CEO).			Before the divestment, we started disentangling the company from High (High Vice President). We had 400 people working on it. They set up work streams and one of the work streams was disentanglement (High VP).	But already from the end of the '90s factories were divided. Offices were located closer to factories. R&D was separated too. In 2003 the main separation was in the headquarters. Offspring had to move out of Pressed offices (Offspring managers).
Strategy is independent	NO: Focus was still a building block of Imitator. It never freed	When MetalCo was independent, I tried to build a	Being separated from Scout helped them to be more flexible,	The venture capitalists gave us the objectives, and helped	We don't want the operational involvement (High Senior VP).	It was a clean cut because of the way the divestiture was

from former parent	itself from Imitator (Focus manager) From a wholesale distributor perspective, Imitator was selling both its internet products and Focus' (Focus Director).	relationship. I tried to build a friendly relationship with the new management. But we had no commercial relationship with MetalCo (ProductCo CEO).	independent, efficient, to take their own strategic decisions (Scout manager). Talent was independent to set up its strategy (Talent CEO).	us with the financial decisions. But they gave us complete freedom in the management of the company (LogiCo Director).	We have a series of meetings to convince and help them to develop their own strategic thinking (High Senior VP). The opportunities are to be an independent company from a very large conglomerate (High VP). We don't want to have any influence on the strategy of Next (High VP).	managed. The director who led the spin-off helped to appoint the new CEO.
New culture at unit level is created	NO: We hired new people, we wanted to create a dynamic environment. But we were still bureaucratic because we were part of Imitator (Focus manager).	There is an identity from cultural change, access to management, overall the knowledge of having an impact on the company (MetalCo CEO).	You noticed a big cultural difference. Even if Scout is considered an aggressive company, it was much less aggressive that Talent. Talent was more aggressive, more stressful and put more pressure on managers and employees (Talent manager). Scout decided to undertake a divestiture to create a new corporate culture (Talent manager).	We reduced the structure, which was rigid, with old people who believed they were functionaries and essential to the company. They were also not prepared for their positions. We introduced new and young people (LogiCo Director). We taught our employees to work in a team. We taught them to work in a global company, (LogiCo Director). It is the cultural change to affect the economic improvements (LogiCo Director).	It is more entrepreneurial. It is more committed to quicker actions, faster decision making (High Senior VP). One of the initiatives that we are taking now is to change the culture of the company (Next Exec VP).	It definitely became more entrepreneurial. Now what they do is to come out much more dynamic, looking at the market, understanding where the opportunities are and developing the chips there (Pressed Senior Director).
New and independent identity	NO: Focus was still perceived to be a block of Imitator (Focus manager)		The announcement of the divestiture had a low profile: Talent is described as an independent company. It had great legitimacy as a company and as a product. (Talent manager)	Our company and our clients had an increasingly international perspective. A new structure, a new dimension (LogiCo CEO)	We try to disentangle that, to make the CEO responsible, make it physically independent (High Senior VP). We had to take a stand from the big company to become a separate company creating separate entities (Next Exec VP)	We had some problems with creating a picture of a new company, a new brand name and with fighting for a new position in the market (Offspring manager).
Sense of opportunity	NO: My opinion is that it was not performing well at all. Every year it lost, against the big ones. A lot of people were leaving. There were big cultural problems (Focus Director) The problem was the drastic fall of our expectations, rather than the fact that our business was becoming less profitable (Focus manager).	Divestitures do not need to be negative. They can spawn from strategic evaluations. In this case, people have no fear. They have to perceive it as something odd, as an opportunity (MetalCo CEO).	For them all it was an opportunity (Scout employee). Talent employees for sure lived the whole experience as an opportunity. An opportunity to work in a start-up environment while still having the tranquillity of a back-up of a company like Scout (Scout manager).	We had the feeling the company was interesting for the international market (LogiCo CEO). The directors, we all believed the company was worth more than what the shareholders said (LogiCo Director).	Once the company is transferred, they feel that they have their own company. More independence, they also feel the responsibilities, but also more possibilities to act (High Senior VP). It was very clear to Next that we were not dumping them, that we were just creating the strongest company (High VP).	It is in human nature that people obviously look at it as a threat (Pressed Senior Director). I think it wasn't just individually that I thought it was an opportunity. It was at division or group level that it was felt we should be in charge of our own fate (Offspring employee) The threat was that we lost the Pressed brand name, and that we were a smaller company, in an industry of big guys, we had less resources (Offspring

						employee).