

**Managerial Ownership, Board Structure, and the  
Division of Gains in Divestitures**

Robert C. Hanson

Department of Finance and CIS  
College of Business  
Eastern Michigan University  
Ypsilanti, MI 48197-2201

Moon H. Song

Department of Finance  
College of Business Administration  
San Diego State University  
San Diego, CA 92182-8236

First Draft: December 26, 1996  
Today: November 10, 1997

For presentation at the 1997 Financial Management Association's annual meeting. Preliminary, please do not quote without permission. An earlier version of this paper was titled "The Source of Value Creation in Divestitures: Real Gains or Wealth Transfers?"

file: fma01.wpd

## **Managerial Ownership, Board Structure, and the Division of Gains in Divestitures**

### **1. Introduction**

Research shows that transferring divisions, lines-of-business, and assets from one firm to another benefits both sellers and buyers. Rosenfeld (1984), Jain (1985), Hite, Owers, and Rogers (1987), Sicherman and Pettway (1992), among others, show that the divesting firm's shareholders receive significant excess returns of about 1.3% when asset sales are announced. These authors also show that the buying firm's shareholders gain a significant 0.9% from these transactions. Although the magnitudes of these percentage gains are well documented, whether divestitures produce significant *overall* dollar gains and how these gains are divided between firms remains unresolved. In addition, recent studies show that managerial stock ownership and the structure of the board of directors affect gains in takeovers and management buyouts, but not well understood is whether ownership and board structure affect the division of gains in divestitures.<sup>1</sup>

Recent studies have examined cross-sectional variations in returns to divesting firms in an attempt to identify their source. Kaplan and Weisbach (1992) suggest that gains arise from the sale of unsuccessful prior acquisitions. Lang, Poulsen, and Stulz (1995) argue that gains come from reducing information asymmetries and the costs of managerial discretion. John and Ofek (1995) show that asset sales which increase corporate focus generate gains. These studies suggest that divestiture create real gains in the selling firm by removing negative synergies or reducing market imperfections. Although fewer studies focus on the source of gains to buyers of divested assets, they also suggest that synergistic gains arise from combining the divested assets with existing operations. Sicherman and Pettway (1987) and John and Ofek (1995), for example, show that returns to buyers of divested assets are larger when the purchased assets are related to

---

<sup>1</sup> See, for example, Stulz, Walkling, and Song (1990), Byrd and Hickman (1992), Lee, Rosenstein, Rangan, and Davidson (1992).

existing operations.

This research estimates synergy gains received by each firm and the total synergy gain created by the divestiture. We extend these results by investigating what role managerial stock ownership and board structure of the divesting firm plays in the division of gains. Motivated by earlier research, we suggest that divestitures create positive dollar gains overall and in each firm. Our main hypothesis, however, suggests that the divesting firm's gain should be related to ownership and board structure because of reduced agency costs, better bargaining, and more efficient monitoring. Our findings, however, suggest that, overall, divestitures do not produce significant positive synergy gains, but when gains are positive, ownership and board structure play a significant role in increasing the divesting firm's gains.

## **2. Sources of Gains and Wealth Transfers**

Shareholder wealth gains surrounding announcements of divestitures mask a complex two-way process where synergistic gains could arise from within either the buying firm or selling firm and be divided up and transferred from one firm to the other during the bargaining process.<sup>2</sup> Whether the gains arise in the selling firm, the buying firm, or both firms remain unresolved. Also unresolved is whether divesting firm gains reflect real synergy gains, perhaps from removing negative synergies, rather than wealth transfers from the buying firm.

---

<sup>2</sup> Although in some divestitures the price may be set in a sealed bid auction, see for example Baker and Wruck (1989), typically the price is negotiated.

### 2.1. Gains

Asset sales create value within the divesting firm because the sale removes negative synergies. For example, the sale of unrelated assets that interfere with core operations would make the firm more focused and gains would ensue as the firm concentrated on its core competencies (Hite, Owers, and Rogers, 1987; John and Ofek, 1995). Alternatively, the sale may correct past mistakes, such as failed acquisitions (Kaplan and Weisbach, 1992), or new projects that perform below expectations (Weston, 1989). In addition, the sale may remove assets that benefit managers more than shareholders (Shleifer and Vishny, 1989), or assets with manager-specific returns (Weisbach, 1995). Shareholders could also benefit from asset sales when this is the least costly source of funds. Lang, Poulsen, Stulz (1995) argue that shareholders gain from asset sales when the sale reduces information asymmetries by resolving uncertainty about the true value of the assets, and when these proceeds are used to pay down debt or distributed to shareholders.

Gains could also originate within the buyer. Hite, Owers, and Rogers (1987), among others, suggest that divestitures move assets to higher valued uses and the divesting firm's shareholders capture some of the gains through effective bargaining. The buyer creates gains from positive synergies by combining the divested assets with complementary resources, thereby benefitting from economies of scale and scope. John and Ofek (1995) refer to this as the fit hypothesis and they find, consistent with the hypothesis, higher returns to divestitures that increase focus. Buyers would benefit by managing the assets with a more efficient organizational structure or contracting scheme, although this would apply more to management buyouts and not the interfirm divestitures that we analyze. Finally, shareholders of the buying firm may benefit if the purchase uses up free cash flow that would otherwise be wasted on negative net present value projects (Jensen, 1986).

This discussion suggests that divestitures generate positive gains in each firm and in total that reflect removing negative synergies and creating positive synergies from economies of scale or scope. In sum,

divestitures will benefit both buyer and seller.

## 2.2. *Wealth transfers*

Evidence shows that buyers and sellers gain from divestitures. The buyer's gain, however, may not reflect anticipated improvements in operations, but may reflect a wealth transfer from the seller. Likewise, the seller's gain may not reflect the removal of negative synergies, but merely overpayment by the buyer.<sup>3</sup> Stated differently, although a divestiture could create real gains in both firms, it may create real gains in only one firm, or in neither firm. If neither side creates synergy gains, the divestiture would be a zero sum game, and one side would benefit at the expense of the other side. Thus, through the bargaining process, both buyer and seller try to capture gains created by the other party.

---

<sup>3</sup> We are not concerned with wealth transfers between bondholders and stockholders as analyzed by Agrawal and Mandelker (1987).

Divesting firm shareholders will gain even in the absence of negative synergies as long as the buyer is willing to pay more for these assets than they are worth to the divesting firm. The buyer may transfer some synergy gains to the seller during the negotiating process if there are competing bids.<sup>4</sup> Alternatively, the high price paid may merely reflect overpayment. Buyers could overpay because of uncertainty about the true value of the assets, the winner's curse, or the buyer overestimate his ability to manage the assets (Roll, 1986), or the buyer is acquiring manager-specific assets (Shleifer and Vishny, 1989).

On the other hand, the divesting firm may sell the assets at too low a price, a price below true or intrinsic value, thereby transferring value to the buyer. Even though the price may be too low, shareholders may still benefit if the sale is used to raise funds (Lang, Poulsen, Stulz, 1995) and in the process reduces information asymmetries and agency costs. In addition, shareholders could benefit from a forced sale needed to meet regulatory requirements. For example, divesting firm shareholders could benefit to the extent that the sale resolves antitrust concerns arising from a recent acquisition and reduces uncertainty about the success of the acquisition. On the other hand, shareholders may not benefit if the low price results from asset illiquidity (Shleifer and Vishny, 1992). Along these lines, Brown, James, and Mooradian (1994) find that asset sales by financially distressed firms where the proceeds are used to pay down debt generate negative returns, in contrast to positive returns for similar asset sales by healthy firms (Lang, Poulsen, Stulz, 1995).

Divestitures that generate wealth transfers also generate different predictions about the division of gains. Buying firms that overpay may not benefit, even though they create synergistic gains, if all gains are transferred to the seller. By overpaying we mean paying more for the assets than they are worth to the selling

---

<sup>4</sup> Bradley, Desai and Kim (1988) show that in successful tender offers most of the synergistic gains are transferred to the target firm, especially during multiple-bid offers. Since divestitures rarely involve multiple bidders, Jain (1985) reports that more than one firm seldom came forward to negotiate with the seller, the magnitude of wealth transfers should be smaller.

firm, but not overpaying by more than the synergy gains created. When buyers make poor acquisitions and create negative synergies, no wealth transfers take place, and total gains will likely be negative.

### *2.3. Ownership structure and gains*

Theory suggests that stock ownership by the divesting firm's managers will affect shareholder gains from divestitures in several ways. First, higher levels of ownership will force managers to bear the costs related to negative synergies and, thus, provide incentives to sell assets that reduce firm value and to improve operations afterwards. Second, low levels of ownership will make it less costly for managers to deviate from a value maximizing strategy, perhaps by acquiring unrelated assets or assets that are more valuable to them than to shareholders. When these value reducing assets are divested, motivated by the threat of takeover or dismissal, the gains will be larger. Finally, ownership will provide managers an incentive to be better bargainers when they negotiate the price. This argument parallels Song and Walkling (1993) who argue that ownership by target firm managers gives them incentive to negotiate a higher price once the decision to merge has been made. In takeovers, however, control of voting rights give managers the power to strike a hard bargain, whereas in divestitures the incentive to bargain hard arises from control of claims on the firm's cash flow. In asset sales, hard bargaining promotes the buyer to overpay and allows the seller to capture synergy gains created by the buyer. Thus, we expect a positive relation between the divesting firm's synergy gains and the stock ownership of its managers.

### *2.4. Board structure and gains*

Directors play an important role in the corporate governance process. Their primary responsibility involves monitoring managers, but board responsibilities also include assessing managerial performance, deciding the tenure and compensation levels of senior managers, providing advice, and providing links to other organizations. The importance of each function varies from firm to firm and influences board

composition. Among the mechanisms that help align the actions of managers with the interests of shareholders, such as the threat of takeover or forces associated with the product and factor markets or the managerial labor market, it is the board of directors that has the power to quickly remove managers or change compensation levels if warranted by poor performance or bad decisions. Absent strong external monitoring, outside shareholders would view monitoring and assessing management as the most important function of the board, and a function more reliably accomplished by independent outside directors.

Recent research suggests that boards are somewhat effective in fulfilling their responsibilities as monitors and advisors. For example, Baysinger and Butler (1985) find a significant noncontemporaneous relation between board composition and firm performance, although Hermalin and Weisbach (1992) find no relation between board composition and Tobin's  $q$ . Rosenstein and Wyatt (1990) find a significant positive market response to the appointment of additional outside directors, suggesting that the market expects better performance with more outside directors. Research by Brickley, Coles, and Terry (1994), Byrd and Hickman (1992), Lee, Rosenstein, Rangan, and Davidson (1992), and others, shows that board composition matters and that outside directors provide effective monitoring. These studies find significantly higher returns at announcements of poison pills, tender offers, and management buyouts when outside directors dominate the board.<sup>5</sup>

---

<sup>5</sup> Brickley and James (1987), Hermalin and Weisbach (1988), and Kaplan and Reishus (1990) find evidence that supports the notion that the board provides advice, guidance, and links to other organizations.

In this study, we assume that *outside* directors will have a positive effect on resolving agency problems and motivating managers to sell assets that produce negative synergies. The board, for example, will promote asset sales that increase corporate focus and reduce diversification that benefits managers more than shareholders. For example, outside directors may motivate managers to sell assets that they are reluctant to sell (Boot, 1992) or assets that are part of an unsuccessful acquisition (Kaplan and Weisbach, 1992). In addition, when assets are sold to raise capital that will be retained for general corporate use, the board will provide effective monitoring to insure that managerial discretion over the use of these funds does not harm shareholders. Finally, outside directors will facilitate the search for buyers that can offer the best price, and help the firm avoid an incomplete search that locates only the penultimate offer. Thus, we expect a positive relation between the degree to which outside directors influence the board and the synergy gains that arise from the divestiture.

### **3. Data and Methods**

#### *3.1 Sample*

We collect our sample from *Mergers and Acquisitions* and select transactions classified as divestitures, have a value listed, and were also announced in the *Wall Street Journal*. The initial sample consists of 152 divestitures announced from April 1987 to July 1991 with buyer paired with seller and both firms listed on CRSP. Our search of Q-file proxy statements for information about board structure and managerial stock ownership for the year of the divestiture reduces the sample to 96 buyer-seller pairs.

Following the scheme used by Baysinger and Butler (1985), Byrd and Hickman (1992), Brickley et al. (1994), among others, we classify the selling firm's directors based on their economic or personal ties to the firm. Directors are classified as *inside* if they are current or past employees or are related to the firm's chief executive or part of the founding family. Directors fall into the *gray* area if they have a close but

indirect relation with the firm such as consultants, lawyers, or executives of firms with a business relationship with the firm. Otherwise, directors are deemed independent *outside* directors such as executives of unrelated firms, private investors, or directors from outside the business community.

### *3.2. Empirical methods*

We calculate synergy gains to the buyer and seller following the method that Bradley, Desai, and Kim (1988) employ to estimate synergy gains in takeovers. Excess returns are found using the market model with parameters estimated over a 240-day period ending 60 days before the initial announcement of the divestiture. We calculate cumulative excess returns from five days before the initial announcement to five days after the effective date of the divestiture. On average, returns are cumulated over a 24.6 day (median 11 day) window, and the window varies from 11 days to 128 days. Dollar gains for each firm are found by multiplying the cumulated excess return by the market value of equity at the last day of the month prior to the initial announcement.

## **4. Empirical Results**

### *4.1. Sample Description*

Table 1 presents descriptive statistics for our sample of divestitures. We partition the sample by the total dollar gain from the divestiture to facilitate analysis of how ownership and board structure affects the division of gains. Stulz, Walkling, and Song (1990) motivate this partition because they suggest that in takeovers there is no need for the target gain to have a positive relation to the total gain when the total gain is negative. This should apply to divestitures as well. To the extent that divestitures are voluntary, they should generate gains for the divesting firm, which we suggest will depend on ownership structure. In addition, gains may be transferred from the buyer during the bargaining process, and again we expect that the sellers

incentive to negotiate hard will depend on ownership structure. In other words, we expect divestitures to create positive gains for each firm and overall. Our main hypothesis suggests that how the total gain is divided between buyer and seller will depend on the seller's ownership and board structure. But division of gains makes sense only when total gains are positive. When total gains are negative, the notion of dividing gains between buyer and seller does not have any meaning.

Table 1 shows that divested assets were valued at \$233 million on average, and that the value of the transaction was slightly larger when total gains are negative. By comparison, the mean values of the transactions in our sample are nearly four times larger than that reported by Hite and Vetsuypens (1989), about twice the value reported by Lang, Poulsen, and Stulz (1995), and nearly 25 percent larger than Sicherman and Pettway's (1992) sample, but 60 percent as large as John and Ofek's (1995) sample. Different time period and different sample selection procedures account for the size differences. Table 1 also shows that the buyer is more than twice as large as the seller, \$6,827 vs. \$3,176 million, before the divestiture. By comparison, John and Ofek (1995) report buyers and sellers having similar values of about \$4.7 billion. As with the size of the transaction, equity values are higher when the total gain is negative. But these size differences are not significant.

#### *4.2. Ownership and board structure*

Table 2 describes the ownership and board structure of the divesting firm. Officers and directors of the divesting firm own 10.2% of the firm's stock while the CEO controls on average 4.1% of the shares. These levels of ownership are lower than the 13% reported by Lang, Poulsen, and Stulz (1995), but not unexpectedly so given the larger firms in our sample. Board insiders own 8.0% of the shares while outside directors own 1.6%. An interesting result is that each category of ownership is higher conditional on the divestiture producing positive total gains. In terms of board structure, outside directors make up 47% of the

average board. These results contrast with Lee, Rosenstein, Rangan, and Davidson (1992) who find that outside directors dominate the board in their samples of going private (59%) and management unit buyout (60%) transactions. But our value is higher than the 39% reported by Byrd and Hickman (1992) for acquirers and the 38% reported by Brickley, Coles, and Terry (1994) for firms adopting poison pills. Our results support the notion that, conditional on total gain, ownership and board structure play an influential role in motivating managers to make value increasing divestitures.

#### *4.3. Synergy gains*

We find, consistent with previous studies, that divestiture announcements produce positive cumulative excess returns on average. Table 3 shows that divesting firms receive cumulative returns of 2.403% ( $t=2.19$ ) over an average window of 24.6 days, while buyers receive 0.777% ( $t=0.97$ ). John and Ofek (1995) also find a similar pattern of significantly positive returns to sellers and positive but not statistically significant returns to buyers. The value weighted total percentage gain is positive (0.610%,  $t=1.04$ ) but not statistically significant. Although not shown in Table 3, the equally weighted total return, representing equal dollar rather than equal percentage investments, is significantly positive (3.180%,  $t=2.28$ ). These returns suggest that divestitures create small synergy gains in both firms and in total. Dollar returns, however, tell a different story. Divesting firms receive positive dollar synergy gains of \$6 million on average, which is less than 1 percent of the firm value, but t-tests and Wilcoxon signed-ranks tests show that the gain is not statistically different from zero. Buying firms, although receiving positive percentage returns, receive synergy gains of minus \$59 million, which again is not statistically significant. Negative gains suggest that the buyer is not expected to create positive synergies from the purchased assets, or that the buyer overpaid, especially larger buyers. The negative synergy gains to buyers overwhelm the positive gains to sellers, and the pair-wise total synergy gain is minus \$53 million, but not significantly different from zero. On net, therefore, divestitures do not seem to create overall synergy gains.

Our results contrast with Sicherman and Pettway (1992) who find positive dollar returns to both buyers and sellers. Different samples and methods may explain the differences. Their sample is from 1981 to 1987 while our sample starts in 1987. Their higher gains, perhaps, reflect the active market for corporate control during the early 1980s that may have led to overly optimistic estimates of potential synergies from restructuring. Following the 1987 market crash, a less active takeover market and the credit crunch suggested by Comment and Schwert (1995) may have led to more subdued estimates of synergy gains. In addition, they calculate dollar gains from two-day announcement excess returns whereas we use a variable-length window from initial announcement to effective date.

#### *4.3. Regression results*

Section 2 develops the relation between the divesting firm's synergy gains and ownership and board structure. We expect that managerial stock ownership and outside director board membership to be positively related to the divesting firm's share of total synergy gains. Because there is no necessary relation between these measures and the share of gain when total gains are negative, we estimate regressions allowing for different effects of positive and negative total dollar synergy gains. In other words, we expect positive coefficients for ownership and board structure variables when total gains are positive. Ideally we should use the divesting firm's share of the total dollar gain as the dependent variable, but this measure is undefined when total gains are negative. Thus, in our regression analysis we use the divesting firm's cumulative excess return as our dependent variable.

Table 4 shows regression estimates of the divesting firm's cumulative excess return on measures of ownership and board structure. Regressions 1 and 2 employ ownership by officers and directors as a measure of ownership structure, while regressions 3 and 4 use CEO ownership. We use a dummy variable that equals

one when total dollar gains are positive to create an interactive term that isolates the effect of ownership on gains conditional on positive total gains. Regressions 2 and 4 add the fraction of outside directors to control for board structure. Previous studies, for example Lee, et al. (1992), that assess the influence of outside directors generally focus on events where outside directors dominate the board. We assume that outside directors could exert significant influence even though they do not dominate the board. Strong outside directors could form coalitions with gray directors and sympathetic inside directors to persuade the CEO to follow a strategy more in line with shareholder interests. We view board domination as a too stringent measure to assess the effect of outside directors on gains. Thus, we use the continuous variable the fraction of outside directors to measure board structure. Again, a dummy variable isolates the relation between board structure and gains.

Regressions 1 and 2 show that ownership by officers and directors has a significant positive effect on returns, conditional on positive total gains. Regression 2 further shows that the fraction of outside directors has a highly significant positive effect on returns when total gains are positive. When total gains are negative, the coefficients for the ownership and fraction of outside directors are negative and not significant, except for ownership in regression 1 which is marginally significant ( $p=.10$ ).<sup>6</sup> For comparison with earlier studies, we estimate a regression similar to regression 2 in Table 4 but substitute for our continuous measure of outside director influence a dummy variable that equals one when outside directors make up more than half the board. The coefficient of the interactive term  $\text{outsider control dummy} \times \text{gain dummy}$  is positive and significant at the 1 percent level. Thus, by either measure of influence, outside directors significantly benefit the selling firm's shareholders when total gains are positive.

---

<sup>6</sup> We estimate regressions that include the size of the divesting and buying firms, but the coefficients of these variables are never significant, while the coefficients of the interactive dummy variables remain

In regressions 3 and 4 we use CEO ownership to assess the robustness of officer and director ownership as a measure of ownership structure. Again, the coefficients are strongly significant and CEO ownership produces higher adjusted R-squares than regressions 1 and 2. Regression estimates suggest that when positive synergy gains are created, stock ownership and outside directors increase the gains to the divesting firm's shareholders. These results are consistent with the notion that stock ownership not only resolves agency problems, but also makes managers better bargainers. In addition, the results are consistent with the view that outside directors provide valuable monitoring of and advice to managers.

## **5. Conclusions**

We find that on average divesting firms receive significantly positive returns from the divestiture while buyers receive positive but not statistically significant returns. However, these positive percentage returns do not translate into significantly positive dollar returns. While divesting firms receive small positive dollar returns, sellers receive negative dollar returns. Combined, divestitures produce negative dollar returns, but these are not statistically significant. These returns suggest that divestitures produce small synergy gains in the selling firm, and are consistent with the view that divestitures remove assets that produce negative synergies. Our results do not support the notion that buyers generate positive synergies because the purchased assets provide a better fit their existing operations.

Our strongest results show the influence that the divesting firm's managerial ownership and board structure has on the firm's gains. When the divestiture creates positive total dollar synergy gains, the

---

significant.

divesting firm's returns are significantly related to ownership, both by officers and directors and by the CEO, and by the percentage of outside directors on the board. These results agree with the notions that higher levels of ownership give managers incentive to sell assets that create negative synergies, that ownership provides managers negotiating incentives for the hard bargaining that is necessary to retain these gains within the selling firm, or transfer gains from the buyer, and that outside directors fulfill their responsibilities as effective monitors and advisors to management.

## References

- Baker, G., K. Wruck, 1989, Organizational changes and value creation in leveraged buyouts: The case of The O.M. Scott & Sons Company, *Journal of Financial Economics* 25, 163-190.
- Barnhart, S. W., M. W. Marr, and S. Rosenstein. Firm performance and board composition: Some new evidence. *Managerial and Decision Economics* 15 (1994):329-340.
- Baysinger, B. D. and H. Butler. Corporate governance and the board of directors: Performance effects of changes in board composition. *Journal of Law Economics and Organization* 1 (Fall 1985):101-124.
- Boot, A., 1992, Why hang on to losers? Divestitures and takeovers, *Journal of Finance* 47, 1401-1424.
- Bradley, M., A. Desai, and E. H. Kim, 1988, Synergistic gains from corporate acquisitions and their division between the stockholders of target and acquiring firms, *Journal of Financial Economics* 21, 3-40.
- Brickley, J. A., J. L. Coles, and R. L. Terry. Outside directors and the adoption of poison pills. *Journal of Financial Economics* 35 (June 1994):371-390.
- Brickley, J. A. and C. James. The takeover market, corporate board composition, and ownership structure: The case of banking. *Journal of Law and Economics* 30 (1987):161-190.
- Brown, D.T., C.M. James, and R.M. Mooradian, 1994, Asset sales by financially distressed firms, *Journal of Corporate Finance* 1, 233-257.
- Byrd, J. and K. Hickman. Do outside directors monitor managers? Evidence from tender offer bids. *Journal of Financial Economics* 32 (October 1992):195-221.
- Comment, R. and G. W. Schwert, Poison or placebo? Evidence on the deterrence and wealth effects of modern antitakeover measures, *Journal of Financial Economics* 39 (September 1995): 3-43.
- Hermalin, B. E. and M. S. Weisbach. The determinants of board composition. *Rand Journal of Economics* 18 (1988):95-112.
- Hermalin, B. E. and M. S. Weisbach. The effects of board composition and direct incentives on firm performance. *Financial Management* 20 (1992):101-112.
- Hite, G. L., Owers, J. and R. Rogers, 1987, The market for interfirm asset sales, partial sell-offs and total liquidations, *Journal of Financial Economics* 18, 229-252.
- Hite, G. L. and M. Vetsuypens, 1989, Management buyouts of divisions and shareholder wealth, *Journal of Finance* 44, 953-970.
- Jain, P., 1985, The effect of voluntary sell-off announcements on shareholder wealth, *Journal of Finance* 40, 209-224.

- Jensen, M., 1986, The agency costs of free cash flow: Corporate finance and takeovers, *American Economic Review* 76, 323-329.
- Jensen, M., 1989, Eclipse of the public corporation, *Harvard Business Review*, September-October, 61-74.
- Jensen, M., 1991, Corporate control and the politics of finance, *Journal of Applied Corporate Finance* 4(2), 13-33.
- Jensen, M. and W. Meckling, 1976, Theory of the firm: Managerial behavior, agency costs and ownership structure, *Journal of Financial Economics* 3, 303-360.
- John, K. and E. Ofek, 1995, Asset sales and increase in focus, *Journal of Financial Economics* 37, 105-126.
- Kaplan, S., 1989, The effects of management buyouts on operating performance and value, *Journal of Financial Economics* 24, 217-254.
- Kaplan, S. N. and D. Reishus. Outside directorships and corporate performance. *Journal of Financial Economics* 27 (1990):389-410.
- Kaplan, S. and M. Weisbach, 1992, The success of acquisitions, Evidence from divestitures, *Journal of Finance* 47, 107-139.
- Lang, L., A. Poulsen, and R. Stulz, 1995, Asset sales, firm performance, and the agency costs of managerial discretion, *Journal of Financial Economics* 37, 3-37.
- Lee, C. I., S. Rosenstein, N. Rangan, and W. N. Davidson III. Board composition and shareholder wealth: The case of management buyouts. *Financial Management* 21 (1992):58-72.
- Maloney, M., R. McCormick, and M. Mitchell, 1993, Managerial decision making and capital structure, *Journal of Business* 66, 189-218.
- Palepu, K., 1990, Consequences of leveraged buyouts, *Journal of Financial Economics* 27, 247-262.
- Park, S. and M. Song, 1995, Employee stock ownership plans, firm performance, and monitoring by outside blockholders, *Financial Management* 24, 52-65.
- Roll, R., 1986, The hubris hypothesis of corporate takeovers, *Journal of Business* 59, 197-216.
- Rosenfeld, J., 1984, Additional evidence on the relation between divestiture announcements and shareholder wealth, *Journal of Finance* 39, 1437-1448.
- Rosenstein, S. and J. G. Wyatt. Outside directors, board independence, and shareholder wealth. *Journal of Financial Economics* 26 (1990):175-192.
- Shivdasani, A. Board composition, ownership structure, and hostile takeovers. *Journal of Accounting and Economics* 16 (1991):167-198.

- Shleifer, A. and R. Vishny, 1986, Large shareholders and corporate control, *Journal of Political Economy* 95, 461-488.
- Shleifer, A. and R. Vishny, 1989, Management entrenchment: The case of manager-specific investments, *Journal of Financial Economics* 25, 123-139.
- Shleifer, A. and R. Vishny, 1992, Liquidation values and debt capacity: A market equilibrium approach, *Journal of Finance* 47, 1343-1366.
- Sicherman, N. and R. Pettway, 1987, Acquisition of divested assets and shareholder wealth, *Journal of Finance* 42, 1261-1273.
- Sicherman, N. and R. Pettway, 1992, Wealth effects for buyers and sellers of the same divested assets, *Financial Management* 21, 119-128.
- Song, M. and R. Walkling, 1993, The impact of managerial ownership on acquisition attempts and target shareholder wealth, *Journal of Financial and Quantitative Analysis* 28, 439-457.
- Stulz, R., 1988, Managerial control of voting rights: Financing policies and the market for corporate control, *Journal of Financial Economics* 20, 25-54.
- Stulz, R., R. Walkling and M. Song, 1990, The distribution of target ownership and the division of gains in successful takeovers, *Journal of Finance* 45, 817-833.
- Tehrani, H., N. Travlos, and J. Waagelein, 1987, The effects of long-term performance plans on corporate sell-off-induced abnormal returns, *Journal of Finance* 42, 933-942.
- Weisbach, M. S. Outside directors and CEO turnover. *Journal of Financial Economics* 20 (1988):431-460.
- Weisbach, M., 1995, CEO turnover and the firm's investment decisions, *Journal of Financial Economics* 37, 159-188.
- Weston, J. F., 1989, Divestitures: Mistakes or learning, *Journal of Applied Corporate Finance* 2 (Summer), pp.68-76.

Table 1

Descriptive statistics about a sample of 96 divestitures from 1987 to 1991. Sample is partitioned by total dollar synergy gain. Value is the reported price paid for the divested assets. Seller's and buyer's equity are market values for the end of month preceding divestiture announcement.

	All Gains	Total \$ Gain > 0	Total \$ Gain < 0
Value of transaction (\$ millions)	233.32	203.36	270.24
Seller Equity value (\$ millions)	3,176.5	2,670.0	3,800.7
Buyer Equity value (\$ millions)	6,826.8	6,319.5	7,452.1
Number of divestitures	96	53	43

Table 2

Descriptive statistics about the divesting firm's ownership and board structure for a sample of 96 divestitures from 1987 to 1991. Sample is partitioned by the total dollar synergy gain.

	All Gains	Total \$ Gain > 0	Total \$ Gain < 0
Managerial ownership (%)	10.177	10.872	9.320
CEO ownership (%)	4.083	4.324	3.786
Inside director ownership (%)	8.023	7.948	8.114
Gray director ownership (%)	0.538	0.676	0.369
Outside director ownership (%)	1.615	2.247	0.837
Number of inside directors	3.80	3.53	4.14
Number of gray directors	2.36	2.23	2.54
Number of outside directors	6.10	6.17	6.02
Total number of directors	12.27	11.92	12.70
Fraction of outside directors (%)	47.0	47.9	46.0
Fraction of boards with outside directors > 50% (%)	40	22	18
Number of divestitures	96	53	43

Table 3

Percentage and dollar synergy gains for a sample of 96 divestitures from 1987 to 1991. Excess returns are cumulated from five days preceding the initial announcement to 5 days after the effective date of the divestiture. Total cumulative excess return is the value weighted average of the seller and buyer returns. Dollar excess returns are cumulative excess returns times dollar value of equity. Median values are shown in parentheses and t-statistics are shown in square brackets.

	Seller	Buyer	Total
Cumulative excess returns (%)	2.403** (0.574) [t=2.19]	0.777 (0.104) [t=0.97]	.610 (0.412) [t=1.04]
Dollar excess returns (\$ millions)	6.364 (4.046)	-59.499 (1.067)	-53.136 (3.914)
Number of divestitures	96	96	96

Asterisks indicate significantly different from zero at the 5% (\*\*), 10% (\*) level.

Table 4

Regression analysis of seller's cumulative excess returns on managerial ownership and board of director composition. Gain dummy equal one when total synergy gain is positive. Ownership is by officers and directors as a group in regressions 1-3, and ownership by the CEO in regression 4.

	Regression			
	1	2	3	4
Constant	1.7870 (1.44)	2.5664 (0.81)	1.4782 (1.35)	.3248 (0.11)
Ownership (Officers and Directors)	-.1470 (-1.67)*	-.0901 (-1.01)		
Ownership × gain dummy	.3519 (3.20)***	.2038 (1.80)*		
Fraction outside directors		-9.4867 (-1.46)		-5.9679 (-0.97)
Fraction outside directors × gain dummy		15.0961 (3.47)***		15.1382 (3.82)***
CEO Ownership			-.1521 (-1.13)	-.0731 (-0.56)
CEO Ownership × gain dummy			.6477 (3.57)***	.4948 (2.84)***
adjusted R <sup>2</sup>	.08	.17	.13	.24
F-test p-value	.01	.00	.00	.00

Gain dummy equals one if total synergy gain is positive. t-statistics are in parentheses. Asterisks indicate significance at the 10% (\*), 5%(\*\*), or 1% (\*\*\*) level.