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Do asset sales lead to improvements in operating performance?

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Abstra

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Notes

[1] The total value of the transactions in the divestiture market is about £108 billion while in the merger market the total value is about £262 billion (for the period 1985–1994). Source: Acquisitions Monthly.

[2] A management buyout occurs when the incumbent management team buy all the equity shares of either a firm or a subsidiary from current shareholders. A spin-off occurs when ownership of the divested asset is transferred to a new company formed by a pro-rata distribution of equity shares in the new company to current shareholders. An equity carveout occurs when ownership of the divested assets is transferred to a new company formed by the issue of equity shares in the new company to the public.

[3] The characteristics of firms that engage in asset sales and their plant level productivity changes have been examined by Maksimovic and Phillips (2001). They are unable t … s due to the nature o …

[4] The mo … l. (1992).

[5] The bo … t publicly traded. … e directly obtained …

[6] To t … lated using the mar …

[7] Median … servations that can …

[8] Note th … ear.

[9] For a firm with below average performance (i.e. IAOP ^{pre} <0), in the absence of the divestiture, IAOP ^{post} would further decline to values below zero, all else being equal. The interpretation of the constant term in the regression remains unaltered and as described below.

[10] In the non-competitive case, IAOP ^{post} would not revert to zero and would be expected to persist indefinitely.

[11] A value less than one and greater than zero reflects an imperfectly competitive market. Further, although one can expect the competitiveness index to vary across firms it is assumed that it is the same for all firms. It is possible to estimate firm-specific values if sufficient time-series data are available for each firm. There are only three time series observations (one for each year in the pre-divestiture period) and we do not, therefore, estimate firm-specific values. In the absence of some well- specified and feasible way of allowing the index to vary across divestor firms, it seems not unreasonable to assume a common value.

[12] For example, the approach typically adopted in studies searching for improvements in operating performance following a merger is to constrain β to be equal to one (Healy et al., 1992 is an exception).

[13] The Acquisitions Monthly publication defines a divestiture as a firm announcing the divestitu … pany (any segment …

[14] The o… t-divestiture performa… m the mean.

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