

Applied Financial Economics >
Volume 15, 2005 - Issue 2

159 Views | 11 CrossRef citations to date | 0 Altmetric

Original Articles

Sources of shareholders' wealth gains from asset sales

Abdul Magid Gadad & Hardy M. Thomas *

Pages 137-141 | Published online: 02 Feb 2007

Cite this article <https://doi.org/10.1080/0960310042000297917>

Sample our
Economics, Finance,
Business & Industry Journals
>> [Sign in here](#) to start your access
to the latest two volumes for 14 days

[Full Article](#) [Figures & data](#) [References](#) [Citations](#) [Metrics](#)
[Reprints & Permissions](#) [Read this article](#)

Abstract

This paper uses an event study approach to examine the performance improvements accruing to those UK firms making assets sales in a single divestiture. It is found that a divestiture announcement leads to an increase in shareholders' wealth of between 0.81% and 1.04% depending on the expected return model employed. The source of the wealth gain can be attributed to the relaxing of credit constraints achieved by reducing the level of debt.

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

Stark, Bob Wearing and seminar participants at the University of Essex. The usual caveat nevertheless applies.

Notes

The total value of the transaction 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.

See Saadouni et al. ([1996](#)).

The characteristics of those firms that engage in asset sales have been examined but the study does not investigate the source of any gains that may accrue (Maksimovic and Phillips, [2001](#)).

Efficiency: Jain ([1985](#)), Hite et al. ([1987](#)), Makismovic and Phillips ([2001](#)); Focus: John and Ofek ([1995](#)), Berger and Ofek ([1999](#)); Financing: Shleifer and Vishny ([1992](#)) and Lang et al. ([1995](#)) for the USA and for the UK Afshar et al. ([1992](#)), Lasfer et al. ([1996](#)).

R_{it} is $\ln(P_{i,t}/P_{i,t-1})$ and $R_{m,t}$ is $\ln(FT_{m,t}/FT_{m,t-1})$ where $FT_{m,t}$ stands for the FT All Share market index on day t .

The Acquisitions Monthly publication defines a divestiture as a firm announcing the divestiture of either a subsidiary of the firm or a division or unit of the company (i.e. any segment of the company other than a subsidiary).

The completion date of divestitures is often the same as the announcement date of the divestiture. The reason for this is that a large number of divestitures do not require shareholder approval and are therefore ‘announced’ at a later stage in the legal process

or after [About Cookies On This Site](#) determine.

The com We and our partners use cookies to enhance your website Accept All has been

experience, learn how our site is used, offer personalised

sale  features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate

on the web or interact with us across devices. You can

cookies. To learn more or manage your preferences, click

When the “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#) and [Cookie Policy](#) adjustment.

suggeste

0.81% ($z = 3.97$) and for day 1 was -2.08% ($z = -3.27$).



About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

For comparison, Afshar et al. ([1992](#)) have reported that on the announcement day, the shareholders' gain was 0.85% ($t = 5.23$) while Jain ([1985](#)) reported 0.45% ($t = 5.95$).

For $(t-1, t_0)$, the cumulative abnormal return was 0.66% ($t = 1.72$) with the market model 1.04% ($t = 3.09$) with the index model.

The R-squared values are low by conventional standards but not unusual in regressions that use abnormal returns as the dependent variable.

Related research ⓘ

People also read

Recommended articles

Cited by
11



About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings

Information for

Authors

R&D professionals

Editors

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

Open Select

Dove Medical Press

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

Keep up to date

Register to receive personalised research and resources by email



Sign me up



Copyright © 2024 Informa UK Limited [Privacy policy](#) [Cookies](#) [Terms & conditions](#)

[Accessibility](#)



Taylor & Francis Group
an informa business

Registered in England & Wales No. 3099067
5 Howick Place | London | SW1P 1WG

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our [Privacy Policy](#).

Accept All

Essential Only

Settings