STAKEHOLDER ORIENTATION AND DIVESTITURE ACTIVITY

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Abstract

We conceptualize divestitures as a costly alternative to the internal resolution of conflicts among stakeholders, albeit one that avoids the more costly liquidation of the firm. In firms that have lower stakeholder orientation (defined as the extent to which management focuses attention on and integrates the interests of multiple stakeholders in its decision-making), divestitures will be less costly than the internal resolution of stakeholder conflicts, while the opposite will be true in firms that have higher stakeholder orientation. Consistent with this argument, we document a negative relationship between stakeholder orientation and divestiture activity, using a unique dataset of 909 U.S.-based, publicly-listed firms from 2002 to 2015. This negative relationship is more pronounced for selloffs than for spinoffs, for selloffs of businesses that are unrelated to or located far from the divesting firm, and for selloffs to acquirers that are not alliance partners of divesting firms. The core contribution of this paper is to treat different types of divestitures as increasingly costly responses to conflicts among stakeholders, thereby populating the theoretical middle ground between negotiated adaptations of firms' governance structures and total firm failure. In so doing, this paper contributes to research at the intersection of stakeholder theory and corporate strategy.

Keywords: stakeholder theory, stakeholders, governance, divestitures, corporate strategy

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INTRODUCTION

Corporate strategy scholars have devoted significant effort to understanding when and why companies undertake divestitures (Brauer, 2006; Lee & Madhavan, 2010). Standard explanations include both industry-based motivations such as slowing growth, increasing competition, and technological change (Anand & Singh, 1997; Berry, 2010; Feldman, 2014; Porter, 1987), and firm-based drivers like poor performance, weak governance, and over-diversification (Chen & Feldman, 2018; Hayward & Shimizu, 2006; Hoskisson, Johnson, & Douglas, 1994; Kaul, Nary, & Singh, 2018; Markides, 1992, 1995). In this paper, we advance a novel explanation for divestitures that is rooted in stakeholder theory, a theoretical perspective that has grown in importance thanks to the recent increase in the attention that is being paid to stakeholders in both research and practice (e.g., Harrison, Phillips, & Freeman, 2019; Ioannou & Serafeim, 2015).

The core premise of stakeholder theory is that the ongoing contribution and co-specialization of resources by all of a firm's stakeholders—including employees, customers, suppliers, local communities, and shareholders—enable it to create value (Blair & Stout, 1999; Freeman, Harrison, & Wicks, 2007; Parmar et al., 2010), and indeed, to generate sustainable competitive advantage (Choi & Wang, 2009; Jones, Harrison, & Felps, 2018; Kaul & Luo, 2018). At times, however, stakeholder interests and demands may come into conflict, threatening the ongoing contribution and co-specialization of resources by the firm's stakeholders. Existing literature has proposed two solutions to such conflicts: either management can work to achieve a negotiated resolution among stakeholders (Klein, Mahoney, McGahan, & Pitelis, 2019), or, if that fails, the firm can be liquidated and its remaining value distributed to its residual claimants (Daigle & Maloney, 1994; Titman, 1984). In this paper, we introduce a third possible solution to conflicts among stakeholders: divestitures. We conceptualize these transactions as a costly alternative to the

negotiated resolution of conflicts among stakeholders within a firm's existing governance structure, albeit one that avoids the potentially even more costly liquidation of the firm.

There are numerous ways in which divestitures could be quite costly to stakeholders. For example, divestitures could disrupt long-term employment relationships (Gopinath & Becker, 2000; Stavrou, Kassinis, & Filotheou, 2007), harm local communities in which divesting firms or divested businesses are embedded (Berrone, Cruz, Gomez-Mejia, & Larraza-Kintana, 2010), or necessitate the reorganization of formal and informal practices, procedures, and routines that govern relationships with customers, suppliers, and employees (Semadeni & Cannella, 2011). Our core argument in this paper is that divestitures will arise endogenously in firms where the costs of these transactions to stakeholders are less than the costs of internally resolving stakeholder conflicts or of liquidating the entire firm. We identify the construct of stakeholder orientation as an important characteristic of the firms in which this will or will not be the case.

Stakeholder orientation is defined as the extent to which a firm's management focuses attention on and integrates the interests of multiple stakeholders in its decision-making (Gamache, Neville, Bundy, & Short, 2020; Harrison, Bosse, & Phillips, 2010; Jones et al., 2018). When conflicts among stakeholders arise in firms that have higher stakeholder orientation, the costs of internally resolving those conflicts will be less than those of divestitures, since these firms have more effective capabilities for coordinating among stakeholders (Bundy, Vogel, & Zachary, 2017), better relationships with them (Gibbons & Henderson, 2013), and stronger reputations for transparency and fair dealing (Mahoney, 2012). Conversely, when conflicts among stakeholders arise in firms that have lower stakeholder orientation, the costs of internally resolving those conflicts will exceed those of divestitures, since there is less stakeholder engagement, trust, and compromise in these firms (Bridoux & Stoelhorst, 2014; Bundy et al., 2017; Reynolds et al., 2006).

We consider three sources of heterogeneity in divestitures. First, we theorize that the negative relationship between stakeholder orientation and divestiture activity will be more pronounced for selloffs than for spinoffs. While the higher costs of selloffs for stakeholders of divested businesses imply that these transactions will occur primarily in firms that have lower stakeholder orientation, the complexity of executing spinoffs suggests that these transactions will be concentrated among firms that have higher stakeholder orientation. Second, we posit that the negative relationship between stakeholder orientation and divestiture activity will be more pronounced for selloffs of businesses that are unrelated to or located far from the divesting firm. For firms that have lower stakeholder orientation, it may be less costly to simply sell off these kinds of businesses than to try to resolve conflicts involving their stakeholders. Third, we argue that the negative relationship between stakeholder orientation and divestiture activity will be more pronounced for selloffs to acquirers that are not alliance partners of the divesting firm. Because selloffs to alliance partners require stronger capabilities for managing stakeholder relationships, these transactions will occur primarily in firms that have higher stakeholder orientation, whereas selloffs to non-partners will be concentrated among firms that have lower stakeholder orientation.

We test and find support for all of our predictions using a unique sample of 909 U.S.-based, publicly-listed firms from 2002 to 2015.

This paper contributes to research at the intersection of stakeholder theory and corporate strategy. Specifically, by conceptualizing divestitures as an intermediate solution to the failed adaptation of a firm's governance structure that avoids total dissolution and liquidation, this paper populates the theoretical middle ground in between these two options. In so doing, we offer a novel explanation for the occurrence of divestitures, complementing traditional strategic and organizational explanations for the drivers of these transactions.

THEORY AND HYPOTHESES

Stakeholder theory

In stakeholder theory, firms and their business units are organized to bring together stakeholders with various resources (Freeman et al., 2007; Harrison et al., 2010; Parmar et al., 2010). Stakeholders are defined as all of the "groups and individuals who can affect, or are affected by, the strategic outcomes of a firm" (Harrison et al., 2010: 60). Accordingly, stakeholders include non-shareholding stakeholders as well as shareholders (Blair & Stout, 1999).

The firm lies at the center of this network of stakeholders (Rowley, 1997), which interact as a complex system for exchanging goods, services, information, technology, knowledge, money, and other resources (Freeman, 2010; Parmar et al., 2010). Non-shareholding stakeholders provide specialized and socially-complex assets and resources to the firm, such as their talents, skills, relationships, and capabilities (Barney, 2019; Jones et al., 2018). These kinds of assets and resources are often central to the firm's identity and may enable it to outperform its competitors (Berman, Wicks, Kotha, & Jones, 1999; Jones et al., 2018). Shareholders generally provide non-specialized resources—financial capital—to the firm (Barney, 2019; Harrison et al., 2019).

A mechanism is needed to govern the relationships, resource contributions, and potentially-competing demands of key stakeholders, and to protect their interests and investments (Asher, Mahoney, & Mahoney, 2005; Blair & Stout, 1999; Klein, Mahoney, McGahan, & Pitelis, 2013). The firm's governance structure fulfills this function. Klein et al. (2019: 9) define a firm's governance structure as "the formal and informal rules and procedures that control resource accumulation, development, and allocation; the distribution of the organization's production; and the resolution of the conflicts of interest associated with group behavior (Blair & Stout, 1999; Chandler, 1962; Williamson, 1985)." Under this definition, a firm's governance structure identifies

which stakeholders are legitimate in influencing corporate decisions (decision rights) and regulates how the value that their joint investments create is distributed among them (claimancy rights).

The role of management in this conceptualization is to ensure the stability of value-creating, joint-production arrangements among stakeholders—in other words, to ensure the stability of the firm's governance structure (Lan & Heracleous, 2010). Stability in the firm's governance structure is desirable because it gives rise to joint value creation by stakeholders (Bridoux & Stoelhorst, 2014), which, in turn, creates profits for shareholders (Stout, 2012). When the stability of the firm's governance structure is threatened, the process of joint value creation is put at risk because stakeholders may stop deploying their specialized assets, capabilities, and resources (Klein et al., 2019). There is significant heterogeneity in the extent to which management is capable of preserving the stability of the firm's governance structure. In the next subsection, we identify the construct of stakeholder orientation as one important driver of this heterogeneity.

Stakeholder orientation and the stability of the firm's governance structure

Stakeholder orientation is defined as the extent to which a firm's management focuses attention on and integrates the interests of multiple stakeholders in its decision-making (Gamache et al., 2020; Harrison et al., 2010; Jones et al., 2018). In prior research, various terms have been applied to this construct, including "stakeholder engagement" (Cennamo, Berrone, Cruz, & Gomez-Mejia, 2012; Henisz, Dorobantu, & Nartey, 2014), "stakeholder management" (Friedman & Miles, 2002), and "stakeholder integration" (Heugens, van den Bosch, & van Riel, 2002), with few distinctions drawn among them.[1] "Stakeholder orientation" appears to be the term that is used in relevant recent literature on this topic, so we will adopt it in our theory and empirical analyses

[1] Another term that commonly appears in this body of literature is "stakeholder salience" (Mitchell, Agle, & Wood, 1997). Stakeholder salience refers to the degree to which management gives priority to competing stakeholder claims. Even in a firm that has high stakeholder orientation in the aggregate, management could give greater or lesser priority to competing stakeholder claims depending on the relative salience of those stakeholders.

as well. Furthermore, although various factors have been shown to drive stakeholder orientation (e.g., Bridoux & Stoelhorst, 2014; Cennamo et al., 2012; Crilly, 2011; Kacperczyk, 2009), we will take this characteristic as a given without delving into its origins (Berman et al., 1999).

In firms that have higher stakeholder orientation, management has developed a set of routines to build relationships with stakeholders, exchange information with them, and incorporate their interests into the firm's strategic choices (Bettinazzi & Zollo, 2017; Reynolds et al., 2006; Zollo, Bettinazzi, Neumann, & Snoeren, 2016), as well as a reputation for upholding implicit agreements not to expropriate quasi-rents generated by stakeholders' firm-specific investments (Mahoney, 2012).[2] In so doing, management may develop a more detailed understanding of the utility functions of their various stakeholders (Harrison et al., 2010), which can lead to a more appropriate allocation of resources and an enhanced ability to cope with unexpected changes (Blyler & Coff, 2003; Harrison et al., 2010). Stakeholders tend to respond to all of these features by increasing their resource contributions and commitments to the firm (Bosse, Phillips, & Harrison, 2009; Kaul & Luo, 2018). In a virtuous cycle, firms that have higher stakeholder orientation are therefore more likely to achieve and maintain stability in their governance structures (Kochan & Rubinstein, 2000).

By comparison, firms that have lower stakeholder orientation develop limited routines to exchange information with stakeholders and make minimal use of consensus in problem-solving (Jones et al., 2018). Management may view stakeholders as interchangeable economic actors, electing only to engage in arms-length transactional exchanges with them and to put few, if any, mechanisms in place to modify how value is distributed among them if their needs or preferences

[2] Managers might also be more motivated to devote effort to these ends, perhaps foreseeing some of the competitive (Jones et al., 2018) and reputational advantages (Zavyalova, Pfarrer, Reger, & Hubbard, 2016) of stronger stakeholder relationships, and perhaps exhibiting real concern for stakeholder interests (Berman et al., 1999; Harrison et al., 2010).

change (Bosse et al., 2009). Under these conditions, stakeholders have less incentive to disclose information about their utility functions, which would reveal their bargaining positions and weaken their ability to extract rents from the firm (Harrison et al., 2010). When faced with unexpected changes, moreover, stakeholders may be less willing to compromise to preserve their relationships with the firm. In a vicious cycle, companies that have lower stakeholder orientation may be less likely to achieve and maintain stability in their governance structures (Lan & Heracleous, 2010).

Stakeholder conflicts and governance adaptation

Thus far, we have articulated the importance of stability in the firm's governance structure, and we have identified higher stakeholder orientation as contributing to the maintenance of that stability. At times, however, conflicts may arise among one or more stakeholders within a firm. These conflicts can be exogenously-driven, for example, by changes in technology, demand, and institutional shocks (Klein et al., 2019; Pache & Santos, 2010), or they can be endogenously-determined by changes in the preferences and demands of stakeholders (Bundy et al., 2017; Ioannou & Serafeim, 2015). Regardless of the origin of these conflicts, there is value to resolving them. Doing so may minimize disruptions in stakeholders' joint-production arrangements, which ultimately enable the firm to create value (Kochan & Rubinstein, 2000).

Resolving conflicts among stakeholders may require adaptations of the firm's governance structure. Drawing on the concepts of claimancy rights and the divergence in the interests of enfranchised stakeholders, Klein et al. (2019) present a framework consisting of four pathways through which adaptations of a firm's governance structure may occur in the face of external stress to the institutional environment. Across all four of these pathways, Klein et al. (2019: 8) note that "changing the governance structure of organizations requires the collective action of essential stakeholders to find a negotiated arrangement that each sees as superior to non-engagement." For

instance, Klein et al. (2019: 11) provide the example of labor unions threatening to strike if management fails to meet their demands for better working conditions, and suggest that a governance adaptation that might resolve this conflict could be to have more inside directors elected by the employees who are making firm-specific investments. Alternately, when local communities call for reductions in pollution or emissions, a governance adaptation that might resolve this conflict could be to reallocate part of the firm's profits (i.e., the joint value created by the contributions of all stakeholders) to those communities in the form of monetary incentives or local investments. It is important to emphasize that these and any other adaptations to a firm's governance structure require that the joint value created by the firm is sufficient both to fulfill the requests of the claimant stakeholders and to ensure the continued participation of the firm's remaining stakeholders (Klein et al., 2019).

What happens when it is not possible to resolve conflicts among stakeholders by adapting the firm's governance structure? *In extremis*, the alternative to a negotiated arrangement among stakeholders leading to a successful adaptation of a firm's governance structure is the liquidation of the firm, accompanied by the distribution of its remaining value to its residual claimants, the shareholders (Daigle & Maloney, 1994; Titman, 1984). However, as Klein et al. (2019: 7, emphasis added) note, "comprehensive organizational failure is a dramatic and costly event that stakeholders seek to avoid *except in exceptional circumstances*." To provide a recent example, McClatchy Co. (the second-largest news company in the U.S.) declared bankruptcy after "executives fought for months" and "pursued multiple regulatory and legislative avenues to address its pension and debt obligations *before turning to the bankruptcy process*" (Hall, 2020, emphasis added). Ultimately, the firm was forced to declare bankruptcy since its pensioners and debtholders were unable to reach a satisfactory negotiated agreement.

This raises a key question: if it is not possible to reach a negotiated agreement to adapt the firm's governance structure, is there is an alternate solution (other than liquidating the firm) that can resolve conflicts among stakeholders? In what follows, we conceptualize divestitures as just such a solution. We theorize that these transactions will arise endogenously in firms with lower stakeholder orientation, where there is a greater cost (and hence, a lower likelihood) of reaching an agreement among stakeholders to adapt the firm's governance structure. In other words, when there is a conflict among stakeholders, divestitures economize costs in firms where stakeholder orientation is lower—these transactions are less costly to stakeholders than either trying to adapt the firm's governance structure or dissolving the entire firm.[3] We depict this logic in Figure 1.

-----Insert Figure 1 about here-----

Divestitures when governance adaptations fail

Divestitures can be costly in economic, social, psychological, and resource-based terms for stakeholders. Because these transactions separate a divested business from the divesting firm that previously owned it, divestitures can impose significant changes to the organization structures, top management teams, boards of directors, and procedures (especially those pertaining to resource allocation) of both of these entities (Bigley & Wiersema, 2002; Corley & Gioia, 2004; Feldman, 2016a; Karim, 2006; Moschieri, 2011; Semadeni & Cannella, 2011; Shimizu & Hitt, 2005). These changes can disrupt the existing relationships, assets, talents, skills, and capabilities of stakeholders in both the divesting firm and the divested business (Duhaime & Grant, 1984; Gopinath & Becker, 2000). For example, when DowDuPont announced that it would divide the newly-merged company into three independent firms, employees in the divesting firm were

[3] We again emphasize that economizing governance costs is not the only reason firms divest. Rather, this novel explanation for divestitures is a complement to the many motivations that the literature has proposed thus far (for useful summaries, see, for example, Brauer, 2006; Lee & Madhavan, 2010).

angered by the prospect of having to move to the different geographic locations where the divested businesses would be headquartered, and local leaders of the cities where Dow and DuPont were originally headquartered (Midland, Michigan and Wilmington, Delaware) expressed concern about the economic and social losses that the departures of the divested businesses would impose on their communities (Distefano, 2017). Alternately, in HP's recent spinoff, suppliers that provided chips and other technical inputs to HP needed to renegotiate contracts with HP Inc. and HP Enterprise, and customers that bought products from HP needed to develop separate relationships with the two new spinoff firms (Ovide & King, 2014).

Some firms might be better positioned than others to avoid divestitures as a costly way to resolve conflicts among stakeholders. In particular, firms that have higher stakeholder orientation would be expected to undertake fewer divestitures than firms that have lower stakeholder orientation. Firms that have higher stakeholder orientation have stronger capabilities for coordinating among stakeholders as well as better relationships with those stakeholders (Bundy et al., 2017; Gibbons & Henderson, 2012). Both of these would be expected to facilitate the engagement and cooperation of stakeholders when conflicts arise (Reynolds et al., 2006). Additionally, management may have developed a reputation for transparency and fair dealing (Mahoney, 2012). Under these conditions, stakeholders may be more willing to disclose their preferences and objectives to each other and to management, and even to accept compromises in their payoffs (Bridoux & Stoelhorst, 2014; Harrison et al., 2010). As a result, claimancy rules are likely to be more clearly specified during the renegotiation and more information may be available about the needs, preferences, and demands of various stakeholders (Harrison et al., 2010). All of these factors should facilitate a convergence among bargaining parties seeking to resolve conflicts, thereby reducing the costs of reaching a negotiated adaptation of the firm's governance structure

that resolves those conflicts, especially in comparison to the high costs of divestiture. This suggests that in firms that have higher stakeholder orientation, management may not need to resort to divestitures to remove contentious activities, and hence, that fewer divestitures will occur. This logic is illustrated in Figure 1 by the fact that the costs to stakeholders of divestiture are greater than those of internal renegotiation among firms that have higher stakeholder orientation.[4]

By contrast, in firms that have lower stakeholder orientation, routines and mechanisms to resolve conflicts among stakeholders while maintaining their continued engagement may be weak, if they even exist at all (Reynolds et al., 2006), and trust and goodwill may be low because relationships are more arms-length than relational (Bridoux & Stoelhorst, 2014; Mahoney, 2012). Stakeholders may have less information about each other's preferences (Harrison et al., 2010), and these parties may not be willing to compromise when their objectives come into conflict (Bundy et al., 2017). As Klein et al. (2019: 16) aptly note, "differences in the information possessed by stakeholders and distributional conflicts result in divergence among bargaining parties, which lowers the likelihood that the existing arrangement will adapt." Together, these points indicate that when conflicts among stakeholders arise in firms that have lower stakeholder orientation, the costs of reaching a negotiated adaptation to the firm's governance structure that resolves those conflicts (if doing so is even possible) may well exceed even the high costs of divestitures. This suggests that in firms that have lower stakeholder orientation, management may need to resort to divestitures to remove contentious activities, and hence, that more divestitures will occur. In Figure 1, this point is illustrated by the fact that the costs to stakeholders of divestitures are smaller than those of internal renegotiation among firms that have lower stakeholder orientation.

[4] We depict the costs of divestitures and liquidation as constant regardless of the firm's level of stakeholder orientation, though it is plausible to believe that those costs might instead increase in stakeholder orientation. Either way, the underlying logic we articulated above remains unchanged.

Hypothesis 1. There is a negative relationship between stakeholder orientation and divestiture activity.

Stakeholder orientation and divestiture modes

Thus far, we have argued that divestitures will occur in firms where stakeholder orientation is lower, suggesting that divestitures are an alternative to the dissolution of the firm when it is too costly to reach a negotiated agreement to resolve conflicts among stakeholders. Our theory also has implications for the mode of divestiture that will be utilized. The two most common modes of divestiture are spinoffs and selloffs. Spinoffs occur when a divesting firm issues shares in the divested business *pro rata* to its existing shareholders, resulting in the creation of a new, publicly-traded company (the "spinoff firm"). Selloffs occur when a divesting firm sells the divested business to an acquiring firm. From a stakeholder perspective, spinoffs and selloffs differ along two key dimensions: the costs they impose on stakeholders of the divested business, and the extent to which their execution requires the divesting firm to account for stakeholder interests.

First, selloffs are much more costly than spinoffs for stakeholders of the divested business. In a selloff, the divested business becomes part of the acquiring firm, a complex process in which stakeholders from both of these entities must work together to align their interests and to achieve new joint-production arrangements (Bosse, Harrison, & Hoskisson, 2020). This is consistent with research on the difficulties that acquiring firms face in integrating divested business units (Karim, 2006), and especially with recent theory on the challenges of synergy realization involving relationships with customers, suppliers, and other cooperative partners (Feldman & Hernandez, 2020). In a spinoff, by contrast, the divested business becomes an independent firm, into which many stakeholders from the divested business move after the separation. Consistent with this logic, Klein et al. (2019) note that spinoffs reflect the "enfranchisement change" pathway to governance

adaptation, in that the divergence of stakeholder interests is high prior to the adaptation, but this divergence is resolved by negotiating the exclusion of certain enfranchised stakeholders, such that their claimancy rights do not change (by much) after the adaptation.

To illustrate the distinction between selloffs and spinoffs in terms of their costs to stakeholders of the divested business, we offer a pair of contrasting examples. The first involves Albertson's, which sold 146 of its grocery stores in the southwestern U.S. to Haggen, a grocery company in the Pacific Northwest. These 146 grocery stores foundered under Haggen's ownership as existing customers left due to a lack of regional name identification and a misaligned pricing strategy. In turn, Haggen laid off numerous employees, resulting in negative press coverage and grievances from labor unions over the hastily-performed layoffs (Brickley, 2017). This example nicely illustrates how and why selloffs can be a particularly costly mode of divestiture for many stakeholders of divested businesses. The second example involves Armstrong World Industries, which separated its flooring and ceiling businesses via spinoff in 2015. In contrast to the Albertson's selloff, the CEO of Armstrong described this spinoff as follows: "We expect the separation to create minimal incremental operating expenses and result in no disruption to our customers, distributors, and suppliers. Both businesses will remain headquartered in Lancaster and we expect minimal impact on our employees" (Waters & Johnson, 2015).

Second, the execution of spinoffs requires the divesting firm to account for stakeholder interests much more intensively than does the execution of selloffs. From the perspective of managing stakeholder relationships and preserving stakeholder engagement, the process of effectuating a spinoff is highly complex (Alaix, 2014), requiring the divesting firm to divide and allocate employees, board members, and top managers between itself and the spinoff firm (Feldman, 2016a; Moschieri, 2011); to reconfigure customer and supplier relationships in both

companies (Feldman, 2016a; Semadeni & Cannella, 2011); to develop new compensation and incentive systems (Feldman, 2016b; Seward & Walsh, 1996); to establish new capital allocation processes (Feldman, 2016c; Gertner, Powers, & Scharfstein, 2002); to cultivate new relationships with analysts (Feldman, Gilson, & Villalonga, 2014; Feldman, 2016d); and to create new cultures (Corley & Gioia, 2004; Wiedner & Mantere, 2019). By comparison, the process of executing a selloff may not require the divesting firm to account for stakeholder interests as much, since the alignment of stakeholder preferences and the achievement of new joint-production arrangements occurs within the acquiring firm, not the divesting firm (Bosse et al., 2020).

Together, the relative costs of spinoffs and selloffs for stakeholders of divested businesses and the extent to which their execution requires the divesting firm to account for stakeholder interests imply that comparatively more selloffs will occur in firms that have lower stakeholder orientation. When conflicts among stakeholders arise in these firms, mechanisms to integrate stakeholder interests into decision-making and relationships among stakeholders may be too weak to facilitate the resolution of those conflicts, making it less costly to divest the business. Furthermore, since firms that have lower stakeholder orientation have weaker capabilities for managing stakeholder interests and reputations for upholding relational contracts, the more demanding process of executing a spinoff may simply be out of reach. Thus, in firms that have lower stakeholder orientation, selloffs may be the only viable solution to avoid a total liquidation when conflicts arise among stakeholders. Hence, relatively more selloffs will occur in these firms.

In contrast, the relative costs of spinoffs and selloffs for stakeholders of divested businesses and the extent to which their execution requires the divesting firm to account for stakeholder interests imply that comparatively fewer selloffs will occur in firms that have higher stakeholder orientation. When conflicts among stakeholders arise in these firms, the mechanisms to evaluate

and integrate stakeholders' interests and preferences may not be sufficient to achieve a negotiated agreement to adapt these firms' governance structures, resulting in divestiture. But, those mechanisms may well be sufficient to avoid selloffs, given their high costs for stakeholders of divested businesses. Furthermore, because firms that have higher stakeholder orientation may have stronger capabilities for managing stakeholder relationships and preserving stakeholder engagement (Harrison et al., 2010), they may more readily navigate the more complex process of executing a spinoff instead of a selloff (Alaix, 2014). Thus, in firms that have higher stakeholder orientation, spinoffs may also be a viable solution to avoid a total liquidation when conflicts arise among stakeholders, and hence, relatively fewer selloffs will occur in these firms.

Hypothesis 2. The negative relationship between stakeholder orientation and divestiture activity is stronger (more negative) for selloffs than for spinoffs.

Stakeholder orientation and selloffs

The core theoretical argument in this paper is that divestitures, especially selloffs, occur more frequently in firms that have lower stakeholder orientation because these transactions are less costly than internal renegotiation when conflicts arise among stakeholders. This has two key implications: one for the businesses that are divested in selloffs, and the other for the acquiring firms that buy divested businesses.

First, our theory implies that divested businesses will be those in which it would be more costly to resolve conflicts that have arisen among stakeholders than it would be to sell those businesses. This is likely to be the case for businesses that are unrelated to the firm's remaining operations or that are located far from its headquarters. When conflicts emerge that involve the stakeholders of a business that is unrelated to or distant from the firm, it might be very expensive to revise supplier contracts, transfer personnel between those entities, or renegotiate concessions

with local governments. Stakeholders of unrelated or distant businesses might display idiosyncratic, context-dependent needs and preferences, which could further complicate the renegotiation process (Zollo et al., 2016). Accordingly, when conflicts emerge that involve the stakeholders of unrelated or distant businesses, firms that have lower stakeholder orientation may not have the capabilities to resolve these more significant conflicts internally, resulting in selloffs of those businesses in particular. By comparison, firms that have a higher level of stakeholder orientation might be in a better position to internally resolve stakeholder conflicts in unrelated or distant businesses due to their stronger relationships with and capabilities for coordinating across stakeholders. Together, these points suggest that selloffs of unrelated or distant businesses will occur comparatively more frequently in firms that have lower stakeholder orientation.

Conversely, when conflicts emerge that involve the stakeholders of a business that is related or proximate to the firm, internal renegotiation might be more straightforward. The similarity in tasks, communication mechanisms, and potentially cognitive structures between the business and the firm might ease the renegotiation process and allow for faster convergence to an agreement (Bettinazzi & Zollo, 2017), regardless of the firm's level of stakeholder orientation.

Hypothesis 3. The negative relationship between stakeholder orientation and divestiture activity is stronger (more negative) when the divested business is unrelated to/geographically-distant from the divesting firm.

Second, in looking more closely at selloffs, it becomes apparent that these transactions are bilateral: when Firm A sells a business to Firm B, Firm B buys that business from Firm A (Feldman, Amit, & Villalonga, 2019). Just as selloffs arise endogenously in firms where it is more costly to internally renegotiate conflicts among stakeholders, the same is true for acquisitions: these transactions occur in acquiring firms when the contributions and demands of stakeholders

come into conflict and the costs of internal adaptation are too high. This implies that selloffs must *jointly* be less costly to stakeholders in *both* the divesting and acquiring firms than the internal resolution of conflicts in each of those firms. In other words, selloffs must economize governance costs on both sides of the transaction. One situation in which this is likely to occur is when the divesting and acquiring firms have a current or prior alliance relationship with one another.

Alliance partners develop routines, trust, and relational capital from their experience working together, leading to the generation of relational rents (Dyer & Singh, 1998; Krishnan, Martin, & Noorderhaven, 2006). Thus, when a divesting firm sells a business to one of its current or former alliance partners, the transition may be less costly for stakeholders of the divested business than if the divesting and acquiring firms have no such relationship. Additionally, the acquirer may take more steps to preserve relational capital that it has accumulated with the divesting firm, for example, by managing customers, employees, and even the heritage of the divested business with greater care and attention than it otherwise might (Zaheer, Hernandez, & Banerjee, 2010). Selling a business to an alliance partner may enable the divesting firm to preserve ongoing relationships with the divested business, for example, by continuing to use its capabilities, sharing information about customers or key market trends, or even maintaining existing supply relationships. For example, in one of their alliance relationships, United Technologies was a supplier of engine technologies to Boeing and the two companies jointly developed certain products (e.g., the V-22 aircraft). In 2005, Boeing sold its propulsion unit (Rocketdyne) to Pratt & Whitney, a subsidiary of United Technologies. The selloff was described as follows: "This transaction makes sense for Boeing, for Rocketdyne's employees and customers, and for Pratt & Whitney… I have great confidence that the proud legacy of Rocketdyne will be in good hands… Boeing [will] continue to build launch systems and the divestiture [will] enable Boeing to serve its

customers more effectively, while preserving the company's ability to contract with Rocketdyne for continued use of its capabilities and expertise" (Vivanco & Mitchell, 2005).

In firms that have lower stakeholder orientation, comparatively more selloffs will occur in which the divesting and acquiring firms are *not* alliance partners. When conflicts among stakeholders arise in these firms, mechanisms to integrate stakeholder interests into decision-making and relationships among stakeholders are so weak that it is too costly either to resolve those conflicts internally or even to avoid selloffs as a mode of divestiture. Furthermore, given the weakness of capabilities for managing stakeholder interests, these firms may not even contemplate the possibility that selling to an alliance partner (if they even have such partners in the first place) might enable them to preserve stakeholder relationships or minimize the costs of the selloff for their stakeholders. In other words, attempting to sell a divested business to an alliance partner may not even be a consideration for firms that have lower stakeholder orientation.

By contrast, in firms that have higher stakeholder orientation, comparatively more selloffs will occur in which the divesting and acquiring firms are alliance partners. When conflicts among stakeholders arise, the mechanisms to evaluate and integrate stakeholders' interests and preferences may not be sufficient to avoid divestitures or even selloffs as the mode of divestiture. But, because these firms have stronger reputations for upholding stakeholder relationships and preserving stakeholder interests (Harrison et al., 2010), they may attempt, if at all possible, to sell their businesses to their current or former alliance partners. Doing so could help them preserve the value of their stakeholder relationships (Jones et al., 2018) and avoid dissipating the reputations they have built over time (Mahoney, 2012). Firms that have higher stakeholder orientation may even be able to redeploy the capabilities they have for managing stakeholder relationships within their alliance partnerships, thereby easing the transition of stakeholders into the acquiring firm.

Hypothesis 4. The negative relationship between stakeholder orientation and divestiture activity is stronger (more negative) when the divesting and acquiring firms are not alliance partners.

METHODS

Sample and data

The sample in this paper consists of 909 publicly-traded U.S. companies from 2002 to 2015, for a total of 7,143 firm-year observations, and is constructed in the following way. The baseline sample comes from the Thomson Reuters Asset 4 database. The Asset 4 database has been used extensively in prior research to assess the degree of firms' stakeholder orientation and corporate social responsibility practices more generally (Bettinazzi & Zollo, 2017; Eccles, Ioannou, & Serafeim, 2014). This database includes ratings of listed firms along several dimensions that reflect how well firms meet the demands of civil society and the environment. Along each dimension, Asset 4 analysts assess several aspects of the firm's actions toward stakeholders, relying on independent rating experts that combine data from multiple sources, including questionnaires, annual reports, press releases, government surveys, and academic publications. Our baseline sample covers the universe of firms mapped by this database in the United States in all years in which it operated as an autonomous entity (2002-2015).

We collected data from the SDC Platinum M&A database on all of the divestitures (selloffs and spinoffs) that were announced and completed between January 1, 2002, and December 31, 2015 by the firms in the baseline sample. 592 companies undertook 3,720 divestitures during this period of time. SDC Platinum provided data on the entities that were involved in these divestitures (divesting firms, divested businesses, and in the case of selloffs, acquiring firms), including their headquarters locations and their industries. SDC Platinum also provided data on alliances between

the divesting and acquiring firms that were involved in these selloffs. Finally, Compustat provided firm- and segment-level data on the divesting firms in our sample.

Variables

Dependent variable. The dependent variable used to test Hypothesis 1 is the *number of divestitures* that firms undertake each year.

Hypothesis 2 predicts that the negative relationship between stakeholder orientation and divestiture activity will be stronger for selloffs than for spinoffs. To test this prediction, we distinguish between these two modes of divestitures by defining the number of spinoffs (*N spinoffs*) and the number of selloffs (*N selloffs*), using the "spinoff" flag in SDC Platinum.

Hypothesis 3 predicts that the negative relationship between stakeholder orientation and divestiture activity will be stronger for selloffs in which the divested business is unrelated to or distant from the divesting firm. We distinguish between selloffs in which the divested business is unrelated (*N selloffs of unrelated businesses*) versus related to the divesting firm (*N selloffs of related businesses*). Related businesses are those for which the primary SIC code of the divested business overlaps with that of the divesting firm by at least three digits.[5] We also distinguish between selloffs in which the divested business is distant from (*N selloffs of distant businesses*) versus proximate the divesting firm's headquarters (*N selloffs of proximate businesses*). Proximate businesses are those for which the distance between the zip codes of the divested business and the divesting firm's headquarters is less than the median distance in the sample (562 kilometers).

Hypothesis 4 predicts that the negative relationship between stakeholder orientation and divestiture activity will be stronger for selloffs in which the divesting and acquiring firms are not alliance partners. To represent this, we distinguish between selloffs in which divested businesses

[5] We obtain similar results when we use a comparable classification scheme based on NAICS codes.

are sold to acquirers that are or were not alliance partners of divesting firms (*N selloffs to non-partners*) versus acquirers that are or were alliance partners of divesting firms (*N selloffs to alliance partners*), each within 15 years of any given selloff.[6]

Key independent variable. The key independent variable is the firm's *stakeholder orientation*, reflecting the extent to which a firm takes the interests of its primary stakeholders into account. To construct this variable, we used measures of firms' orientations towards five categories of stakeholders: employees, customers, suppliers, local communities, and shareholders. For each stakeholder category, we used items from the Asset 4 database, which map the extent to which management implements practices to attend to that specific group of stakeholders and to integrate its interests into their decision-making. We report a complete list of the items used for each stakeholder category in Appendix A. To calculate *stakeholder orientation*, we normalized each of the stakeholder category scores on a zero to one scale, and then took the average of the five normalized scores.[7] Thus, *stakeholder orientation* ranges from lower (in which the firm is attentive to fewer of its stakeholders) to higher (in which the firm is attentive to more of its stakeholders).

Control variables. We include several control variables in our models. First, we measure *firm performance* using Earning Per Share (EPS). We measure *financial slack* as the current ratio (current assets over current liabilities), reflecting the immediate availability of financial resources. We control for *firm size* using the logarithm of the firm's total assets, since larger firms undertake fewer divestitures. We control for *interest coverage* ratio (EBIT over interest expense), measuring a firm's ability to meet the expectations of its debtholders and pressures to generate cash. We include *capital intensity* (capital expenditures over sales) to account for the intensity of firms'

[6] We obtain similar results when we construct this variable using alliances 20 and 10 years before any given divestiture.
[7] We replicated our main results by counting the number of stakeholder categories for which the firm's orientation to that group is above that of the average firm in the database.

investment activities and high exit barriers. We also account for the firm's *degree of diversification* (the number of segments in which a firm operates), since more diversified firms may be more likely to divest (Markides, 1992, 1995). We control for the number of *past acquisitions* in the previous three years, since the need to refocus after acquisitions may drive divestiture activity (Bennett & Feldman, 2017). We also control for the number of *past divestitures* in the previous three years, since prior divestitures might make firms less likely to divest again in the near future. We control for the *number of institutional investors*, as blockholders may influence strategic decision-making (Connelly, Hoskisson, Tihanyi, & Certo, 2010). We include the *percentage of independent board members* to reflect governance strength (Baysinger & Hoskisson, 1990). Finally, we include the average *industry profitability* (the average ROA of the companies in a firm's 2-digit SIC code) and the average *industry sales growth* (again based on 2-digit SIC codes) in the previous three years, to account for the effects of industry conditions on divestiture activity (Feldman, 2014). Table 1 reports summary statistics and a correlation matrix.

-----Insert Table 1 about here-----

Methodology

Given the longitudinal nature of our data, the need to control for potential (time-invariant) heterogeneity across firms, and the count nature of our dependent variable with a significant alpha dispersion parameter, we use a negative binomial model with robust standard errors and both firm and year fixed effects[8] to test Hypothesis 1 (Allison, 2006). We lag all independent and control variables by one year. These results are consistent when using (a) Poisson firm fixed effects models, (b) OLS regressions, and (c) logit regressions measuring whether a firm undertakes at least one divestiture in a given year.

[8] Since the Stata command for negative binomial regressions with fixed effects (*xtnbreg, fe*) has been shown to suffer from severe bias, we include individual firm dummies in standard negative binomial models (Allison, 2006).

To test Hypotheses 2, 3, and 4, we use simultaneously-estimated OLS regressions[9] with firm fixed effects to measure the intensity of selloffs versus spinoffs, selloffs of unrelated/distant businesses versus related/proximate businesses, and selloffs to alliance partners versus non-partners. We use Wald tests to determine whether the coefficients on *stakeholder orientation* in each pair of regressions are significantly different from one another.

Because our theoretical framework is explicitly premised on the point that divestitures arise endogenously in firms that exhibit certain levels of stakeholder orientation, we do not seek to account for the effects of non-random selection in our empirical models.

RESULTS

Table 2 reports the results of negative binomial regressions used to test Hypothesis 1. Model 1 is the baseline and includes control variables only. Consistent with firms divesting to reduce economic problems (Berger & Ofek, 1999), the coefficient of *firm performance* is negative (Duhaime & Grant, 1984; Shimizu & Hitt, 2005). The negative coefficient on *past divestitures* suggests that firms that have recently divested undertake fewer additional divestitures. The positive coefficient on *past acquisitions* suggests that companies that have recently undertaken M&A also undertake more divestitures (Bennett & Feldman, 2017). *Degree of diversification* and *firm size* are positive predictors of divestiture activity (Markides, 1992, 1995), as it is *industry profitability*.

Model 2 incorporates the key independent variable, *stakeholder orientation*. The negative coefficient on *stakeholder orientation* (-1.135, p=0.002) provides support for Hypothesis 1, revealing that the higher a firm's stakeholder orientation, the fewer divestitures it undertakes. To provide a sense of economic magnitude, we standardized the *stakeholder orientation* variable and

[9] *Sureg* command in Stata. We had to use simultaneously-estimated OLS regressions instead of negative binomial regression models with dummy fixed effects because the latter do not permit simultaneous estimation.

calculated the incidence rate ratio. A one standard deviation increase in *stakeholder orientation* is associated with a 14.4% decrease in the annual intensity of divestiture.

-----Insert Table 2 about here-----

Table 3 presents the results of simultaneously-estimated OLS regressions used to test Hypotheses 2. Consistent with this hypothesis, the relationship between *stakeholder orientation* and divestiture activity is significantly more negative for selloffs (-0.418) than for spinoffs (0.012) in Models 3 and 4 (Δ= -0.426, p=0.000).

-----Insert Table 3 about here-----

Table 4 presents the results of simultaneously-estimated OLS regressions used to test Hypotheses 3 and 4. Consistent with Hypothesis 3, the relationship between *stakeholder orientation* and divestiture activity is more negative for selloffs of businesses that are unrelated (-0.325) rather than related to the divesting firm (-0.081) in Models 5 and 6 (Δ= -0.244, p=0.066). The relationship between *stakeholder orientation* and divestiture activity is more negative for selloffs of businesses that are distant (-0.386) rather than proximate to the divesting firm (-0.184) in Models 7 and 8 (Δ= -0.202, p=0.060). Consistent with Hypothesis 4, the relationship between *stakeholder orientation* and divestiture activity is significantly more negative for selloffs to acquirers that are/were not alliance partners of the divesting firms (-0.407) than to acquirers that are/were alliance partners (-0.011) in Models 9 and 10 (Δ= -0.396, p=0.002).

-----Insert Table 4 about here-----

DISCUSSION AND CONCLUSION

Summary of results

This paper has analyzed divestitures through the lens of stakeholder theory. We conceptualize divestitures as a costly alternative to the resolution of conflicts among stakeholders

within a firm's existing governance structure, albeit one that avoids the potentially even more costly liquidation of the firm. From this starting point, we theorize that firms that have lower stakeholder orientation may have to resort to divestitures to remove contentious activities from their organizations, whereas firms that have higher stakeholder orientation may be better able to resolve conflicts internally. Consistent with this argument, we find that fewer divestitures occur in firms that have higher stakeholder orientation, and vice versa.

We have explored the heterogeneity in divestitures in three ways. First, we find that the negative relationship between stakeholder orientation and divestiture activity is more pronounced for selloffs than for spinoffs. The relatively higher costs of selloffs for stakeholders of divested businesses imply that this mode of divestiture will only occur when it is cheaper than the internal resolution of conflicts—that is, in firms that have lower stakeholder orientation. Furthermore, the complexity of executing spinoffs from the perspective of preserving stakeholder engagement suggests that this mode of divestiture will be a viable solution only in firms that have higher stakeholder orientation. Second, we show that the negative relationship between stakeholder orientation and divestiture activity is more pronounced for selloffs of businesses that are unrelated (rather than related) to or located far from (rather than close to) the divesting firm. For firms that have lower stakeholder orientation, it will be less costly to sell off unrelated or geographically-distant businesses than to try to internally resolve conflicts that involve stakeholders of these kinds of businesses. Third, we show that the negative relationship between stakeholder orientation and divestiture activity is more pronounced for selloffs to acquirers that are not alliance partners of the divesting firm than for selloffs to acquirers that are alliance partners of the divesting firm. While it may be less costly for firms that have higher stakeholder orientation to sell businesses to their alliance partners due to their stronger capabilities for managing stakeholder relationships, the same

is not true for firms that have lower stakeholder orientation. As a result, these firms will sell fewer businesses to their alliance partners and more businesses to non-partners.

Theoretical contributions

The core theoretical contribution of this paper is to conceptualize divestitures as an intermediate solution to the failed adaptation of a firm's governance structure that avoids total dissolution and liquidation of the firm. Existing research has persuasively argued that when conflicts arise among stakeholders within a firm's existing governance structure, those conflicts must be resolved in order to preserve the value-creating, joint-production arrangements that lead to profitability and the continued engagement of all stakeholders, including shareholders (Klein et al., 2019). At the same time, existing research has also argued that when negotiations to achieve governance adaptations fail, the alternative is a complete dissolution of the firm, accompanied by the distribution of its remaining value to its residual claimants, the shareholders (Daigle & Maloney, 1994). The contribution of this paper is therefore to populate the theoretical middle ground that lies in between these two extreme governance options, by articulating that there are certain situations in which divestitures may economize governance costs relative to these alternatives. This is novel theoretical territory, in that divestitures have not been conceptualized in this manner before, yet they appear to be a governance solution that is used in these circumstances.

Further to this point, this study conceptualizes various types of divestitures as increasingly intensive responses to governance failures. The core argument in this paper is that divestitures will occur in the firms where the costs of internal adaptations to the firm's governance structure exceed the costs of divestiture—that is, in firms where stakeholder orientation is lower. However, within the divestiture decision, a sub-decision must be made as to how to effectuate the removal of the divested business. Our theoretical framework informs this sub-decision: because selloffs are more

costly to stakeholders than spinoffs, but spinoffs are more complex to execute than selloffs, selloffs will occur more frequently in firms that have lower stakeholder orientation whereas spinoffs will occur more frequently in firms that have higher stakeholder orientation. Even within the sub-decision to undertake a selloff, the sub-sub-decision (so to speak) that must be made is to which acquirer to sell the divested business. Once again, our theoretical framework informs this choice by suggesting that firms with lower stakeholder orientation will sell relatively more businesses to acquirers that are not their alliance partners, whereas firms with higher stakeholder orientation will sell relatively more businesses to acquirers that are their alliance partners, perhaps to preserve relational capital with their stakeholders. Thus, our theory offers a hierarchy of governance alternatives from which management must select when faced with conflicts among stakeholders: adaptation of the firm's existing governance structure, spinoffs, selloffs to alliance partners, selloffs to non-alliance partners, and in the extreme, liquidation and dissolution of the entire firm.

Even further, our study illustrates how selloffs in particular may resolve misalignments that have arisen among stakeholders in divesting firms into better alignment within acquiring firms. Our theory and results indicate that the businesses in which stakeholder conflicts are the most costly to resolve will be those in which the needs and preferences of stakeholders diverge most significantly from those in the firm's remaining operations. In other words, these businesses are the locus of misalignments among stakeholders. This insight provides a novel way of interpreting existing findings that firms are more likely to divest unrelated (e.g., Comment & Jarrell, 1995; Markides, 1992, 1995) or distant businesses (Landier, Nair, & Wulf, 2009). While such businesses may indeed be good candidates for divestiture because of their operational differences or the difficulties of managing them from afar, our work suggests that one mechanism behind these complexities may be the high costs of resolving stakeholder conflicts in those units.

In terms of selloffs improving the alignment of stakeholders within acquiring firms, examples of this point abound in practice. For example, Nestlé's 2019 selloff of its confectionery business to Ferrero Rocher reveals that Nestlé's confectionery business is a better fit from a stakeholder perspective within Ferrero Rocher's pure-play portfolio of confectionery products than it was within Nestlé's diverse portfolio of food and health products. Alternately, the Albertson's example we provided earlier reveals that the geographic distance between Haggen and the 146 grocery stores that Albertson's sold it was what made it so difficult for Haggen to develop brand recognition, pricing strategies, and employee relations that were appropriate for the southwestern U.S. rather than the Pacific Northwest. Future studies could profitably expand on the idea that divestitures may resolve misalignments among stakeholders in divesting firms into better alignment within acquiring firms by exploring other aspects of the fit among divesting firms, divested businesses, and acquiring firms, consistent with recent research calling for greater attention to these issues (Feldman, 2020; Feldman et al., 2019).

The interplay between governance and scope

Together, this paper's contributions may prompt scholars working at the intersection of governance and scope to revisit and perhaps think differently about the role of managerial agency and motivation in divestiture and other corporate scope decisions.

Our study is explicitly premised on the notion that divestitures occur when conflicts arise among stakeholders that cannot be resolved internally. Distinct from this "need" based perspective, in which management divests only when it is cost-minimizing to do so, the behavioral tradition in stakeholder theory (Bundy, Shropshire, & Buchholtz, 2013) might instead propose a "want" based perspective, where management divests (or fails to divest) because they are or are not concerned about harming stakeholders' interests (Berman et al., 1999; Harrison et al., 2010; Jones et al.,

2018). The differences between these two perspectives, structural and behavioral, are thought-provoking and might open fruitful research opportunities, especially around the conditions under which one or the other perspective prevails in corporate strategic decision-making. It would be interesting to explore managerial perceptions and motivations vis-à-vis stakeholders in the context of divestitures and other scope-altering transactions, perhaps using in-depth qualitative methods.

The inertia that appears to exist against divestitures in public corporations can be seen as one manifestation of the distinction between the want and need based perspectives. The traditional view of divestitures is that, frequently for behavioral reasons, inertia against these transactions is quite high (Dranikoff, Koller, & Schneider, 2002; Shimizu & Hitt, 2005; Feldman, 2014), even though they are associated with improvements in stock market-based measures of performance like cumulative abnormal returns, Tobin's q, or analysts' forecast accuracy (Comment & Jarrell, 1995; Feldman et al., 2014; Feldman, 2016d; Gilson, Healy, Noe, & Palepu, 2001). Reimagined using the structural approach to stakeholder theory that we have adopted in this paper, these findings make perfect sense as well. Inertia against divestitures arises when it is cheaper for stakeholders to renegotiate governance conflicts amongst themselves than to be faced with the costly alternative of divestitures. Moreover, if firms ultimately do resort to divestitures, the positive returns that shareholders enjoy may serve as a form of compensation for allowing the remaining stakeholders to be free of the restraints of the firm's former governance structure. Investor returns to divestitures are usually positive because shareholders are freed from the firm's existing governance structure and can deploy their resources elsewhere (Barney, 2019).

Accordingly, existing findings that shareholders react more favorably to divestitures rather than retentions of firms' legacy businesses (Feldman, 2014) can also be reinterpreted under this structural perspective as well: legacy divestitures may reflect extreme governance failures in these

firms, such that shareholders may respond especially positively to the prospect of being released from those conflicts. Similarly, recent research has shown that activist investors push for divestitures in the firms that are most mismanaged and that shareholders benefit more from these transactions than from divestitures that occur in the normal course of business (Chen & Feldman, 2018). Viewed through a structural lens, the firms that activist investors target are the ones where governance conflicts are the most severe, where renegotiations among stakeholders may thus be prolonged, and hence, where the benefits of divestitures for shareholders are the most pronounced.

Together, then, these points underscore the significant need for scholars to continue to consider governance and scope jointly in future research. Even though the intersection of governance and scope is an area of research that has a long and rich history (Berle & Means, 1932), it continues to draw scholars' attention even in recent times (Harrison et al., 2019; Chen & Feldman, 2018; Connelly et al., 2010; Kaul et al., 2018). Our hope is that by reframing this conversation around a stakeholder-based view of governance, this paper will continue to drive research in this domain, especially in terms of how stakeholders may influence managerial decision-making about changes to firm boundaries, as well as the consequences thereof for multiple stakeholders, including shareholders.

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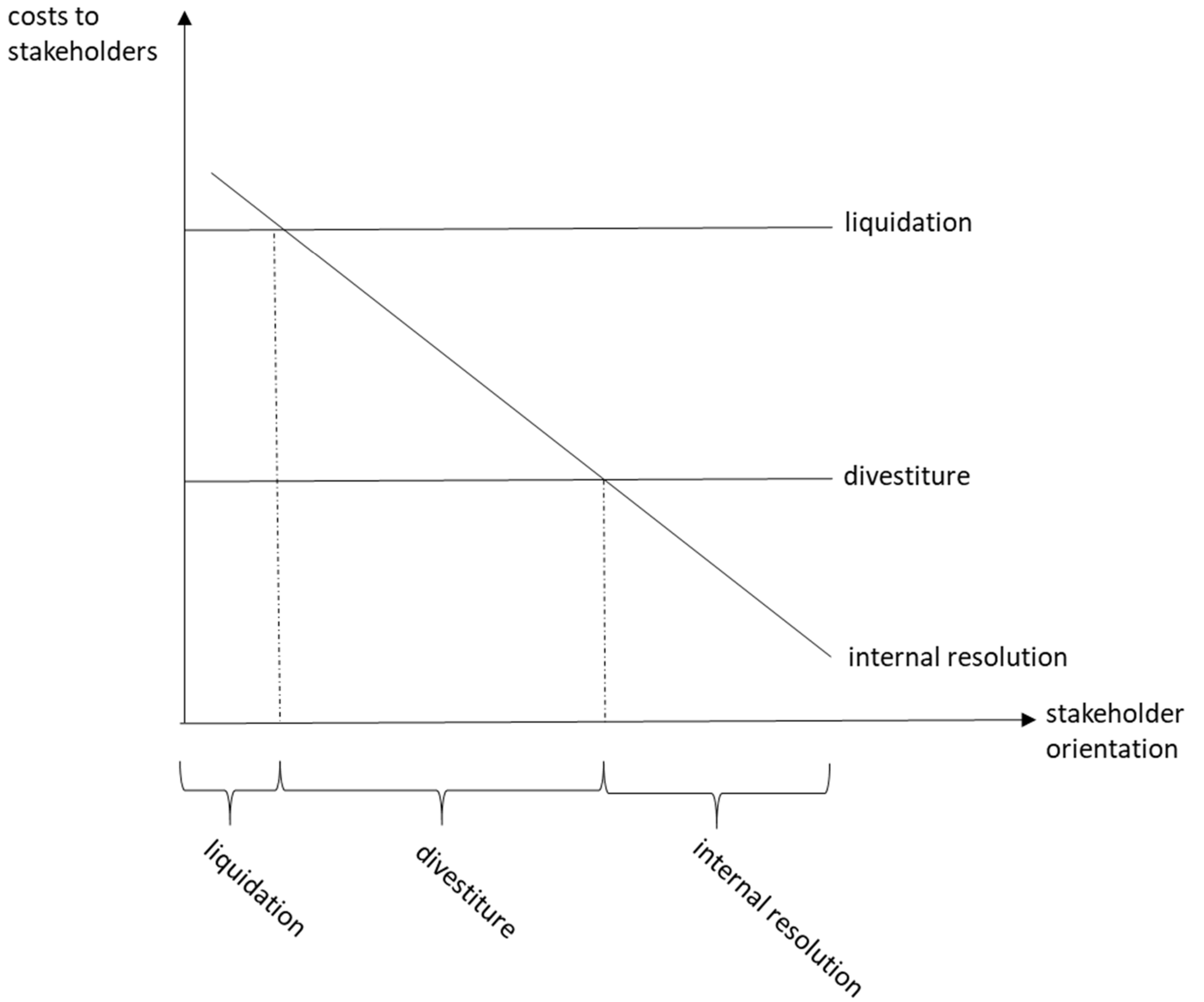

Figure 1. Stakeholder orientation and divestiture activity

Table 1. Summary statistics and pairwise correlations

		Mean	S.D.	Min	Max	(1)	(2)	(3)	(4)	(5)	(6)
(1)	Number of divestitures	0.342	1.008	0.000	18.00						
(2)	Number of spinoffs	0.009	0.100	0.000	3.00	0.169					
(3)	Number of selloffs	0.332	0.996	0.000	18.00	0.995	0.071				
(4)	N of selloffs of unrelated businesses	0.269	0.900	0.000	18.00	0.920	0.161	0.915			
(5)	N of selloffs of related businesses	0.073	0.395	0.000	10.00	0.455	0.066	0.454	0.071		
(6)	N of selloffs of proximate businesses	0.127	0.471	0.000	9.00	0.717	0.160	0.709	0.649	0.350	
(7)	N of selloffs of distant businesses	0.240	0.836	0.000	17.00	0.926	0.129	0.925	0.870	0.383	0.507
(8)	N selloffs to alliance partners	0.011	0.118	0.000	3.00	0.294	0.007	0.297	0.264	0.148	0.239
(9)	N selloffs to non-partners	0.321	0.968	0.000	15.00	0.988	0.072	0.993	0.910	0.449	0.701
(10)	Stakeholder orientation	0.371	0.137	0.000	0.867	0.112	0.038	0.110	0.118	0.016	0.089
(11)	Firm performance (EPS)	2.120	2.543	-9.773	12.99	0.026	0.001	0.026	0.035	-0.012	0.021
(12)	Industry growth	0.525	17.03	-0.415	925.6	-0.008	-0.002	-0.008	-0.007	-0.004	-0.007
(13)	N of institutional investors	255.5	284.8	0.000	1947	0.268	0.037	0.267	0.244	0.126	0.230
(14)	Industry profitability	0.128	0.055	-0.123	0.563	-0.075	-0.003	-0.076	-0.092	0.015	-0.060
(15)	% of Indep. board members	78.17	14.09	0.000	100.0	0.076	0.019	0.075	0.073	0.027	0.060
(16)	Financial slack	2.011	1.517	0.124	24.98	-0.080	-0.005	-0.080	-0.062	-0.061	-0.060
(17)	Firm size	8.795	1.194	3.331	11.29	0.211	0.033	0.209	0.192	0.105	0.148
(18)	Interest coverage	22.54	53.68	-18.03	826.0	-0.053	-0.015	-0.053	-0.051	-0.020	-0.040
(19)	Capital intensity	0.091	0.137	-0.064	1.182	-0.002	-0.003	-0.002	-0.027	0.055	-0.020
(20)	Degree of diversification	3.016	1.377	1.000	12.00	0.209	0.039	0.207	0.228	0.014	0.148
(21)	Past divestitures	0.847	2.297	0.000	45.00	0.534	0.071	0.534	0.528	0.160	0.374
(22)	Past acquisitions	3.712	7.129	0.000	144.0	0.368	0.051	0.367	0.389	0.058	0.285

	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
(8)	0.257														
(9)	0.920	0.184													
(10)	0.100	0.045	0.108												
(11)	0.022	0.004	0.026	0.127											
(12)	-0.007	-0.002	-0.008	-0.016	-0.017										
(13)	0.241	0.127	0.260	0.321	0.254	-0.015									
(14)	-0.063	-0.023	-0.075	0.007	0.103	-0.024	0.113								
(15)	0.067	0.003	0.077	0.315	0.094	-0.037	0.148	-0.021							
(16)	-0.070	-0.033	-0.079	-0.111	-0.083	-0.008	-0.097	-0.018	-0.071						
(17)	0.177	0.073	0.204	0.306	0.205	-0.005	0.451	-0.203	0.131	-0.336					
(18)	-0.047	-0.012	-0.053	-0.007	0.051	-0.009	0.054	0.144	-0.028	0.129	-0.151				
(19)	0.001	0.005	-0.003	-0.072	-0.080	0.035	-0.067	-0.029	0.004	-0.024	-0.014	-0.052			
(20)	0.185	0.095	0.202	0.086	0.084	-0.006	0.117	-0.071	0.033	-0.082	0.188	-0.053	-0.053		
(21)	0.533	0.223	0.522	0.209	0.064	-0.007	0.345	-0.076	0.131	-0.084	0.268	-0.057	-0.007	0.219	
(22)	0.367	0.178	0.356	0.114	0.048	-0.013	0.386	-0.044	0.062	-0.061	0.157	-0.004	-0.087	0.180	0.386

Table 2. Stakeholder orientation and divestiture activity		
	(1)	**(2)**
VARIABLES	*DV: N of divestitures*	*DV: N of divestitures*
Stakeholder orientation		-1.135**
		(0.002)
Firm performance (EPS)	-0.052***	-0.051***
	(0.000)	(0.000)
Industry growth	-0.289*	-0.286*
	(0.037)	(0.037)
Industry profitability	2.261*	2.146*
	(0.029)	(0.040)
N of institutional investors	0.000	0.000
	(0.492)	(0.573)
% of Indep. board members	0.006	0.006+
	(0.107)	(0.094)
Financial slack	-0.084+	-0.084+
	(0.061)	(0.059)
Firm size	0.581***	0.599***
	(0.000)	(0.000)
Interest coverage	-0.000	-0.000
	(0.917)	(0.856)
Capital intensity	-0.013	0.009
	(0.967)	(0.977)
Degree of diversification	0.188***	0.193***
	(0.000)	(0.000)
Past divestitures	-0.081***	-0.080***
	(0.000)	(0.000)
Past acquisitions	0.015*	0.014+
	(0.047)	(0.063)
Observations	7,143	7,143
Pseudo R-squared	0.292	0.293
Year FE	YES	YES
Firm FE	YES	YES

Note: Robust p-value in ().
+ p<0.1
* p<0.05
** p<0.01
*** p<0.001

Table 3. Stakeholder orientation and modes of divestiture		
	(3)	**(4)**
VARIABLES	*DV: Number of spinoffs*	*DV: Number of selloffs*
Stakeholder orientation	0.012	-0.418***
	(0.524)	(0.001)
Constant	-0.150**	-1.453***
	(0.005)	(0.000)
Diff. in coefficients (Wald test)	**-0.426*** (0.000)**	
Observations	7,143	7,143
R-squared	0.134	0.358
Other Controls	YES	YES
Year FE	YES	YES
Firm FE	YES	YES

Note: p-value in (). OLS models.
+ p<0.1
* p<0.05
** p<0.01
*** p<0.001

Table 4. Stakeholder orientation and selloffs							
	(5)	**(6)**	**(7)**	**(8)**		**(9)**	**(10)**
VARIABLES	*DV: N of selloffs of related businesses*	*DV: N of selloffs of unrelated businesses*	*DV: N of selloffs of geo. proximate businesses*	*DV: N of selloffs of geo. distant businesses*		*DV: N of selloffs to alliance partners*	*DV: N of selloffs to non-partners*
Stakeholder orientation	-0.081	-0.325**	-0.184**	-0.386***		-0.011	-0.407**
	(0.242)	(0.003)	(0.008)	(0.000)		(0.527)	(0.001)
Constant	-0.512**	-1.091***	-0.579**	-1.065***		-0.081+	-1.372***
	(0.010)	(0.000)	(0.004)	(0.001)		(0.098)	(0.000)
Diff. in coefficients (Wald test)	**-0.244+ (0.066)**		**-0.202+ (0.060)**			**-0.396** (0.002)**	
Observations	7,143	7,143	7,143	7,143		7,143	7,143
R-squared	0.305	0.309	0.267	0.334		0.164	0.351
Other Controls	YES	YES	YES	YES		YES	YES
Year FE	YES	YES	YES	YES		YES	YES
Firm FE	YES	YES	YES	YES		YES	YES

Note: p-value in (). OLS models.
+ p<0.1
* p<0.05
** p<0.01
*** p<0.001

APPENDIX A
Operationalization of Stakeholder Orientation

Table A1. Components of stakeholder orientation variable

Stakeholder category	Items from Asset 4
Employee orientation	10 dummy items: • Does the company have a policy for maintaining long term employment growth and stability? • Does the company describe the implementation of its employment quality policy? • Does the company monitor or measure its performance on employment quality? • Does the company set specific objectives to be achieved on employment quality? • Does the company have a competitive employee benefits policy? • Does the company have a job security policy? • Does the company have a trade union relations policy? • Does the company describe in the code of conduct that it strives to improve employee relations within its supply chain? • Does the company describe, claim to have or mention processes in place to ensure job security? • Does the company describe, claim to have or mention processes in place to improve its trade union relations?
Customer orientation	6 dummy items: • Does the company have a policy to strive to be a fair competitor? • Does the company describe processes in place to improve customer satisfaction or to be a fair competitor? • Does the company monitor the customer satisfaction or its reputation and relations with communities through the use of surveys or measurements? • Does the company set specific objectives to be achieved on customer satisfaction or fair competition? • Does the company have a policy to improve customer satisfaction? • Does the company describe, claim to have or mention, claim to have or mention processes in place to improve customer satisfaction?
Supplier orientation	5 dummy items: • Does the company have a policy to treat suppliers and contractors as key business partners? • Has there been a public commitment from a senior management or board member to treat suppliers and contractors as key business partners? • Does the company describe in the code of conduct that it strives to treat suppliers and contractors as key business partners? • Does the company have appropriate communication tools (whistle blower, ombudsman, suggestion box, hotline, newsletter, website, etc.) to improve its partnership with suppliers and contractors? • Does the company describe, claim to have or mention processes in place to improve its partnership with suppliers and contractors?
Community orientation	9 dummy items: • Does the company describe the implementation of its community policy through a public commitment from a senior management or board member? • Does the company describe the implementation of its community policy through the processes in place? • Does the company monitor its reputation or its relations with communities? • Does the company set specific objectives to be achieved on its reputation or its relations with communities? • Does the company have a policy to strive to increase the indirect economic impact it has on local communities? • Has there been a public commitment from a senior management or board member to strive to increase the indirect economic impact it has on local communities? • Does the company describe in the code of conduct that it strives to increase the indirect economic impact it has on local communities? • Does the company have appropriate communication tools (whistle blower, ombudsman, suggestion box, hotline, newsletter, website, etc.) to improve the indirect economic impact it has on local communities? • Does the company describe, claim to have or mention processes in place to improve the indirect economic impact it has on local communities?
Shareholder orientation	4 dummy items: • Does the company have a policy for ensuring equal treatment of minority shareholders, facilitating shareholder engagement or limiting the use of anti-takeover devices? • Does the company describe the implementation of its shareholder rights policy? • Does the company monitor the shareholder rights? • Does the company have the necessary internal improvement and information tools to develop appropriate shareholder rights principles?