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MIDDLE MANAGERS AND DIVESTMENT DECISIONS IN MULTINATIONAL CORPORATIONS

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Introduction

Divestment decisions, understood as the disposal of a significant stake or the sale of business units, subsidiaries, plants or assets, are potential value-adding strategic options for corporations. Nowadays, divestments are increasingly relevant for managerial practices, due to the last merges and acquisitions (M&A) market trends. More dynamic industries, higher capital market pressures and stronger players in the competitive environment require firms and their management to be able to adapt quickly and effectively to new conditions.

Complex multinational multibusiness corporations regularly face the challenge of balancing acquisitions and divestitures, with routines and systematic, professional portfolio management. However, divestment decisions are sometimes made on an unstructured and irrational basis. Top managers', middle managers' and other mid-level professionals' activities and behaviors play an important role in strategy initiatives within organizations. In the past, middle managers were considered as the ones who take direction from and provide input to top management, while now middle managers are the center of two processes representing the basis of strategy formulation, namely knowledge creation and core competence development (Wooldridge et al., 2008).

Organizations ability to adapt to the dynamic environment can take place through asset orchestration, which is the core of dynamic capabilities research. Adjustments to the intangible and tangible asset base of a firm call for coordination by decision-makers at various hierarchical levels and functions. Successful organizations have to respond to environmental challenges adjusting the firm assets in order to survive and sustain competitive advantage.

Research problem

This research project addresses divestment decisions and the involvement of middle management in divestiture initiatives. The main goal is to understand the practice of divestment decision-making in multinational multibusiness corporations, with a focus on the divestment of business unit assets. Middle managers are routinely asked to assess business unit assets and choose the ones to keep and the ones to be divested within the firm's portfolio of assets. Determinants of divestitures are deeply discussed, because an understanding of the underlying factors is crucial when dealing with strategic decision-making.

Multinational multibusiness corporations have the peculiarity of being rather complex organizations, where middle managers in different organizational positions need to develop specific capabilities to face uncertainty and sustain competitive advantage. A divestment decision can be an initiative of the top management, as well as a decision made by both middle managers in the corporate staff and in the business units. The perceptions of all the actors involved in the process may vary according to what they are acknowledged about and to their individual characteristics.

The investigation of divestment decisions has been organized around two main questions:

- Which characteristics related to the asset and the business environment mostly influence middle managers' assessment of a divestiture of a business unit asset in a multinational multibusiness corporation?
- What middle management characteristics can influence that assessment?

Teece (2009) applied the dynamic capabilities framework to study the role of organizational and managerial capabilities. Once assets become part of the firm and come within managers' control, their effective utilization and orchestration is essential. Assets' orchestration is intended at achieving new combinations of assets, requiring judicious decision-making and entrepreneurial capacity. Resource divestment and resource deployment strategies have been studied under the resource management perspective but, as far as we know, are still absent from the asset orchestration arguments.

Within this framework, as for the purpose of this research project we adopted a mixed methodology that allowed us collect useful insights from a case study, go back to the management literature for a structured review and open up the way to the most innovative section of this work, the policy capturing experiment. Our intent is to develop and test a theoretical framework about an existing phenomenon, originating from the management practice. This interest was mainly driven by a perceived gap between theory and practice about divestment decisions and by the belief that the conventional wisdom of management textbooks is not widely used in practice.

Our findings provide several contributions to existing research. First, our study complements the stream of research on divestment decisions by comparing how specific factors affect middle managers' assessment of the attractiveness of business unit asset divestments. For this purpose, we use four theoretical lenses, namely real option theory, transaction cost economics, resource-based view and new institutionalism. Prior research mostly analyzed secondary data on realized divestment transactions, thus providing limited insight about actual decision criteria vs potential ones. Furthermore, prior research mostly focused on top managers' assessment of divestitures and used agency theory explanations. Our focus is consistent with the recognized need for middle managers' perspectives to be incorporated into strategy research, and our study provides a step towards bridging this gap in the literature. Finally, we demonstrate the importance of the 'locus' of decision making, by showing that the explanatory power of the different theories varies depending on the level where the divestment decision is made.

Structure of the thesis

The thesis is structured as a monograph, with three chapters and one section for the conclusions and implications for theory, research and practice.

A qualitative research approach was chosen for *Chapter 1,* where a case study has been used to gain detailed insights about a divestment decision. Middle managers inside a European multinational corporation were interviewed, providing evidence for four main theoretical lenses that can explain determinants related to asset divestment decisions. Case studies represent the preferred research methodology for "why" questions, when events cannot be controlled and the focus is on concurrent phenomena (Yin, 2003). The holistic approach of this research method helped us appreciate the case study more in-depth, identifying the company divestment process and its complexity and context. Based on the existing literature and relevant theories, the emerging practice of divestment decision-making is investigated.

Following this first evidence, *Chapter 2* is devoted to a comprehensive literature review, aiming at organizing and better understand what was written in the past about subsidiary, asset or plant divestment decisions and their determinants. Four main categories of factors are identified, namely corporate, transactional, business and environmental determinants, together with a fifth group of determinants, related to the people involved in the decision. The resulting theoretical framework is also used to guide the quantitative study presented later in Chapter 3. A clear research gap was identified as a consequence of the major focus of prior research on business unit or subsidiary divestments and the predominant use of secondary data. Due those two aspects, most of prior studies on divestiture decisions used Agency Theory to explore divestment determinants.

Chapter 3, using a quantitative research approach and an experimental methodology based on a *policy capturing* instrument, wants to answer the two research questions presented in the previous section. The *policy capturing* instrument, borrowing from the framework and the theoretical lenses presented in the first two chapters, is used to capture which factors influence middle managers assessment of the divestment of business unit assets. Divestment of business unit assets, as far as we know, has never been studied in the past, being observable only through experiments and field research. This study joins the stream of research on corporate divestitures (Shimizu and Hitt, 2005), and we contribute by acknowledging divestitures determinants and the strategic role of middle managers. Both corporate- and business-level middle managers participated to the study, underlying the importance of the locus of decision-making. Empirical findings and the resulting cognitive model are presented, with the most relevant managerial implications.

Chapter 1

Business unit asset divestment and middle management involvement: Liozco-A case study

This first chapter is devoted to presenting a case study, were middle managers from a European multinational corporation were interviewed with the intent of studying their understanding of divestment decisions and, in particular, the factors affecting the strategy initiative. Due to confidentiality, we named the parent company and its business unit's subsidiary respectively as Liozco and Liozco-A. For the same reason, details about the industry context are not provided.

1.1. Background

Internationalization takes place through either trade or direct investment: a corporation can buy/sell goods and services from/to another country or alternatively build or acquire productive assets in another country. Multidomestic industries are those that internationalize predominately through direct investment; when both trade and direct investment are important, that industry is called global (Grant, 2010). In our times, most large-scale manufacturing industries have evolved towards global structures, e.g. automobiles, semiconductors, pharmaceuticals, or oil.

As for the purpose of this study, we focused on multinational multibusiness corporations. According to Teece (2009), a multinational corporation has global operations, employees and investments in multiple jurisdictions. Multinational enterprises, by definition, operate in the global market through a network of organizational units and subunits (e.g. business, offices); multinational firms need to have the ability to monitor and manage business units in multiple jurisdictions, with no mandatory commitment to fixed tangible assets abroad.

In order to more deeply understand the firm-level processes that contribute to resource and capabilities development, generating economic value and having significant prospective to maintain and sustain competitive advantage, this study is focused on the structuring and restructuring of a firm's resource portfolio. Managerial decisions, and in particular the strategic decisions that affect the composition of a firm's portfolio of resources, have unique characteristics that require more and more attention from strategic management research.

1.1.1. Global multibusiness corporations

Formulating and implementing corporate strategy in multibusiness corporations may present some complex issues, especially when a firm decides to enter foreign markets to gain more profits (Grant, 2010). The profitability from entering a foreign market depends on the attractiveness of a specific market and on whether the firm can establish a competitive advantage within it. A corporation can expand internationally by export, by joint ventures or by a foreign direct investment to exploit its competitive advantages not only in its home market but also in foreign markets. Moreover, the firm international scope may itself be a source of competitive advantage.

The way in which a firm enters a foreign market has important implications for its sustainable competitive advantage. A firm can export through individual transactions or establish a wholly owned, fully integrated subsidiary. Transaction cost economics (TCE) mainly explained the choice between alternative market entry modes through barriers to export, exchange rate risk and information costs. TCE has been a dominant theory for explaining the existence of multinational corporations since, without transaction costs, companies can expand overseas either by exporting their products or by selling the use of their resources to local firms (Teece, 1986a).

A global strategy is one that views the world as a single market. Levitt (1983) argued that companies competing on a national basis are more vulnerable than the ones competing on the global market. The benefits deriving from a global integration, combined with a need for national differentiation, can influence both the design of international strategies and the proper organizational structures and management systems to implement these strategies. Multinational corporations' strategy-structure configurations usually reflect choices made in the past and radical changes are difficult. Furthermore, once the decision-making authority has been determined, reorganization can be slow, difficult and costly.

Bartlett and Ghoshal (1998) stressed that the "administrative heritage" of a multinational corporation, namely its configuration of assets and capabilities, its distribution of managerial responsibilities, and its network of relationships, is a critical determinant of its current and future strategic capabilities. Complex organizations that comprise multiple products, functions and geographical markets need to coordinate within each of these dimensions; this multiple coordination is sometimes over-formalized, resulting in excessive corporate staff and over-complex systems that slow decision-making and threat strategic initiative.

A multinational multibusiness company is a company that comprises multiple business units. These business units may include different vertical activities, geographical units or product sectors. Previous research introduced the distinction between business strategy and corporate strategy within a multibusiness corporation (Bowman and Helfat, 2001; Hofer and Schendel, 1978); in this framework, corporate management is supposed to take the primary responsibility for corporate strategy and business-level management take the responsibility for business strategy. Chandler (1962), following this distinction between levels of strategy reflected in the M-form, emphasized that CEOs and corporate offices are responsible for corporate strategy, while business-specific subunits' managers are delegated to deal with more detailed matters.

1.1.2. Corporate portfolio management

Goold et al. (1994) introduced the notion of "parenting advantage", stating that a company must be able to add more value to a business/business unit than its rivals and discussing important issues about how multibusiness corporations can create value. Within a resource-sharing scheme, multibusiness companies provide centralized common services and functions, including strategic planning, financial control, treasury, risk management, internal audit and government and investor relations. In addition, some business services, such as research, engineering, human resources, legal and tax, management development and purchasing are offered on a centralized basis to gain economies of scale and learning.

Resources and capabilities can also be shared among businesses and the way in which a company manages these linkages determines its potential to create value (Porter, 1990). Business units usually have clear product-market boundaries, with resources for conducting their business operations and capabilities to execute their strategies within the corporate strategy. Corporate headquarters, on the other hand, act as intermediaries by influencing decisions at business unit-level and providing goals, guidelines, structures and control systems to business-level managers (Burgelman, 1983).

Corporate portfolio management is considered the narrowest resource-sharing process, when a parent company simply manages a portfolio of attractive, soundly managed businesses or companies, allowing them to operate autonomously and linking them through an efficient internal capital market. The typical organizational structure for portfolio management is the holding company: the parent company owns controlling stakes in a number of business units' sub-holding or subsidiaries, exerting significant management control.

Most multibusiness corporations attempt to create value through some incremental strategy initiatives. Cibin and Grant (1996) found that corporate restructuring became common among large multibusiness companies in the past, e.g. the restructuring wave by the oil majors during 1986–92. Periodic corporate restructuring is a comprehensive corporate review that assesses both individual businesses and the overall portfolio of firm businesses. Corporate restructuring research includes organizational, financial and portfolio restructuring (Bowman and Singh, 1993). Bowman et al. (1999) defined financial restructuring as those actions encompassing leveraged buyouts, management buyouts, share buybacks, or recapitalizations; organizational restructuring as changes to organizational structures and systems as well as changes related to the firm's workforce; finally, portfolio restructuring as those transactions including M&A as well as divestitures and closures.

The focus of this study is on divesture decisions, defined as the *parent company disposal and sale of assets, facilities, product lines, subsidiaries, divisions and business units* (Moschieri and Mair, 2008). Corporate divestitures can be considered as the basic portfolio restructuring decision for multibusiness corporations, besides M&A decisions (Villalonga and McGahan 2005; Johnson 1996; Gibbs 1993). They are a central topic in strategic management (Capron et al., 2001; Singh, 1993; Hopkins, 1991; Porter, 1987; Harrigan, 1981), finance (Berry, 2003; Vijh, 2002; Trifts et al., 1990; Schipper and Smith, 1986; Rosenfeld, 1984) and organizational behavior (Gopinath and Becker, 2000; Baker et al., 1999; Seward and Walsh, 1996; Aron, 1991). Thywissen (2015) emphasized that several theoretical lenses were applied to divestiture research (i.e. portfolio theory, agency theory, behavioral economics, organizational change theory, transaction cost economics, resource-based view and prospect theory) but process research has been marginally addressed if compared to studies on divestiture antecedents and outcomes, requiring more focus on the practices of divestiture decision-making. A comprehensive appreciation of decision-making in divestiture decisions could help for a better understanding of divestiture antecedents.

1.2. Theories

This study addresses global multibusiness firm capability of orchestrating its business units' strategic assets. Amit and Schumaker (1983) described the firm as a collection of resources and capabilities required for product-market competition. Resources are defined as stocks of available factors owned or controlled by the firm; they consist of knowhow, financial or physical assets, human capital, etc. (Grant, 1991). Capabilities are referred to as the firm's capacity to deploy and combine resources, using organizational processes; they are firm-specific information-based, tangible or intangible processes and are developed over time through complex interactions among the firm's resources. Differently from resources, capabilities are based on developing, carrying, and exchanging information through the firm's human capital. In view of that, a firm's strategic assets were defined as the set of difficult to trade and imitate, scarce, appropriable and specialized resources and capabilities that sustain the firm's competitive advantage.

Dynamic capabilities were defined as the ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments (Teece et al., 1997). In fast moving global industries, characterized by geographical and organizational dispersion, sustainable competitive advantage requires difficult-to-replicate assets and dynamic capabilities. Dynamic capabilities can be disaggregated in the capacity to sense and shape opportunities and threats, to seize opportunities and to maintain competitiveness through enhancing, combining, protecting and reconfiguring the firm's intangible and tangible assets (Teece, 2009).

Previously, Eisenhardt and Martin (2000) described dynamic capabilities as the firm's processes that use resources to match and create market change, such as product development routines, alliance and acquisition capabilities, resource allocation and knowledge transfer routines. Zollo and Winter (2002) studied organizational learning as a source of dynamic capability, when learned and stable pattern of collective activities can generate and modify a firm's routines and improve effectiveness. Not all dynamic capabilities are operating routines: information-processing capabilities, for example, may enable an organization to identify the nature of changing market conditions and sense opportunities in the business environment (Pierce et al., 2002).

Helfat et al. (2007) considered dynamic capabilities as the capacity of an organization to purposefully create, extend, or modify its resource base (i.e. tangible and intangible assets and ordinary capabilities). Dynamic capabilities research is focused on how firms remain competitive by adjusting their assets in order to meet substantial shifts in the environment. Releasing assets controlled by a company or business unit, as part of the asset-level framework proposed by Danneels (2011), is an asset orchestration mode. Assets that have a limited strategic value become a burden to the firm (Teece, 2007), generating inflexibility (Leonard-Barton, 1992), adding costs (Helfat et al., 2007) and bringing to unprofitable businesses (Gilbert, 2005). Releasing includes scrapping, selling or divesting assets (Laamanen et al., 2014) or deliberate cannibalizing, when a business is challenged by forward-looking actions (Danneels, 2008).

1.2.1. Asset orchestration and dynamic capabilities

Corporate restructuring was also defined as a significant modification in a firm's portfolio of assets due to a change in strategy (Hoskisson and Turk, 1990). Hurry (1993) stressed that restructuring is a strategic process driven by value-maximization, turning around a weak firm or increasing the value of a strong firm. The value of a corporation can be seen as the value of its business assets and the opportunities created by those assets (Myers, 1977); as for the latter, options for strategic choice (Bowman and Hurry, 1987) create future opportunities for investment or divestment (Myers, 1984; Kester, 1984; Kogut, 1991; Sharp, 1991).

Managers' challenge is to identify a set of strategic assets that can establish the firm's sustainable competitive advantage. Executives also need to identify current strategic industry factors as well as assess future strategic industry factors. Decisions on the development of existing and new strategic assets need to be made, to sustain the firm competitive advantage. According to the resource-based view of the firm, the value of a firm's strategic assets goes beyond their contribution to the production process and depends on an extensive range of resources and capabilities characteristics (e.g. complementarity, scarcity, inimitability and appropriability). Furthermore, when making investment decisions about strategic assets, managers face the tasks of anticipating possible future, assessing competitive interactions within each projected future, and overcoming organizational inertia and internal disputes.

Teece (2009) studied the role of organizational and managerial capabilities under the dynamic capabilities framework. Dynamic capabilities include the organizational processes directed toward learning and innovation, the way in which the business is designed and the decision frames and heuristics that inform firms' investment choices over time. Once assets become part of the firm and come within managers' control, their effective utilization and orchestration is essential. Assets' orchestration is intended at achieving new combinations of assets, requiring judicious decision-making and entrepreneurial capacity. The most critical managerial activity in dynamic markets involves orchestrating complementary and co-specialized assets, inventing and implementing new business models and making wise investment choices, e.g. R&D and M&A, in conditions of uncertainty and ambiguity.

According to the dynamic capabilities perspective, three processes are classified as core to dynamic capabilities, namely integrating/coordinating, learning and reconfiguring. Integration and coordination routines consist of combining resources, such as with new product development process. Learning is a practice and experimentation and allows tasks to be performed effectively. Reconfiguration refers to transformation, which requires recombination of existing resources. Teece (2007) identified "asset orchestration" as a meta-process that engages all three processes.

1.2.2. Different perspectives on the strategic role of middle managers

Previous literature from resource-based theory and dynamic capabilities focused attention on managers' resource-focused actions. Sirmon et al. (2007) developed a resource management framework, addressing process-oriented managerial actions that are involved in achieving competitive advantage and creating value. Simultaneously, and as anticipated above, Helfat et al. (2007) produced a related framework focused on asset orchestration. Helfat and Peteraf (2003) linked dynamic capabilities and resource-based theory to provide an indirect association between asset orchestration and resource management. Resource divestment and resource deployment strategies have been studied under the resource management perspective but, as far as we know, are still absent from the asset orchestration arguments. Sirmon et al. (2011) adopted the term *resource orchestration*, drawing upon both resource management and asset orchestration and focusing on how managers' actions can affect the resource-based competitive advantage.

Managers must orchestrate a firm's resources and configure the capabilities to achieve a competitive advantage, implementing corporate- and business-level strategies that create value. Since competitive environments are dynamic, competitive advantage is temporary and managers must orchestrate resources to implement strategies that help firms achieve different temporary competitive advantages over time (Sirmon et al., 2010). Resource orchestration is important to each stage of a firm's life cycle, with each stage requiring multiple resource management actions. In addition, because a firm may change in size and in the complexity of its organizational structure, multiple levels of managers coexist and each level contributes to the achievement of competitive advantage. When managerial hierarchies are present, quality of information transferred among the multiple managerial levels commonly deteriorates (Teece, 2007; Teece et al., 1997) and resource orchestration actions need to be synchronized.

Floyd and Wooldridge (1997) observed that the position of managers in an organization determines their influence on strategy; managers that mediate between the external environment and the internal organization tend to have more influence on strategy. By acting as a *liaison*, middle managers are able to establish a network to acquire information useful to the organization and, through their interactions with other managers in the external environment, to become a hub for the organization. While many differences exist between managerial levels, the most fundamental differences involve focus and the amount and type of information each manager holds (Floyd and Lane, 2000). Middle managers are often seen as managers located below top-level and above operational-level managers in the hierarchy and they mediate not only vertical information flows but also horizontal flows.

Wooldridge et al. (2008) categorized middle managers as a unique group of managers who have access to the senior management and possess operational knowledge. Yang et al. (2010) positioned middle managers at least two levels above front line employees in the organizational hierarchy. Watson and Wooldridge (2005) also underlined that business unit's top managers are similar to corporate middle managers because they both exercise upward influence; every top manager in the business units can be considered a middle manager since business units of very large organizations could be regarded as at the same level of the corporate functions.

In a bidirectional flow model, many individuals within the firm are able to initiate the resource orchestration process. As mediators, middle managers may be the ones who encourage a synchronized process, offering rich information and increased flexibility for innovative change. Sirmon et al. (2011) emphasized the importance of synchronizing the use of resources across managerial levels as well as within each managerial level, asking for more research to identify the locus of resource synchronization across managerial levels. In fact, locus of resource orchestration activities could help understand the flow of knowledge within organizations.

To conclude, middle managers are informed of the isolated accumulation and bundling of resources that operational managers initiate and the ideas that top managers advance to increase the firm's performance through its corporate strategy, e.g. resource divestment, or as a result of novel innovation efforts that are often associated with the firm's business-level strategies. As already pointed about, there is a lack of research addressing the strategic role of managers at the middle level and about asset divestment within the resource/asset orchestration framework. Intuitively, the way in which some strategic initiatives are developed depends on how some processes are perceived by middle managers; knowledge flows about the capabilities that help shape decisions can definitely explain managerial discretion in strategic decision-making.

1.3. Method

The present study wants to assess the strategic role of middle managers in a European multinational corporation, which we call "Liozco". This work wants to provide a better understanding of the role that middle managers play in resource orchestration: the asset divestiture decision that is explored is the problematical sale of a majority stake in a core subsidiary company, which we call Liozco-A. We mainly use data obtained from interviews with middle managers, both at corporate- and business-level. The interviewed people were a total of five middle managers, three of which from the corporate Mergers and Acquisitions team, within the Finance Department, and two from the business unit/top management of the subsidiary.

Liozco has approximately 30.000 employees, situated all over the world. It has a six-level hierarchy and a ten-member top management team that is responsible for all strategic decisions. Personnel at corporate-level have predominantly a management, finance or accounting background while business unit-level people have a technical background. Personnel working at headquarter tend to have most of their work experience in the corporate staff, while business people are more subject to job rotation both domestically and abroad. Subsidiaries top management is always assigned to that role from the business unit's top managers, chosen among the business unit middle management. Being a global multibusiness corporation, Liozco has three main business units, which are vertically integrated, and some other business units organized as separated entities (independent but fully controlled subsidiaries). As for the industry, all the businesses have an international scope and they can be described as R&D and capital intensive; furthermore, both high risk-high returns investment and a low number of big players characterize the industry, with the market becoming more and more saturated and subject to uncertainty.

A few years ago, a new CEO was appointed and he had a main strategy in his mind for Liozco, which was to focus the company on the core business. Due to some market shocks, the CEO strategic shift seemed very coherent with the company product-market positioning; the company, as a whole, had started performing lower than expected and some strategic initiatives were developed to assess company assets with the intent of releasing some of them. The initial CEO's declaration opened a four-year period full of divestiture announcements, of either business units or subsidiaries, which brought very tough times for the Financial Department and, in particular, for the corporate M&A team. In this context, Liozco-A was a local company operating in the core business, headquartered in Southern Asia and with approximately 200 employees. It had always been perceived as a problematic subsidiary, with a difficult combination of assets, never capable of demonstrating its strategic value and with the both corporate- and business-level management feeling doubtful about whether to keep or to sell.

The above-mentioned business unit asset divestment is the main issue covered by this study. Capron et al. (2001) defined asset divestment as the partial or complete sale or disposal of physical and organizational assets, shut down of facilities and reduction of work forces. For data collection and analysis, we investigated the process and antecedents of business unit asset divestment. In the past, scholars rarely focused on the divestment initiative and the very first decision-making phase has never been defined clearly; a company's information processing systems, i.e. hierarchical relationships and standard operating procedures, must be capable of accommodating both variability and uncertainty in the different businesses' environment. Horizontal and vertical interactions among multiple managerial levels help multinational multibusiness corporations to sustain their competitive advantage, developing dynamic capabilities and activating an internal mechanism of knowledge sharing. The strategy initiative related to asset divestments, which ends with the beginning of a preliminary divestiture process, represents the object of this study.

1.3.1. Sampling

Prior research on divestitures focused on upper-level managers because they play an important role in the strategic process of divestiture. Top managers were identified as central players in the decision-making process and especially on the initial decision to divest. As active participants in the process, middle managers play an important role mainly during the divestiture implementation, with unique access to knowledge of organizational procedures, strategies and actions. Wooldridge et al. (2008) emphasized that middle managers role in the strategy process has changed according to a new flattered and entrepreneurial model of organization, competing in knowledge-intensive environments. Nonaka (1994) argued that middle managers influence in the strategy process happens vertically between the conceptual knowledge at the top and operational knowledge at the bottom of the organization; in addition, he described a spiral where middle managers interact also in horizontal direction to combine and recombine tacit and explicit forms of knowledge. For Nonaka (1991, 1994), vertical and horizontal interactions of middle managers are the major impetus of organizational knowledge creation and strategic change.

Berg (2001) underlined that case studies may help focus on an individual, a group or an entire community and utilize a number of sources such as life histories, documents, oral histories, in-depth interviews and participant observation. A single case, like the one we are presenting, is useful for a unique or critical case and for analyzing a new phenomenon. Benefits of case study methodology lie essentially in their ability to open the way for discoveries (Shaughnessy and Zechmeister, 1985) and research based on case study aims to investigate specific issues. When a research takes a deductive-inductive approach, a case study may enable theory testing. A well-constructed case study allows challenging an existing theory and providing a source of new research questions (Lewis et al., 2007). A single case study can easily serve as ground for insights and even hypotheses that may be used in subsequent studies (Berg, 2001).

Furthermore, single-case studies are often chosen because they are unusually revelatory, extreme exemplars or opportunities for unusual research access (Yin, 2003). Siggelkow (2007) stressed that single case research can be used to properly describe the existence of a phenomenon. In addition, single cases were found to be more useful to enable the creation of advanced theories than multiple cases, because they could better fit the theory exactly to the many details of a particular case (Eisenhardt and Graebner, 2007). Might individual cases cannot prove a theory, they can sometimes falsify theories, as a single counterexample is enough. Our main intent is to study divestiture decisions and develop an integrated theoretical framework, which could be useful for both theory and practice to describe and understand the phenomenon.

1.3.2. Data Collection

Multiple data sources (archives, documentation, etc.) and semi-structured interviews were used to capture both retrospective, and real-time actions that middle managers at Liozco have been experiencing. We conducted multiple in-depth interviews with organization members inside Liozco after the divestiture was completed. We employed semi-structured interviews to provide a scope for the data collection. Interviews lasted 45-90 minutes, and all initial interviews lasted at least 60 minutes. The initial interview protocol was mostly standardized across informants; initial interviews involved questions about the work experience at Liozco, thoughts about the company's historical evolution and perceptions about firm divestitures, business and strategic context and feelings about past and future plans for divestitures, and understandings of organizational procedures. Overall, five initial interviews where conducted and, after that, two middle managers, one at corporate-level and one at business unit-level, were contacted again.

Subsequent interviews became more structured as the relevant theme of the Liozco-A divestment emerged. This focusing of the second and third rounds of interviews allowed targeted data collection to identify patterns and consistencies or inconsistencies across the organization, as well as relationships among concepts. Much of the content of these interviews with a given informant focused on categories and themes represented in our emerging data structure.

To prevent our informants from being prepared on issues concerning the process via our interviews, we asked questions related to the process only after the informant raised such issues. Long durations (often some months) between interviews also served to reduce bias.

1.3.3. Data Analysis

Drawing on 30 pages of interview transcripts and numerous secondary sources, we assigned initial concepts to the data, aggregating them into general categories and using a conceptual framework to define the possible divestment antecedents. An iterative process led to identifying some divestment antecedents. Whereas the initial concepts represented “concepts-in-use” (Gephart, 2004) in the language of respondents, we organized the data to a conceptual level, deriving the divestiture antecedents (Suddaby, 2006). For each identified divestiture antecedent, we also recorded associated attributes that provided a more detailed description. As we collected and analyzed more interview data, all antecedents were suggested by prior theorizing and, consequently, we could organize them in subsets of cases (Strauss and Corbin, 1998). The continuous iteration between the data and the antecedents allowed for a clear understanding of the classification; additional interviews failed to reveal new significant insights (Suddaby, 2006; Glaser and Strauss, 1967).

Finally, to gain an outsider's perspective, the supervisor of the thesis, who did not directly participate in this study, was involved to discuss the emerging patterns in the data and the antecedents, soliciting questions about data collection and analysis procedures (Corley and Gioia, 2004).

In the next section, we present the divestiture process at Liozco, as described in the collected materials and the very first round of interviews. After that, we report the corporate M&A team and business unit/subsidiary perspectives about the Liozco-A divestiture, as a result of the interviews we conducted with corporate and business unit middle managers in the company.

1.4. The divestiture process at Liozco

As showed in the figure (Figure 1.1), there are five main steps in the standard process of divestiture that emerged from Liozco's experience: identification of the objective, approval to start the preliminary process, preliminary process and negotiation, authorization to proceed and execution. The identification of the objective of the divestiture ends, most of the times, with the approval of the Strategic Business Plan, containing the whole set of acquisitions and divestitures, but it constitute neither the beginning of the preliminary process nor an authorization to proceed with the initiative, which are subject to ad hoc assessment during the proposal phase.

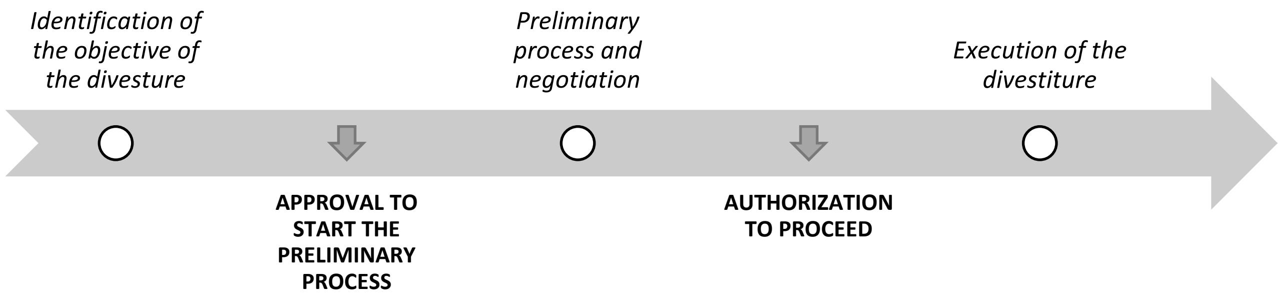

FIGURE 1.1 – Divestiture process at Liozco

Duhaime and Schwenk (1985) emphasized that analytical evaluations are intended to rationalize a decision that has already been taken; when middle managers receive the indication to divest, it could appear clear that they must do it and get the best outcome for the company. This is not completely true, especially in Liozco, because the involvement of middle managers during the process can be important for a successful implementation and can even lead to revision of the initial decision to divest. The continuous exchanges between corporate and business-level actors were fundamental to start the preliminary process of Liozco-A divestiture and middle managers behavior and capabilities during the process played a key role.

A key issue in divestment decisions is represented by the way decisions are made and the players involved. Behavioral limitations can affect the decision-making process and decision makers may use heuristics to avoid the stress of processing all the variables and available data. Behavioral decision-making theory has been developed to describe non-rational impact on decision-making and to provide some managerial tools to reduce it. According to the behavioral theory of the firm, a company is an adaptively rational system, responsive by nature to organizational context and, in particular, to previous firm performance (Greve, 2003b; Cyert and March, 1963; March and Simon, 1958). Behavioral research defined the firm as group of bounded rational decision-makers (Simon, 1955, 1957, 1982); when facing recurring organizational decisions, a firm develops performance programs (March and Simon, 1958), standard operating procedures (Cyert and March, 1963) and routines (Nelson and Winter, 1982) to drive the decision-making process.

Middle managers at corporate-level, when interviewed, explained their role mainly as provider of financial information and support to the business unit in the decision to divest. The stake in the Liozco-A subsidiary was not indicated for divestment in the Strategic Plans, even though the asset was not performing well. Planning & Control staff, together with the M&A team, were responsible for its analytical evaluation and, in particular, for the financial evaluation; they assemble Strategic Plans, according to the inputs received from business units. Weak performance at business-level and relative debt intensity have been found to be antecedents of a divestiture (Chang, 1996; Hitt et al., 1996; Hamilton and Chow, 1993; Hoskisson and Johnson, 1992; Duhaime and Grant, 1984), especially in the case of business unit’s divestment.

In the Liozco case, the real initiative to divest was taken within the middle management at business-level, namely the top management of the subsidiary. The subsidiary was not reporting healthy financials but business people were aware of more issues, from political, legal and operational points of view. Liozco-A was part of a previous acquisition and had gone under the business unit control with no specific strategy initiative; it represented a valid vehicle for the company to operate in a country or region, notwithstanding the particularly uncertain and complex business environment. Political and legal frameworks in Southeastern Asia can definitely represent a source of environmental uncertainty. In diversified corporations, when uncertainty increases, higher requirements for information processing can lead to divesture decisions aimed at reducing complexity (Bergh and Lawless, 1998).

Psychological research underlined that there are three main determinants in decision-making behavior, which are decision problems, decision-makers and the decision-making process (Bronner, 1993). Accordingly, there is a matter of who takes the decision, in terms of number, preference and cognitive, motivational and interactive qualities, and a matter of how the decision is taken, in terms of patterns, barriers and controls. To control decision processes, companies tend to implement some mechanisms that can reduce limitations in behavioral decision-making, such as internal procedures or hierarchies. Those procedures are seen as the best tool to provide orientation to middle managers and to standardize their approach.

An integrated corporation operating in many countries needs to constantly develop, balance or rationalize its business portfolio to react to changes that are more and more frequent in the product-market environment, maximizing value for its stakeholders. According to the Liozco's internal procedures, the preliminary identification and selection of potential transactions is driven by the need of integrating or developing the business; this phase originates from the collaboration between the relevant business unit and the corporate teams. The main reasons for the acquisition or divestment of subsidiaries or assets are: a) monetization of new discoveries; b) rationalization of the company's portfolio; and c) development of new product-market combinations in the medium or long term. As of the company portfolio management, four main goals were found to be relevant for Liozco: (i) refocus or diversify the business; (ii) dispose of non-core assets; (iii) rebalance the risk profile; and (iv) enhance operational efficiency.

The relevant Liozco business units or the corporate M&A teams identify the subsidiary or asset to be acquired or divested; this process is based on a detailed set of activities, such as opportunity analysis, portfolio assessment, market analysis, scouting, data and information collection, exchange of information and monitoring of other operators, competitors and contractors. In the case of a potential acquisition or divestment related to industrial assets and/or logistical infrastructure, the proponent, with the support of the abovementioned units or teams, verifies the correct classification of the assets/infrastructure and the non-ordinary nature of the transaction. Once the required activities and verifications are completed, the proponent can issue a preliminary proposal to start the preliminary process, containing:

- a brief description of the transaction and its strategic rationale;
- an indication of potential opportunities for integration with other businesses;
- confirmation about the fact that the potential transaction is among the ones planned in the budget and/or is consistent with the approved Strategic Plan and the portfolio position, or, if not, the reasons for proceeding with the transaction;
- information about the potential counterparties, if already identified;
- the mode of execution of the transaction (e.g. direct negotiation, public tender or by invitation, etc.) and the reasons for such choice.

At this stage, a project leader needs to be proposed for the execution of the transaction and a reference person from the corporate M&A team has to be indicated in the proposal. In the case of acquisition or divestment transactions involving a listed company, the preliminary proposal must designate a person from the Finance Department and determine the beginning of the preliminary process for the transaction relating to the listed company.

Before submitting the preliminary proposal to the authorizer, the proponent, the M&A manager and, in the case of a transaction on a listed company, the Head of Finance Department have to sign it. The authorizer, which could be the CFO, a chief officer from the relevant business unit or the board of directors, assesses the preliminary proposal and, if agrees, signs it as well for approval; at the same time, the project leader is finally appointed in agreement with the M&A manager.

1.5. The corporate M&A team perspective

The interview data suggested that, in the case of the Liozco-A divestment, corporate M&A respondents were contacted after an input from the business unit. In particular, with the Liozco-A case, they were involved because that company was listed on the stock market. From the very beginning, some issues related to the divestment arose, especially on what concerns the potential buyers or partners that the M&A team was in charge to find.

One of the main issues related to the divestment of a business unit asset is the evaluation of what you are selling, especially when both the parent company and the subsidiary are listed entities. The number of potential partners and potential offers, of course, is incredibly dependent on the price. In contrast, if the business unit is aware of the fact that the stake in that subsidiary is not worth anymore, the corporate M&A team needs to find a reason to divest. In the case of Liozco-A, the corporate P&C team had perception of the reality that was very different from the one of the business unit and, in fact, the divestment of Liozco-A was not in the Strategic Plan. From the interviews with the corporate M&A respondents, it was clear that sometimes in an M&A transaction there can be something that cannot be evaluated. In particular, one of the main doubts was on whether the discount rate considered in the transaction was fair or not. Middle managers understanding of the decision explained their actions, but those actions were also influenced by the context of the transaction. The Liozco-A divestment, in fact, had the peculiarity of a subsidiary located in Southern Asia, which needed to be evaluated carefully.

Given that the input for the Liozco-A divestment came from the business, the role of the corporate M&A team was to make the transaction technically feasible. There were four main difficulties encountered, as for the very preliminary process: a) number of alternative buyers; b) value of the subsidiary's intangible assets; c) uncertainty in the transaction; and d) problematic political and legal framework. With the initiative coming from the middle management and from the business unit, the corporate M&A team faced all the perplexities and the complications, in terms of authorization, faced even by the CEO.

Alternative buyers. Villalonga and McGhan (2005) underlined that, according to transaction costs theory, divestitures can create value because they reduce information asymmetries between the firm and the market. The input to divest Liozco-A came from an initiative of the business unit, with its top management arguing that, due to high level of information asymmetries, there were significant operational difficulties in running the business. When the corporate M&A was involved in the process, its first task was to find a potential buyer and a way to translate the initiative in a decision. CorporateVP-1 said:

> We were contacted by the business unit top management, who wanted to sell the stake in the subsidiary. Our first concern was to understand whether we could find some potential counterparties for the transaction or not. Being the subsidiary a listed company, the whole process needed to be transparent and some local and private investors were called to appreciate the feasibility of the divestment initiative.

TCE suggests that if a small number of exchange partners exists for a particular opportunity, the company will be more exposed to opportunistic behaviors, compared to a situation in which there are many alternative partners (Williamson, 1985). Potential buyers were acknowledged that Liozco was not able to exploit the strategic value of Liozco-A assets, requiring specific capabilities to orchestrate those resources. On the other hand, buyers located in the Liozco-A market were aware that those assets represented a valuable portfolio of resources but they were not willing to pay a higher price, especially considering the current financial figures of Liozco-A.

Hard-to-value intangible resources. Vicente-Lorente (2001) and Chi (1994) emphasized that asymmetric information is more likely to arise for assets that are intangible, since those assets are more difficult to observe and their value is imperfectly related to financial metrics. Corporate middle management, from the M&A team and from other relevant teams within the Finance and P&C departments, had to face the problem of selling a stake in a subsidiary whose assets had a value, and a market value, but no value for Liozco. As CorporateM-1 stated:

> While looking for potential buyers, our team had three issues to deal with as for the value of the subsidiary assets: i) P&C team valuation of the assets was higher than expected, compared to the Finance team one; ii) the first offers from the potential buyers were considerably below the internal valuations; iii) business unit top managers were stressing that subsidiary assets had no value for the company. Our perception about the reality and the objectives of the transaction was very different from the business unit top management one.

Resource-based view claimed that it can be difficult for buyers to verify a seller's assessment of the attributes of its intangible assets and the business' future prospects (Levitas and McFadyen, 2009). Coff (1999) found that, in the M&A context, if a target firm possesses substantial intangible assets that are hard-to-value, potential buyers are challenged with a greater information asymmetry and are more likely to discount their offer prices (Ravenscraft and Scherer, 1987).

Uncertainty. Damaraju et al. (2015) noted that, when considering divestment alternatives, the impact of external uncertainty in the business unit's environment could be relevant. According to option theory, asymmetric expectations between buyers and sellers may lead to investment or divestment decisions under conditions of uncertainty. Liozco may have considered to sell only part of the stake in Liozco-A, due to uncertainty in the business unit environment and in the demand. CorporateVP-1 pointed out that:

> The transaction was incredibly complex, from the very beginning, and we had to dedicate time and resources to that. Multiple contacts with the local investors were necessary since communication was not easy, also due to the distance. The CEO was not very convinced and our task was to make the transaction feasible. Big efforts were required on our side to produce all the documentation for the corporate executives' authorization to start the process.

Resource-relatedness between parent and business unit could affect firms' divestment behaviors but, despite all the difficulties, the corporate M&A team of Liozco tried to sell the whole stake in Liozco-A in multiple tranches. Prior studies also stressed the importance of complex portfolio interactions among businesses within a firm's portfolio (Vassolo et al., 2004; Teece et al., 1994).

Political/legal pressures. Oliver (1992) studied major sources of pressure on institutionalized norms and practices and identified political pressures as shifts in the interests and underlying power distributions that were supporting and legitimating the existing institutional arrangements. The political and legal framework in the context in which Liozco-A operated was quite challenging and Southern Asia is well-known for its complicated and vague business environments. As CorporateM-2 indicated:

> Business unit/subsidiary top managers were aware of those (political, legal and operational) problems and sought help from local managers in middle and operational management roles. We had very hard times at the beginning of the divestment process, since we tried to understand the right path to follow as for the sale of the stake of the subsidiary. The legal framework was extremely instable, with no clear rules and capital market regulation. As for our job, this was the most problematic transaction ever because there were no precise guidelines.

Early studies from institutional theory highlighted the critical processes coming from the interaction between institutions and individuals. In particular, because the Liozco-A was a listed company, several efforts were asked to both the corporate and business unit people to collect all the documents required according to local regulations.

1.6. The business unit/subsidiary perspective

Following the key findings emerging from the interviews with the corporate teams, we went to the business unit people and had a second round of interviews. Business unit middle managers were also in the board of directors of Liozco-A, which gave them a broad spectrum about the subsidiary and its assets. As already pointed out, Liozco-A went under the control of the business unit as part of an acquisition, when Liozco acquired a majority stake in the subsidiary that, originally, had a good potential. Liozco was already present in the region and in the country, but Liozco-A had some assets and resources that could have been integrated in the business to exploit economies of scale, market and technical complementarities. Unfortunately, most of the assets in the area were performing worse than expected and the activities in the country had started becoming a problem.

Due to a strong financial distress of those assets, the main decision of the parent company was to leave the country and Liozco-A had significant operational difficulties. According to BusinessSVP-1:

> Business unit decision to divest was a portfolio decision but had three main issues: i) the stake in that subsidiary was very valuable, but not for the parent; ii) the subsidiary was a listed company, with a specific market value; iii) potential counterparties had to be open to recognize subsidiary assets value and pay a price for that.

Middle managers of the business unit/top managers of the subsidiary had to demonstrate their skills and capabilities with a local management feeling uncomfortable and embarrassed about the situation because of their inability of managing the business unit assets.

As a first move, immediately before taking the divestiture decision, the board of directors and managing directors resigned and the new top management of the subsidiary, together with the CEO, promoted the divestment and the entrance of new shareholders. From the interviews with the business unit top managers, it was clear that the main problem they coped with was to sell a valuable combination of assets that were not valuable for the company. Those activities, as part of the Liozco portfolio of assets, were destroying value for the company and it was not anymore in the interest of the group, as a whole, to keep those assets.

Peculiarities related to the business unit operations and several difficulties related to the political and legal framework were the two most relevant matters that prevented local and operational managers to make Liozco-A's assets profitable and valuable for business. The portfolio management activities, which are routinely performed at both business unit and at corporate-level, brought the business unit top managers to the final decision to exit not only the subsidiary, but also the country. Being Liozco a vertically integrated multibusiness corporation and a complex organization, there was a strong overlap between the two levels of analysis, which required the corporate and business unit people to share their capabilities in the best interest of the company.

Performance. Hamilton and Chow (1993) found that a common divestment decision is carried out to convert unattractive assets into a more liquid form, with the intent of reinforcing the core business, satisfying overall liquidity requirements or moving the company into areas that are more attractive. BusinessSVP-1 stated:

> Business unit performance, parent company strategic position and the overall liquidity were the prevailing motivations for the initiative to divest. The financial distress of the subsidiary was the most evident problem, with some assets facing unexpected difficulties in regular business operations.

In the finance literature, the reorganization and subsequent sale of subsidiaries has been clearly identified as a means of making profit (Kaplan and Weisbach, 1989). In international business theory, divestment of foreign subsidiaries does not automatically indicate problems in the subsidiary or in the parent company (Tsetekos and Gombola, 1992; Ghertman, 1988). The business unit top manager added:

> Our perception was that the subsidiary no longer fitted with the parent company and different performance at corporate and business unit-level opened the way to our input to sell the stake and exit the region.

Financial assets are among the most fungible resources and their acquisition can be achieved through divestitures (Tsetsekos and Gombola, 1992; Ravenscraft and Scherer, 1987).

Diseconomies of scale. Capron et al. (2001) stressed that asset divestiture is an outcome of resource redeployment, where a firm retains valuable portions of the newly reconfigured resources and divests excess assets. Liozco had slack resources that were absorbed by its more and more increasing scale but some assets in the subsidiary became redundant. BusinessVP-1 pointed out that:

> The subsidiary top, middle and operational managers were not able to run the business in order to add value to the company operations and create synergies with other businesses and within the region.

A decision to divest may create value when the parent company cannot “digest” the subsidiary due to diseconomies of scale; in the case of Liozco-A, business unit people, according to their routines, wanted to redeploy resources to and from the parent company and divest obsolete resources. Divestiture allows a firm to gain scale efficiencies by selling off excess capacity not only in declining industries (Anand and Singh, 1997; Dutz, 1989; Hoskisson et al., 1994) but also in stable and growing ones (Seth, 1990b).

Market opportunities. Weick (1979) stated that the attractiveness of a divestment opportunity might be augmented by managerial strategic sense making. A firm's ability to leverage on its strengths across new industries and markets comes from investments that assure preferential access to future expansion opportunities (Hurry, 1993). Options, supported by organizational learning, constitute the valuable resources that confer competitive advantage, which unfolds a chain of successful option choices over time. As BusinessSVP-1 said:

> Due to all the difficulties, we wanted to free corporate and business resources that were not valuable anymore. We had been waiting for performance to improve, trying to benefit from the original subsidiary acquisition and take the option to expand in the future, but thus had not taken place.

Liozco might have developed strong relationships with the subsidiary and gain valuable experience and skills, increasing the company exposure to related market opportunities and its ability to sense and respond to new opportunities. The business unit top manager added:

> The knowledge obtained through the original acquisition was not able to increase the number of future options available to the firm in the region. Other business units located in other countries in Asia were working much better from this point of view, achieving critical mass and becoming strategic for the region.

Divestment decisions, according to option theory, are central to shareholder wealth maximization (Bicksler and Chen, 1990), especially those related to the sale of latent assets, whose value is not easily discerned by the market (Brennan, 1990).

Capital-market pressures. Sewing (2010) sustained that growing capital-market pressures could contribute to a shift in top management orientation towards shareholders value, including active portfolio management and proactive divestment decisions. BusinessVP-1 stressed that:

> The decision to divest was a subsidiary/business unit issue, as part of portfolio management activities for value creation and it was discussed routinely, openly and holistically with parent middle management. Considerable attention was given to the market perspective, with both us and corporate M&A team dedicating time and resources to local capital market understanding for their portfolio decision.

Sound communication of the underlying rationale for the divestment was found to be important since a lack of information to the capital market on a planned transaction could have resulted in a substantial loss of value. More and more companies recognized divestments as valid elements of corporate planning and strategy, rather than last resorts (Hayes, 1972) and a change in management culture is required to make routine divestment analysis acceptable to the market.

1.7. Discussion

The case we presented is an extreme example of the 'dark side' of divestment decisions. Our insights provide a provisional account of how middle managers at corporate- and business unit-level make divestment decisions. The model may be considered according to four theoretical lenses – real option theory, resource based view, transaction costs economics and new institutionalism; from the interviews, it is evident that managers in different roles look at different factors. Teece (2009), within the asset orchestration framework, defined cospecialized assets orchestration by strategic managers as a proactive process designed to (i) keep cospecialized assets in value-creating coalignment; (ii) select new cospecialized assets to be developed through the investment process; and (iii) divest or run down cospecialized assets that no longer help yield value. As for the latter, corporate and business unit-level middle managers were found to process different information which were then used as criteria for the business unit asset divestment.

Both groups of respondents underlined that, when called to justify the divestment decision, there were significant difficulties related to the value of the business unit assets to be divested. In particular, initially, corporate- and business unit-level middle managers had a different perception of the objectives and the reasons behind the transaction. As Teece (2009) emphasized, different perceptions about future demand and technology or different asset positions of buyer and seller can lead to disparities in how the existing owner of an asset values it and the manner in which another agent or potential owner values it. Corporate and business unit-level middle managers, when called to assess the business unit asset, had different criteria in their minds since they were acknowledged only of the information they collected.

The subsidiary divestment decision presented in this study took place in response to a problem, mainly related to poor performance, using operating procedures and routines and possible search for alternatives. Cyert and March (1963) stressed the uniqueness of a firm highlighting that organizations and organizational actors have different knowledge and make different decisions. Principals and agents must design and implement processes, reinvest cash flows and configure asset portfolios, including resource allocation between exploitation and exploration (March, 1991, 1994); as for our case study, it is clear that agents should be capable of reconfiguring asset portfolios and organizational systems as specific circumstances change.

Liozco middle managers, both from corporate- and business unit-level, worked together to close the deal and sell the company's majority stake in Liozco-A. The divestment, given the difficulties described above especially in terms of political and legal framework, was problematic but successful. The parties did agree on a fair price and Liozco top executives approved the transaction, being aware that Liozco-A lately became a problem for the company and the sale of those assets was done in the best interest of the business unit and the whole group.

We have drawn attention to the factors that middle managers at corporate- and business unit-level look at. As table 1.1 show, most of the factors mentioned by corporate- and business unit-level managers of Liozco can be allocated to different management theories, e.g. resource based view and transaction cost economics. Despite being conceptually different, those divestment antecedents are not mutually exclusive. The dynamic capabilities framework could be useful to study divestment decisions, since it pulls together many disparate theories, trying to identify the key capabilities that a firm must possess in order to succeed in the long term and generate superior performance. The role of middle managers in a multinational multibusiness corporation can influence the factors they prioritize when asked to make a decision.

TABLE 1.1 – Factors emerging from interviews

	ROT	**RBV**	**TCE**	**NI**
CorporateVP-1	Uncertainty		Alternative buyers	
CorporateM-1		Hard-to-value intangible resources		
CorporateM-2				Political/legal pressures
BusinessSVP-1	Market opportunities	Performance		
BusinessVP-1			Diseconomies of scale	Capital-market pressures

The firm management team's ability to proactively adapt, redeploy and reconfigure gives meaning to orchestration and dynamic capabilities. Redeployment and reconfiguration are business model redesign and asset-reshuffling processes that need to be activated when confronting change. Many factors can influence the middle managers initiative to refine and sometimes reconfigure a multinational corporation business model, together with its assets and competencies. This could be a good starting point to better investigate and understand the role of middle managers and the importance of routines and processes in divestment decisions.

From the analysis of the findings, one can conclude that middle managers at Liozco showed different asset orchestration capabilities when assessing the information related to the divestment of a business unit asset. After using their knowledge and expertise, middle managers at corporate- and business-level look at different factors according to their position in the organization. Dynamic capabilities are meta-processes that involve asset orchestration and leadership across all kinds of activities (resources, processes and practices) to manage comprehensive and systematical strategic decision. Those capabilities empower managers at different levels and help them make precise decisions about directions, aligning stakeholders' interests and preparing for change while creating an agile organization ready to create value and mitigate risks.

Before we move on, it needs to be pointed out that the four theories emerging from the interviews can be allocated to four categories of determinants, namely corporate determinants (real option theory), business determinants (resource-based view), transactional determinants (transaction cost economics) and environmental determinants (new institutionalism). Middle managers at corporate- and business unit-level were initially found to look at different factors, but none of the theories was predominant for any of them. One could expect, for example, that middle managers at corporate-level prioritize real option determinants, while middle managers at business-unit level prioritize information from resource-based determinants. However, this aspect requires a more in-depth analysis, which means to go back to the management literature and try to better understand and map what have been studied in the past.

Divestment decisions are part of more complex processes, namely portfolio decisions, together with investments, mergers and acquisitions and alliances decisions. We have outlined how the dynamic capabilities framework could help study the cognitive model that is employed by multinational corporations to assess the divestment of business unit assets, when multiple factors may arise. Middle managers should use a comprehensive strategic framework, to select both investment and divestment opportunities and manage risks in the changing business environment. Strong dynamic capabilities can shape strategic agility and facilitate knowledge flows.

Chapter 2

Business unit assets, plants and subsidiaries divestment decisions in the strategic management literature

This second chapter, following the main findings of the first one, is focused on a literature review about divestiture determinants, intended as the characteristics that have been found to mostly affect a subsidiary, asset or plant divestment, according to previous research.

2.1. Background

Divestment and to divest etymologically suggest the opposite of investment and to invest, namely to cancel the financial and business impact of investments (Sewing, 2010). A divestiture is defined as the parent company disposal and sale of assets, facilities, product lines, subsidiaries, divisions and business units (Moschieri and Mair, 2008). Historically, divestiture research has been classified as sub-category of corporate restructuring research. Bowman and Singh (1993) broke down corporate restructuring into organizational, capital and portfolio restructuring, and divestitures fall into the latter.

Corporate divestitures represent the basic portfolio restructuring option for multi-business corporations, besides mergers and acquisitions. Divestitures are a central topic in strategic management (Villonga and McGaha, 2005; Capron et al., 2001; Singh, 1993; Hopkins, 1991; Porter, 1987; Harrigan, 1981), finance (Berry, 2003; Vijh 2002; Trifts et al, 1990; Schipper and Smith 1986; Rosenfeld, 1984) and organizational behavior (Gopinath and Becker 2000; Baker et al., 1999; Seward and Walsh 1996; Aron 1991).

The release of financial and business resources can take place gradually, i.e. partial divestment, or through a definite one-time act, i.e. residual or full divestiture. The strategic relevance of a divestment is related to the scope of the divestiture object and, for example, in the case of whole subsidiaries or business units, divestitures are responsibility of the corporate management (Sewing, 2010). Business portfolio matrices created the term “divestiture strategy”, which can be defined as the disposal of businesses or strategic business entities operating in specific markets (Duhaime and Patton, 1980).

Duhaime and Schwenk (1985) recognized that a divestiture decision has a strategic, complex, ambiguous and unstructured nature. A divesting process is a series of interdependent steps allocated over time and across various level of an organization (Nees, 1978). This process sometimes concerns the divested unit's management; most of the times, it follows no single, unique sequence of events and it is not a smooth decision-making process.

A divestiture decision-making process involves different hierarchical levels of a corporation. Nees (1978) proposed a general reference framework for a phase model to engage it; Sewing (2010) adapted the framework, splitting the process into three main stages: problem identification and definition, option generation, and option selection. The final decision would be based on a detailed analysis of all relevant possible actions and their consequences; a comprehensive examination of the divestment option requires significant effort for information retrieval and assessment. Thus, early decision criteria for when to initiate some divestiture considerations need to be carefully understood, using specific data sources or analysis to increase the chance of a substantial decision and to reduce the risk of erroneous divestitures.

Sewing (2010) stressed that actors for potentially initiating divestiture considerations should be selected such that their character and motivation do not oppose to the initiative to divest. Top management is the preferred party to initiate divestiture considerations, for clear strategic and cross-business reasons. As Porter (1976) suggested, top managers can have a more detached view of the individual business, and act as an internal capital market in allocating resources. Nevertheless, their cognitive capacity is limited and their scope of responsibilities requires increasing aggregation of information. If divestiture considerations were primarily due to performance issues of the business unit, its management team would be the appropriate initiator. In this case, potential cognitive conflicts of interest could lead to information being vulnerable or biased as well. The involvement of the business unit's management in the divesture process can take place through the elaboration of solutions to detailed matters.

Staff and central functions above and outside the divestiture object can contribute to mitigate the information deficits and cognitive issues of the top management. A full appreciation of the decision-making process needs an inclusive appreciation of how divestiture antecedents are understood at corporate- and business unit-level.

Recent studies have shed new light on divestitures as a means to manage environmental uncertainty (Damaraju et al., 2015). Moschieri and Mair (2017) developed a framework that connects the parent-unit relationship and its subsequent modifications depending on the divestiture's object. Strategy and entrepreneurship literature suggest that corporate-level antecedents of divestitures may relate to reconfiguration needs (Burgers et al., 2009; Chesbrough and Rosenbloom, 2002; Capron et al., 2001), agency frictions (Seward and Walsh, 1996; Jensen, 1983) and internal resource conflicts (McGahan and Villalonga, 2003). Moschieri and Mair (2017) indicate a new reason for divestitures: to have a real option in an investment in a corporate venture. Partial divestitures, in fact, can be seen as an alternative to full ownership or a full sale; they limit the risks and decrease the total investment by giving the parent the right, but not the obligation, to keep the business or asset's activities, exploiting the sources of uncertainty associated with exploration rather than avoiding uncertainty. Corporations may prefer to defer a full commitment and opt for temporary forms of governance (Folta, 1998), especially in dynamic industries, where there is a need to adapt to time- and context-specific conditions (Santos and Eisenhardt, 2009).

As already pointed out, when considering the configuration of the decision-making process, a very important aspect is the participation of individuals from various management levels throughout the decision-making process (Papadakis et al., 1998; Dutton and Duncan 1987). The following section presents a classification of divestiture antecedents' research and locates it within a new framework, giving emphasis to management involvement in the divestment process.

2.2. Divestiture determinants

Previous divestiture research can be summarized in three streams: antecedents of divestiture, divestiture outcomes, and divestiture decision and process management (Johnson, 1996). This literature review is devoted to divestiture antecedents and on why and what to divest.

As for the antecedents of a divesture, one main question has dominated previous work: what determines divestitures? Accordingly, literature on antecedents mainly focused on the distinction between external and internal environmental determinants (Sewing, 2010).

External determinants can be found both in the general economic conditions of the environment and in the industry characteristics. On the one hand, divestitures seem more likely to occur in rapidly changing markets and highly competitive environments (Eisenhardt and Brown, 1999). Specific cultural and social contexts, i.e. homogeneous society, informal contracts or stable shareholders, facilitate business/market exits (Ito, 1995). Mulherin and Boone (2000) highlighted that corporate restructuring is a function of industry shocks and changing economic conditions. On the other hand, high levels of technological change and increased environmental uncertainty can also act as drivers of divestiture (Jensen, 1993). Multibusiness corporations are likely to divest marginal businesses with small market share to exploit benefits in the core business (Harrigan, 1982). Benthel and Liebeskind (1993) also stressed that institutional investors and financial analysts are more and more influential on exerting pressure for divestiture on management.

Internal determinants can be found into firm and business unit characteristics. Poor firm performance has been identified as a strong predictor for divestitures (Dranikoff et al., 2002; Montgomery and Thomas, 1988; Duhaime and Grant, 1984; Harrigan, 1982). Relative debt intensity and weak performance at business unit-level also drive divestiture (Haynes et al., 2003; Chang, 1996; Hamilton and Chow, 1993; Duhaime and Grant, 1984). Zuckermann (2000) showed that conglomerates are gradually being forced to restructure to avoid conglomerate discounts. Stock option compensation rather than stock option ownership influences managers towards divesting a business (Sanders, 2001). CEOs coming from outside or with relatively low tenure are expected to make more radical strategic decisions because they can better deal with internal inertia forces (Bigley and Wiersema, 2002; Ravenscraft and Scherer, 1991; Ravenscraft and Scherer, 1987). Shimizu and Hitt (2005) highlighted that divested business unit subsidiaries or assets are often reasonably small. Duhaime and Baird (1987) showed that small and large divested units are sold for defensive motives, while mid-sized units for aggressive ones. In addition, several studies already demonstrated that divestitures are more likely the greater the unrelatedness between parent and business unit, especially in terms of resources (Chang and Singh, 1999; Duhaime and Grant, 1984).

Sewing (2010) gave emphasis to the fact that criteria for divestiture decisions should be defined according to the specific business situation, corporate goals and strategies. Numerous factors can be seen as antecedents of a divestiture decision and most divestitures have more than one determinant. Different empirical studies tried to describe and organize the most significant motivations for divestitures but their specific explanations and polarizations have rarely been separated. After all, it would be challenging to isolate financial and strategic drivers, as financial goals are often used to exploit the strategic potential of an initiative.

Strategic management literature distinguishes between the levels of corporate strategy and business strategy, according to the extent to which they approach to the organization (Porter, 1987). Corporate strategy making is in charge of resource allocation, portfolio configuration, portfolio management and development. Corporate strategy supports, coordinates and integrates individual businesses, determining the degree of activity in each of them.

Teece (2009) followed a capabilities approach, defining a corporation as a portfolio of difficult-to-trade assets and production resources. Multinational corporations competing in global environments proactively adjust their portfolio of assets and competencies to build competitive advantage. This firm's asset orchestration capacity, intended as shaping, reshaping, configuring and reconfiguring company's assets to respond to technology change, competition and market development, is known as the firm's dynamic capabilities. Dynamic capabilities also include the capacity of the firm to calibrate uncertainty and continuously align and realign cospecialized assets domestically and internationally. Cospecialized assets can be defined as those complementary assets, in technology or in other parts of the value chain, where the value of the asset is a function of its use in conjunction with other assets. Redeployment and reconfiguration are business model redesign and asset-reshuffing processes for organizations confronting change.

Sirmon et al. (2007) developed a resource management framework, addressing process-oriented managerial actions that are aimed at achieving competitive advantage and create value. Helfat et al. (2007) studied a related framework focused on asset orchestration. Helfat and Peteraf (2003) linked dynamic capabilities and resource-based theory to provide an indirect association between asset orchestration and resource management. Resource divestment and resource deployment strategies have been studied under the resource management perspective but, as far as we know, are still absent from the asset orchestration arguments.

2.3. Management involvement

Previous studies demonstrated that corporate-level management alone is involved in divestiture decision-making (Boddewyn, 1976; Torneden, 1975). Duhaime and Baird (1987) and Ghertman (1988) found that corporate management makes the final decision. Burgelman (1994), on the contrary, emphasized that divestitures, as an internal allocation process, are driven at a business unit-level. In the final decision to divest, corporate managers are assumed to follow the opportunities created by middle management.

Nees (1981) and Brauer (2009) highlighted that in any divestiture decision there could be a reduction in the strong initial forces, resulting from a limited involvement of divisional management. Divisional/business unit managers can be seen both as important information suppliers in divesture decision-making (Porter, 1976) and as strongly biased individuals, especially if the divestiture concerns their own division or business unit. Bagwell and Zechner (1993) argued that divisional managers assertively reduce the probability of their division to be divested, by aggressively diminishing the presence of a high-synergy buyer; divisional managers can also make an effort to prevent their business unit to appear as a divestiture candidate.

Johnson et al. (1993) studied the participation of the board of directors to corporate restructuring initiatives, finding out that the board's involvement is more likely to happen when there is a high percentage of outside directors and outside director ownership. The contribution of central support functions is traditionally seen as a facilitator for decision-making (Boddewyn, 1976). Regarding other external parties, systematic interactions with high-qualified financial analysts can increase the importance of divestiture antecedents (Zu Knyphausen-Aufsess et at., 2011).

Floyd and Wooldridge (1997) observed that the position of managers in an organization determines their influence on strategy, since they mediate between the external environment and the internal organization. Middle managers, in particular, are able to establish a network to acquire information useful to the organization and, through their interactions with other managers in the external environment, to become a hub for the organization. While many differences exist between managerial levels, the most fundamental dissimilarities involve focus and the amount and type of information each manager holds (Floyd and Lane, 2000). Middle managers are often seen as managers located below top-level and above operational-level managers in the hierarchy and they mediate not only vertical information flows but also horizontal flows.

Wooldridge et al. (2008) categorized middle managers as a unique group of managers who have access to the senior management and possess operational knowledge. Yang et al. (2010) positioned middle managers at least two levels above front line employees in the organizational hierarchy. Business unit's top managers are similar to corporate middle managers because they both exercise upward influence (Watson and Wooldridge, 2005); every top manager in the business units can be considered a middle manager since business units of very large organizations could be regarded as at the same level of the corporate functions.

Teece (2009), within the dynamic capabilities framework, stressed that managers and organizations in general make knowledge useful and skilled workers productive. Decisions on investment and divestment processes, organizational structures, business models, etc. involve managerial choices and action. When a company grows, the increase in its resources and assets will lead to an accumulation of more and more resources and specific assets as well as internal rules and procedures. Managers' key role is the ability to recombine and reconfigure assets and organizational structures as markets and technologies change. Companies are required to have an appearance and feeling of simplicity, with broad understanding of purpose and mechanisms (Miles and Snow, 1984). If managers have trouble in articulating the strategy-structure-process set, roles and responsibilities might not be clear and this leads the way for criticism on decisions.

Sirmon et al. (2011) emphasized the importance of synchronizing the use of resources across managerial levels as well as within each managerial level. In a bidirectional flow model, many individuals within the firm are able to initiate the resource orchestration process. Middle managers may be the ones who encourage a synchronized process, offering rich information and increased flexibility for innovative change. Divestiture decisions are not the result of isolated decisions of corporate middle managers but they result from the interaction between internal and external factors, both at the corporate- and business unit- level.

2.4. Method

Based on the above discussion of the antecedents of a divestiture decision, we argue that two major questions have been addressed by previous research: a) why to divest? and b) what to divest? While many literature reviews about divestitures followed an inductive logic, the present study uses a deductive approach, developing an analytical framework for divestiture antecedents and trying to examine whether the determinants come from corporate or business unit levels. Furthermore, previous research was primarily focused on corporate portfolio divestment decisions, which is when executives and top managers are asked to make decisions about business units and divisions divestment. This literature review is aimed at framing what has been written about assets, plants and subsidiaries divestment decisions.

The analytical framework used to analyze the literature also allocates the antecedents to the theories or theoretical perspective applied. Strategy scholars made sense of divestitures through agency theory, transaction cost economics, resource-based view and evolutionary theory; recent studies on divestiture were built on new institutionalism and real option theory. The phenomenon of divestiture can not be attributed to just one of those theories but rather it is necessary to put together arguments from different streams (Moschieri and Mair, 2008).

Figure 2.1 shows the paper selections process: first, a digital database query on ABI INFORM, a database that includes top tier journals, was conducted. The search was limited to specific journals but not to any specific time period. Being the focus of this review on asset, subsidiary or plant divestitures, the content search was limited to the abstract and the set of keywords used was the following: ab(divestiture) OR ab(divestment) OR ab(restructuring) AND (asset OR subsidiary OR plant). Only articles in academic top journals were selected, i.e. Academy of Management Review, Academy of Management Journal, Strategic Management Journal, Journal of International Business Studies, Journal of Management, International Journal of Management Reviews and Journal of Management Studies. In total, the first round resulted in 96 papers. After reading all the abstracts and checking for their appropriateness, a number of false positive occurred, leading to a final sample of 48 publications (see Table 2.1).

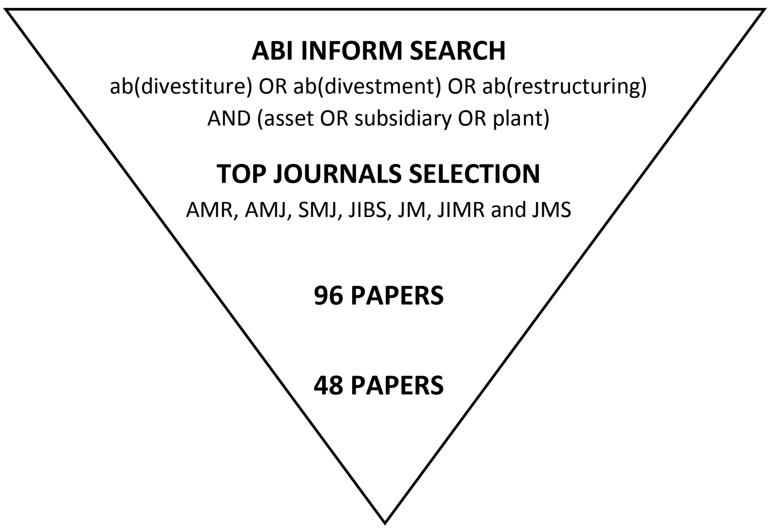

FIGURE 2.1 – Paper selection

Tab. 2.1 - SELECTED PAPER

YEAR	YOURNAL	Authors	Title	Theory	Methodology	Divestment characteristics (CORPORATE LEVEL)	Divestment characteristics (BUSINESS LEVEL)	People characteristics
1993	Strategic Management Journal	Bethel, Jennifer E; Liebeskind, Julia	The Effects of Ownership Structure on Corporate Restructuring	Agency Theory	Secondary Data	Ownership structure		
1997	Strategic Management Journal	Wright, Peter; Ferris, Stephen P.	Agency conflict and corporate strategy: The effect of divestment on corporate value	Agency Theory	Secondary Data	Private and political forces		
2003	Strategic Management Journal	Tuschke, Anja; Sanders, Wm Gerard	ANTECEDENTS AND CONSEQUENCES OF CORPORATE GOVERNANCE REFORM: THE CASE OF GERMANY	Agency Theory	Secondary Data	CEO incentives		
2004	Journal of Management	Shimizu, Katsuhiko; Hitt, Michael A.	What Constraints or Facilitates Divestitures of Formerly Acquired Firms? The Effects of Organizational Inertia	Agency Theory	Secondary Data	Performance Corporate Governance		
2008	Strategic Management Journal	Bergh, Donald D; Johnson, Richard A; Dewitt, Rocki-Lee	Restructuring through spin-off or sell-off: transforming information asymmetries into financial gain	Agency Theory	Secondary Data	Performance		Information disadvantages
2011	Strategic Management Journal	Moschieri, Caterina	The implementation and structuring of divestitures: the unit's perspective	Agency Theory	Case studies	Agency conflicts		
1994	Academy of Management Journal	Hoskisson, Robert E; Johnson, Richard A; Moesel, Douglas D.	Corporate divestiture intensity in restructuring firms: Effects of governance, strategy, and performance	Agency Theory	Secondary Data	Product diversification Perfomance Corporate Governance		
1992	Strategic Management Journal	Chatterjee, Sayan	Sources of Value in Takeovers: Synergy or Restructuring - Implications for Target and Bidder Firms	Agency Theory	Secondary Data	Hostile tender offers		
1993	Strategic Management Journal	Bowman, Edward H; Singh, Harbir.	Corporate Restructuring: Reconfiguring the Firm	Agency Theory	Review	Environmental conditions		
1993	Strategic Management Journal	Gibbs, Philip A.	Determinants of Corporate Restructuring: The Relative Importance of Corporate Governance, Takeover Threat, and Free Cash Flow	Agency Theory (Free Cash Flow Theory)	Secondary Data	Agency conflicts		
2001	Academy of Management Journal	Sanders, Wm Gerard	Behavioral responses of CEOs to stock ownership and stock option pay	Behavioral (decision) Theory	Secondary Data	CEO incentives		Down side risk
2011	Journal of Management	Garbuio, Massimo; Adelaide Wilcox King; Lovallo, Dan	Looking Inside: Psychological Influences on Structuring a Firm's Portfolio of Resources	Behavioral (decision) Theory	Experimental/field research	Efficiency Performance		Cognitive influences
2007	Academy of Management Journal	Shimizu, Katsuhiko	Prospect Theory, Behavioral Theory, and the Threat-Rigidity Thesis: Combinative Effectson Organizational Decisions to Divest Formerly Acquired Units	Behavioral Theory	Secondary Data	Performance		
2017	Strategic Management Journal	Kuusela, Pasi; Keil, Thomas; Maula, Markku	Driven by aspirations, but in what direction? Performance shortfalls, slack resources, and resourceconsuming vs. resource-freeing organizational change	Behavioral Theory	Secondary Data	Performance		

Tab. 2.1 - SELECTED PAPER

YEAR	YOURNAL	Authors	Title	Theory	Methodology	Divestment characteristics (CORPORATE LEVEL)	Divestment characteristics (BUSINESS LEVEL)	People characteristics
1988	Journal of International Business Studies	Ghertman, Michel	Foreign Subsidiary and Parents' Roles during Strategic Investment and Divestment Decisions	Behavioral (Decision) Theory	Survey/Case studies			Centralization-decentralization approach
1992	Strategic Management Journal	Woo, Carolyn Y; Willard, Gary E; Daellenbach, Urs S.	Spin-Off Performance: A Case of Overstated Expectations?	Corporate (Finance) Porfolio Theory	Secondary Data	Performance		
1993	Strategic Management Journal	Seth, Anju; Easterwood, John	Strategic redirection in large management buyouts: The evidence from post-buyout restructuring activity	Corporate (Finance) Porfolio Theory	Secondary Data	Efficiency		
1983	Journal of International Business Studies	Boddewyn, Jean J.	Foreign and Domestic Divestment and Investment Decisions: Like or Unlike?	Corporate Portfolio Theory (Country selection)	Literature Review	Performance		Financial aggregate discrepancy
1996	Journal of Management	Johnson, Richard	Antecedents and outcomes of corporate refocusing	Corporate Portfolio Theory	Secondary Data	Environmental conditions Corporate Governance Strategy Performance Financial restructuring		
1993	Strategic Management Journal	Zajac, Edward J; Kraatz, Matthew S.	A Diametric Forces Model of Strategic Change: Assessing the Antecedents and Consequences of Restructuring in the Higher Education Industry	Corporate Portfolio Theory	Secondary Data	Environmental conditions Path dependance Financial distress		
1997	Strategic Management Journal	Bergh, Donald D.	Predicting Divestiture of Unrelated Acquisitions: An Integrative Model of Ex AnteConditions	Corporate Portfolio Theory	Secondary Data	Performance		
1998	Journal of International Business Studies	Buckley, Peter J; Casson, Mark C.	Models of the multinational enterprise	Corporate Portfolio Theory (Business and Country selection)	Economic model	Competition		
1981	Strategic Management Journal	Nees, Danielle	Increase Your Divestment Effectiveness	Corporate Portfolio Theory (Business selection)	Case studies			Interpersonal behaviour
1984	Strategic Management Journal	Duhaime, Irene M; Grant, John H.	Factors Influencing Divestment Decision-Making: Evidence from a Field Study	Corporate Portfolio Theory (Business selection)	Semi-structured personal interviewing	Performance Unit Performance Unit Interdependency		
1984	Academy of Management Journal	Montgomery, Cynthia A; Thomas, Ann R; Kamath, Rajan	Divestiture, Market Valuation, and Strategy	Corporate Portfolio Theory (Business selection)	Secondary Data			
1992	Strategic Management Journal	Hoskisson, Robert O; Johnson, Richard A.	Corporate Restructuring and Strategic Change: The Effect on Diversification Strategy and R&D Intensity	Corporate Portfolio Theory (Business selection)	Secondary Data	Performance Managerial control		
2000	Strategic Management Journal	Mata, Jose; Portugal, Pedro	Closure and divestiture by foreign entrants: The impact of entry and post-entry strategies	Corporate Portfolio Theory (Country selection)	Survey	Strategic fit Performance		
1993	Strategic Management Journal	Hamilton, Robert T; Chow, Yuen Kong	Why managers divest - Evidence from New Zealand's largest companies	Corporate Portfolio Theory (Country selection)	Questionnaire	Unit performance		
1979	Journal of International Business Studies	Boddewyn, Jean J.	Foreign Divestment: Magnitude and Factors	Corporate Portfolio Theory (Country selection)	Case studies	Performance		
2007	Strategic Management Journal	Moliterno, Thomas F; Wiersema, Margarethe F.	Firm performance, rent appropriation, and the strategic resource divestment capability	Dynamic Capability Theory	Case study	Performance		Probabilistic judgments

Tab. 2.1 - SELECTED PAPER

YEAR	YOURNAL	Authors	Title	Theory	Methodology	Divestment characteristics (CORPORATE LEVEL)	Divestment characteristics (BUSINESS LEVEL)	People characteristics
2017	Strategic Management Journal	Blake, Daniel J; Moschieri, Caterina	Policy risk, strategic decisions and contagion effects: Firm-specific considerations	Institutional Theory	Secondary Data	Policy disputes		
2001	Journal of International Business Studies	Andrews, Tim G; Nartnalin Chompusri	Lessons in 'cross-vengeance': Restructuring the Thai subsidiary corporation	Institutional Theory	Survey/Case study	Over-expansion		
2001	Journal of International Business Studies	Chung-Ming, Lau; Hang-Yue Ngo	Organization development and firm performance: A comparison of multinational and local firms	Institutional Theory	Survey	Cultural distance		
2004	Strategic Management Journal	Hoskisson, Robert E; Cannella, Albert A, Jr; Tihanyi, Laszlo; Faraci, Rosario.	ASSET RESTRUCTURING AND BUSINESS GROUP AFFILIATION IN FRENCH CIVIL LAW COUNTRIES	Institutional Theory	Survey	Environment		
2014	Strategic Management Journal	Soule, Sarah A; Swaminathan, Anand; Tihanyi, Laszlo	The diffusion of foreign divestment from Burma	Institutional Theory	Secondary Data	Performance Business opportunities Political conditions		
1998	Journal of Management	Bergh, Donald D.	Product-market uncertainty, portfolio restructuring, and performance: An information-processing and resource-based view	Multiple Theories Resource-based view Information processing Theory	Secondary Data	Product-market uncertainty		
2006	Journal of Management	Brauer, Matthias	What Have We Acquired and What Should We Acquire in Divestiture Research? A Review and Research Agenda	Multiple Theories	Literature Review	Performance Business unit performance Diversification Corporate Governance		
2015	Strategic Management Journal	Tong, Tony W; Reuer, Jeffrey J; Tyler, Beverly B; Zhang, Shujun	Host country executives' assessments of international joint ventures and divestitures: An experimental approach	Multiple Theories	Experiment			
2005	Strategic Management Journal	Villalonga, Belen; Mcgahan, Anita M.	The Choice among Acquisitions, Alliances, and Divestitures	Multiple Theories: Resource Based Theory Transaction Cost Economics, and Internationalization Theory	Secondary Data	Technological resources Marketing resources		
1993	Strategic Management Journal	Hurry, Dileep	Restructuring in the Global Economy: The Consequences of Strategic Linkages betweenJapanese and U.S. Firms	Option Theory	Theory Development	Changes in global competition Strategic linkages across global firms Competitive stability Instability		
2015	Strategic Management Journal	Damaraju, Naga Lakshmi; Barney, Jay B; Makhija, Anil K	Real options in divestment alternatives	Option Theory		Real option		
2015	Strategic Management Journal	Bingham, Christopher B; Heimeriks, Koen H; Schijven, Mario; Gates, Stephen	Concurrent learning: How firms develop multiple dynamic capabilities in parallel	Multiple Theories: Dynamic Capability Theory, Organizational Learning Theory	Theory Development/Case study	Performance		
2017	Journal of Management	Brauer, Matthias; Mammen, Jan; Luger, Johannes	Sell-Offs and Firm Performance: A Matter of Experience?	Organizational Learning Theory	Secondary Data			Learning by observing
2007	Academy of Management Journal	Hitt, Michael A; Beamish, Paul W; Jackson, Susan E; Mathieu, John E.	Building Theoretical and Empirical Bridges across Levels: Multilevel Research in Management	Research Methodology	Literature Review			Individuals and collectives
2001	Strategic Management Journal	Capron, Laurence; Mitchell, Will; Swaminathan, Anand	Asset divestiture following horizontal acquisitions: A dynamic view	Resource-based Theory	Survey	Capabilities recombination		
2012	Strategic Management Journal	Kaul, Aseem	Technology and Corporate Scope: Firm and Rival Innovation as Antecedents of Corporate Transactions	Resource-based view	Secondary Data	Technological innovation		
2013	Strategic Management Journal	Xia, Jun; Li, Sali	The divestiture of acquired subunits: A resource dependence approach	Resource-dependence Theory	Secondary Data	Resource dependance		
1991	Academy of Management Journal	Goodstein, Jerry; Boeker, Warren	Turbulence at the Top: A New Perspective on Governance Structure Changes and Strategic Change	Upper Echelons	Secondary Data	Changes in an organization's management, ownership, and board of directors.		Locus of responsibility

The 48 selected papers are from four main management journals (see Figure 2.2), namely Strategic Management Journal, Academy of Management Journal, Journal of International Business Studies and Journal of Management.

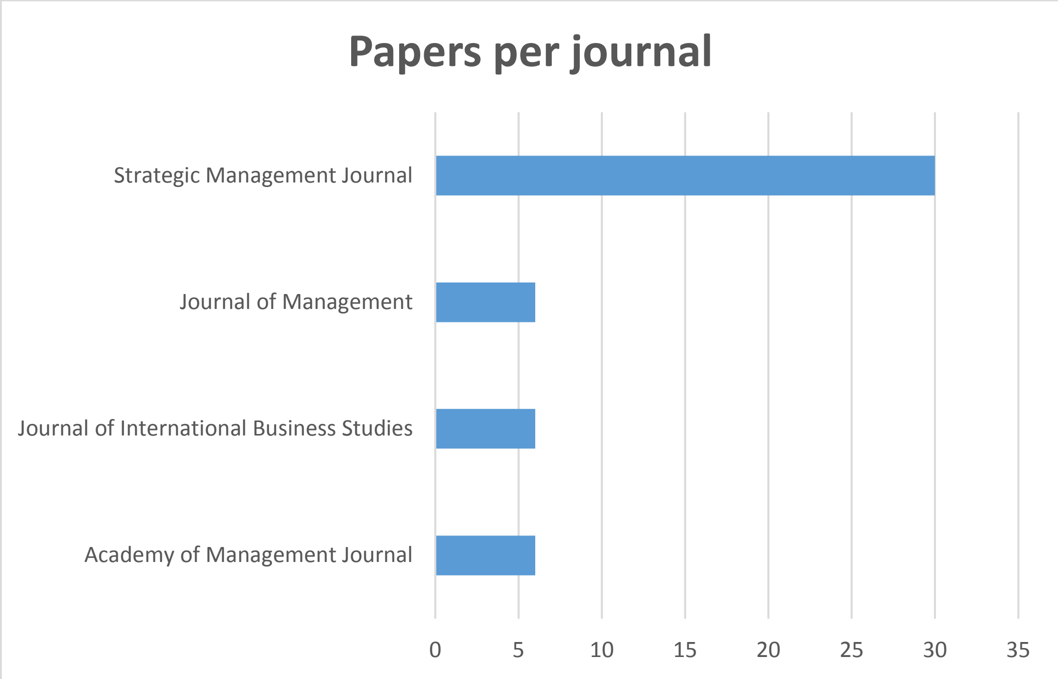

FIGURE 2.2 – Papers per journal

As for the distribution of the 48 selected publications over time, from 1979 to 2017 there was a general equilibrium of the number of papers per year (see Figure 2.3), except for year 1993 when a special issue devoted to the subject was published.

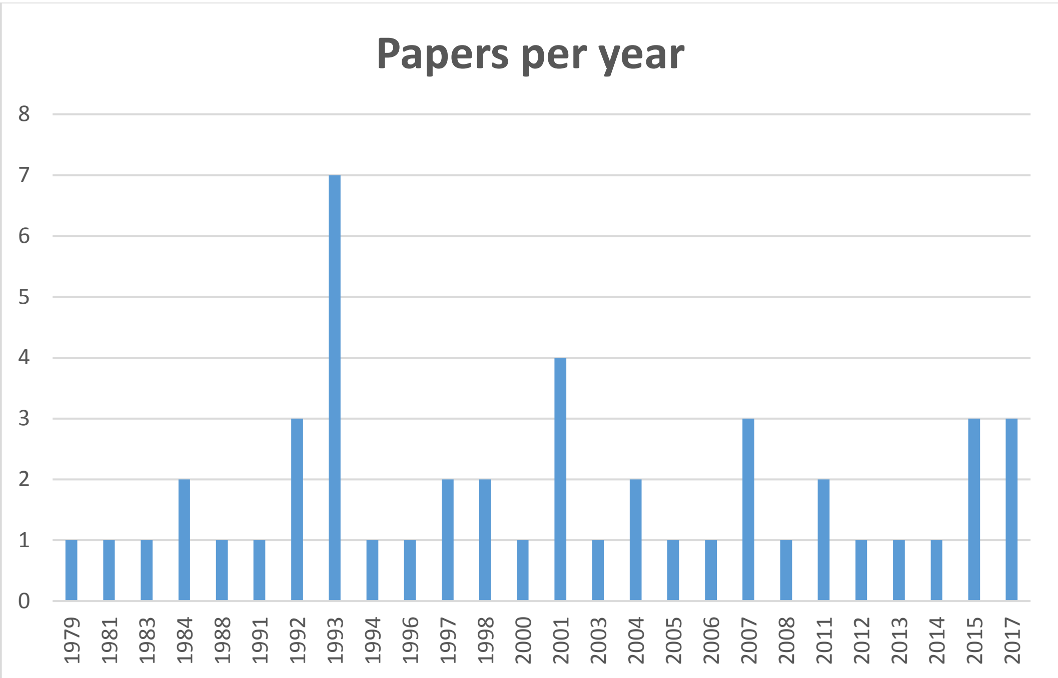

FIGURE 2.3 – Papers per year

This review is dedicated to the main findings of existing research, providing information on divestiture characteristics, both at corporate- and business unit-level, and on people characteristics, with a focus on the managerial separation of roles on divestiture decisions. Considering the conceptual foundations from the previous sections, we separated the determinants into corporate-level and business unit-level. The objective of this paper is to categorize previous research in a qualitative way, clustering previous studies and findings in research streams.

2.5. Theoretical framework

Multiple theoretical lenses have been used in divestiture research, and the most applied were agency theory and transaction costs economics, finding out that governance and over-diversification could be seen as major determinants of divestitures (Bergh and Lawless, 1998; Hoskisson et al., 1994). From a resource-based view perspective, valuable, rare, inimitable and non-substitutable resources could explain why certain units are not divested despite their weak perfomance (Barney, 1991). In addition, industrial economics and organizational ecology have been applied to explain drivers and barriers to divestitures (Harrigan, 1985, 1982; Chang and Singh, 1999). According to the upper echelons theory, corporate strategy and divestment decisions could be a reflection of managerial demographic characteristics, managerial traits and different types of diversity (i.e. gender diversity). Recently, a shift toward corporate- and business unit-level antecedents rather than external- and internal-level allowed for a new theoretical framework.

The most relevant explanation emerging from early studies is performance at corporate-level (Haynes et al., 2003; Griffin, 2003; Byerly et al., 2003; Frank and Harden, 2001; Reuer, 2000; Nixon et al., 2000; Haynes et al., 2000; Birkinshaw and Hood, 1998; Benito and Welch, 1997; Lasfer et al, 1996; Hoskisson et al., 1994). Ravenscraft and Scherer (1991) were among the first to underline that profitability at the business unit-level could be trigger for the sale of business unit assets or subsidiaries. The initiation of a divestiture is always supported by defined quantitative hurdle rates, which would have to be met by the different business units.

Prior studies on divestment decisions related to business units and divisions mainly used agency explanation to capture divestment determinants. Agency theory suggests that divestures can be seen as direct response to poor performance, which is driven by managerial inefficiencies. Choi and Merville (1998) emphasized that the tradeoff between internal managerial efficiency and risk sharing, originally determined by the uncertainty in the environment, defines the optimal organizational structure. Accordingly, managers of firms with weak governance mechanism may not be able to take action in case of poor financial indicators but they respond to high debt ratios and consequently divest (Haynes et al., 2003).

Shimizu et al. (2004) highlighted that divestiture of poorly performing acquired units is sometimes prevented by organizational inertia, resulting from large size, high age, low experience in divestitures, large relative size of an acquired unit and small performance variation at business unit level. According to the authors, organizational inertia and governance literature together suggest that complex interrelationships among economic and noneconomic factors can explain the divestiture of a formerly acquired unit. In addition, when divesting a business unit, managers face a complex scenario that includes not only the antecedents that led to the divesting decision but also different implementation factors (Moschieri, 2011). Business unit managers can feel the change coming from a divestiture decision either beneficial or prejudicial to them, allowing for new directions in thinking and acting and for the business unit management. From a corporate perspective, the divested business unit can be seen as an agent of the parent company: the unit is independent but the parent has a contractual relationship with it (Baker at al., 2002) based on ownership and non-ownership connections and under a decentralized structure, where formal authority is delegated to the unit. Business unit divestitures, within this agency theory stream, are defined as governance mechanisms to align the interests of two parties.

Apart from agency theory, several frameworks tried to categorize the various antecedents of divestment decisions. This paper integrates different perspectives, aiming at achieving a broad theoretical classification of the literature on divestiture decision-making, at both corporate- and business unit-level. Figure 2.4 shows the framework that we applied to summarize the most relevant theoretical perspectives on divestiture determinants.

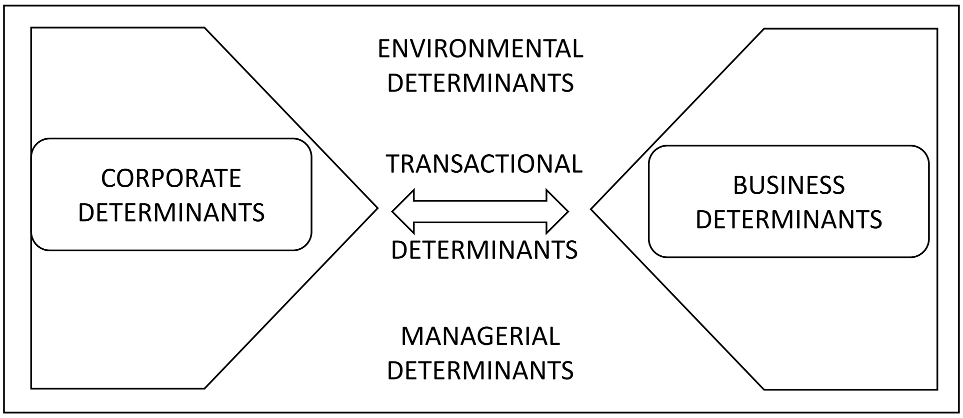

FIGURE 2.4 – Theoretical framework

From a strategic management perspective, two main dimensions determine divestiture: a) efficient resource allocation at business unit-level (business determinants); and b) new business opportunities at corporate-level (corporate determinants). In addition, we added two more factors related to the external environment (environmental determinants) and to the relationship between the firm and the business unit (transactional determinants), which are the two other main sources of determinants. After that, there is a fifth emerging dimension, related to managers and their role as decision-makers (managerial determinants). Each of these determinants is strongly related to a specific theory and the combination of the latter in a framework could serve as a means of synthesis and allow for a future assessment of the validity of those theories in the managerial practices.

2.5.1. Corporate determinants

Corporate determinants have been the most studied divestiture antecedents in prior research. Porter (1987) highlighted that restructuring strategies take place when undeveloped, sick or threatened firms or industries face the need of a significant change. Every firm has to bring competitive advantage to a business unit and vice versa; if it does not happen, there is no reason to hold the business unit asset or subsidiary in the portfolio and it is better to free corporate resources.

Portfolio theory suggests that divestitures are means for disentangling suboptimal and inefficient forms of internal organizational structure. Highly diversified corporations are less dependent on single business units and it becomes easier for them to divest a business unit asset or subsidiary that experiences poor performance. Acquisitions are considered a growth strategy that leads to an increased level of diversification, raising complexity and requiring more managerial coordination and control. Overdiversified firms may experience loss of control and misallocation of corporate resources (Ravenscraft and Scherer, 1987) or inefficiencies (Hoskisson and Turk, 1990).

Woo et al. (1992), within a broader corporate portfolio framework, found that motivations for a divestiture can include cash generation, elimination of unrelated businesses or poor performers and creation of opportunities for future acquisitions. Previous research (Ravenscraft and Scherer, 1987; Duhaime and Grant, 1984) also showed that divested units were characterized by weak competitive position, poor financial performance and low corporate managerial attachment.

Divestiture antecedents can be sometimes predicted according to the motivations and conditions at the time of acquisition (Bergh, 1997). Acquisitions and divestments are two connected management actions that should not be viewed as two separate moments in the process of corporate portfolio management. The motives and conditions for a divestiture can change over time and the efficiency perspective can prevail over the managerial power perspective. As for the case of an unrelated acquisition, issues like contrasting perspectives of efficiency (e.g. financial synergy, governance efficiency) and power (e.g. managerialism, coinsurance) may arise and a divestment become the only instrument to gain efficiency and improve performance.

Buckley et al. (1998) emphasized that a strategic divestment in response to competition can be seen as a consequence of a rational dynamic strategy. In an unpredictable environment, a rational firm tries to anticipate changes in the competition by evaluating its investment in a way that takes into account possible divestment options. A company should make those investments that are unlikely to be divested or that will be easy to divest, with relatively low sunk costs. However, the typical investment involves assets that have several alternative uses and are easy to sell. Since assets of this kind are easy to acquire, theory suggests that acquisitions and divestments of highly liquid or non-specific assets play a major role in flexible investment strategies.

Divestment decisions are driven by different factors and entry mode or degree of firm's liability exert opposite effects on the modes of exit (Mata and Portugal, 2000): greenfield entries, for instance, increase the likelihood of closure while reducing that of divestiture; on the other hand, limited firm’s liability increases the likelihood to divest, while reducing that of shutdown. In addition, ownership and organizational structure were found to affect the likelihood of divestment, having little effect on the firm’s survival. Human capital and the previous presence of foreign firms exert a similar effect on the modes of exit: while the probability of closure seems to decline with experience, the probability of divestment is roughly constant over time.

In the past, different exit strategies were also associated with different pre-exit performances. In the finance literature, acquisitions followed by reorganization and subsequent divestment have been recognized as simple means of making profit (Kaplan and Weisbach, 1992). In the international business literature, divestments of foreign subsidiaries not necessarily indicate problems in the subsidiary or in the parent company (Tsetekos and Gombola, 1992; Ghertman, 1988); divestments are sometimes associated to a strategic reorientation of the parent company or to the perception that the subsidiary no longer fits with the parent.

Moving a bit further from corporate strategy and corporate portfolio theory, real option scholars adopted the assumption that divestment decisions can be studied with a real option logic (Dixit and Pindyck, 1995). If there is a lot of uncertainty in the business unit's environment, the value of the business to the firm may not be a predictor of the future value of that business. Rather than irrational decision-making, real option theory suggests that delays in the divestment may be a rational reaction to uncertainty in environment. Divestments, within this framework, are conceptualized as the striking of put options: non-divestment is like holding the put option, while divestment is the exercise of the put option (Damaraju et al., 2015). Moschieri and Maier (2017) confirmed that parent-business unit links are important tools of corporate strategy. Firms can choose to partially divest and yet retain a tie with a business unit, treating it as an initial investment into a new exploratory activity with the right, but not the obligation, to keep the relationship.

2.5.2. Transactional determinants

Corporations typically divest when the costs of administrative exchange within a firm are greater than the transaction costs of market exchange (Hoskisson and Johnson, 1992; Jones and Hill, 1988; Hill and Hoskisson, 1987). For that reason, acquisitions and divestments have to be considered as a combined process to reach an efficient management of business units; managers are asked to balance costs and benefits associated with multiple business units. Williamson (1985) argued that the equilibrium is affected by interactions between external and internal factors.

Divestitures may reduce and balance the costs of governance structures, generating growth based on the parent's core competencies and pursuing an efficient internal labor market (Ito, 1995). Applying transaction cost theory, an increase in environmental uncertainty can lead to higher coordination costs and reduce the optimal level of diversification, encouraging divestitures and refocusing (Bergh, 1998; Bergh and Lawless, 1998). Schönhaar et al. (2014) emphasized that a change in environmental uncertainty has a significant impact on diversification strategies, with an important moderating effect of the firm's initial degree of diversification.

Firms' profitability can been seen as an important antecedent of divestment decisions and an organization can act to eliminate slack, waste and bureaucracy. Williamson (1985) stressed that transaction costs include the cost of writing, negotiating, monitoring and enforcing a transaction. Transaction costs economics considers markets and hierarchies as alternative transactions, and the theory relies on the behavioral assumptions of bounded rationality and opportunism. Transaction costs in divestment decisions may arise from the interplay between the behavioral dimensions and the transactional parameters, which are specificity, uncertainty and frequency.

Transaction costs are mainly dependent on asset specificity and a divestment decision can be influenced by the specificity of physical and human assets. A corporation with specific physical assets experiences significant costs in finding and presenting relevant information to potential buyers. Furthermore, company-specific employees are more knowledgeable about equipment than general employees and a unique team allocation could take place among company-specific workers (Williamson, 1985). Human asset specificity may arise in a tacit or learning-by-doing manner; skills acquired through tacit learning need to be protected using appropriate governance structured to safeguard productivity. Kulkarni and Fiet (2007) found that relative specificity of both physical and human assets influences firm's choice to divest, also in terms of restructuring mode.

When a corporation has to make a transaction-specific investment or divestment, or set up a process that has limited value outside an exchange relationship, the risk associated with a potential loss often leads the corporation to avoid the transaction (Williamson, 1985). If a small number of potential buyers exists for a particular opportunity, a corporation may be more exposed to opportunistic behaviors of a buyer or partner, compared to a situation in which there are a large number of alternative counterparties (Tong et al., 2015). According to this view, a partial divestment may represent an intermediate, hybrid organizational arrangement that merges the features of markets and hierarchies (Williamson, 1991).

Asset divestment is part of a consolidation process that helps companies improve scale efficiencies by selling excess capacity (Anand and Singh, 1997; Bergh, 1997; Hoskisson et al., 1994; Dutz, 1989; Jensen and Ruback, 1983). Capron et al. (2001) emphasized the role of environmental similarity and asymmetric resource attributes as selection factors for the assets to be divested. Studies in organizational change stressed that corporations may resist to undertake path-dependent changes because of routine rigidity within organizations (Levinthal and March, 1993; Hannan and Freeman, 1989; Nelson and Winter, 1982). Harrigan (1985) confirmed that exit barriers are generally associated with capital intensity, asset specificity and technological or operating requirements. Firms having the smallest market for disposal of their assets face the highest economic barriers, such as diseconomies of scale.

Judge and Dooley (2006) speculated that asset specificity might affect the opportunistic behavior in the form of cooperation deriving from a partial divestment. Theoretically, some incentives can act as deterrent to opportunistic behavior as long as all the parties believe they are benefiting from a cooperative relationship (Tesler, 1980). There could be an extensive variation in the opportunistic behavior of partners and managers should pick their partners carefully

The impact of both trust and control leads to confidence in partner cooperation and reduced risks. Perceived trustworthiness of the partnering executives is a relevant factor and corporations need to attract, develop and retain managers who can handle the unique challenges associated with a divestment, to make a divestment successful.

2.5.3. Business determinants

Business portfolio restructuring can be defined as a change in the composition of the portfolio of business units held by a multi-business corporation. A firm generally decides to restructure its business portfolio in order to adapt and prepare for new challenges ahead. Mutual dependence and increased subunit power were found to affect divestitures, with divested subunits presenting lower mutual dependence than retained subunits (Xia et al., 2013).

Units and parent companies are mutually dependent in managing different value chain activities across the industry. Due to those complex interdependencies among businesses and people, selling one business unit can create problems to the residual units (Shimizu and Hitt, 2005).

Therefore, corporations have to carefully decide which unit should be divested in response to the changing environmental and organizational conditions (Bergh, 1998). Firms may divest business units that no longer fits with the firm strategy, regardless of their good financial or market performance (Johnson, 1996; Hoskisson et al., 1994).

Inefficient resource allocation in diversified multinational corporations occurs when a business is draining resources away from other more profitable businesses. This may happen, unconsciously or consciously, when corporate managers lack in vision of potential synergies among business units because of a higher complexity resulting from overdiversification (Brauer, 2006). Prior studies found that the greater the unrelatedness in the resource profiles of parent company and business unit, the more likely is the business unit asset or subsidiary to be divested. In contrast, Harrigan (1981, 1985) and Zuckerman (2000) found that shared capabilities and the transfer of technology between units significantly raise exit barriers.

Business unit's performance and financial strength (Zuckerman 2000; Duhaime and Grant, 1984), size (Duhaime and Baird, 1987) and degree of relatedness to the parent company (Chang 1996; Duhaime and Grant, 1984) are the primary business units' characteristics mentioned as reasons for a divestiture. By contrast, Shimizu and Hitt (2005) showed that a moderate performance decline at business unit-level might generate a certain inertia to divest it. When a firm becomes big and long-standing, its rules and routines increases and turns out to be institutionalized, resulting in an organizational inertia that postpones the reversal of an earlier acquisition decision.

Foreign subsidiaries of multinational corporations can experience instabilities in macro-economic factors in their host countries. Nevertheless, hostile economic conditions in a host country not necessarily lead a subsidiary to be divested (Song, 2014). Multinational firms can take advantage from some macroeconomic uncertainties, through their international networks (Lee and Song, 2012; Fisch and Zschoche, 2012; Chung et al., 2010; Lee and Makhija, 2009b; Kogut and Kulatilaka, 1994) or by linking their activities in unfavorable locations to activities in favorable locations.

Divestment of foreign business unit asset or subsidiary is a challenging managerial matter, since it may require the decision to reverse previous diversification (Haynes et al., 2003; Benito and Welch, 1997) and a careful adjustment to international portfolios (Brauer, 2006; Kumar, 2005; Chow and Hamilton, 1993). Some environmental and organizational factors can create an ''hysteresis effect'', describing the case when a corporation neither increases nor decreases its investment (O'Brien and Folta, 2009; Christophe, 1997; Bowman and Hurry, 1993; Dixit, 1992). The greater the strategic importance of certain business units from the corporate standpoint, the more they receive special care and a favorable allocation of physical, human and intangible resources. Technological investment in subsidiaries makes it hard for multinational corporations to divest them, even under hostile economic conditions.

2.5.4. Environmental determinants

Previous research about external context factors deals with uncertainties in the general macroeconomic and political environment and subsequent degree of change in the prevalent business philosophy (Lewis and Harvey, 2001; Miller, 1993). Industry characteristics may influence the level of adaptation between the firm and its external environment, influencing the organizational change required to fit with the environmental context. Environmental factors can work as an alert on external conditions, helping the firm assess the need for strategic change (Wiersema and Bantel, 1993). High degree of unpredictability in the environment, in the availability of resources and in the ability of the environment to support growth are likely to drive more divestitures.

Environmental determinants support the idea that corporate restructuring is a function of organizational adaptation to major changes in regulatory and competitive environment (Bethel and Liebeskind, 1993; Bowman and Sigh, 1990). Jensen (1986) pointed out that portfolio restructuring can be seen also as transaction in a market for corporate control, where different levels of management teams strive for the right to control undervalued assets. Hoskisson et al. (2004) found that environmental antecedents, increased competition and deregulation lead to amplified asset restructuring. More importantly, the influence of environmental factors can be moderated by business group membership: the relationship between change in country development and restructuring was found to be stronger for group-affiliated firms, with increased competition and deregulation strongly affecting asset restructuring for primarily independent firms.

Multinational and multibusiness corporations tend to reduce their level of diversification as the institutional environment improves. Khanna and Palepu (1997) argued that while developed economies already have institutional environment that allows firms to compete without having to struggle with serious institutional gaps, corporations in emerging economies would have to deal with institutional uncertainty in order to compete effectively. In case of imperfect institutional factors decline, a multinational corporation may rely on group affiliation and allow for restructuring strategies. Any attempt to create synergies through resource transferring and share of activities, and any following effort to deal with imperfect institutional conditions through internal market mechanisms will be good predictors of a firms' divestiture decisions.

Brauer and Wiersema (2012) gave emphasis to the theoretical reasons for which managers imitate each other when handling with uncertainty. A firm's divestiture strategy relative to its industry peers provides evidence to whether managers are imitating their industry peers or acting independently, influencing the quality of decision in terms of assessment and perceptions. Institutional theorists refer to imitative behavior to describe imitation (Dimaggio and Powell, 1991; Fligstein, 1991), relying on the assumption that the imitative behavior takes place because decision makers face both uncertainty and ambiguity. Imitation is seen as the best strategy associated with reducing the costs for the ambiguity of decision-making. Dimaggio and Powell (1991) found that managers make decisions looking at comparable firms for hints on how to deal with uncertainties in the environment. This process is called "mimetic isomorphism" and managers simply adopt practices because they strive for legitimacy and imitate decisions made by the firm's industry peers.

Shared understanding and meanings give form to an organization's activities, structures and processes (Zukin and Dimaggio, 1990). Cultural dimensions, such as norms, values, belief systems and logics can enable and restrain individual actions, influencing the way divestiture decision-making is organized and overlapping with cognitive mechanisms of rules and schemes. Social representations and routines may affect individuals' interpretation and sense making and the same biases that characterize individual decision-making may occur in the case of group decision-making.

Only a broader industry-level knowledge structure, with authoritative classifications systems, would shape organizational and managerial actions (Walsh, 1995).

Corporations may not only divest foreign operations because of financial considerations or unrealized business opportunities but also because of major changes in political conditions, higher pressures by their different stakeholders and specific actions of some of their relevant stakeholders. Home country political characteristics may sometimes be a significant determinant of international divestment (McDermott, 2010). In particular, the centrality of the home country in the company's network can influence its predisposition to the divestment activity.

2.5.5. Managerial determinants

Nees (1981), while emphasizing the role of middle managers in a divestment decision, stressed that interpersonal behavior of corporate people involved in a divestment (intended as a groups of managers to whom the divested units report) with the business unit managers is what directly affects the behavior of the latter during a divestment. Divestment decisions can originate from the recognition of a financial aggregate discrepancy at a high corporate level, with lower levels playing more technical and tactical role (Lindgren and Spångberg, 1981).

Most strategic initiatives within a firm involve individuals making decisions, taking actions and exercising leadership (Moliterno and Wiersema, 2007). Earlier studies (Duhaime and Grant, 1984; Duhaime and Schwenk, 1985) examined corporate-level divestment decisions and the firm's organizational structure, consisting of human beings with a given bounded rationality: managers' background, their expectations and their judgments when assessing the organizational context have an impact on the way they managed the firm's portfolio of resources.

Hitt et al. (2007) highlighted that individuals in an organization are nested in work groups, which in turn are nested in larger organizational units (e.g. departments or strategic business units), which are nested in multinational organizations. The distinction between individuals and collectives is easy to be addressed, but it can be more challenging to identify the precise boundary where one collective ends and another begins, as well as the point at which one has moved beyond one level of analysis and into another. Those discrepancies are even more difficult in the age of team-based organizations, networks, strategic alliances and multinational enterprises.

Psychological evidence suggests that individuals do not follow a rational process and are subject to a variety of cognitive influences when they face complex choices (Gabaix et al., 2006). Bringing decision-making back to the level of cognitive processes means studying information acquisition process and, in particular, allocation processes. Actors allocate attention to acquire new information and to analyze already available information (Sims, 2003).

Teece (2009) studied the role of organizational and managerial capabilities under the dynamic capabilities framework. Dynamic capabilities include the organizational processes directed toward learning and innovation, the way in which the business is designed and the decision frames and heuristics that inform firms' investment choices over time. Once assets become part of the firm and come within managers' control, their effective utilization and orchestration is essential. Asset orchestration is intended at achieving new combinations of assets, requiring judicious decision-making and entrepreneurial capacity. Sirmon et al. (2011) adopted the term resource orchestration, drawing upon both resource management and asset orchestration and focusing on how managers' actions can affect the resource-based competitive advantage.

2.6. Discussion

Sirmon et al. (2007) defined a divestment process as a way in which firms change their base of controlled assets; the sale of a physical plant or a business unit are examples of resource divestitures. Divestments have typically been viewed as independent processes, with managers eliminating the inefficiencies of poorly performing assets; however, a divestment decision may be motivated by more efficient alternatives within the firm's resource portfolio (Berry, 2010).

Divestment decisions require managers to assess the firm's existing resources in terms of their economic value and potential, in order to decide whether to retain them or not (Garbuio et al., 2011). Once resources are acquired, they become part of a firm's portfolio and are subject to its routines and allocation decisions, driven by risk assessment, future perspectives and growth. While a divestment decision may be an isolated decision about whether to divest or not a specific resource, allocation decisions are more likely to involve the level and prioritization of commitment across the resources that are currently part of a firm's portfolio. In behavioral decision-making research, more and more attention is being devoted to understand how individuals make multiple concurrent strategic choices from a bundle of options in a dynamic environment.

Moliterno and Wiersema (2007) pointed out that firms periodically assess whether there is still a competitive advantage in their existing resource base. The processes and routines that oversee resource portfolio management are largely understood as capabilities of the firm that allow for a sustainable competitive advantage. Firm's administrative structures are expected to be forward looking when making decisions about how and where to distribute the firm's resources.

In this study, we reviewed the divestiture literature, focusing on asset, subsidiary or plant divestment and trying to conceptualize divestiture determinants based on middle management involvement and their characteristics. By applying the framework we developed, we identified that most of the determinants were studied from the corporate perspective, with several unclear and contradictory results. Being focused on secondary data, previous studies were not able to report the way in which assets or plants are divested; scholars rarely addressed managers' information processing, which should be studied through both rational choice and cognitive process lenses.

The reviewed research provides evidence of the four main theories, namely real option theory, transaction cost economics, resource-based theory and new institutionalism. Agency theory resulted to be predominant but it was excluded from the framework, because, as already pointed out, the focus of most of previous studies was on business units and divisions divestment decisions and not on assets, subsidiaries or plants. The theories we chose allowed mapping some concurrent decision attributes that can influence the assessment of a business unit asset divestment. Regarding the middle management involvement on the strategy process, only the question of decentralization received little attention and the argumentation remained only theoretical because empirical evidence is lacking.

Research on divestiture decisions is more focused on the decision outcomes than on the determinants. This finding could be related to the confidentiality of those decisions, especially considering the very first stage of a divestment decision-making process, which is the strategy initiative to divest a business unit asset. To achieve a comprehensive and theoretically sound classification of existing literature, we employed a framework based on the main theories of divestment decision-making research. Differences between corporate- and business-level determinants were not found. Additionally, insights into the factors that could increase the probability of making a divestment decision (e.g. asset characteristics) and into the mitigating cognitive factors (e.g. middle management characteristics) are often unsatisfying or spare.

The research gap we identified with this literature review, together with what we understood from the first study, allows us move on and contribute to the management literature with a new focus on divestment characteristics and people characteristics. Drawing from what we tried to capture in Table 2.1, the possible distinction between divestment characteristics at corporate- and business unit-level and the people characteristics need to be addressed properly. In particular, using the factors emerging from both the interviews and the literature review, we expect that asset and business environment characteristics influence middle managers assessment of divestment decisions. Middle managers individual characteristics and organizational position in the corporation are also expected to influence their assessment.

Chapter 3

Exploring middle managers' assessment of asset divestment decisions in multinational firms: an experimental approach

This third chapter, given the evidence emerging from both the interviews and the literature review, uses an experimental approach, namely a *policy capturing* instrument, to capture what asset and middle managers characteristics influence the decision to divest a business unit asset.

3.1. Background

A substantial body of research exists in strategy and international management literatures on the determinants of a divestment decision in multinational corporations. A divestiture is defined as the parent company disposal and sale of assets, facilities, product lines, subsidiaries, divisions and business units (Moschieri and Mair, 2008). Different empirical studies tried to describe and organize the most significant motivations for divestitures but their explanations and polarizations have rarely been separated. It would be challenging to isolate financial and strategic drivers, as financial goals are often used to exploit the strategic potential of an initiative.

While reports of planned or closed divestiture transactions are mentioned daily in the news, very little is known regarding the process middle managers use to evaluate potential divestments. Indications on the types of information that are believed to be important for these decisions are seen in the stories of companies' successes and failures. Thywissen (2015) emphasized that several theoretical lenses were applied to divestiture research (i.e. portfolio theory, agency theory, behavioral economics, organizational change theory, transaction cost economics, resource-based view and prospect theory) but process research has been marginally addressed if compared to studies on divestiture antecedents and outcomes, requiring more focus on the practices of divestiture decision-making. A comprehensive appreciation of the decision-making process in divestiture decisions could help for a better understanding of divestiture antecedents. In particular, we claim that middle managers assessment of the sale of a multinational corporation's assets is done according to their capabilities and to what they are acknowledged about.

Teece (2009) studied the role of organizational and managerial capabilities under the dynamic capabilities framework. Once assets become part of the firm and come within managers' control, their effective utilization and orchestration is essential. Assets' orchestration is intended at achieving new combinations of assets, requiring judicious decision-making and entrepreneurial capacity. Sirmon et al. (2007) developed a resource management framework, addressing process-oriented managerial actions that are involved in achieving competitive advantage and create value. Simultaneously, and as anticipated in the previous chapters, Helfat et al. (2007) produced a related framework focused on asset orchestration. Helfat and Peteraf (2003) linked dynamic capabilities and resource-based theory to provide an indirect association between asset orchestration and resource management. Resource divestment and resource deployment strategies have been studied under the resource management perspective but, as far as we know, are still absent from the asset orchestration arguments.

This study aims at filling a gap in the literature by focusing on the criteria that middle managers use to make divestment decisions in a large multinational company and thus on the reasons that they do (or do not) consider when assessing a divestment. The objectives of the work is to identify the criteria used by middle managers and thus assess the explanatory power of different theories that explain the decision-making process. Additionally, we investigate how the 'locus' of strategic decision-making affects asset divestment assessment by exploring the differences between middle managers from the headquarters and middle managers from the business units.

Drawing from four theoretical perspectives, namely real option theory, transaction cost economics, resource-based theory and new institutionalism, we develop a set of hypotheses on the criteria used by middle managers when asked to evaluate potential asset divestments. To collect data for testing our arguments, we used a policy capturing methodology. Data were collected from middle managers of a multinational, multibusiness firm, who were asked to assess the divestment of a business unit asset.

3.2. Factors affecting divestment decisions

A divestment decision can be affected by many factors. The most relevant explanation emerging from early studies is performance at corporate-level (Haynes et al., 2003; Griffin, 2003; Byerly et al., 2003; Frank and Harden, 2001; Reuer, 2000; Nixon et al., 2000; Haynes et al., 2000; Birkinshaw and Hood, 1998; Benito and Welch, 1997; Lasfer et al, 1996; Hoskisson et al., 1994). Ravenscraft and Scherer (1991) were among the first to underline that profitability at the business unit-level could also trigger the sale of business unit assets or subsidiaries. The initiation of a divestiture is always supported by defined quantitative hurdle rates, which would have to be met by the different business units. From a strategic management perspective, an efficient resource allocation at business unit-level and new business opportunities at corporate-level can bring to a divestiture decision. In addition, the external environment and the relationship between the firm and the business unit can be seen as two other main categories of determinants.

This study considers the above motives considering their relationship with theories that address rational choice from a managerial perspective and propose a cognitive framework. Our focus is on individuals and their complex information-processing system (March and Simon, 1958); we try to evaluate the managerial and cognitive explanations for which middle managers consider a business unit asset divestment more or less attractive. In the following section, we introduce the four main research streams that were used to middle managers assessment of business unit asset divestment, before moving forward with the cognitive process.

3.2.1. Rational choice

Middle managers must use a number of important factors in their decisions as they evaluate potential business unit asset divestments. Specific content-oriented factors have been associated to four rational choice lenses, which could be considered relevant according to the strategy literature: real option theory, transaction cost economics, resource-based theory and new institutionalism. These theories are not mutually exclusive and moderately build upon one another; however, they have different assumptions and highlight different aspects of organizational reality.

Real option theory

Real option scholars adopted the assumption that divestment decisions can be studied with a real option logic (Dixit and Pindyck, 1995). If there is a lot of uncertainty in the business unit's environment, the value of the business for the firm may not be a predictor of the future value of that business. Rather than irrational decision-making, real option theory suggests that delays in the divestment may be a rational reaction to uncertainty in environment. Divestments, within this framework, are conceptualized as the striking of put options: non-divestment is like holding the put option, while divestment is the exercise of the put option (Damaraju et al., 2015). Moschieri and Maier (2017), within the same theoretical framework, confirmed that parent-business unit links are important tools of corporate strategy. A parent company can choose to divest specific combinations of business unit assets when those assets are not representing a potential for new opportunities in the country for the company anymore.

As for the modifications in the parent-unit relationship, the parent's decision to support the unit could be explained through its perceptions about whether the unit would survive without the parent's support and whether there is a risk for the parent in the case the unit would fail (Moschieri and Mair, 2017). Divestitures are used not only to provide an option to defer a more definite disinvestment or investment decision, but also to facilitate gains and anticipate competitors. Sometimes, the parent may be unable to clearly foresee how a business unit and the value of its assets value could develop and how the competitive landscape could change. When further information about the exploration trajectory, the product commercialization or the future the industry are needed, the middle management may decide to wait; this delay in the decision can help the parent better assess the business unit's assets value.

When a firm produces multiple output products, with uncertain demand, it faces an explicit or implicit choice between producing each product employing specialized, cost efficient and rigid capital and building options to switch the operating mode among the various products in response to unstable market conditions (Kulatilaka and Trigeorgis, 2004). Under hostile competition, for example, a firm should maintain an offensive posture via its flexibility (options) to wait to divest and invest in future growth opportunities, especially if demand is uncertain. With scale economies, uncertainty in demand growth leads the firm to add capacity in larger increments and thus increase the present value of expected costs. Pindyck (1998) studied the effects of uncertainty when a firm wants to build a single plant and have to decide how large should it be, in the case of no scale economies; the author found that demand uncertainty might lead firms to delay capacity additions and, consequently, a divestment could be considered.

According to previous literature, we formulate the following hypotheses:

Hypothesis 1a: The higher the likelihood the asset will increase the potential for new opportunities in the country, the less attractive the sale of the asset will be to middle managers.

Hypothesis 1b: The higher the likelihood that the competitors will enter the country, the more attractive the sale of the asset will be to middle managers.

Hypothesis 1c: The lower the likelihood the asset will increase the potential for exposure to the region, the more attractive the sale of the asset will be to middle managers.

Hypothesis 1d: The higher the demand uncertainty in the environment, the more attractive the sale of the asset will be to middle managers.

Transaction cost economics

Firms' profitability can been seen as an important antecedent of divestment decisions and an organization can act to eliminate slack, waste and bureaucracy. Williamson (1985) stressed that transaction costs include the cost of writing, negotiating, monitoring and enforcing a transaction. Transaction costs economics considers markets and hierarchies as alternative transactions, and the theory relies on the behavioral assumptions of bounded rationality and opportunism. Transaction costs in divestment decisions may arise from the interplay between the behavioral dimensions and the transactional parameters, which are specificity, uncertainty and frequency.

Transaction costs are mainly dependent on asset specificity and a divestment decision can be influenced by the specificity of physical and human assets. A corporation with specific physical assets experiences significant costs in finding and presenting relevant information to potential buyers. Furthermore, company-specific employees are more knowledgeable about equipment than general employees and a unique team allocation could take place among company-specific workers (Williamson, 1985). Human asset specificity may arise in a tacit or learning-by-doing manner; skills acquired through tacit learning need to be protected using appropriate governance structure to safeguard productivity. Kulkarni and Fiet (2007) found that relative specificity of both physical and human assets influences firm's choice to divest; in our study, the higher the level of uniqueness of human resources in the asset, the greater the middle managers willingness to divest.

When a corporation has to make a transaction-specific investment or divestment, or set up a process that has limited value outside an exchange relationship, the risk associated with a potential loss often leads the corporation to avoid the transaction (Williamson, 1985). If a small number of potential buyers exists for a particular opportunity, a corporation may be more exposed to opportunistic behaviors of a buyer or partner, compared to a situation in which there are a large number of alternative counterparties (Tong et al., 2015). Applying this reasoning, we suggest that middle managers may find a business unit asset divestment more attractive when there is a higher number of potential buyers.

In addition to considering the potential buyers, a corporation can also look at its cooperative history with partners, which can provide valuable information indicating the potential for reliance on relational provisions (Lee et al., 2006; Poppo and Zenger, 2002). While top executives often rely on relational governance, in many countries the use of contracts is still prevalent despite the relatively weak legal institutions (Zhou et al., 2003). Thus, to the extent that there is a favorable cooperative history with prospective partner, we expect middle managers to be more likely to divest, given the formal and informal mechanisms being present in the original investment.

Asset divestment is part of a consolidation process that helps companies to improve scale efficiencies by selling excess capacity (Anand and Singh, 1997; Bergh, 1997; Hoskisson et al., 1994; Dutz, 1989; Jensen and Ruback, 1983). Capron et al. (2001) emphasized the role of environmental similarity and asymmetric resource attributes as selection factors for the assets to be divested. Studies in organizational change stressed that corporations may resist to undertake path-dependent changes because of routine rigidity within the organizations (Levinthal and March, 1993; Hannan and Freeman, 1989; Nelson and Winter, 1982). Harrigan (1985) confirmed that exit barriers are generally associated with capital intensity, asset specificity and technological or operating requirements. Firms having the smallest market for disposal of their assets face the highest economic barriers, such as diseconomies of scale.

According to previous literature, we formulate the following hypotheses:

Hypothesis 2a: The less the uniqueness of the human resources associated with the asset, the more attractive the sale of the asset will be to middle managers.

Hypothesis 2b: The larger the number of alternative buyers for the asset, the more attractive the sale of the asset will be to middle managers.

Hypothesis 2c: The more favorable the cooperative history with potential partners, the more attractive the sale of the asset will be to middle managers.

Hypothesis 2d: The higher the diseconomies of scale created by the asset, the more attractive the sale of the asset will be to middle managers.

Resource-based theory

Poor firm performance has been identified as a strong predictor for divestitures (Dranikoff et al., 2002; Montgomery and Thomas, 1988; Duhaime and Grant, 1984; Harrigan, 1982). Relative debt intensity and weak performance at business unit-level also drive divestiture (Haynes et al., 2003; Chang, 1996; Hamilton and Chow, 1993; Duhaime and Grant, 1984). Research in strategy and economics suggested that financial assets are one of the most fungible resources and acquisition of such resources is made possible through divestitures (Ravenscraft and Scherer, 1987; Tsetsekos and Gambola, 1992). Recent M&A research also indicates that a firm may try to impress some buyers with desired resources such as certain technologies or specific competences that will affect the value creation potential of a deal (Graebner and Eisenhardt, 2004). A divestiture provides a viable opportunity to realize financial returns and its attractiveness as a strategic option is influenced by the perspective of middle managers seeking to assess asset-specific resources.

Prior research has suggested market knowledge as a resource to be considered for a divestment decision too (Tong et al., 2015). Market knowledge is particularly relevant when the divestment decision concerns a foreign asset, because of the uniqueness of the firm-specific resources available in that market.

Inefficient resource allocation in diversified multinational corporations occurs when a business is draining resources away from other more profitable businesses. This may happen, unconsciously or consciously, when corporate managers lack in vision of potential synergies among business units because of a higher complexity resulting from overdiversification (Brauer, 2006). Prior studies found that the greater the unrelatedness in the resource profiles of parent company and business unit, the more likely is the business unit asset or subsidiary to be divested.

Business units and parent companies are mutually dependent in managing different value chain activities across an industry. Due to those complex interdependencies among businesses and people, selling one business unit can create problems among the residual units (Shimizu and Hitt, 2005). Therefore, corporations have to carefully decide which unit should be divested in response to the changing environmental and organizational conditions (Bergh, 1998). Firms may divest business units that no longer fit with the firm strategy, regardless of their good financial or market performance (Johnson, 1996; Hoskisson et al., 1994). Also technical complementarities can influence middle managers assessment of a divestment decision. Harrigan (1981, 1985) and Zuckerman (2000) found that shared capabilities and the transfer of technology between units significantly raise barriers to divestment. Higher technical complementarities may influence middle managers assessment of a business unit asset, making them less willing to divest.

Divestment of foreign business unit asset or subsidiary is a challenging managerial matter, since it may require the decision to reverse previous diversification (Haynes et al., 2003; Benito and Welch, 1997) and a careful adjustment of international portfolios (Brauer, 2006; Kumar, 2005; Chow and Hamilton, 1993). Some environmental and organizational factors can create an ‘‘hysteresis effect’’, describing the case when a corporation neither increases nor decreases its investment (O’Brien and Folta, 2009; Christophe, 1997; Bowman and Hurry, 1993; Dixit, 1992). The greater the strategic importance of certain business units from the corporate standpoints, the more they receive special care and a favorable allocation of physical, human and intangible resources. Technological investment in subsidiaries makes it hard for multinational corporations to divest them, even under hostile economic conditions. In M&A and divestment decisions, when an asset possesses substantial intangible resources that are hard to value, middle managers at both corporate- and business-level need to spend time collecting information for their assessment.

According to previous literature, we formulate the following hypotheses:

Hypothesis 3a: The lower the financial health of the asset, the more attractive the sale of the asset to middle managers.

Hypothesis 3b: The lower the market knowledge complementarity of the asset, the more attractive the sale of the asset will be for middle managers.

Hypothesis 3c: The lower the technical complementarities of the asset, the more attractive the sale of the asset will be to middle managers.

Hypothesis 3d: The lower the hard-to-value intangible resources assocated with the asset , the more attractive the sale of the asset will be to middle managers.

New institutionalism

New institutionalism research defined institutions as social structures, orders or patters that have reached a high degree of resilience. Organizations are embedded in an organizational field and adopt homogeneous structures and practices in order to strive for legitimacy and stability. An organizational field is described as a recognized area of institutional life with key suppliers, resources, consumers, regulatory agencies and other organizations that produce similar services or products (Dimaggio and Powell, 1991). Sewing (2010) stressed that institutional patterns are determined by the characteristics of the organizational fields.

Brauer and Wiersema (2012) gave emphasis to the theoretical reasons for which managers imitate each other when handling with uncertainty. A firm's divestiture strategy relative to its industry peers provides evidence to whether managers are imitating their industry peers or acting independently, influencing the quality of decision in terms of assessment and perceptions. Institutional theorists refer to imitative behavior to describe imitation (Dimaggio and Powell, 1991; Fligstein, 1991), relying on the assumption that the imitative behavior takes place because decision makers face both uncertainty and ambiguity. Imitation is seen as the best strategy associated with reducing the costs for the ambiguity of decision-making. Dimaggio and Powell (1991) found that managers make decisions looking at comparable firms for hints on how to deal with uncertainties in the environment. This process is called “mimetic isomorphism” and managers simply adopt practices because they strive for legitimacy and imitate decisions made by the firm’s industry peers.

Shared understanding and meanings give form to an organization’s activities, structures and processes (Zukin and Dimaggio, 1990). Cultural dimensions, such as norms, values, belief systems and logics can enable and restrain individual actions, influencing the way divestiture decision-making is organized and overlapping with cognitive mechanisms of rules and schemes. Social representations and routines may affect individuals’ interpretation and sense making and the same biases that characterize individual decision-making may occur in the case of group decision-making. Only a broader industry-level knowledge structure, with authoritative classification systems, would shape organizational and managerial actions (Walsh, 1995).

Corporations may not only divest foreign operations because of financial considerations or unrealized business opportunities but also because of major changes in political conditions, higher pressures by their different stakeholders and specific actions of members in their relevant stakeholders. Home country political characteristics may sometimes be a significant determinant of international divestment (McDermott, 2010); the centrality of the home country in the company’s network can influence its predisposition to the divestment activity. Furthermore, shareholder value orientation, which is expected to impact divestiture decision-making, may be influenced by the firm’s exposure to the market for corporate control. Incentives can be created in case of dispersed ownerships and be associated with a greater takeover threat or higher pressures to achieve a higher price. All types of stakeholders not only affect middle managers portfolio decisions but they can also influence the corporation's portfolio management.

According to previous literature, we formulate the following hypotheses:

Hypothesis 4a: The more the competitors are selling similar assets in the region, the more attractive the sale of the asset will be to middle managers.

Hypothesis 4b: The higher the cultural distance between people associated with the asset and the business, the more attractive the sale of the asset will be to middle managers.

Hypothesis 4c: The greater the political and legal pressures in the country, the more attractive the sale of the asset will be to middle managers.

Hypothesis 4d: The more efficient the capital markets, the more attractive the sale of the asset will be to middle managers.

3.2.2. Cognitive process

Managers' challenge is to identify a set of strategic assets that can establish the firm's sustainable competitive advantage. Executives also need to identify the current strategic industry factors as well as assess the future strategic industry factors. Decisions on the development of existing and new strategic assets need to be made, to sustain the firm competitive advantage. According to the resource-based view of the firm, the value of a firm's strategic assets goes beyond their contribution to the production process and depends on an extensive range of resources and capability characteristics (e.g. complementarity, scarcity, inimitability and appropriability). Furthermore, in making investment decisions about strategic assets, managers face the tasks of anticipating possible future, assessing competitive interactions within each projected future, and overcoming organizational inertia and internal disputes.

Teece (2009) studied the role of organizational and managerial capabilities under the dynamic capabilities framework. Dynamic capabilities include the organizational processes directed toward learning and innovation, the way in which the business is designed and the decision frames and heuristics that inform firms' investment choices over time. Once assets become part of the firm and come within managers' control, their effective utilization and orchestration is essential. Assets' orchestration is intended at achieving new combinations of assets, requiring judicious decision-making and entrepreneurial capacity. The most critical managerial activity in dynamic markets involves orchestrating complementary and co-specialized assets, inventing and implementing new business models and making wise investment choices, e.g. R&D and M&A, in conditions of uncertainty and ambiguity. There is a need for managers to integrate, build and reconfigure internal and external competences to address rapidly changing environments (Teece et al., 1997).

Dynamic capabilities

According to the dynamic capabilities perspective, three processes are classified as core to dynamic capabilities, namely integrating/coordinating, learning and reconfiguring. Integration and coordination routines consist of combining resources, e.g. new products development process. Learning is a practice and experimentation and allows tasks to be performed effectively. Reconfiguration refers to transformation, which requires recombination of existing resources. Teece (2007) identified "asset orchestration" as a meta-process that engages all three processes.

Managers must orchestrate a firm's resources and configure the capabilities to achieve a competitive advantage, implementing corporate- and business-level strategies that create value. Since competitive environments are dynamic, competitive advantage is temporary and managers must orchestrate resources to implement strategies that help firms to achieve different temporary competitive advantages over time (Sirmon et al., 2010). Resource orchestration is important to each stage of a firm's life cycle, with each stage requiring multiple resource management actions. In addition, because a firm may change in size and in the complexity of its organizational structure, multiple levels of managers coexist and each level contribute to the achievement of competitive advantage. When managerial hierarchies are present, the quality of information transferred among multiple managerial levels commonly deteriorates (Teece, 2007; Teece et al., 1997) and resource orchestration actions need to be synchronized.

In a bidirectional flow model, many individuals within the firm are able to initiate the resource orchestration process. As mediators, middle managers may be the ones who encourage a synchronized process, offering rich information and increased flexibility for innovative change. The cognitive process associated with asset divestiture may be therefore significantly affected by the locus of the decision-making, i.e., whether the initiative to undertake divestiture is made by headquarters' middle managers or business unit managers.

Hypothesis 5: The locus of asset divestment decisions affects middle managers evaluation of the attractiveness of the sale of the asset: corporate- and business-level middle managers are expected to give importance to different factors when assessing the sale of the asset.

3.3. Methods

Here below, we present the main features of the methodology, the research context and how the data collection has been conducted.

3.3.1. Experimental approach

In this study, we used a field-experimental methodology know as policy capturing to collect data for hypothesis testing. Policy capturing has been broadly used in strategic management research to understand how executives process information when making strategic decisions (Tong et al., 2015; Reuer et al., 2013; Tyler and Steema, 1998; Hitt et al, 1997; Tyler and Steema, 1995; Hitt and Tyler, 1991). Using this technique, we asked participants to assess the attractiveness of 30 potential business unit assets' divestments and to rate their attractiveness as a sale of the asset. We used Qualtrics, an online survey platform, to build and carry out the questionnaire: each business unit asset was presented on a single page and described using a set of 16 decision criteria explained below. While the set of criteria remained constant across the 30 business unit assets, the value of each decision criterion was randomly determined for each asset and ranged from "low" to "high" on a five-point Likert-type scale. Participants were asked to provide an overall assessment of the attractiveness of a sale of the asset, together with the probability that they would recommend that to their business. As a group, these judgments were analyzed statistically to determine how individual decision criteria affect the participants' evaluations of a sale of the asset attractiveness.

The policy capturing methodology complements other research techniques in strategy research and provides several specific advantages to our study. First, the policy capturing technique permits a more direct investigation of middle managers' decision models. In particular, it allows us to isolate the preferences of middle managers based on whether they are from the corporate staff or from the business. Second, while interviews can provide rich information on how middle managers participate to the strategic decision-making, prior research indicates that it can be problematic for managers to express their decision models and to explore the effects of information on their decision-making without retrospective and other biases (Karren and Barringer, 2002; Argyris and Schon, 1974). Using policy capturing, we determined from statistical analyses middle managers' weighting of decision criteria, rather than relying on their perceptions of their past decision models. Experimental methods also allow enhanced control over unobserved factors using a consistent set of randomly determined criteria.

3.3.2. Research context

Middle managers participating in this study are both corporate and business unit managers, working in a European multinational corporation. These middle managers were asked to assess the attractiveness of business unit asset divestments as a sale of the asset. Multinational and multibusiness industries can be considered an interesting and appropriate context to carry out a study of how middle managers make decisions on potential business unit asset divestment. The global business environment is characterized by high levels of uncertainty and by an increasing number of M&A transactions, where divestitures plays a significant role within corporate strategic decisions. In multinational and multibusiness corporations, divestments of business unit assets or subsidiaries is a challenging managerial issue, since it may require the decision to reverse previous diversification (Madura and Murdock, 2012; Haynes et al., 2003; Benito and Welch, 1997; Madura and Whyte, 1990) and a careful adjustment of international portfolios (Brauer, 2006; Kumar, 2005; Chow and Hamilton, 1993).

3.3.3. Data collection

To collect data using policy capturing, we developed a policy instrument and a demographic questionnaire. All these sections were built on an online platform, called Qualtrics. The policy instrument included an instruction page describing the decision context to participants and their task of assessing business unit asset divestments and judging the attractiveness of the sale of the asset, as well as 30 pages each containing a summary of potential asset divestments described using 16 decision criteria (described below). From the literature, we selected four criteria related to the asset's resources, four criteria related to the divestment opportunity, four criteria related to the transacting parties and four criteria related to the industrial and economic environment of the asset.

As a result, a total of 16 criteria appeared in each divestment scenario. We followed prior research such that the order of the 16 criteria stayed the same for all the 30 scenarios (Tong et al., 2015; Reuer et al., 2013; Tyler and Steema, 1998; Hitt et al, 1997; Tyler and Steema, 1995; Hitt and Tyler, 1991), letting participants to review the materials efficiently, while the values for the 16 criteria varied across scenarios. Specifically, in constructing each of the scenarios, we randomly assigned the values associated with these 16 criteria on a Likert-type scale from 1 (low) to 5 (high). The 30 scenarios were then randomly ordered for each respondent to address potential order bias. We also developed a demographic questionnaire to request information related to the respondents and their firm characteristics. We used these information to develop several variables to control for middle managers, firm and industry effects in regressions.

The instruments were pilot tested with 12 respondents, both MBA students and experienced professionals. We used the pilot test to determine the clarity of instructions, variables, and definitions and marginally refined the instrument based on the feedback received from the participants to the experiment. We collected data for hypothesis testing from middle managers working in an energy company; a total of 98 middle managers agreed to participate in the survey and were emailed the link to participate in the study. Once on the Qualtrics platform, the respondents were able to go through the sections (i.e. policy instrument and demographic questionnaire). After some reminders, we received responses from 66 middle managers, which represented a 67% participation rate. No missing values were found for participants' responses to the policy instrument. We also followed prior research (Tong et al., 2015; Reuer et al., 2013; Tyler and Steema, 1998; Hitt et al, 1997; Tyler and Steema, 1995; Hitt and Tyler, 1991) by testing each participant's decision policy for the 30 scenario to determine if the 16 decision criteria explained at least 40 percent of the variance in our dependent variables. It has been argued that middle managers who do not have a consistent decision models, or do not consistently weigh the information provided, might lack of understanding or commitment to make the assessment. Results indicated that one middle manager might not have been using a consistent decision model, and it was excluded from the analyses.

3.3.4. Variables and measurement

Dependent variable

The policy instrument asked middle managers from a European multinational corporation to evaluate 30 scenarios of divestments of business unit asset and to provide their assessment of the attractiveness of each divestment opportunity. For each divestment opportunity, we asked middle managers to rate two items: (1) the attractiveness of the opportunity as a divestment and (2) the probability that they would recommend the divestment to the business unity, based on a Likert scale ranging from 1 (*very low*) to 7 (*very high*). Using their rating on the two items, we created one dependent variable: items (1) and (2), due to the higher correlation, were summed to create a dependent variable *Sale of the asset attractiveness*.

Explanatory variables

To test the hypothesis, we developed four policy criteria from each theoretical base. We referred to Tyler and colleagues prior studies using policy capturing instrument (Tong et al., 2015;

Reuer et al., 2013; Tyler and Steema, 1998; Hitt et al, 1997; Tyler and Steema, 1995; Hitt and Tyler, 1991).

Specifically, the four policy criteria we used to characterize the options related to the business unit assets are: *New opportunities* (the extent to which the asset can be used to explore new opportunities in the country); *Competitors entering the country* (the likelihood that business's competitors will enter the country); *Regional exposure* (the asset's potential for increased exposure to the region); and *Demand uncertainty* (the extent to which there is high demand uncertainty in the asset environment).

As for the transactions related to the asset, we developed the following four policy criteria: *Human resources uniqueness* (the level of uniqueness in human resources - e.g. learning by doing or immobility - associated with the asset); *Alternative buyers* (the number of alternative buyers in the market for the asset); *Cooperative history with partners* (favorability of the company's cooperative history with the potential partners); and *Diseconomies of scale* (extent to which the asset has created diseconomies of scale for the business unit).

We developed four policy criteria we used to characterize the asset-specific resources, which are: *Financial Health* (the financial health of the business unit asset); *Market knowledge complementarities* (extent to which the asset possesses unique market knowledge complementarity to the business unit); *Technical complementarities* (extent to which the asset possesses strong technical complementarities with the business unit); and *Hard-to-value intangible resources* (degree to which the asset possesses hard-to-value intangible resources that are difficult to value).

Finally, we used the following four policy criteria to define the institutional environment related to the business unit assets: *Competitors assets' sales* (extent to which competitors with similar assets in the region are selling their assets); *Cultural differences* (extent to which there are cultural differences between the people in the business unit and the people in the asset - e.g. in relation to time, hierarchy, etc.); *Political and legal pressures* (extent to which there are formal and informal political and legal pressures in the country); and *Capital market efficiency* (extent to which capital markets are efficient).

As for the cognitive process, we added one variable referred to the *Locus of asset orchestration*, which is a dummy variable with 1 for corporate-level middle managers and 0 for business-level middle managers.

Controls

We incorporated some control variables that might have an impact on the attractiveness middle managers attach to potential divestment decisions. Building on the premises of cognitive and behavioral research, strategy scholars argue that observable executive characteristics can serve as indicators of the mental models executives use during strategic decision-making (Hambrick and Mason, 1984). Furthermore, prior research suggests that these observable characteristics are significantly related to what information is noticed and how it is weighted when executives evaluate the desirability of strategic alternatives (Tyler ans Steensma, 1998; Melone, 1994; Hitt and Tyler, 1991). Among the middle managers characteristics, educational background and experience are particularly important.

Accordingly, we added six variables for the above mentioned middle managers characteristics: *Education 1 and Education 2* (dummy variables used to codify the type of education)*, Functional experience 1 and Functional experience 2* (dummy variables used to codify the functional experience) and *Divestment experience 1 and Divestment experience 2*. The last two variables were collected asking to middle managers to rank, with a Likert scale from 1 to 7, the amount of experience they have on initiating the divestment process, namely on (1) the identification of the initiative and (2) on the approval to start the preliminary process.

Furthermore, middle managers were also asked to report the number of levels between them and the firm's CEO, the business unit they come from and their gender. Each variable was coded as a dummy variable in the analysis. The middle managers also provided the number of years they had worked in the firm's primary industry.

3.4. Results

The descriptive statistics and the correlation matrix are presented in Tables 3.1 and 3.2. The data were aggregated and the hypothesis were analyzed using linear regressions. The adjusted R^2 of the first regression, with information from all theoretical bases is 0,1448. We find that among the sixteen explanatory variables, eight of them have a significant impact on middle managers' assessments of the attractiveness of business unit asset divestment. As shown in Table 3.3, in fact, Hypothesis 1a, 2d, 3a, 3b, 3c, 4a and 4c were supported.

The coefficient for *New opportunities* is negative and statistically significant ($p<.01$), supporting H1a on the negative relationship between the potential for new opportunities in the country created by the asset and the decision to divest. Hypothesis 1b, 1c and 1d are not supported. Focusing on the transaction, Hypothesis 2a, 2b and 2c on the effects of the *Uniqueness of the human resources, Number of alternative buyers for the asset and the Cooperative history with partners,* respectively, are not supported. *Cooperative history with partners,* to be precise, was found to be significant but with an opposite beta sign: it resulted to have a negative effect on the attractiveness of the sale of the asset. *Diseconomies of scale* created by the asset have a positive significant effect ($p<.0001$) on the sale of the asset attractiveness, supporting H2d. The coefficients for *Financial health* ($p<.0001$)*, Market knowledge complementarities* ($p<.0001$) *and Technical complementarities* ($p<.01$) are negative and statistically significant, thus supporting H3a, 3b and 3c on the negative relationship between the financial health of the asset, its market knowledge and technical complementarities and the decision to divest. Hypothesis 3d is not supported. Considering the environment of the business unit asset, Hypothesis 4b and 4d on the effects of the *Cultural differences and the Capital market efficiency,* respectively, are not supported. The *Competitors behavior towards assets divestment* ($p<.05$) *and Political and legal pressures* ($p<.05$) have a positive significant effect on the sale of the asset attractiveness, supporting H4a and 4c.

Table 3.1 - Descriptive statistics and correlations for the dependent variable and the randomized policy criteria

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Sale of the asset attractiveness	7,91	3,67																
2	Technical complementarities	3,30	1,19	-0,196															
3	Financial Health	2,80	1,51	-0,239	-0,004														
4	Demand uncertainty	3,03	1,28	0,0753	-0,117	0,2102													
5	Regional exposure	3,03	1,25	-0,048	0,0606	-0,049	-0,209												
6	Diseconomies of scale	2,93	1,37	0,1768	-0,358	0,0097	0,2498	-0,155											
7	Hard-to-value intangible resources	2,70	1,46	-0,021	0,301	-0,042	0,1301	0,0237	-0,344										
8	Competitors entering the country	3,03	1,30	-0,112	0,0151	0,3411	-0,221	0,3672	-0,055	-0,1									
9	New market opportunities	3,23	1,52	-0,044	-0,316	-0,168	-0,261	-0,109	-0,201	-0,073	-0,021								
10	Alternative buyers	3,47	1,18	-0,058	0,0907	0,3707	-0,01	-0,26	-0,168	0,1975	0,0986	-0,005							
11	Cooperative history with partners	2,63	1,43	0,032	-0,014	-0,281	-0,286	0,119	0,0731	0,0751	0,0425	0,0856	-0,375						
12	Competitors selling assets	2,87	1,36	0,1349	-0,347	-0,175	-0,017	0,1594	0,0491	-0,137	0,0965	0,0312	-0,17	0,1467					
13	Political and legal pressures	3,03	1,45	-0,07	0,1492	0,1398	-0,091	0,1465	-0,437	0,3505	0,1406	-0,109	0,3431	0,0705	-0,116				
14	Human resources uniqueness	2,67	1,25	0,0419	0	-0,265	-0,181	0,0071	-0,052	0,1826	0,2324	0,0586	0,1515	0,2125	0,0917	0,2829			
15	Capital market efficiency	3,47	1,34	-0,024	-0,088	0,244	0,0495	0,2302	-0,093	-0,082	0,2593	-0,021	0,0311	-0,225	-0,149	0,1126	-0,007		
16	Cultural differences	3,00	1,18	-0,013	0,0712	0,0558	0,2867	0,1351	-0,124	0,4426	0,1729	-0,148	0,0958	0,1186	0	0,2333	0,1129	0,0211	
17	Market knowledge complementarities	2,93	1,61	-0,179	0,3938	-0,074	-0,145	0,0507	-0,184	-0,107	0,0169	0,0063	0,034	-0,199	-0,111	0,1866	0,0719	-0,249	0,1399

N= 1.800

Table 3.2 - Descriptive statistics and correlations for the dependent variable, the locus of orchestration and the control variables

	Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1	Sale of the asset attractiveness	7,91	3,67										
2	Locus of asset orchestration	0,32	0,47	0,0727									
3	Role	2,82	0,96	-0,002	-0,057								
4	Business unit	0,38	0,49	-0,055	-0,537	-0,1							
5	Industry experience	21,55	7,74	0,0517	-0,007	-0,54	0,0414						
6	Gender	0,83	0,37	-0,041	-0,176	-0,039	0,0767	0,026					
7	Education1	0,25	0,43	-0,024	0,1034	0,2714	-0,218	-0,111	-0,052				
8	Education2	0,23	0,42	0,1227	0,1327	-0,1	-0,111	-0,034	-0,071	-0,319			
9	Functional experience1	0,42	0,49	0,1196	0,2968	0,1619	-0,319	-0,209	-0,076	0,1366	0,5728		
10	Functional experience2	0,28	0,45	-0,109	-0,11	0,0045	0,0368	0,0652	0,0827	0,1495	-0,259		
11	Divestment experience1	2,63	1,20	0,014	-0,211	-0,088	0,2702	-0,102	0,0498	-0,209	0,0702	-0,052	-0,024
12	Divestment experience2	2,80	1,21	-0,007	-0,036	-0,032	0,1872	-0,152	-0,074	-0,191	0,1239	0	-0,018

N= 1.800

Table 3.3 - Regression model including information from all four theoretical bases

	Beta	t-stat.	R^2	ΔR^2
First step: Information dimensions				
New opportunities	-0,21	-2,98**		
Competitors entering the country	0,05	0,56		
Regional exposure	-0,13	-1,61		
Demand uncertainty	0,06	0,72		
Human resources uniqueness	-0,13	-1,54		
Alternative buyers	0,15	1,54		
Cooperative history with partners	-0,19	-2,19*		
Diseconomies of scale	0,34	3,95****		
Financial Health	-0,81	-10,81****		
Market knowledge complementarities	-0,36	-4,67****		
Technical complementarities	-0,33	-3,04**		
Hard-to-value intangible resources	-0,03	-0,4		
Competitors selling assets	0,15	2,09*		
Cultural differences	0,10	1,01		
Political and legal pressures	0,20	2,43*		
Capital market efficiency	0,01	0,07	0,1524	0,1448
Second step: Information dimensions and locus of orchestration			0,1577	0,1496
Third step: Information dimensions and controls (included locus of orchestration)			0,1876	0,1752

** p < 0.05; ** p < 0.01; *** p < 0.001; **** p < 0,0001*

If we add the locus of information, which is whether the respondents are from corporate- or business-level, the adjusted R^2 slightly increases and hypothesis 5 is supported. If we add also the control variables, the adjusted R^2 increases by 0,026. To examine whether each of the explanatory variables was used differently from middle managers at a corporate- and business-level, we split the sample in two subsamples. As shown in Table 3.4, only Hypothesis 3a and 3b are supported for both the groups.

As for middle managers at corporate-level, Hypothesis 1a, 3a, 3b, 3c are supported, resulting in a predominance of the resource-based perspective. The decision to divest a business unit asset, for corporate people, can be seen as a way to dispose of asset with weak financial health and low complementarities with the business unit while releasing resources for new opportunities. For corporate-level middle managers, the decision to divest considers both the corporate and business unit perspectives, in terms of efficient resource allocation and synergies. The adjusted R^2 of this regression run on the corporate-level subsample, with information from all theoretical bases and the controls, is 0,2344, which is higher than the one run on the whole sample.

As for middle managers at business-level, Hypothesis 2d, 3a, 3b, 4a and 4c are supported. For this subsample, none of the theories resulted to be predominant and the decision to divest a business unit asset come from aspects related to the resources, the transactions and the institutional context. Business-level middle managers were found to be capable of considering more specific business-related criteria, such as diseconomies of scale created by the asset, and environment-related criteria, such as the political and legal pressures. The adjusted R^2 of this regression run on the business-level subsample, with information from all theoretical bases and the controls, is 0,1683, which is marginally lower than the one run on the whole sample.

Table 3.4 - Regression model including information from all four theoretical bases for the two subsamples

	Corporate-level middle managers		Business-level middle managers	
	Beta	t-stat.	Beta	t-stat.
Information dimensions and controls				
New opportunities	-0,35	-2,77**	-0,14	-1,77
Competitors entering the country	0,15	0,94	0	0,02
Regional exposure	-0,11	-0,81	-0,13	-1,47
Demand uncertainty	0,18	1,13	0,01	0,09
Human resources uniqueness	-0,18	-1,25	-0,1	-1,06
Alternative buyers	0,3	1,64	0,09	0,76
Cooperative history with partners	-0,17	-1,09	-0,2	-2,00*
Diseconomies of scale	0,28	1,8	0,37	3,74****
Financial Health	-0,75	-5,49****	-0,84	-9,81****
Market knowledge complementarities	-0,39	-2,74**	-0,35	-3,97****
Technical complementarities	-0,81	-4,10****	-0,11	-0,88
Hard-to-value intangible resources	0,09	0,61	-0,09	-0,96
Competitors selling assets	0,07	0,54	0,18	2,29*
Cultural differences	0,60	0,34	0,12	1,04
Political and legal pressures	0,16	1,11	0,21	2,29*
Capital market efficiency	0,03	0,22	-0,01	-0,07

R^2 = 0,2680 for Corporate-level middle managers and R^2 = 0,1859 for Business-level middle managers.

ΔR^2 = 0,2344 for Corporate-level middle managers and ΔR^2 = 0,1683 for Business-level middle managers.

** p < 0.05; ** p < 0.01; *** p < 0.001; **** p < 0,0001*

3.5. Discussion

The primary objective of this research was to assess current academic and practitioner arguments regarding the information middle managers should look at when evaluating the sale of business unit assets and test to see what information middle managers actually utilize in the judgments. The theory section of the chapter argued that important factors associated with managerial and economic theories grounded in the rational-choice perspective of strategic decision-making could contribute to an understanding of the factors that should be of concern to middle managers. The results of the study suggest that (1) middle managers do not consider all available information, (2) the resource-based theory, with three out of four criteria being significant, adequately represents the informational dimensions considered relevant in evaluations of business unit asset divestment and (3) the locus of asset orchestration activities affects middle managers evaluation of the attractiveness of the divestment of a business unit asset.

It is widely accepted in the cognitive and behavioral literature that individuals are limited in their ability to process information during decision-making (March and Simon, 1958; Miller, 1956). This study supports the arguments and suggests that, even in a very simplified decision situation, middle managers tend to incorporate only the information they consider most relevant. As a group, the participants in this study significantly incorporated only eight out of the sixteen informational cues they were given into their evaluations; individually, on average and considering the whole sample, they consistently used only three of the factors.

Following what we did in the second chapter, the factors that emerged to be used by middle managers in this policy capturing study can move the field toward an integrated behavioral theory of the criteria middle managers prioritize in assessing business unit asset divestments (Figure 3.1). The sixteen factors that middle managers used can be categorized according to: (1) corporate determinants, drawing from real option theory; (2) transactional determinants, drawing from TCE; (3) business determinants, drawing from RBV; and (4) environmental determinants, drawing from new institutionalism. However, these sixteen dimensions account only for 15 percent of the variance over and above the control variables.

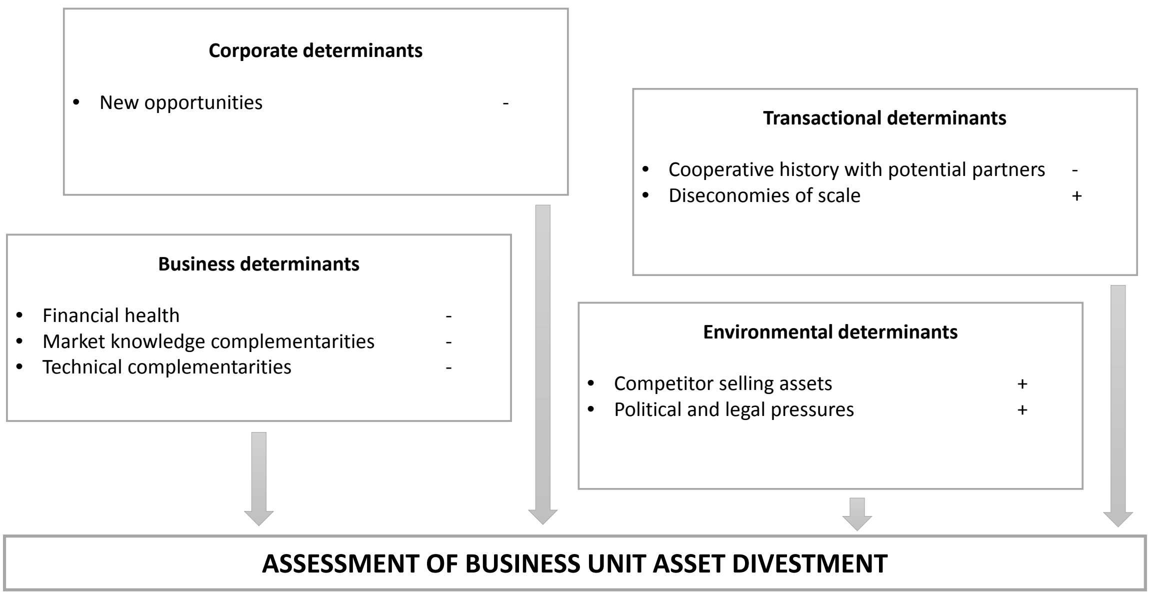

FIGURE 3.1 – INTEGRATE BEHAVIORAL FRAMEWORK

It is also clear by the significant informational dimensions that the resource-based theory adequately represents the issues middle manager consider relevant when they evaluate the sale of a business unit asset. The three informational clues that were the most strongly related to the assessment of the divestment decisions were the asset's financial health (H3a), the market knowledge complementarities (H3b) and technical complementarities (H3c). Firm performance and weak performance at the business-level have been found to be antecedents of a divestiture (Chang, 1996; Hitt et al., 1996; Hamilton and Chow, 1993; Hoskisson and Johnson, 1992; Duhaime and Grant, 1984). However, it is encouraging to see that middle managers place a strong emphasis on whether the market and technical complementarities within the firm and among the business units are relevant to the parent company strategy. Firms may divest business units that no longer fits with the firm strategy, regardless of their good financial or market performance (Johnson, 1996; Hoskisson et al., 1994). The results of this study support these arguments.

Another information dimension that was extensively used in the evaluations is the fact that the asset might have created diseconomies of scale for the business unit (H2d). Asset divestment was already defined in the literature as part of a consolidation process that helps companies to improve scale efficiencies by selling excess capacity (Anand and Singh, 1997; Bergh, 1997; Hoskisson et al., 1994; Dutz, 1989; Jensen and Ruback, 1983). The other dimension that was very significant is the extent to which the asset could be used to explore new opportunities in the country (H1a). As real options, divestment decisions allows the parent company to explore new technologies, new areas of business or new approaches to the market that might go beyond the current spectrum of the firm (Moschieri and Mair, 2017). It should be noted that those considerations were represented by the dimensions that significantly contributed to the evaluations of divestment decisions.

Moving to less statistically important but always significant informational dimensions, middle managers were also found to consider other two factors in their decision models, related to the extent to which competitor might be selling similar assets in the region (H4a) and the presence of formal and informal political and legal pressures in the country (H4c). According to the process defined as "mimetic isomorphism", managers simply adopt practices because they strive for legitimacy and imitate decisions made by the firm's industry peers (Dimaggio and Powell, 1991). Middle managers may not only divest foreign operations because of financial considerations or unrealized business opportunities but also because of major changes in political conditions (Sewing, 2010). Finally, the results also suggest that middle managers also incorporate information about the favorability of the company's cooperative history with the potential partners, but with an opposite beta sign than the one expected (thus H2c was not supported).

The most important conclusion of this study is related to the findings coming from the split of the sample; the results showed that some informational dimensions have a different significance according to the locus of decision-making (H5), namely the difference between corporate- and business-level middle managers. Previous research emphasized the importance of orchestrating assets and synchronizing the use of resources across managerial levels, as well as within each managerial level (Sirmon et al., 2011). Not only do the middle managers in this study appear limited in their ability to process information, but this study also suggests that their locus in the organization affects the decisions they are asked to make on behalf of the firm. Business-level middle managers were more detailed evaluators than corporate-level people, being capable of consider more specific business-related criteria, such as diseconomies of scale created by the asset, and environment-related criteria, such as the political and legal pressures. Furthermore, middle managers' type of education, functional experience and their understanding of the divestment process were found to be significant, improving the decision model.

With this study, we respond to a call for scholars to analyze in a more comprehensive way the decision-making process, considering those individuals within the firm, i.e. middle managers, which are able to initiate a resource orchestration process. Sirmon et al. (2011) asked for more research aimed at identifying the locus of asset orchestration across managerial levels, in order to understand the flow of knowledge within organizations. Resource divestment and resource deployment strategies have been studied under the resource management perspective but, as far as we know, were still absent from the asset orchestration arguments. In addition, most of the previous studies have often analyzed secondary data on realized divestment transactions assembling the models actually chosen by executives; thus, prior research provided a limited insight about how the chosen models might compare to the range of alternatives that managers might have considered.

Conclusions

Our study analyzes divestment decisions related to business unit assets, through the lens of asset orchestration, which can be considered one of the core concepts of dynamic capabilities theory. With the intent of demonstrating how multinational multibusiness corporations respond to environmental dynamism, the findings of this research project demonstrate that an orchestration process may combine different patterns regarding the assessment of business unit assets.

The role of managers, both individually and as a group, was already recognized in dynamic capabilities research (Helfat and Peteraf, 2015; Teece, 2012) and our findings went more in-depth in the managerial considerations related to the asset orchestration process. Orchestration can be seen as a process involving analytical separate information processing from middle managers. Our data provide evidence on how assets are orchestrated and on the role that the locus of decision-making plays in divestment decisions. Corporate- and business-level middle managers were found to look at different criteria, identified as relevant from different theoretical perspectives.

As individuals, corporate-level middle managers, when asked to assess the potential sale of business unit assets, consider factors related to the resource-based theory more than factors from other theories; business-level middle manager, on the other hand, demonstrate to have a broader spectrum when assessing asset divestment, looking at a higher number of criteria covering multiple theoretical lenses. As a group, middle managers were able to process information on the current knowledge about assets, reflecting how capabilities can integrate assets (Prieto et al., 2009).

Dynamic capabilities research studied the role of middle managers (Helfat and Peteraf, 2015; Salvato, 2009; Teece, 2012, 2014) but asset orchestration has remained understudied regarding the role of the locus of decision-making. Our study makes evident that asset orchestration depends on how information is processed by managers from various functional positions in the organizations, revealing patterns that were given limited attention in dynamic capabilities research. Quality of the assessment of business unit asset seems to be central to explain middle managers decision-making process. According to dynamic capabilities theory, horizontal knowledge flows are fundamental to guarantee the pertinence of decision-making within a corporation. Our evidence is coherent with the fact that horizontal and managerial-level coordination can explain the influence of middle managers (Teece, 2014), addressing what middle managers are expected to look at.

As for the managerial implications, this study suggests that divestment decisions, as any other strategic decision, should be tracked, monitored and shared within an organization, aiming at creating knowledge flows. Middle managers capabilities in orchestrating the firm assets originate from their knowledge about decisions made in the past, driven by their professional and educational background. Decision-makers, in order to be capable of processing all the relevant information, need to be aware of what criteria were used in previous divestment decisions, to gain more confidence when dealing with uncertainty. Furthermore, divestment decisions represent a good knowledge vehicle to learn and drive future investments.

Limitations and future research

This study has some limitations. Because it is focused at the individual level, this study does not capture the interactions that take place at multiple organization levels when middle managers as a group or team assess business unit assets and make divestment decisions among various alternatives. Middle managers tend to prioritize the information they are acknowledged about and future research should be conducted to understand how individual differences (i.e., functional experience and educational background) influence middle managers evaluation of strategic options.

Some could also take issue with the fact that this study used a single case study, both for the qualitative and quantitative research, which could be perceived to be self-referential and far away from management practice in organizations. However, this approach allowed for a coherence in the theoretical framework we have been using and testing. Future studies will have to extend the study to a bigger sample and try overcome the confidentiality issues.

The overall effect size in terms of variance explained by middle managers' experiences and perceptions is relatively small. We collected data from 60 respondents and got 1.800 observations, in one company. Given the number of observations and the fact that most of the middle managers in the sample had heterogeneous profiles, the variance resulting from the model is not surprising. Accordingly, future research should develop and test different models.

Implications for theory and research

The results presented in this study are aimed to link four strategic management theories to the way in which middle managers make decisions. In particular, we found a more comprehensive explanation of what middle managers consider when asked to make divestment decisions. More field work could be conducted to seek additional attributes that might fall in the four theories suggested in the proposed integrated theory. Areas that would be particularly fruitful for theory building would be research regarding functional and organizational knowledge structures, knowledge transfer and organizational efforts to share capabilities within a corporation.

This research effort focuses primarily on the four theoretical lenses found both in practice and in the strategy literature, but some considerations were made as far as the unconscious effects associated with middle managers functional experience and educational background are concerned. More research should be conducted to better understand how middle managers personal characteristics influence the evaluation of business unit asset divestments.

Research is also needed to evaluate the international implications of this study's findings. Divestment decisions may be affected not only by individual differences, but also by differences in company, national, and ethical predispositions or cultures.

Finally, this study has only examined the factors middle managers use to evaluate various divestment decisions. Divestment decisions, however, are just one process of portfolio decisions. Alternative modes include investments, mergers and acquisitions and alliances. Studies should be conducted examining the various decisions related to the portfolio of assets of multinational multibusiness corporations using an integrated theoretical perspective.

Implications for practice

The results of this study suggest that corporate- and business unit-level middle managers focused on different factors when asked to assess the sale of business unit assets. Middle managers involved in those decisions can use these results to compare their decision criteria with those of the sample of middle managers in this study. Assuming that a careful evaluation of multiple criteria is important to the quality of the assessment of business unit asset divestment, corporations need to know how individual decision-making limitations can be overcome.

Determining which information matters and which does not is a constant challenge in management practice. Information connects what middle managers can do with what they want. Decisions can be based solely on facts, which are about present and past. However, most of the time decisions are concerned with the future, about which there is no certainty. All the historical information middle managers have must be translated with judgment into a choice. With significant uncertainty, middle managers have to look forward and anticipate what comes next, paying attention to what is important to the decision they have to make.

Our study builds upon and extends research on firms' divestment decisions by capturing how middle managers assess the attractiveness of the sale of business unit assets and by providing direct evidence supporting four management theories. Future research should join this study in using other theoretical perspectives and innovative methods to improve existing knowledge of firms' portfolio decisions that are central to strategy and international management research and practice.

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