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Thirty Years After Michael E. Porter: What Do We Know About Business Exit?

by Carolin Decker and Thomas Mellewigt

Executive Overview

Although a business exit is an important corporate change initiative, the buyer's side seems to be more appealing to management researchers than the seller's because acquisitions imply growth, i.e., success. Yet from an optimistic viewpoint, business exit can effectively create value for the selling company. In this paper we attempt to bring the relevance of the seller's side back into our consciousness by asking: *What do we know about business exit?* We start our exploration with Porter (1976), focusing on literature that investigates the *antecedents* of, *barriers* to, and *outcomes* of business exit. We also include studies from related fields such as finance and economics.[1] Through this research we determine three clusters of findings: *factors promoting business exit*, *exit barriers*, and *exit outcomes*. Overall, it is the intention of this paper to highlight the importance of business exit for research and practice. Knowing what we know about business exits and their high financial value we should bear in mind that exit need not mean failure but a new beginning for a corporation.

Business exit is an asset restructuring activity involving a diversified firm's divestiture of one of its businesses, such as Intel's abandonment of its DRAM business (Burgelman, 1996). Interest in this topic can be traced back to publications that represent milestones in economic research such as Bain (1956), who established the concept of barriers to entry, Caves' (1964) analysis of the American industry, and the seminal article on exit barriers by Porter published in *California Management Review* in 1976, which helped raise the interest in business exit among a broad audience. Data from the U.S. illustrate that business exit continues to be relevant (cf. Figure 1). In the U.S., business services, real estate, and software were the most active divesting industries in 2005. A recent study by the consulting company Accenture highlights the growing relevance of business exits for years to come and predicts that "[f]or the next years, many companies will give far more thought to divestitures than they did in the late 1990s" (Anslinger, Jenk, & Chanmugam, 2003).

Although a business exit is an important corporate change initiative, the buyer's side seems to be more appealing to management researchers than the seller's because acquisitions imply growth, i.e., *success*. This preference for the "success" side can be seen at the industry level as well. Managers, for example, may resist business exit because it is afflicted with the stigma of *failure* and is often seen as a result of poor corporate management. The reluctance of managers to admit that their organization or at least parts of it are in trouble is evidence of their substantial personal preoccupation with growth and their large personal costs in case of exit (Gilson, 1989). Yet from an optimistic point of view, business exit can effectively create value for the selling company. Indeed, the stigma certainly wasn't a factor for former GE CEO Jack Welch. Under his leadership, 117 business units which amounted to 20% of GE's corporate assets were divested within only four years (Dranikoff, Koller, & Schneider, 2002).

[1] We thank two anonymous reviewers for encouraging us to enrich our literature base from management research with a broader range of publications from different but related fields.

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In this paper we attempt to bring the relevance of the seller's side back into our consciousness and ask: *What do we know about business exit?*

Starting with Porter (1976), our literature review draws on publications which investigate the *antecedents* of, *barriers* to, and *outcomes* of business exit and which have been published especially in management journals since 1976. For the identification of relevant articles, we used the Business Source Premier Database and focused our search on the keywords 'restructuring,' 'exit,' 'divestiture,' and 'divestment.' In order to enrich our literature base derived from management research, we included studies from related fields such as finance and economics.

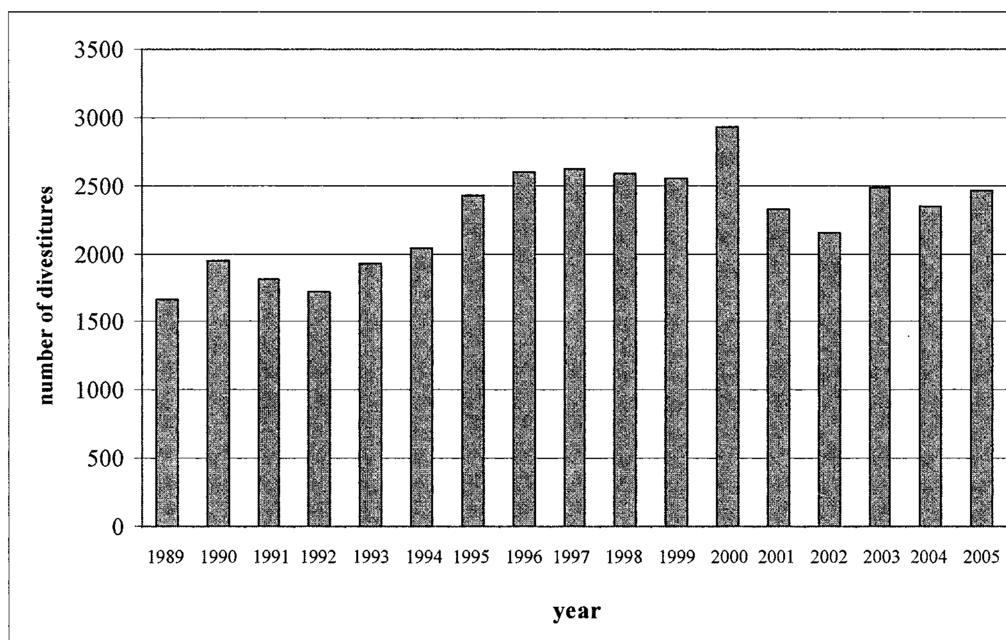
The structure of this paper is as follows: the first section outlines the various facets of the topic and its embeddedness in the field of strategy. The next sections focus on antecedents, barriers, and outcomes of business exit. We will show that the antecedents of business exit are not only financial in nature but also include strategic, governance, and environmental issues, and are interrelated with the outcomes of business exit. The latter include financial and strategic aspects and effects on employees, management, and ownership structure as well as consequences for the divested unit. In the last section we will summarize our findings in three clusters: *factors promoting business exit*, *exit barriers*, and *exit outcomes*, and will discuss some topics that go beyond our current knowledge and which deserve more attention from research and practice.

Defining the Domain

Business exit belongs to a variety of transactions that can all be summarized under the headline *corporate restructuring* (Bowman & Singh, 1993; Schendel, 1993; Singh, 1993). Restructuring via divestitures and acquisitions, for example, is typically a response to changing internal and/or external circumstances and aims at enhancing firm performance. It frequently entails modifications of corporate strategy, e.g., in terms of refocusing or core change, and thus has a strategic dimension (Burgelman, 1994, 1996; Byerly, Lamont, & Keasler, 2003; Hayward & Shimizu, 2006; Zajac & Kraatz, 1993).

Business exit can occur in different modes. A popular distinction is that between sell-off and dissolution (e.g., Harrigan, 1982; Mitchell, 1994). Sell-off means that a business is sold as an individual operating unit to another owner (Mata & Portugal, 2000; Villalonga & McGahan, 2005).

Figure 1
Number of Business Exits in the U.S. 1989–2005



Data were adopted from *Mergers & Acquisitions: The Dealermaker's Journal*, M&A Almanac section 1989–2005.

Under the heading of sell-off, there are several sub-types of exit styles: for example, spin-offs, buy-outs, carve-outs, and asset sales. A spin-off involves the sale of equity shares of a business to the parent firm's current shareholders. In a management buy-out a business is sold to its former management that hence becomes its new owner. A leveraged buy-out means that a business is sold to an investor group which typically includes the sold unit's former managers. A carve-out is a sale of a business unit to new shareholders or another firm (Makhija, 2004; Miles & Rosenfeld, 1983; Woo, Willard, & Daellenbach, 1992). An asset sale means that a firm agrees to sell all or certain assets and liabilities to a buying company. Thereby the corporate entity in question is not transferred to the buyer. Asset sales are preferable when management needs to raise funds but alternative sources of financing are too expensive (Lang, Poulsen, & Stulz, 1995).

Dissolution involves the shut-down of entire businesses (Mitchell, 1994; Chang & Singh, 1999; Mata & Portugal, 2000). In contrast to the aforementioned exit styles, the entity in question does not get a new owner but disappears. Such a step is difficult "because labor unions' contracts must be satisfied in dismissal, customers must be persuaded to substitute other products, the trade must accept the firm's explanation concerning why the company is unable to cover particular needs of the customer, and the value of untold millions of dollars invested in competitive positioning can never be recovered if no buyer for the business unit can be found" (Harrigan, 1982, p. 729). Dissolution can occur through formal bankruptcy if a private debt restructuring is not possible (Gilson, 1990; Gilson, John, & Lang, 1990) or through delisting from a stock exchange (Baker & Kennedy, 2002).

There is evidence (Dunne, Roberts, & Samuelson, 1988) that entry patterns and subsequent exits are interrelated. For example, diversifying firms that enter an industry with a new plant are generally initially larger and less likely to fail than are other types of entrants. Hence firm size at the entry stage seems to be crucial to survival. Yet a large number of small-sized firms can be found at every stage in the industry life-cycle because the large amount of small firms in virtually every industry reflects an ongoing process of entry into industries and not the survival of a constant population of small firms over a long time period (Audretsch & Mahmood, 1994). Findings by Baker and Kennedy (2002) illustrate this continuing process of entry and exit. Their investigation of a population of 7,455 firms in the 1963-1995 time period shows that the difference between annual entry and exit rates is small (6.66% versus 5.11% on average). Thus: "entry and exit seem to be part of a process of change in which large numbers of new firms displace large numbers of older firms without changing the total number of firms in operation at any given time by very much" (Geroski, 1995, p. 424).

Antecedents of Business Exit

The antecedents of business exit refer to the question of what drives corporate managers to pursue business exit. Four clusters of antecedents can be distinguished, namely *performance*, *strategy*, *governance*, and *environment*.

Performance

Both underperformance at the firm and the business unit level are antecedents of business exit. Poor firm performance or financial distress is frequently a result of a failed diversification strategy. Divesting firms aim at reducing costs and thus consolidating their operations (Duhaime & Grant, 1984; Kaiser & Stouraitis, 2001; Montgomery & Thomas, 1988). Underperformance does not only determine the exit decision *per se* but also the type of exit chosen, e.g., financially distressed parent firms in terms of inability to cover interest expenses are more likely to use sell-off than spin-off due to the need to generate liquidity in order to meet short-term financial obligations (Nixon, Roenfeldt, & Sicherman, 2000).

Unmet expectations regarding sales or profit, market share, and disappointing profit and demand growth rates at the business unit level as well as the relatively low size of a unit in question also play a key role for the decision to divest a business (Chang, 1996). Divested units are likely

to have been incorporated into the selling firm through acquisition rather than through internal development. Particularly in capital-intensive industries failing businesses are likely to be divested. In some cases exit is an adequate solution when performance is poor even though markets are actually viable (Hamilton & Chow, 1993; Karakaya, 2000; Ravenscraft & Scherer, 1991; Shimizu & Hitt, 2005).

In general, firms which are delisting from stock exchanges lose a large portion of their market value over a ten-year period preceding this incident but regain a certain amount of this loss in the last year before delisting. Firms that exit due to takeover almost fully regain their losses in the year before the incident, whereas firms that are being delisted due to bankruptcy steadily continue losing value in the last year prior to exit (Baker & Kennedy, 2002). Financial distress frequently results in bankruptcy but many firms successfully resist it and restructure their debt privately. There is evidence that formal bankruptcy is more likely to be avoided, if, e.g., a relatively high portion of debt is owed to banks. Banks are better skilled in renegotiating debt. In addition, it is easier to renegotiate debt privately, when there are only few distinct classes of debt outstanding (Gilson et al., 1990).

Business unit size determines the exit decision. Size in conjunction with poor firm-level performance has a strong impact on the exit decision *per se* and the choice of the exit style. The larger the unit the higher the likelihood of spin-off as compared to sell-off, because the lower the likelihood of its failure as a stand-alone entity (Nixon et al., 2000). Furthermore, unrelated acquisitions tend to be divested when they fail to meet expectations that were prevailing at the time of their acquisition (Bergh, 1997). In addition, some studies confirm that the older a business, the less likely is exit (e.g., Carroll & Swaminathan, 1992; Freeman, Carroll, & Hannan, 1983), while others provide evidence that this relation is more complex and depends on additional factors (e.g., Amburgey, Kelly, & Barnett, 1993; Barnett, 1990). Therefore, Chang and Singh (1999) argue that age does not affect the exit decision *per se* but the choice of exit mode. Drawing on the resource-based view, they show that modes of entry (acquisition versus internal development) and modes of exit (sell-off versus dissolution) are interrelated. An acquired business is more likely to be sold off than an internally developed one. The latter, on the other hand, is dissolved due to its idiosyncratic resources that it has developed over time and which are a strong impediment to sell-off at the time of withdrawal. Such a business, which is typically an older unit, tends to be highly integrated with the other parts of the firm so it cannot easily be repackaged for sale. Due to its highly firm-specific assets it is not possible to achieve a high sell-off price. The latter might even be lower than the dissolution price. In contrast to Mitchell (1994), Chang and Singh (1999) find support for this argumentation. Mata and Portugal (2000), analyzing the entry and post-entry strategies of more than 1,000 foreign-owned firms in Portugal from 1983 and 1989, corroborate this result.

A unit's resource endowment is hence crucial for its fate. The redeployability of assets, e.g., drives the extent to which a firm loses value before delisting. Firms whose assets are more likely to be redeployed and which are small lose less value before disappearance than firms characterized by resources which are less likely to be redeployed and larger in size (Baker & Kennedy, 2002). In a similar vein, empirical findings by Villalonga and McGahan (2005) shed new light on the likelihood of divestiture as compared to alliances. In this study a firm's technological resources are significantly related to the choice of both acquisitions over alliances and alliances over divestitures. Further, they are a stronger driver of the decision between boundary-contracting choices (alliances versus divestitures) than boundary-spanning modes (acquisitions versus alliances). Thus units may also be discarded *because of* their endowment with promising resources and capabilities.[2]

Strategy

Some diversified firms divest businesses due to a lack of fit with corporate strategy or current op-

[2] We thank an anonymous reviewer for pointing us into this direction.

erations that are simultaneously pursued. Businesses may be too diverse and thus impede effective interunit communication and cooperation (Kaiser & Stouraitis, 2001). Those that are characterized by few synergies and low interdependency with peer and subordinate units are more likely to be divested than those with closer relationships (Duhaime & Grant, 1984; Montgomery & Thomas, 1988).

In addition, commitments to resources for different purposes can cause problems, if these resources are scarce. A firm can use gains from its core business or other profitable units but these resource commitments may harm the whole corporation. In the 1960s, Thorn EMI, e.g., reinvested its gains from its core business, the music division, in less profitable newly acquired businesses from very different industries. So, nearly all businesses in this firm suffered from a lack of funds that they could use for their own purposes.

A unit's resource requirements may also be viewed as too high even though it is profitable. The Pactiv Corporation, a specialty-packaging firm, e.g., decided on exiting from its highly profitable aluminum business. In contrast to the other businesses in the company, this unit was coping with a very volatile market. The resources that were released as a result of the exit were needed by other units which offered better growth prospects for the future. Further resource commitments to the aluminum business would have been value-destroying for the whole firm (Dranikoff et al., 2002; Duhaime & Grant, 1984; Kaiser & Stouraitis, 2001; Karakaya, 2000).

Resource needs must also be judged with regard to unit size: if the management time that a small business requires is considered too long as compared to the value it generates for the whole firm, the likelihood that this business will be eliminated increases, especially when top management is hardly familiar with its operations. Furthermore, top managers seem to be less interested in committing further resources to small units than to larger ones when they get into trouble or when a small business unit's performance data are hardly distinguishable from aggregate division performance data (Duhaime & Baird, 1987).

Corporate Governance

Shareholders' pressure for a high degree of corporate control may be realized by a decrease of the firm's diversification level. Business exits may result in refocusing and hence better governance. A high level of diversification frequently leads to managerial control loss and inefficiencies in a corporation, especially when it is operating in uncertain environments. Thus, divestitures in terms of sell-off are likely. Blockholder ownership has a strong impact on a firm's exit intensity, because it can impede value-destroying diversification strategies which are pursued by corporate managers whose primary aim is to increase their power. In particular in the 1980s restructuring was used to decrease too high diversification levels and was preceded by takeover threats. To avoid them, corporate managers can consider exit as a strategic option, especially if it occurs because a firm is trading at a diversification discount (Gibbs, 1993; Hoskisson, Johnson, & Moesel, 1994; Hoskisson & Turk, 1990; Kaiser & Stouraitis, 2001). Furthermore, customers may be confused by a firm's portfolio of businesses which may simultaneously act as customers and market competitors. Consequently, AT&T, e.g., decided on de-diversifying (Dranikoff et al., 2002).

Executive turnover frequently coincides with exit because its necessity is often not obvious to the current management. The arrival of a new CEO increases the likelihood of divestiture of a poorly performing unit, especially when his/her power and cognitive orientations favor such a step. In particular, non-routine executive succession processes nurture business exit. Similarly, CEOs coming from outside or with tenure of less than ten years are more likely to make incisive strategic decisions than those with longer tenure because they are better able to resist inertial forces (Bigley & Wiersema, 2002; Hayward & Shimizu, 2006; Matthyssens & Pauwels, 2000; Ravenscraft & Scherer, 1991; Shimizu & Hitt, 2005; Wiersema, 1995). The situation is different for firms that need to divest but are solvent and those that are financially distressed and even fear bankruptcy. Especially in the latter firms, management turnover is often initiated by bank lenders. During

the process of private debt restructuring in an effort to avoid bankruptcy it is common to replace the CEO and members of the board. As compared to the situation in poorly performing firms which are not in default or filing for Chapter 11, management turnover rates are much lower (Gilson, 1989, 1990).

A further reason for exit is the owner's retirement, especially in small and family-owned companies. In many cases a successor cannot be found. Another problem occurs when the owner dies and his/her heirs are not able to pay the taxes due and are therefore forced to dissolve a business in order to raise cash (Karakaya, 2000, p. 658).

Environment

Exit patterns differ across industries and regions due to different demand and cost conditions, e.g., industries in the U.S. with higher than average entry rates also show higher than average exit rates (Dunne et al., 1988; Foster, Haltiwanger, & Krizan, 2005). Mulherin and Boone (2000), e.g., demonstrate that, while most firms in the chemical industry were engaged in at least one divestiture in the 1990-1999 period, companies in other industries, e.g., grocery stores, securities brokerage, and toiletries/cosmetics, virtually did not divest. A study of U.S. manufacturing plants from 1972-1992 shows that in a country accumulating skill and capital, regions with rapidly changing factor endowments have both higher entry and exit rates. Low-skill and labor-intensive plants in regions which are rapidly enlarging their capital stocks are more likely to shut down than high-skill and capital-intensive plants in the same regions (Bernard & Jensen, 2001).

Environmental uncertainty can be another facilitator of business exit. Increasing uncertainty enhances the costs and lowers the benefits of managing a multitude of businesses under a single corporate umbrella. Retaining unrelated units generates costs that could be avoided by divesting them. Bergh (1998) however refutes this presumption. In his study on 168 *Fortune* 500 firms and their restructuring activities from 1985 to 1991, product-market uncertainty is positively but non-significantly related to the divestiture of unrelated businesses and not associated with the divestiture of related businesses. In this context uncertainty also promotes the acquisition of related businesses—a finding that can be explained by the expected strategic and cooperative synergies among business units. Yet, that uncertainty is also positively associated with unrelated acquisitions runs counter to our expectations. This may mean that corporate managers tend to spread risks in the presence of uncertainty instead of reducing them by concentrating on related competences.

Institutional investors and financial analysts can exert strong influence on corporate managers' willingness to restructure. Since the mid-1980s they have become increasingly influential (Bethel & Liebeskind, 1993). Zuckerman's (2000) study on the analysts' impact on the de-diversification intensity of large conglomerates from 1985 to 1994 illustrates that corporate parents are frequently forced to restructure their firms in order to avoid conglomerate discounts. These "illegitimacy costs" occur because highly diversified firms render valuation through securities analysts difficult. This valuation draws on product categories which conglomerates do not match.

Barriers to Business Exit

Despite clear signals to managers that discarding a business is economically reasonable, many firms often wait too long. Thus, the instant photography company Polaroid, e.g., failed to establish itself in the digital market and could not avoid bankruptcy in 2001 (Horn, Lovallo & Viguerie, 2006). Although business exit can be an appropriate strategy, some *structural*, *strategic*, and *managerial* barriers may constrain that step (Porter, 1976).

Structural (or Economic) Exit Barriers

Structural barriers refer to a business unit's resources including its technology, fixed capital, and labor force: "The more *durable* the assets are, the more *specific* they are to the particular *industry*, the particular *company* or the particular *location*, the less likely it will pay to sell off or shut down an unprofitable business, and the larger the immediate loss the firm will face if it does shut down the business" (Porter, 1976, p. 22). Other structural factors such as ownership concentration in com-

bination with size and relatedness of units determine business exit. Integrating agency theory and the resource-based view of the firm, Bergh (1995) highlights the importance of the size and relatedness characteristics of business units sold by their parent firms. In the presence of high ownership concentration the likelihood that large and related businesses are sold decreases. Furthermore, corporate managers sometimes tend to hold on to underperforming units as long as a focal unit's poor operating performance can be hidden by the satisfactory performance of the firm's remaining units. Examining the 50 largest divestitures in the U.S. between 1983 and 1987, Cho and Cohen (1997) demonstrate that firms do not divest business units until they experience significant underperformance at the firm level relative to their industry counterparts, i.e., as soon as the firm as a whole is underperforming, the unit in question can no longer be hidden and is finally divested. Firms trying to reap at least some benefits often reconfigure a business by recombining it with other existing units before finally abandoning it. Such an attempt that aims at enhancing effectiveness and/or efficiency or seizing new opportunities to use resources in an innovative manner increases a business unit's longevity and successfully deters exit (Karim, 2006).

Shimizu and Hitt (2005) consider inertia as another constraining factor which impedes the divestiture of a poorly performing acquired unit. In this study, inertia is measured in terms of an organization's combined size and age. When unit performance is low and simultaneously inertia is high, exit is less likely. Exit is also less likely when both unit performance and divestiture experience are low. When unit performance is low, the likelihood of exit is much higher for smaller units than for bigger ones. Furthermore, divestiture is less likely when unit performance is low but declining in small amounts or even improving. Hence, inertia can impede an economically sound change through exit. However, in some contexts change can be disadvantageous. For instance, change in terms of technical innovation can be either beneficial or detrimental to survival in the presence of inertia. Findings from the automobile industry illustrate that the larger a firm, the more likely a technical innovation will momentarily increase its likelihood to fail because—especially in large organizations—the benefits of change are outweighed by the costs that it entails (Carroll & Teo, 1996).

Strategic Exit Barriers

Strategic barriers concern potential interdependencies between business units which might discourage exit. The higher the degree of complementarity and interrelatedness of businesses, the less beneficial is exit even in case of performance problems. Those interrelationships concern resource sharing among businesses, e.g., common sales and distribution channels, as well as vertical integration, e.g., internal supply relationships (Porter, 1976).

Harrigan's (1980) study reveals that businesses which are highly strategically important are difficult to be withdrawn due to the value created by non-capital investments, e.g., in high quality product reputation. A strong bargaining position of customers and technological or production-related impediments also deter exit. Losses encourage exit of declining businesses of minor strategic importance, but other structural contingencies may even exert a stronger influence, such as physical facilities which are shared with other non-declining business units, and market advantages created by previous distribution relationships, advertising and promotional campaign expenditures. Neither the strategically important nor less important businesses are as likely to be divested if the industry is declining, as long as the particular customer niche which the firm services is expected to remain viable for a certain time to come.

Managerial Exit Barriers

Managerial barriers are likely to exert a less important influence on exit than structural and strategic constraints. They refer to decision-making processes and either result from information asymmetries or conflicting goals. Information-related barriers arise, e.g., when corporate management cannot distinguish unit performance data from aggregate financial data. Conflicting goals may exist because exit is a decision which managers tend to avoid or due to their strong identification

with a business that has been part of a firm for many years (Nargundkar, Karakaya, & Stahl, 1996; Porter, 1976; Wiersema, 1995).

Exit is also likely to be deterred when synergy effects are overestimated, especially in the case of a divestiture of a related business. Stockholders also play an important role in exit decisions: since exit frequently leads to falling stock prices in the short run, corporate managers are likely to deter it even though it is economically reasonable and likely to assure profits in the long run. Instead, managers continue committing resources to a business in question in order to rescue it. Such an attempt may be much more costly and value-destroying in the long run than an early exit. GM, e.g., has been waiting to reap profits from Saturn, a small-car division, for more than 20 years, though the repeated investment of billions of dollars since its launch in 1985 has not helped reverse the disappointing situation (Horn et al., 2006). The deterrence of exit can be an outcome of escalating commitment which effectively deters necessary exit decisions. Thereby, CEO tenure can act as a strong impediment because longer tenure leads to a higher reluctance to change the strategic status quo (Bigley & Wiersema, 2002; Matthyssens & Pauwels, 2000; Ross & Staw, 1993).

Outcomes of Business Exit

Business exit has an impact on *firm strategy*, *employees, managers and owners*, *firm performance*, and the *unit* that has been abandoned.

Change of Firm Strategy

Business exit can be pursued either proactively, i.e., as part of a firm's long-term strategy for corporate development, or reactively, i.e., after a performance decline. Proactive exits aim at achieving strategic change. Empirical evidence reveals that restructuring can trigger, e.g., alterations in resource allocations and commitment or shifts in the organization of production systems (Robins, 1993; Zajac & Kraatz, 1993). The Intel Corporation which exited from the dynamic random access memory (DRAM) business in 1984-1985 and transformed itself from a "memory" company into a "microcomputer" company is an example of a business exit involving strategic change. Intel recognized that resource shifting and technological uncoupling were value-added activities because they released scarce resources from businesses in which the firm's strategic position was weak, thus helping to dissolve the strategic context of those businesses within the corporation (Burgelman, 1994, 1996).

The withdrawal of businesses can entail a change of corporate diversification (Byerly et al., 2003). The decision to restructure Thorn EMI, e.g., was accompanied by a fundamental alteration of the firm's diversification level. As mentioned before, after decades of investing in very diverse and frequently unprofitable businesses, in 1985 the conglomerate Thorn EMI decided to focus on only its core music activities that promised high profits and global potential (Kaiser & Stouraitis, 2001). A more recent example for refocusing is the German company Linde, a leading industrial gas and engineering company, which transformed itself from a conglomerate into a company mainly concentrating on industrial gases.

Impact on Employees, Management, and Ownership Structure

Exits and layoffs are interrelated. They threaten the employees' careers and sometimes even their entire existences. Thus business exit causes uncertainty and fear among employees, and some may even consider it as a betrayal and react aggressively (Brockner, Grover, O'Malley, Reed, & Glynn, 1993; Capron, Mitchell, & Swaminathan, 2001; Dranikoff et al., 2002; Nees, 1981; Reilly, Brett, & Stroh, 1993). It even affects the remaining employees after the incident. Under the threat of further layoffs, "survivors" who are characterized by low self-esteem more frequently tend to feel worried and develop a high work motivation in order to compensate their fears. Surviving managers are likely to react with alterations in their attitudes towards their careers and organizations, job involvement, and satisfaction with job security. Yet, some managers remaining with the sold business under a new owner's leadership feel liberated, as the unit may benefit from the more appropriate expertise that the new parent is offer-

ing to it (Brockner et al., 1993; Dranikoff et al., 2002; Reilly et al., 1993).

In financially distressed firms executive turnover can be both an antecedent and an outcome of exit (Gilson, 1990). The incumbent management and the board of directors frequently lose control which is usually assumed by non-management blockholders and creditors. The percentage of common stock owned by blockholders and creditors increases. The banks' influence also grows due to contractual agreements on restructured bank loans. Furthermore, managers frequently experience difficulty in finding new employment for at least three years following their resignation (Gilson, 1989). Bankruptcy or default can result in changes in managerial compensation and incentive systems. Findings from 77 public firms that either filed for bankruptcy or privately renegotiated debt loans in the 1980s illustrate that these firms simultaneously restructured their incentive systems and thus strengthened the link between compensation and firm performance (Gilson & Vetsuypens, 1993).

Firm Performance

Increases in firm performance may be the most important outcomes of business exit (Chang, 1996; Montgomery & Thomas, 1988). Both high and low performing firms tend to undertake exit but less profitable ones experience more pressure from stock markets to do so. For instance, only the announcement of DaimlerChrysler's CEO Dieter Zetsche to consider a sell-off of Chrysler as a strategic option led to an increase of the firm's stock price of more than 10 percent within five days (Meck, 2007).

The exit-performance relationship may be moderated by several factors. Sell-offs, e.g., seem to have little impact on post-restructuring performance unless they go along with gains in focus, price announcements, or distribution of revenues to stockholders. Returns are highest when the earnings of sales are used to reduce debt or give special dividends to shareholders (Bowman, Singh, Useem, & Badhury, 1999; Markides, 1992; Steiner, 1997). Also, sell-offs which are associated with an increase in focus are positively related to performance enhancements in the three years following the divestiture. Stock price reactions are better for focus-increasing than for other divesting firms (John & Ofek, 1995). Referring to refocusing, Markides (1992) demonstrates that the relationship between diversification and firm profitability is curvilinear, i.e., lower levels of diversification are positively related to profitability, and after exceeding the optimal degree the relation turns negative. In a further study, Markides (1995) strongly supports the prediction that the refocusing initiatives that were pursued by over-diversified firms in the 1980s led to high profitability improvements. Chang (1996) empirically confirms that exit produces higher profitability in terms of return on asset (ROA) and operating cash flow (OCF).

Performance effects of shutdowns are different: since liquidations signal serious problems, the advance notice of a closing has a negative effect on stock performance. The longer the time span between advance notice and shutdown the worse the effect on the performance of a firm's stock, since stockholders fear that the negative effect on cash flow gets even worse the longer the plant is kept (Clineball & Clineball, 1994).

Referring to spin-offs, equity carve-outs, and asset sales, Mulherin and Boone (2000) show that, in general, the 370 divestitures in their sample from the 1990-1999 period create value in terms of the average net-of-market return (3.04%). In this study the mean abnormal return is 4.51% for spin-offs, 2.27% for equity carve-outs, and 2.60 % for asset sales. The generally positive effect on market performance is in line with prior and subsequent evidence on the outcomes of spin-offs (e.g., Miles & Rosenfeld, 1983), asset sales (e.g., Lang et al., 1995), and equity carve-outs (e.g., Vijh, 2002).The positive effect of spin-offs can differ with regard to spin-off unit size. Large spin-offs result in a stronger positive effect on shareholder wealth than smaller ones (Miles & Rosenfeld, 1983). Particularly firms with high levels of information asymmetry in the market about the cash flows and operating efficiency of their business units benefit from spin-offs, which significantly contribute to the reduction of information asymmetry (Krishnaswami & Subramaniam, 1999). Size also determines the effects of sell-offs:

larger sell-offs lead to larger share day price responses (Klein, 1986).

Also, divestitures of subsidiaries in more developed countries cause more favorable valuation effects than those of units in emerging economies because the markets for divested assets in underdeveloped settings are less competitive than in industrialized countries. Consequently, selling prices tend to be discounted (Borde, Madura, & Akhigbe, 1998). Moreover, positive effects on market performance will not occur if external markets are not well-functioning. Makhija (2004), analyzing 988 Czech firms from an agency and transaction cost perspective, shows that in contrast to the positive effect of restructuring on U.S. firms, on average, it adversely affects firm values in the Czech economy. Very likely, this negative effect is due to the loss of capital-related benefits as well as to inferior external product and labor markets in emerging economies.

Consequences for the Divested Business Unit

Woo et al. (1992) suggest that the performance of spin-off units will improve after divestiture due to decreased agency costs and higher flexibility with regulators. According to them, the performance of related businesses will be higher than that of unrelated ones because related units face higher bureaucratic costs than unrelated ones. Both assumptions were not empirically supported: the performance of both related and unrelated units did not increase and even tended to decline after spin-off. Intuitively it appears reasonable that business performance will improve after exit. This is particularly true when a business is held by a parent whose skills and resources do not match the unit's special requirements in different stages of its life cycle and is hence unable to add value to that business. Another parent firm may hence be more beneficial (Dranikoff et al., 2002).

Outcomes at the business level can also consist of managerial improvements. Seward and Walsh (1996), investigating the post-restructuring internal control practices in 78 voluntary corporate spin-offs between 1972 and 1987, reveal that spun-off businesses are characterized by efficient internal controls: they are led by an inside CEO from the formerly combined firm, who receives a performance-related and market-based compensation, and their boards of directors and their compensation committees are dominated by outsiders.

Conclusion

The primary objective of this paper was to analyze the fragmented literature on business exit from the prior three decades. The table in the appendix gives an overview on the empirical evidence reported here. Our knowledge can be summarized in three clusters:

(1) *Factors promoting business exit:* Underperformance at the firm and the business level, a lack of strategic fit and/or focus, a lack of resources, over-diversification, executive turnover, blockholder ownership, takeover threats, and environmental factors such as industry, uncertainty, and the institutional setting enhance the likelihood of business exit.

(2) *Exit barriers:* The higher the level of ownership concentration, the lower the likelihood of divestiture of related and large businesses. Inertia, a lack of exit experience, a relatively high unit size, and a stepwise business performance decline act as slowly progressing barriers to exit. The attempt to reconfigure a business, strong inter-unit complementarities and a high strategic importance of a business in question as well as information asymmetries, conflicting goals, and escalating commitment impede business exit.

(3) *Exit outcomes:* Business exit can lead to changes in resource allocation, production systems, and corporate diversification. It is frequently accompanied by layoffs, as well as changes in the employees' attitudes and behavior, management, and ownership structure. The mainly positive exit-performance relationship is moderated by factors such as strategic focus, prior performance, and market development. The benefits for a divested business consist of financial and managerial improvements.

A look beyond these findings reveals that in contrast to the business exits undertaken in the 1980s and 1990s nowadays multibusiness firms are much

less diversified. Exits can hence no longer be considered as an outcome of de-conglomeration efforts. The necessity for and the circumstances under which they occur seem to have changed. Both divestitures and acquisitions are used as components of sustainable restructuring strategies which aim to change a corporation's strategic direction and internal configuration. Villalonga and McGahan (2005, p. 1183) point out that those different strategic options should rather be regarded in conjunction than in isolation because whether firm size is enlarged through acquisitions or alliances or shrunk through divestitures or alliances only depends on a firm's perspective. In line with them and Capron et al. (2001), Karim (2006) summarizes a firm's asset restructuring activities under the term 'reconfiguration.' Adopting a multi-theoretical perspective and concentrating on the medical sector, she draws on a sample of 250 firms comprising a total of 866 units and 1,274 product lines between 1978-1997. She considers a type of dissolution that has not attracted attention from restructuring research before, namely the dissolution of a business unit into another one in the same corporation. Acquired businesses are frequently dissolved in internally created ones or combined together with other acquired units. This internal reconfiguration delays exit because units that have been reconfigured internally at least once are kept longer than those that have never been subject to those efforts. Internal reconfiguration prior to exit seems to be beneficial to corporations and should be treated in further studies.

Karim's study illustrates that considerable progress could be made towards a more complete perspective on business exit if further issues reflecting current trends in management were considered. For instance, the question of which type of buyer is involved is hardly dealt with, although executives who are preoccupied with finding a buyer for a business unit hint at differences between strategic buyers, e.g., acquiring firms from the same industry, and financial investors. Deals involving financial investors have gained popularity in recent years. Current trends predict that their number will be further increasing (Rosenbloom, 2005). Their motivation is mainly profit-oriented and different from that of strategic buyers who rather consider the acquisition of a business as an opportunity to promote synergies or increase their market share. They are hence likely to pay a higher price for a business unit than financial investors. The popular business press gives examples for the involvement of financial investors in business exits. Financial investors have become increasingly influential acquirers, for example, in Germany. Examples are Stinnes and its abandonment of Brenntag and Interfer, and Thyssen-Krupp's divestiture of Berkenhoff and its vehicle cast business. Future research should consider this trend.

Overall, it is the intention of this paper to highlight the importance of business exit for research and practice. Knowing what we know about business exits and their high financial value we should bear in mind that exit need not mean failure but a new beginning for a corporation, as General Electric under Jack Welch illustrates. By further enhancing our knowledge on business exit and its interconnection with other restructuring activities, we may be able to give credence to Anslinger, Klepper, and Subramaniam's (1999) claim that "breaking up is good to do."

APPENDIX: OVERVIEW ON THE EMPIRICAL EVIDENCE ON BUSINESS EXIT

Studies	Findings
Alexander, Benson, & Kampmeyer (1984)	The announcement of a voluntary corporate sell-off has a slightly positive impact on the stock returns of the firm. Sell-offs are announced after a period of generally negative abnormal returns.
Amburgey, Kelly, & Barnett (1993)	Organizational change increases the likelihood of failure and changes of the same type. The effects of change depend on timin within an organization's life cycle.
Audretsch & Mahmood (1994)	The higher the gap between actual and optimal level of output, the higher a firm's risk of failure. Factors which promote firm growth tend to reduce the probability of survival and vice versa.
Baker & Kennedy (2002)	On average the securities of delisting firms underperform the market in the years leading up to the last years of their lives. In contrast to distress delistings, takeover delistings show a large increase in their stock returns in the last year before delisting.
Barnett (1990)	In systemic industries mutualism among organizations mitigates rivalry so that technological reorientation is less important for survival than technological complementarity and uniformity.
Bergh (1995)	In the presence of high ownership concentration the likelihood that large and related businesses are sold decreases.
Bergh (1997)	Unrelated acquisitions are to be divested when they fail to meet expectations based on a set of motives and conditions that prevailed at the time of the acquisition.
Bergh (1998)	Product-market uncertainty (volatility) is positively, but nonsignificantly related to divestiture of unrelated businesses; it is positively and significantly related to the acquisition of both related and unrelated business units.
Bernard & Jensen (2001)	In a country accumulating skill and capital, regions with rapidly changing factor endowments have both higher entry and exit rates. Low-skill and labor-intensive plants in regions which are rapidly enlarging their capital stocks are more likely to shut down than high-skill and capital-intensive plants in the same regions.
Bethel & Liebeskind (1993)	In the 1980s managers most likely restructured their firms when pressure from blockholders was high.
Bigley & Wiersema (2002)	There are significant interaction effects between the CEO's heir apparent experience and power in predicting corporate strategic refocusing.
Borde, Madura, & Akhigbe (1998)	Larger divestitures tend to precipitate larger announcement effects. Divestitures of subsidiaries in more developed countries lead to more favorable announcement effects.
Brockner, Grover, O'Malley, Reed, & Glynn (1993)	In response to the perceived threat of further layoffs, survivors characterized by low self-esteem are more likely than their high self-esteem counterparts to feel worried, and translate their worries into increased work motivation.
Burgelman (1994)	Five forces trigger Intel's strategic business exit, namely evolving industry-level forces, distinctive competence, the top management's attitude towards the basis of the firm's past and current success, strategic action, and the internal selection environment.
Burgelman (1996)	Intel's change from a memory to a microcomputer company illustrates that firms' survival in the long run depends on the replacement of old product-market strategies and competencies by new ones.
Byerly, Lamont, & Keasler (2003)	Prior diversification posture moderates the relationship between restructuring activities and performance.
Capron, Mitchell, & Swaminathan (2001)	Firms use acquisitions, resource redeployments, and divestitures in order to dynamically change their businesses.
Carroll & Swaminathan (1992)	Entry and exit of microbreweries and brewpubs are strongly dependent on density, industry concentration, and firm size.
Chang (1996)	Firms are likely to enter businesses of similar human resource profiles and exit those of different profiles.
Chang & Singh (1999)	Modes of entry (acquisition versus internal development) and modes of exit (sell-off versus dissolution) are interrelated.
Cho & Cohen (1997)	Firms do not divest business units until they experience significant underperformance at the firm level relative to their industry counterparts.
Clineball & Clineball (1994)	The announcement of plant closings tends to have a negative effect on performance, but this reactions is mitigated by providing the minimum notice necessitated by legal and operational factors.
Duhaime & Baird (1987)	The reasons for divesting a business differ with regard to unit size.
Duhaime & Grant (1984)	Financial positions of divesting firms differ significantly and unfavorably from financial positions of their competitor groups; divested units are characterized by low financial strength, lack of strength, low interdependency with other units, and low managerial attachment.
Dunne, Roberts, & Samuelson (1988)	There is significant variation in the entry patterns and in the subsequent size and exit patterns for different types of entrants.
Foster, Haltiwanger, & Krizan (2005)	The steady and large reallocation of output and labor across retail trade organizations is due to both entry and exit as well as within-firm reallocation.
Freeman, Carroll, & Hannan (1983)	Liability of newness depends on whether firms disappear through dissolution or absorption through merger.
Gibbs (1993)	Agency conflicts partially explain restructuring. Outside directors, stock-based management compensation, and an active market for corporate control help prevent and correct agency problems.
Gilson (1989)	More than half of financially distressed firms that are either in default of their debt, bankrupt or privately renegotiating their debt, experience executive turnover which is frequently triggered by bank lenders.
Gilson (1990)	Due to financial distress, there is a shift in control over corporate resources from incumbent management and the board of directors towards non-management blockholders and creditors.
Gilson, John, & Lang (1990)	Financial distress is more likely to be resolved through private renegotiation than formal bankruptcy when more of the firm's assets are intangible, and relatively more debt is owed to banks; private negotiation is less likely to succeed when there are more distinct classes of debt outstanding.
Gilson & Vetsuypens (1993)	As a result of financial distress, nearly a third of the CEOs in the sample are replaced. CEOs remaining with the firm frequently bear personal costs in terms of reductions in salary and bonuses. In many cases succeeding CEOs are worse paid than their successors.
Hamilton & Chow (1993)	The most important factor that leads to divestment is the low return achieved in the divested units, closely followed by their poor growth prospects.
Harrigan (1980)	Businesses which are of high strategic importance are difficult to be divested due to the value created by non-capital investments.
Harrigan (1982)	The most significant factors influencing exit within mature, nondeclining industries are the presence of excess capacity and the apparent attractiveness of the industry.
Hayward & Shimizu (2006)	Poorly performing acquired units tend to be divested when executives can place them within 'attributional accounts' (i.e., accounts for the cause of the performance that do not incriminate them) and 'comprehensive accounts' (i.e., within the context of overall firm performance.
Hoskisson, Johnson, & Moesel (1994)	Blockholder equity, a governance antecedent, and relative product diversification (strategy) have important indirect effects on divestment activity and that relative product diversification and relative debt have important direct effects. Market performance mediates the relationship between accounting performance and divestiture intensity.
John & Ofek (1995)	Predominantly focus-increasing asset sales result in performance enhancements in the selling companies.
Kaiser & Stouraitis (2002)	Managers create shareholder value when they reinvest the proceeds from asset sales for expansion through acquisition in the firm's growing business and exit from declining industries.
Karim (2006)	Acquired and internally developed units serve different functions in the transformation process, and firms consider reconfiguration as beneficial.
Klein (1986)	On average, an initial sell-off announcement results in a significant but small positive average excess return for the selling firm.
Krishnaswami & Subramaniam (1999)	Firms that engage in spin-offs have higher levels of information asymmetry before the spin-off than their size- and industry-matched counterparts.
Lang, Poulsen, & Stulz (1995)	Management sells assets to obtain funds to pursue its objectives when alternative funding is either too expensive given its objectives or unavailable.
Makhija (2004)	On average, restructuring adversely affects firm values in the Czech economy, and this loss can be mitigated only in part through the ownership structure adopted by the firm.
Markides (1992)	Reductions in diversification are associated with value creation because refocusing can overdiversified firms closer to their optimal limits and hence improve their efficiency.
Markides (1995)	Refocusing in the 1980s by over-diversified firms is strongly associated with profitability improvements.
Mata & Portugal (2000)	Entry mode (greenfield versus acquisition) and the extent of a firm's liability exert opposite effects on exit either through dissolution or divestiture.
Matthyssens & Pauwels (2000)	Three processes accompany exit decisions from international markets: (1) escalation of commitment, (2) the creation of strategic flexibility, and (3) the confrontation between these two processes.
Miles & Rosenfeld (1983)	In general, spin-off announcements have a positive effect on shareholder wealth, and spin-off announcements, on average, precede a period of abnormally positive returns.
Mitchell (1994)	The impact of business sales and age on exit in terms of dissolution or divestitures varies according to type of entrant (start-up versus diversifying entrant).
Montgomery & Thomas (1988)	The stock market's positive response to corporate divestiture does not result from improvements in short-term performance.
Montgomery, Thomas, & Kamath (1984)	Firms which relate their divestitures to corporate strategy achieve positive revaluations from the stock market, while those that pursue them in a rather reactive manner are penalized.
Mulherin & Boone (2000)	Both acquisitions and divestitures create shareholder value. The wealth effects are directly related to the size of the restructuring event.
Nargundkar, Karakaya, & Stahl (1996)	There are six major barriers to exit, namely (1) cost of divestment, (2) operating fit, (3) marketing fit, (4) forward vertical integration, (5) backward vertical integration, and (6) number of years' association of the business with the firm. Their importance differs with respect to mature and declining industries.
Nees (1981)	The divestment process is more effective when lower-level managers are involved.
Nixon, Roenfeldt, & Sicherman (2000)	The primary influences on the choice of divestiture type are financial distress, number of directors on the board, whether the CEO is also the board chair, and the size of the unit divested.
Porter (1976)	The same factors that provide barriers to entry often lead to barriers to exit, thus both are often associated in a business.
Ravenscraft & Scherer (1991)	The lower the profitability at the business and the firm level, the lower a business unit's market share, the lower its R&D/sales ratio, and the more likely a CEO change, the higher the likelihood of business exit.
Reilly, Brett, & Stroh (1993)	Incremental negative turbulence is negatively associated with satisfaction with job security. Financial restructuring is positively related to career loyalty. Growth is positively related to career loyalty and job involvement. Organizational breakup is positively associated with career loyalty.
Robins (1993)	Restructuring entails a transformation of the organization of production systems.
Ross & Staw (1993)	In the Shoreham case a combination of psychological, project, social, and organizational factors determined escalating commitment to a course of failed action.
Seward & Walsh (1996)	Equity reorganizations facilitate the implementation of efficient internal governance and control practices, but do not determine the share price reactions to the announcement of such voluntary restructurings.
Shimizu & Hitt (2005)	When unit performance is low and inertia is high, exit is less likely. Exit is also less likely when both unit performance and divestiture experience are low. When unit performance is low, the likelihood of exit is much higher for smaller units than for bigger ones. Exit is less likely when unit performance is low but declining in small amounts or improving.
Steiner (1997)	The probability of sell-off is significantly negatively related to firm performance and significantly positively related to debt. The sell-off decision is significantly positively related to the number of business segments and significantly negatively related to the level of ownership by officers and directors.
Vijh (2002)	The higher the ratio of subsidiary to non-subsidiary assets, the more the returns in the period after the announcement increase. The returns are associated with refocusing operations, raising funds for projects, reducing the complexity of stock valuation, and enabling an eventual spin-off or third-party acquisition.
Villalonga & McGahan (2005)	A firm's endowment with technological resources is significantly related to the choice of both acquisitions over alliances and alliances over divestitures but technological resources are a stronger driver of the decision between alliances versus divestitures than acquisitions versus alliances.
Wiersema (1995)	Non-routine executive turnover in the top management team facilitates restructuring initiatives in order to better adapt firms to their competitive environments.
Woo, Willard, & Daellenbach (1992)	On average, performance of both related and unrelated units does not improve and is just as likely to decline after spin-off.
Zajac & Kraatz (1993)	Contrary to ecological predictions, restructuring is a predictable, common and performance-enhancing response to changing environmental conditions.
Zuckerman (2000)	In addition to antecedents such as underperformance, focus-increasing business exits are more likely to occur in the presence of coverage mismatch and pressure from financial analysts.

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