



“How do forced divestitures differ from non-forced divestitures?”

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Supervisor: **Dr. K.J. McCarthy,**

Second: **Ms. I. Van Heerden**

Sven Hund (s1098913)

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Sven.hund@ru.nl

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Abstract

In today's turbulent world, full of geopolitical tensions, sanctions, and institutional pressures, a lot of firms feel forced to leave certain countries. However, we do not know how these forced divestitures differ from non-forced divestitures and how the reactions to these announcements differ. This event-study examines this impact of divestiture announcements on stock market reactions, focusing on differences between forced and non-forced divestitures, in a Russian-US sample of 772 divestitures. It considers the perspectives of targets and their ultimate parents (TUP) and examines the moderating role of sanctions and institutional pressures for forced divestiture announcements. Using signalling theory and institutional theory, the study found that non-forced divestiture announcements on average have a positive impact on short-term stock market reactions. Interestingly, for forced divestiture announcements this impact is even more positive, which indicates that institutional pressures and legitimacy play an increasingly important role for firms in determining whether to divest. The findings provide valuable insight for managers, investors, policymakers, and researchers interested in understanding the complex relationship between divestiture announcements and stock market reactions, and how these differ for forced and non-forced divestitures.

Keywords: Divestiture Announcements, Stock Market Performance, Sanctions, Institutional Pressures, Signalling Theory & Institutional Theory

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1. Introduction

Divestitures are understood as a firm's adjustments of its ownership *and* business portfolio structure via spin-off, equity carve-out, split-up, or unit sell-off (Mulherin & Boone, 2000), are complex, high-impact events (Brauer, 2006). While divestiture announcements can potentially report positive stock market reactions, shareholders and capital markets receive focus-increasing divestitures positively because they lead to improvements in investment efficiency by reducing the possibilities for distorted investment allocation within the firm (Ahn & Denis, 2004; Gertner et al., 2002; McNeil & Moore, 2005). In addition, divestitures can be a financing mechanism when access to the capital market is limited or when alternative sources of financing are too expensive (Flickinger & Zschohe, 2017). Finally, divestitures lead to increased market monitoring which in turn reduces the information asymmetry between an asset's managers and shareholders and thus report positive stock market reactions.

The stock price is a relative and proportional value of a company's worth. Companies that have high value can attract attention and trust from investors, which can result for example in extra investments and higher firm performance (Sukesti et al., 2020). However, studies have shown mixed influences of divestiture announcements, including positive reactions (Wang, 2010), as well as no or negative reactions (Schill and Zhou, 2001; Wright & Ferris, 1997). This implies that the effect of divestment announcements on stock market performance depends also on other factors.

In the past decades, undoubtedly the dominant motivation for divestitures was the poor financial performance of either a parent-company or its subsidiary (Arte & Larimo, 2019; Coudounaris, Orero-Blat, & Rodríguez- García, 2020). Firms, then divest their subsidiary to remain competitive by becoming more focused and efficient. For example, in the high-tech industry, which is characterized by quick knowledge dissipation, underperforming business will be divested to retain organizational profitability (Finke, 2022).

However, firms that are efficient and optimally performing may still divest their business due to noneconomic pressures (Lee & Madhavan, 2010). According to Solovev (2021), non-economic factors are as much important as the economic ones. To all appearances, attention given to the political and institutional factors affecting foreign divestments (FD) is increasingly growing. For example, multiple Western firms left Russia after the outbreak of the Russian-Ukrainian war (Sonnenfeld et al., 2022). This clearly shows that political and institutional factors are playing an increasingly bigger role in business world nowadays,

pushing many MNEs to divest their foreign subsidiaries or unties due to unfavorable changes in political landscape or deteriorated quality of institutions (World Investment Report, 2019). This means that, firms can expect certain (positive or negative) outcomes of divestitures depending on the differing conditions of the macro-economic environment (Flickinger & Zschohe, 2017). However, we do not have an answer on the question how and if the market reacts positively or negatively to such divestitures? Therefore, the relationship between divestiture announcements and stock market reactions influenced by sanctions and noneconomic pressures is a subject of ongoing discussion. The aim of this research is quantifying this effect: to consider how these institutional pressures effect of the firm decisions to divest, and what the effects of such divestments are in terms of firm performance. We do this in the context of the Russian-Ukrainian war, which distorted markets and after which sanctions were imposed for Western companies to do business in Russia.

The theoretical framework of this research is based on two theoretical perspectives. First, signaling theory is buttressed by evidence that the stock price impact of divestiture announcements is correlated with other signals emitted by the firm (Buckley, 1991). This is clearly a plausible theory with a credible and well-specified mechanism (Lee & Madhavan, 2010). If value signaling were at work in divestitures, then signaling theory is a useful tool to study the effect of divestiture announcements on performance. Based on this lens we expect certain stock market reactions on divestiture announcements in this study. Second, institutional theory, which gained increasing attention, is incorporated in this paper. Changes in firms' institutional environments can have a strong influence on the legitimacy of corporate actions (Blevins et al., 2016). The different degrees of legitimacy of diversification strategies during different periods are also associated with a different prevalence and performance of divestiture (Flickinger & Zschohe, 2017). Based on this additional lens we expect even more positive stock market reactions to divestiture announcements due to the higher legitimization of these divestitures. By investigating the effect of divestiture announcements on performance in different institutional environments, this research aims to shed light on this difference. As such, this paper intends to answer the following research question:

“How do forced divestitures differ from non-forced divestitures?”

We seek to answer this question in this event-study by using a sample of forced and non-forced divestitures. We use the outbreak of the Russia-Ukraine war on the 24th of February

2022, and the resulting imposition of sanctions by Western countries on firms operating in Russia, to distinguish between the two types of divestitures. We collect data on 1,300 divestitures, in Russia, from LSEG and study the stock market's reaction to the divestiture announcement of each. We then analyze the difference between forced and non-forced divestitures by using regression models.

In doing so, this study makes significant contributions to the academic literature by linking, adding, and building on divestiture announcements and stock market performance literature. Firstly, it is the first study, to the best of my knowledge, that addresses the differences in effects of divestiture announcements on stock market performance between forced or non-forced divestitures. Secondly, this study contributes to the ongoing debate on the effect of divestiture announcements on performance by examining its effect within the context of political instability and imposed sanctions on Russia. Thirdly, by studying the effect in this specific situation the event-study also looks at the influence of non-market and non-economic factors, which not many papers focused on before. Besides that, this study compares the effect before and after the outbreak of the war to see the effect of sanctions and institutional pressures on the forced divestments and their performance. Fourthly, the study sheds light on recent geopolitical events and shifts, examining how potential future geopolitical tensions and conflicts could affect financial markets and firms. Finally, other studies acknowledge that war events have a significant effect on the interactions at the core of financial markets around the world (Ahmed et al., 2023; Bounou & Yatié, 2022; Choudhry, 2010; Frey & Kucher, 2000, 2001; Hudson & Urquhart, 2015; Schneider & Troeger, 2006). Since the outbreak of the Russian-Ukrainian war, only a few studies have examined the impact of the conflict on markets (Ahmed et al., 2023; Boubaker et al., 2022; Bounou & Yatié, 2022; Chortane & Pandey, 2022; Costola & Lorusso, 2022; Halouskova et al., 2022; Kumari et al., 2022; Tosun & Eshraghi, 2022; Umar, Riaz, & Yousaf, 2022; Yousaf et al., 2022).

The remainder of this paper is organized as follows. Section 2 conducts a review of literature, formalization of hypotheses and conceptual model. Section 3 describes the methods used and data selection. Furthermore, the empirical results are contained in Section 4. In the end, Section 5 offers the discussion and implications, and section 6 includes concluding comments.

2. Theory & Hypothesis

2.1 Background

2.1.1 Defining divestitures

In the light of corporate strategy actions, divestiture is an important complement to acquisitions, and thus a crucial element in the continuum of governance modes (Hennert, 1988; Villalonga & McGahan, 2005; Williamson, 1991). However, compared to other forms of corporate strategy actions, such as mergers and acquisitions (M&A) and strategic alliances, divestiture has received relatively little systematic attention from strategy scholars (Lee & Madhavan, 2010). Nevertheless, the topic's relevance is especially growing concerning withdrawals from the foreign markets, where the level of uncertainty is much higher compared to the familiar domestic market environment (Solovev, 2021).

Brauer (2006) defines divestiture as 'a firm's adjustments of its ownership and business portfolio structure via spin-off, equity carve-out, split-up, or unit sell-off. In a spin-off, a firm distributes to its current shareholders all the common stock it owns in a controlled subsidiary, thus creating a separate publicly traded company (Rosenfeld, 1984; Lee & Madhavan, 2010). A carve-out is a transaction in which a portion of the divested unit's stock is sold to investors by means of an initial public offering (Frank & Harden, 2001). In a sell-off the divested assets are purchased by a third party and become part of another firm (Rosenfeld, 1984; Pham et al., 2021). Corporate divestitures can either be reactive or proactive. Some firms engage in divestiture in response to the financial pressure (Hayward & Shimizhu, 2006; Kim & Roh, 2014), while other proactively use divestitures as strategic means to reconfigure their product portfolio, to enhance firms' innovation capacity (Brunetta & Peruffo, 2014; Lee & Roh, 2020), and to sustain long-term growth and competitive advantage (Darnall & Edwards, 2006).

Organizations frequently reevaluate and adjust their strategic decisions to sustain their competitive advantages and remain profitable in the long run (D'Aveni et al., 2010). By divesting resources are freed up that can be used in improving, expanding, or further developing the other existing operations. Prior research showed that corporate divestitures can support firms to restore their strategic controls and long-term focus (Chiu & Sabz, 2020). There are different antecedents that make firms conduct divestitures. Several studies have identified poor financial performance as the strongest predictor of divestment (Duhaime & Grant 1984, Harrigan 1981, Markides 1992a, Montgomery & Thomas 1988, Ravenscraft and

Scherer 1987). Nevertheless, Foreign Divestment (FD) decisions are not purely based on financial performance and profitability of a firm alone but also on its investing- and divesting experience and the degree of uncertainty or growth in markets (Panibratov & Brown, 2018). The study of Powers (2001) shows that the parent's need for external capital, coupled with the quality of the division being divested are the primary factors determining whether a spinoff, sell-off or carve out is chosen. Divestitures have proven, in businesses, to be of major relevance for all firms independent of firms' scope, size, age, and industry background (Hoskisson & Johnson, 1992; Markides, 1990; Talley, 2003).

The studies about the divestment's effect on company's financial performance started to appear almost at the same time as the papers on the divestment phenomenon itself. The researchers were concerned with the short-term and long-term performance of companies after the divestitures (Solovev, 2021). Financial effects are usually considered from three different levels, namely host country, subsidiary, and parent company (Solovev, 2021). When firms' shareholders take precedence over other stakeholders, managers will likely focus on short term performance and goals rather than on long-term goals (Gray, 1999). While an important source of gain in divestitures is the improvement in the long-term performance that comes from eliminating negative synergies (Hite, Owers, and Rogers, 1987). Negative synergies, arise, for example, when assets unrelated to core operations prevent a firm from focusing on its core competencies (Hanson & Song, 2003).

An examination of prior studies in divestiture reveals two approaches of performance measurement in divestiture research: accounting-based and market-based (Lee & Madhavan, 2010). The first one is related to the actual business processes and changes in the operational efficiency, measured by ROA, EBITDA, net debt, and other financial metrics (Markides, 1995; Zschohe, 2016; Coudounaris, Orero-Blat, & Rodríguez-García, 2020). While the second one is concerned with the reaction of stock market participants on the divestiture announcement as well as calculation of the expected future cash flows that the news may bring along (Boone & Mulherin, 2000; Davies & Dickersin Van Wesep, 2018). All in all, accounting-based measures focus on realized performance, while market-based measures focus on the present value of future income streams (Schoenberg, 2006; Seth, 1990). Considering the recency of the outbreak of the Russian-Ukrainian war and the imposed sanctions and institutional pressure that followed, this study adopts the market-based

approach focusing on the stock market reactions. The accounting-based approach is not suitable because not enough time went over the divestitures to study the performance effects.

2.1.2 Stock market reactions

A stock market is essentially a marketplace for stocks and bonds; with stockbrokers earning a small commission on each transaction that they make (Njanike et al., 2009). The reactions and thus performance of stock market can be affected by ‘influence’ (Ibrahim & Aziz, 2003).

Influence can be defined as a power to affect persons or events based on prestige thus causing something without any direct or apparent effort (Maria, 2013). In recent years the concept of influencing became much more focused on information. Consequently, the high returns expectation will be dependent on both good internal and external information, while bad information or event may result in low returns. That’s why investors expect stock prices to react to some new information or events (Schweiter, 1989).

Announcements of new information about enterprise performance, dividends, stock prices of other countries and other events or announcements have an impact on daily stock prices (Agrawal et al., 2010; Kurihara, 2006). These announcements have an impact on stock performance which is usually firm-, industry-, or geographic-specific (Quaye et al., 2016). According to Vincent & Bamiro (2013), stock prices reflect all available information and the quicker they are in absorbing accurately new information, the more efficient is the stock market in allocating resources. However, the magnitude of financial players’ response to new information or event is likely to depend on the extent of the information asymmetry between the investors and the handlers of the new events or information, some of which can never be anticipated to occur (Khan, 2009). Information asymmetry occurs when one category of people enjoys better or more-timely information than other category in a system (Copeland & Weston, 2005). Studies by (Atiq et al., 2010; Al-Tamimia et al., 2011) categorized the factors that affect the stock market to include company fundamentals, technical or external factors and market sentiments.

2.2 Hypotheses

2.2.1 Signalling Theory

Signaling theory sheds light on these instances in which information is incomplete and asymmetrically distributed (Paruchuri et al., 2020; Bergh & Gibbons, 2011; Connelly et al., 2011). Information asymmetries occur when ‘different people know different things’ (Stiglitz, 2002). Stiglitz (2000) highlights two broad types of information where asymmetry is particularly important: information about quality and information about intent. In the first case, information asymmetry is important when one party is not fully aware of the characteristics of another party. In the second case, information asymmetry also is important when one party is concerned about another party’s behaviour or behavioural intentions (Elitzur & Gavius, 2003).

In a strategy context, the firm typically is the signal sender, and the signal is an activity, announcement, or attribute that either by design or accident conveys information that alters the receiver’s beliefs about the firm, the market is often the receiver (Ragozzino et al., 2018; Bergh et al., 2014; Spence, 2002). Signaling theory (Spence, 1974; Nelson, 1970) states that the market reacts to signals, such as the divestiture motive, which might affect or predict divestiture performance. Based on these signals, and the expectations that they create in terms of future value, the market then updates the acquirer’s current value (Engelen et al., 2018; Reuer & Ragozzino, 2012).

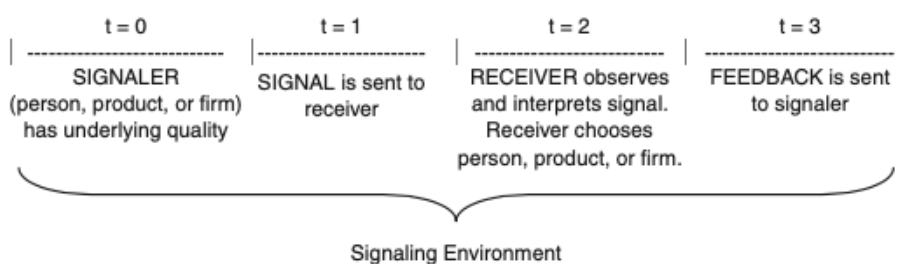


Figure 1: Signaling Timeline (Connelly et al., 2011)

Note: t=time

Signaling theories can trace the performance impact of the divestiture to the revelation of hidden value in the postdivestiture firm. Investors then can deduce the value of the portfolio from the price information associated with the divestiture (Klein, 1983). Thus, if the valuation multiple revealed in the divestiture transaction is higher than the valuation multiple of the predivestiture firm, investors might conclude that the firm is undervalued and buy its stock, thus bidding up its price. Signalling theory thus suggests that the market evaluated the effect of any signals that it receives on the future value of the firm (Deeds et al., 1997) and incorporates this into its current market price (Kotha et al., 2018; Vasudeva et al., 2018; Sanders & Boivie, 2004). In this study, in which the market-based measures are used to

evaluate the performance and reactions, this means that the stock market will react to the motives in the divestiture announcements as signals of future risk and return.

2.2.2 Stock market reactions to divestiture announcements

Firms continually adjust their business portfolios in response to changes in strategy and environment, divestiture moves are therefore important and effective tools of strategy (Lee & Madhavan, 2010). By divesting, the parent firm can refocus the portfolio which can help firms restore their strategic controls and long-term focus (Bergh, 1995). This frequently re-evaluating and adjusting strategic decisions helps firms to sustain their competitive advantages and remain profitable in the long run (D'Aveni et al., 2010; Eisenhardt and Martin, 2000). The divestiture announcement returns depend on the use of the proceeds (Hanson & Song, 2003). A focus on financial controls suggests that managers place a greater emphasis on short-term profitability and returns and are less likely to allocate resources for non-shareholding stakeholders (Stout, 2012). Refocusing the portfolio thus can help firms restore their strategic controls and long-term focus (Bergh, 1995). When these proceeds are paid out to creditors or shareholders positive returns occur.

Divestiture announcements are followed with stock market reactions, due to the signal and motive that these divestiture announcements send out. By analysing the short-term stock market reactions to the divestiture announcement, the performance of the divestiture can be evaluated. A considerable number of divestiture studies have investigated the short-term stock market reaction to divestiture announcements by using event methodology (Berger & Ofek, 1999; Jain, 1985; Lang et al., 1995; Miles and Rosenfeld, 1983; Wang, 2010). Most of these studies report positive stock market effects around the announcement date of the divestiture decision. Nevertheless, a few other studies observe no or negative stock market reactions to divestment announcements (Schill & Zhou, 2001; Wright & Ferris, 1997).

On studies about the long-term performance of firms that divest assets there is more consensus on findings that divesting firms underperform control firms before the divestiture and outperform control firms following the divestiture (Hanson & Song, 2012). Firms that engage in divestment activities will create more shareholder value in the end (Finke, 2022). The study of Dittmar & Shivdarsani (2003) shows that divestitures are associated with a significant reduction in the diversification discount. Consistent with most studies, they found that divestitures have significantly positive announcement returns. The announcement returns

are significantly correlated with the change in the diversification discount. The decline in the discount around the divestitures is accompanied by significant changes in the investment of the firms' remaining segments. In addition, the study of Flickinger & Zschohe (2017), like most studies, also found evidence suggesting that most of the divestiture announcements had a positive stock market reaction. The stock market reaction to divestiture announcements was even higher during periods of high divestiture activity.

Despite that most studies report positive stock market reactions there is a lack of complete consensus on the stock price reaction of divesting firms around the announcement date, this thesis paper adopts the signaling theory to test this relationship. It argues that the divestiture announcements that include a clear motive and refocusing strategy can expect positive short-term stock market reactions. As a result of the divestiture, firms want to sustain competitive advantages, remain profitable in the long run and increase shareholder value. Following the reasoning put forward by the different studies, like the study of Dittmar & Shivdarsani (2003), the paper posits that divestiture announcements from Russia can expect positive short-term stock market reaction. Based on this, the following hypotheses is proposed:

Hypothesis 1: *Divestiture announcements of non-forced divestitures have a positive effect on the short-term stock market reactions.*

2.2.3 Moderating role sanctions and institutional pressures

Institutional theory has gained increasing attention due to research that emphasizes the role of institutions in the development of organizations and their strategies (DiMaggio & Powell, 1983; Tolbert & Zucker, 1983). Institutional theory is concerned with the social context within which firms operate and as such is seeking to understand social structures which have attained a high degree of resilience. The institutional theory asserts that firms adopt initiatives to gain legitimacy or acceptance within society (Voinea & Van Kranenburg, 2017).

Legitimacy, defined as 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman, 1995), is vital for organizational survival because it ensures the continuous flow of resources and the sustained support by the organization's stakeholders (Pfeffer & Salancik; 1978, Suchman, 1995). Companies in controversial industries frequently find their organizational legitimacy being challenged and turn to

strategic actions to improve their legitimacy (Palazzo & Scherer, 2006; Du et al., 2011; Maignan & Ferrell, 2004). Scott (2001), built on DiMaggio and Powell's definition of institutional pressures, defined the following three categories of organizational legitimacy: regulative-, normative-, and cognitive legitimacy. Scott (2001) described (1) regulative legitimacy as complying with professional standards and legal regulations, (2) normative legitimacy as doing what is right in terms of social values and norms, and (3) cognitive legitimacy as conforming to templates or scripts of behaviour because they are commonly understood to be the way things are done.

A central theme in institutional theory is the influence of institutional pressures on organizational behaviour. Institutional pressures can stem from a variety of sources, including for example, from the state, professional organizations, mass media, social movement organizations, and society at large (Voinea & Van Kranenburg, 2017). DiMaggio & Powell (1983) defined three types of institutional pressures: coercive-, normative-, and mimetic pressure. (1) Coercive pressure comes from legal mandates and regulations provided by regulatory bodies like the government. (2) Normative pressures come from the similar attitudes and approaches of peers, professional groups, associations, or society at large. Finally, (3) mimetic pressures stem from the desire of organizations to overcome uncertainty by copying practices or technology of successful organizations, role models or competitors in an industry that are regarded as appropriate or taken-for-granted. Wright and Ferris (1997) argued in their context that even when businesses are efficient and optimally performing, top executives may divest their business due to personal interests and various noneconomic pressures.

Several researchers have supported the notion that strategies are legitimated by institutional forces. Organizational practices gain legitimacy through their embeddedness within the institutional environment and through their prevalence in a population (Blevings et al., 2016; Dacin, 1997; Fligstein, 1991; Haunschild, 1993). The embeddedness of an action within the socioeconomic environment of a firm is a decisive factor that determines whether a corporate action is perceived as legitimate (Cyer & March, 1963; DiMaggio & Powell, 1983). Changes in firm's institutional environments can have a strong influence on the legitimacy of corporate actions (Blevins et al., 2016; Jung et al., 2015; Muscio et al., 2016). As a result, actions that were seen as legitimate can turn into actions that are perceived as illegitimate.

War related events are the most important specific event that move the financial market in a significant way (Boubaker et al., 2022; Boungou & Yatie, 2022; Zaremba et al., 2022). Changes in the institutional setting of the firm have been found to spur the realignment of firm portfolios (Hoskisson & Hitt, 1990; Turk & Baysinger, 1989). The outbreak of the Russian-Ukrainian war causes changes in firms' institutional environments, which has a strong influence on the legitimacy of corporate actions and increases institutional pressures on the firms. Combined with the environmental uncertainty makes firms likely to divest from Russia (Kolev, 2016). The study of Flickinger & Zschohe (2017) argues that at certain times, the institutional support for corporate diversification is relatively low. During these periods, there is a high rate of divestitures. The high divestiture activity and institutional pressures legitimize this corporate action and leads to a positive reaction of the stock market to new divestiture announcements. Legitimacy reasons thus play an important role in influencing the market performance effects of divestitures. When examining the performance outcomes of certain corporate actions, Zajac and Westphal (2004) found that the stock market's reaction to the announcement of a practice is sensitive to the degree of its institutionalization or perceived legitimacy. This paper expects that the short-term stock market reactions to divestiture announcements from Russia, due to the important role that legitimacy reasons play, after the outbreak of the war are supported and encouraged by the public experience higher reactions compared to the divestiture announcements before. Therefore, the following hypothesis is proposed regarding institutional pressures and sanctions:

Hypothesis 2: *Divestiture announcements of forced divestitures have a higher positive effect on short-term stock market reactions than the non-forced divestitures.*

By looking at the differences in short-term stock market reactions to divestiture announcements from Russia before and after the outbreak of the war the study will possibly tell if the sanctions and institutional pressures have a moderating effect. In addition, this study will also investigate, next to the second hypothesis that focuses on Russia alone, the differences between a country imposed to the sanctions and institutional pressures and a country that at the same time does not experience these sanctions and pressures. This study expects that the short-term stock market reactions of divestiture announcements from Russia are more positive than divestiture announcements from a country not imposed to these sanctions and pressures. Therefore, the following additional hypothesis is proposed regarding institutional pressures and sanctions:

Hypothesis 3: *Divestiture announcements of forced divestitures from Russia have a higher positive effect on short-term stock market reactions than the non-forced divestitures from a country in which none sanctions, or institutional pressures are imposed.*

Figure 2 gives an overview of the theoretical framework proposed by this study.

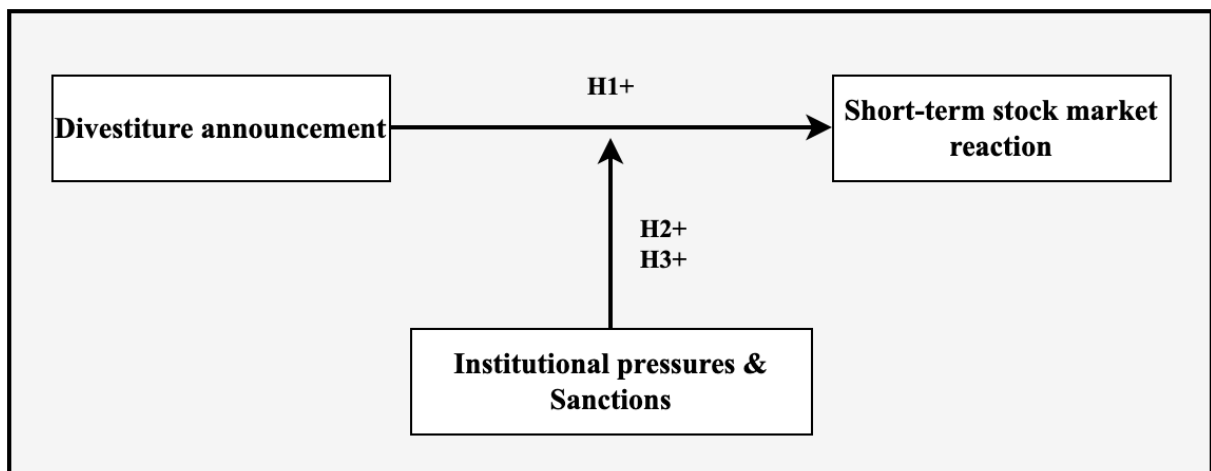


Figure 2 Research model with main- and moderation effect

3. Data and method

3.1 Data & Sample

We use the LSEG workspace to collect data on divestiture announcements.

We include all divestitures in which: (1) the divestiture is announced by firms that are listed on the stock exchanges or the parent company is listed, (2) the status of the divestiture is announced or completed, (3) the non-forced divestitures were announced in a 8-year period prior to outbreak of the war; (4) the forced divestitures were announced in a 2-year period after the outbreak of the war; (5) the divested unit was located in the Russian Federation, and for the third hypothesis the divested unit was located in the United States; (6) the divestiture has an NAICS 2022 Code, needed to identify whether the industry was subject to forced trade restrictions, bans and other institutional pressures.

We then removed deals without available stock price data around the divestiture announcement date. This step is necessary as we can only describe stock market performance of listed companies and cannot, for example, comment on private or state-owned companies.

Search Criteria		Deals
<i>Deal type</i>	Divestiture	+/- 430.000
<i>Deal status</i>	Announced or Completed	+/- 230.000
<i>Time period</i>	Separate before and after 24-2-2022	+/- 230.000
<i>Location</i>	Russia (+ United states for H3)	+/- 14.000
<i>Industries</i>	NCAIS 2022	+/- 8.000
<i>Listed</i>	ISIN codes available for the Target Ultimate Parent	+/- 2.700
<i>International Firm</i>	Target Ultimate Parent located outside	
	Target Nation	+/- 960
	Russia	+/- 500
	United States	+/- 460

Table 1 Overview of the criteria for sample selection.

As indicated in Table 1 this resulted in an initial sample of 8000 divestitures. Next, the deals without listed Target Ultimate Parents and available stock price data in the year before the announcement were excluded. This step was necessary as many targets in the sample had no public parent and thus needed financial information was missing. Additionally, only international firms of which the parent was located outside the target nation were included. This was needed to test the effect of sanctions and institutional pressures on the divestitures. After these steps, a final sample of 960 deals was obtained for analysis.

The benchmark country will be the United States as this country has been a geopolitical opponent of Russia for decades. Besides that, according to the study of Sonnenfeld et al.,

(2022) represents the energy revenue of Russia approximately 60% of the total Russian government revenue. After the outbreak of the Russian-Ukrainian war, European countries decided together to change their supply chains and start importing more oil and gas from US, Norway, North-Africa, and other countries rich of oil and gas (European Council, 2024). This makes the United States a suitable benchmark for this study.

3.2 Stock market reactions

Divestiture announcement effect will be evaluated based on short-term stock market reactions. For this event study will be used to analyse in which way the market reacts to the divestiture announcement. The market's reaction can be interpreted as a pre-deal indication of expected post-divestment performance (Golubov & Xiong, 2020; Welch et al., 2020). Announcement returns measure positive stock market reactions, so-called abnormal returns, generated by the announcement of the firm to divest. This assessment is particularly widespread method in finance-oriented divestiture research (Alexander et al., 1984; Hite & Owers, 1983; Jain, 1985; Mulherin & Boone, 2000).

The market model of (MacKinlay, 1997) estimates the event study effects and calculates abnormal returns. Abnormal returns are the returns to the firm excess of what was expected and are attributable, consequently, to the event in question. The sum of the divestor's abnormal returns (ARs), over a predefined 'event window', is referred to as the cumulative abnormal returns (Aalbers et al., 2022). We use a 3-day event window and thus measure the returns in the period from one day before (-1), to one day after (+1) the divestiture announcement. This short window is used to minimize the influence of other effects, in a time that is turbulent, that could lead to false conclusions. We start with one day before the announcement to capture the effect of rumors and leaks on the share price (Yakis-Douglas et al., 2017; Schwert, 1996). An estimation window of 260 trading days, which is 1 year in total, before the announcement of the divestiture is used.

We estimate the return of firm i on day t :

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (1)$$

where R_{it} is the return to firm i on day t , R_{mt} is the return of the 'reference market' on which the firm is listed, on day t , to identify the portion of the return that is related to variation in the

market's return, α_i is the intercept term, β_i is the systematic risk of stock i , and \sum_{it} is the error term, with $E(\sum_{it}) = 0$. We estimate the abnormal returns to the acquiring firm as:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt}) \quad (2)$$

where α_i and β_i are the ordinary least squares (OLS) parameter estimates obtained from the regression of R_{it} on R_{mt} over the 'estimation window' (T). AR_{it} is the return to the firm, above what is expected as a 'normal' return. The sum of the acquirer's abnormal returns (ARs), over a predefined 'event window', is referred to as the cumulative abnormal returns (CARs) (Aalbers et al., 2021). These cumulative abnormal returns are used to test the hypotheses and see whether differences can be identified.

3.3 Institutional pressures and sanctions

The United States, European Union and other western countries imposed or expanded sanctions, already imposed since the annexation of Crimea in 2014, after the outbreak of the war. The sanctions were designed to [1] reduce the Kremlin's ability to finance the war, [2] impose clear economic and political costs on Russia's political elite, and [3] to diminish Russia's economic base (European Commission, 2022).

A major number of industries were subjected to sanctions. These were identified based on NAICS 2022 codes. Most industries or sectors were subject to certain sanctions because they, or sectors within the industry, could for example possibly support the production of goods needed for Russian military actions. On the other hand, the food- and medical industry were seen as crucial industries for the wellbeing of Russian citizens and thus not sanctioned by western governments.

The war broke out on the 24th of February 2022. This study supposes that this date marks the point in which the divestitures went from being forced and non-forced in Russia. Specifically, we assume that divestitures announced before the 24th were non-forced and after are forced due to environment that is heavily influenced by these sanctions and institutional pressures. The independent variable (DealTiming) indicates whether the divestiture was announced before the outbreak of the Russian-Ukrainian war and thus non-forced (=0) or announced after and thus forced (=1).

3.4 Control variables

The analyses in this study additionally incorporate numerous groups of control variables, extracted from previous studies to account for the impact on the performance of the divestitures. Which in this study is measured in short-term stock market reactions. Several specific target-, firm-, and deal-specific characteristics are identified to impact this performance of divestitures (Lee & Madhavan, 2010; Flickinger & Zschohe, 2016).

Aware of this, at the firm and target level we controlled for this by three control variables. Firstly, the Industry target and target ultimate parent are operating in, defining whether the industry the target ultimate parent (TUP) (IndTUPFacingRestr) operates in faced restrictions and/or institutional pressures (=1) or not and thus was operating in the food or pharmaceutical industry (=0). According to Hair (2018), formulating dummy variables with 0 and 1 can be classified as indicator coding. Secondly, a set of firm characteristic controls is obtained, with ‘long term debt’ and ‘net sales or revenues’ (Teschner & Paul, 2021; Wang, 2000; Stienemann, 2003; Bartsch, 2005). Teschner & Paul (2021) showed that the financial situation and condition of a divesting firm plays a role in explaining abnormal returns (ARs). However, the results vary between the studies (Wang, 2000; Stienemann, 2003; Bartsch, 2005) and range from a significant positive impact to a significant negative impact. By calculating the logarithm of the long-term debt of the parent in the year of the divestiture announcement, the researcher uses ‘lg_LongTermDebtTUP’ as a control variable. Thirdly, the financial situation and performance of the divesting firm is further outlined by adding a third control variable, called ‘NetSalesorRevenueTUP’. This is calculated for the parent by gross sales and other operating revenue less discounts, returns and allowances.

Moreover, this study incorporates a deal/country level control. This study focuses specifically on international firms that divest a unit in Russia or United States to test the effect of the sanctions and/or institutional pressures. This variable, ‘TargetNationand-InternationalTUP’, is formed to include only divestments with where the international parent is located outside of the target nation. The dummy variable indicates whether the divested unit with an international parent is in Russia (=1) or United States (=0). The data for the control variables are extracted from the LSEG Database. In appendix A a more detailed description of all variables is provided.

3.5 Analysis

We test the distinction in the effect of forced and non-forced divestiture announcements on short-term stock market reactions using an OLS regression analysis. Since the short-term stock market reactions are measured as a continuous variable this regression technique is the most appropriate to test the hypotheses. Further multiple robustness checks are included to validate the regression model and results. To test all the hypotheses the following model is used:

Model 1:

$$\begin{aligned} \text{CARs} = & \beta_0 + \beta_1 \text{DealTiming} + \beta_2 \text{lg_LongTermDebtTUP} + \beta_3 \text{IndTUPFacingRestr} \\ & + \beta_4 \text{NetSalesorRevenueTUP} + \beta_5 \text{TargetNationandInternationalTUP} + \epsilon_i \end{aligned}$$

Appendix B has information on study ethics and validity & reliability, whereas Appendix E contains the research planning.

4. Results

4.1 Descriptives

Table 2 shows the descriptive statistics of the dependent, independent, and control variables selected to measure the effect on short-term stock market reactions. As shown in table 2, the sample includes 956 observations for the analysis. The sample distribution by TargetNationandInternationalTUP is shown in table 3. Finally, the correlations of all variables are shown in table 4.

Based on table 2 a few things can be noted. Firstly, the average Cumulative Abnormal Returns (CARs) for a divestiture within the study is 0,378%, and thus indicates a positive effect overall. The mean of DealTiming tells us that most divestiture announcements are done after the outbreak of the war. The firm-level controls contained big differences between the minimum and maximum for lg_LongTermDebtTUP and NetSalesorRevenueTUP. This encompasses divestitures from smaller and larger companies, such as Toyota's divestment from the US and Shell Plc's withdrawal from Russia. Next, the mean score of IndTUPFacingRestr shows that most industries in a certain extent could be exposed to sanctions and/or institutional pressures. The deal/country-specific control variable, TargetNationandInternationalTUP, reveals with a mean of .518 that the divestitures were almost equally spread in the sample over Russia and US.

Variable	Obs.	Mean	Median	Std. dev.	Min	Max	25th	Percentiles 50th	75th
CARs	2.393	.378	0	29.844	-1241.521	241.013	-1,349	0	1.854
Deal Timing	2,669	.730	1	.444	0	1	0	1	1
lg_LongTerm DebtTUP	1,967	14.701	15.187	2.740	1.609	19.646	13.427	15.187	16.551
IndTUP FacingRestr	2,669	.927	1	.260	0	1	1	1	1
NetSalesor RevenueTUP	2,669	21,300,000	2,970,800	47,400,000	-9,738,417	575,000,000	4,769	2,970,800	17,800,000
TargetNationand InternationalTUP	956	.518	1	.500	0	1	0	1	1

Table 1: Descriptive statistics

Note: this table shows the descriptive statistics of the dependent and independent variable. Secondly, it shows the descriptive statistics of the firm-specific and deal-specific control variables.

	Obs.	%
Russia – before	208	23,16%
Russia - after	254	28,29%
United States - after	436	48,55%
Total	898	100%

Table 3: Sample distribution by TargetNationandInternationalTUP

Table 3 above, gives an overview of the sample distribution of the divestiture announcements across both target nations and deal timing (before or after), on the condition that the TUP was located outside the target nation. In the end, 898 observations, that meet all requirements and contain the needed financial information, are included in the regression analysis. The first part consists out of 208 (23,16%) divestiture announcements by international TUP from Russia before the war. After the war 254 (28,29%) divestiture announcements by international TUP from Russia are included. Remarkably, there are more divestiture announcements from Russia after the outbreak of the war in the sample than before, while the period is only 2 years compared to the period of 8 years before, as can be seen in table 11 in Appendix C.

Additionally, interesting is the fact that 90% of the acquirors of forced divestitures are from Russia itself, while this was around 60% for non-forced divestitures. Finally, to test the third hypothesis, 436 (48,55%) divestiture announcements by international TUP from US can be found in the sample.

Variable	1	2	3	4	5	6
CARs	1.000					
DealTiming	.051	1.000				
lg_LongTermDebtTUP	-.220***	-.042*	1.000			
IndTUPFacingRestr	-.026	.040**	.063***	1.000		
NetSalesorRevenueTUP	-.005	-.013	.473***	.022	1.000	
TargetNationandInternationalTUP	.011	-.535***	.081**	-.096***	.067**	1.000

Table 4: correlation matrix

Statistical significance * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Table 4 above, the correlation matrix and corresponding statistical significances are shown. A few notable things can be seen in this matrix. Pallant (2020) stated that if correlations exceed

-0.5 or 0.5 indicates moderate multicollinearity, and if the correlation level exceeds -0.7 or 0.7 it indicates a high correlation. None of the variables in the model exceed the threshold for problematic high correlations. The correlation of TargetNationandInternationalTUP and DealTiming just exceeds the threshold for moderate multicollinearity. However, looking further into the VIF values, the mean VIF of the regression model is 1.35 and all variables are thus far below the threshold of 10. The results of the correlation matrix show no serious issues of correlation; therefore, the variables are all included in the regression.

Moreover, it is noteworthy that $\lg_LongTermDebtTUP$ exhibits a high level of significance regarding the dependent variable and has a negative coefficient. Additionally, the other three control variables demonstrate significant associations with various variables, particularly with the independent variable and $\lg_LongTermDebtTUP$, which itself plays a significant role in explaining the dependent variable.

Appendix A contains descriptions about the variables and their meaning, whereas Appendix C contains a sample distribution by nations where TUP is operating from.

4.2 Main Results

An OLS regression is run to test hypotheses 1, 2, and 3 in which the effect of forced- and non-forced divestiture announcements on short-term stock market reactions is predicted. Multiple controls are added to the equations to control for possible variations.

The OLS regression results for explaining the short-term stock market reactions, measured in cumulative abnormal returns (CARs), after the announcements of divestitures are shown in Table 5, in which the statistical significance is shown between brackets. The results of the final regression model indicated that the predictors explained 8.6% of the variance ($R^2 = .086$, $F(5, 766)=4.28$, $p=.0008$). According to Field (2018), this model thus has medium explanatory power.

Model 0 includes the control variables that could influence the CARs. As shown in model 0, $\lg_LongTermDebtTUP$ and the dummy variable $IndTUPFacingRestr$ both have a negative and significant effect, this indicates that a higher long term debt level of TUP results in lower CARs and it indicates that when the TUP operates in an industry exposed to sanctions this also lowers CARs in the end. According to the study of Damaraju et al., (2015) this is logical because the the decision to divest a subsidiary under sanction's effect is reactive, since being

caught unprepared, companies have to come up with an immediate solution, often resulting assets that are sporadically sold-off in a hurry at a price much lower than either a buying or a market one, thus leading to negative post-divestment financial performance. In addition, NetSalesorRevenueTUP has a positive and significant effect, this indicates that a higher revenue of TUP results in slightly higher CARs. The other control variable, TargetNationandInternationalTUP, is insignificant, indicating it does not influence CARs. Model 1, in which the independent variable DealTiming is included, compared to Model 0 indicates that including DealTiming is useful for the study and important for the explanatory power of the regression model. Important to note is the high statistical significance levels for the F-statistic, independent variable, and multiple control variables.

DV = CARs	Controls (Model 0)	Model 1
DealTiming		1.819 (.043)**
lg_LongTermDebtTUP	-.890 (.000)***	-.905 (.000)***
IndTUPFacingRestr	-2.990 (.068)*	-3.085 (.062)*
NetSalesorRevenueTUP	0.001 (.022)**	0.001 (.026)**
TargetNationandInternationalTUP	-.315 (.596)	.511 (.537)
Cons	16.786 (.000)***	15.271 (.000)***
N	772	772
F-statistic	5.32***	4.28***
Overall R ²	.081	.086

Table 5: individual regression results

Statistical significance * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Note: Standard coefficient with the statistical significances (In parentheses) are given. After running the OLS regressions. We test for multicollinearity using the variance-inflation factor (VIF). The VIF coefficients of the main variables do not exceed 1.35, which is materially below the threshold of 10.

4.2.3 Non-forced divestitures effect on short-term stock market reactions

The event-study focused on Russia to examine the first two hypotheses. For the first hypotheses divestitures announced before the outbreak of the Russian-Ukrainian war were analysed, with DealTiming categorized as zero, indicating non-forced divestitures. Furthermore, only divestitures announced for targets situated in Russia, with the TUP located outside of Russia, were considered for inclusion. Table 7 illustrates that the average cumulative abnormal returns (CARs) for non-forced divestiture announcements from Russia are positive, averaging 1.12%. In consequence, this study provides support for hypothesis 1, suggesting that non-forced divestiture announcements have a positive impact on short-term stock market reactions.

Variable	Obs.	Mean	Std. Dev	Min	Max
CARs	208	1.120	9.107	-19.616	113.340

Table 6: CARs for non-forced divestiture announcements from Russia by international TUP

4.2.4 Forced divestitures effect on short-term stock market reactions

Model 1 indicates a positive and statistically significant relationship between DealTiming and CARs. Specifically, the study suggests that for forced divestiture from Russia, there is a higher CARs compared to non-forced divestitures from Russia, with a coefficient/ β of 1.819 ($p = .043$). Table 8 illustrates that the average cumulative abnormal returns (CARs) for forced divestiture announcements from Russia are positive, averaging 1.977%. Therefore, hypothesis 2 is supported at the 5% confidence level. This indicates that divestiture announcements of forced divestitures have a greater positive effect on short-term stock market reactions compared to non-forced divestitures. In addition, it is indicated by the negative coefficient (β -3.085) of IndTUPFacingRestr to note that the CARs for forced divestiture announcements of industries that did not face restrictions were higher than those for industries that did face restrictions.

Variable	Obs.	Mean	Std. Dev	Min	Max
CARs	254	1.977	12.124	-10.801	103.941

Table 7: CARs for forced divestiture announcements from Russia by international TUP

4.2.5 Russia vs US

The study incorporated also non-forced divestitures from the United States that were announced after the outbreak of the Russian-Ukrainian war to compare their performance with the forced divestitures from Russia. The United States was, as previously mentioned, specifically selected as benchmark. Table 9 illustrates that the average cumulative abnormal returns (CARs) for non-forced divestiture announcements from United States after the outbreak of Russian-Ukrainian war are positive, averaging 1.384%. Nevertheless, the average is lower compared to the forced divestitures from Russia in the same period. Therefore, hypothesis 3 is supported, which indicates that divestiture announcements of forced divestitures from Russia have a higher positive effect on short-term stock market reactions than the non-forced divestitures from a country in which none sanctions, or institutional pressures are imposed.

Variable	Obs.	Mean	Std. Dev	Min	Max
CARs	436	1.384	11.178	-79.635	83.383

Table 8: CARs for divestiture announcements from US by international TUP

4.3 Robustness

To ensure the reliability of the findings, the study conducted additional robustness tests employing alternative measurement models. The result of these tests confirmed the main findings. Further information regarding the tests is elaborated below, and the attached tables can be found in Appendix E.

4.3.1 Alternative Measurement Period of CARs

The study follows the method of Aalbers et al., (2021) Padnamabhan (2018), who performed multiple OLS regressions with different lengths of event- and/or estimation windows to measure CARs. In this study an OLS regression with an event window of -3 and +3 days is performed to check the hypotheses. As shown in table 14, in appendix E, the coefficients and the statistical significance of the control variables did not change that much. However, the independent variable, DealTiming, changed more and became statistically insignificant. In addition, the overall R-square decreased and the Root MSE increased, which indicates that the model is less useful and explained less of the variance. Furthermore, the average CARs used for testing the hypotheses showed different results. In this case, shown in table 15, 16, and 17, the average CARs remained positive but the average CARs for forced divestiture announcements from Russia scored the lowest. Besides, the average CARs showed a lot higher standard deviations, min, and max. This can be explained by the fact that CARs, as previously expected, are now a lot more sensitive to developments and changes in the environment, this is especially true for Russia in the last few years. Thus, it is important to keep the event window very narrow to prevent other developments and changes in the environment from disturbing the results. Concluding, the original regression model remained similar in a certain extent in terms of coefficient and significant levels for the control variables. However, it can be concluded that the original model, with a shorter event window, is more reliable and useful than the modified model to gather more reliable results.

4.3.2 Root Mean Squared Error

At the beginning of the study, there was not a pre-existing regression model from previous research that was ready to use. Therefore, it was needed to develop an in-house regression model suitable for the study's objectives and capable of capturing the effects and relationships of interest. In collecting the data, the approach chosen was to gather as much relevant data as possible. Subsequently, after thorough analysis and experimentation with various combinations of variables, the regression model with the lowest Root Mean Squared Error



(Root MSE) was selected. The Root MSE represents the standard deviation of the regression, where a lower value indicates a better fit (Torres Reyna, 2007). For this study, the calculated Root MSE is 8.8654. Since the dependent variables can take on many different values, this Root MSE is classified as low-moderate. The used selection of variables represents the best-fitting regression model, to form results, based on the available data.

4.3.3 Account for heteroskedasticity

In Stata the regression model was formed by help of the robust option. The robust option is used in regression analysis to compute robust standard errors that are adjusted to control for violations of assumptions of OLS regression, particularly when there is heteroscedasticity or other forms of data dependence (Torres Reyna, 2007). By using this in the formation of the regression model the reliability of the model and the results is further improved and assured.

5. Discussion

5.1 Academic Contributions

This study aimed to investigate how divestiture announcements impact short-term stock market reactions and how these reactions differ for forced or non-forced divestitures. The impact of forced divestiture announcements is moderated by sanctions and institutional pressures. Building on a Russian-United States sample of 772 deals, this paper analyzed the hypotheses based on the two perspectives (i.e., signaling theory and institutional theory). Signaling theory sheds light on instances in which information is incomplete and asymmetrically distributed (Paruchuri et al., 2020; Bergh & Gibbons, 2011; Connelly et al., 2011). Signalling theory suggests that the market evaluates the effect of any signals that it receives on the future value of the firm (Deeds et al., 1997) and incorporates this into its current market price (Kotha et al., 2018; Vasudeva et al., 2018; Sanders & Boivie, 2004). Institutional theory further adds that changes in firms' institutional environment can also have a strong influence on the legitimacy of corporate actions (Blevins et al., 2016). The different degrees of legitimacy of diversification strategies and institutional pressures during periods are also associated with a different prevalence and performance of a divestiture (Flickinger & Zschohe, 2017; DiMaggio & Powell, 1983). According to Solovev (2021), non-economic factors are as much important as the economic ones. These theoretical perspectives are extensively used in research done on the impact of divestiture announcements on short-term stock market reactions (Deeds et al., 1997; Kotha et al., 2018; Vasudeva et al., 2018; Sanders & Boivie, 2004; Flickinger & Zschohe, 2017; Lee & Madhavan, 2010; Finke, 2022; Berger & Ofek, 1999; Jain, 1985; Lang et al., 1995; Miles and Rosenfeld, 1983; Wang, 2010; Schill & Zhou, 2001; Wright & Ferris, 1997). However, the relationship between divestiture announcements and short-term stock market reactions is complex and may depend on the differing conditions of the macro-economic environment of firms. The ongoing debate in studies is around whether short-term stock market reactions, on average, are positive or negative. Additionally, there is ongoing discussion regarding whether the relationship is affected by sanctions and institutional pressures. So, this study tried to find how divestiture announcements influence short-term stock market reactions and if these differ for forced and non-forced divestitures. Therefore, the effect of divestiture announcements from Russia before and after the outbreak of the Russian-Ukrainian war on short-term stock market reactions was investigated.

Overall, divestiture announcements lead to positive short-term stock market reactions for both forced and non-forced divestitures. However, the stock market reactions were on average

higher for the forced divestiture announcements from Russia than the non-forced divestiture announcements. The stock market reactions remain positive after several robustness tests. Nonetheless, was it necessary to keep the event window short to prevent other activities in the environment from influencing the stock market reactions and thus was the initial regression model the most appropriate. The results were gathered using OLS regressions. In the rest of this discussion, a closer look is taken at the findings for the different hypotheses.

This study confirms that divestiture announcements affect short-term stock market reactions (Berger & Ofek, 1999; Jain, 1985; Lang et al., 1995; Miles and Rosenfeld, 1983; Wang, 2010). Therewith, it was found to support the hypothesis that divestiture announcements of non-forced divestitures, from Russia, have a positive effect on the short-term stock market reactions (H1). Therefore, the findings affirm that the market reacts to signals, such as the divestiture announcement and motive, which in turn affects divestiture performance. This implies that when the divestiture announcement includes a clear motive and refocusing strategy to sustain competitive advantages, remain profitable and in the long run increase shareholder value it can expect positive short-term stock market reactions.

Next, changes in the institutional setting of the firm have been found to spur the realignment of firm portfolios (Hoskisson & Hitt, 1990; Turk & Baysinger, 1989). The institutional theory asserts that firms adopt initiatives to gain legitimacy or acceptance within society (Voinea & Van Kranenburg, 2017). Changes in firm's institutional environments can have strong influence on the legitimacy of corporate actions and of them war related events are the most important specific events that move the financial market in a significant way (Boubaker et al., 2022; Bounou & Yatie, 2022; Zarembo et al., 2022). Legitimacy reasons and the rate of divestitures in a period play an important role in influencing the market performance effects of divestitures. This study found support for H2, which stated that divestiture announcements of forced divestitures, from Russia, have a higher positive effect on short-term stock market reactions than the non-forced divestitures. Therefore, the findings of higher average CARs for forced divestitures affirm that non-economic factors in forms of perceived legitimacy of the divestiture and institutional pressures play an important role in the short-term stock market reactions. In this case, as expected, divestitures of western firms from Russia are seen as legitimate. On the other hand, the negative coefficient of dummy variable *IndTUPFacingRestr* indicates that economic factors continue to exert a significant influence on short-term stock market reactions. This suggests that firms facing sanctions may struggle to sell the unit at prices that recoup their investments, emphasizing the enduring impact of economic conditions on divestiture decisions.

By looking at the differences between short-term stock market reactions of forced and non-forced divestitures from Russia the study found that sanctions and institutional pressures have a moderating effect that increased the short-term stock market reactions on average. For this study, the focus was on divestiture announcements before and after the war. However, this study also investigated differences between the impact on short-term stock market reactions between divestiture announcements from Russia, subject to sanctions and institutional pressures, and those from United States, that at the same time did not experience sanctions and institutional pressures in this way. The study found that the CARs for forced divestitures from Russia on average were higher than those for non-forced divestitures from US. Therewith, the study was found to support the hypothesis that divestiture announcements of forced divestitures from Russia have a higher positive effect on short-term stock market reactions than the non-forced divestitures from the United States that were conducted in the same time. This again indicates that non-economic factors in forms of perceived legitimacy of the divestiture and institutional pressures play an important role in explaining the short-term stock market reactions.

All in all, the comprehensive analysis of divestiture announcements of forced and non-forced divestitures has yielded a substantial amount of new knowledge. As to the best of our knowledge, this study was the first one that analysed the differences in the effect of divestiture announcements on short-term stock market reactions between forced and non-forced divestitures. The analysis has built further on studies that already used signalling- and institutional theory to research the relationship, subject to ongoing debate, between divestiture announcements and short-term stock market reactions. The insights of the research offer significant food for thought and highlight the increasing role non-economic factors are playing in the perceived legitimacy of corporate restructuring and in the end in short-term stock market reactions. In this way, the study sheds light on a very recent geopolitical event and its effect, which can contribute the understanding on how future geopolitical conflicts can affect financial markets and the restructuring of firms. By addressing the gaps in existing knowledge in this study, future research can contribute to the development of more comprehensive understanding of the complicated relationship and the influence of non-economic factors on it.

5.2 Managerial Implications

The results of this study have significant implications for real-world applications. Firstly, firms can observe a difference in the relationship between divestiture announcements and

short-term stock market reactions for forced- and non-forced divestitures. The findings indicate that war events significantly impact financial markets and corporate restructuring globally. The findings that the CARs for forced divestitures were higher on average and the surge in divestitures over a short period highlight the importance of understanding the effects of sanctions and institutional pressures. Firms should recognize the importance of institutional pressures and learn how to handle these effectively. Doing so can even result in positive returns. Secondly, this event-study demonstrated the effect of a specific geopolitical conflict on the relationship between divestiture announcements and short-term stock market reactions. At the same time there are also other geopolitical tensions in the world that could also escalate into conflicts. This article's findings highlight the intensity of the macro-economic environment, encompassing both economic and non-economic factors, when such conflicts unfold. Managers need to be prepared for possible conflicts and the impact on their operations. Otherwise, firms will get caught unprepared and need to respond in a reactive way. In summary, the findings of this study have practical implications for investors, managers, targets, and parents. They emphasize the significance of institutional pressures on the effect of divestiture announcements on short-term stock market reactions and highlight the differences between forced and non-forced divestitures.

5.3 Limitations and Future Research

While the study gives valuable insights into the relationship between divestiture announcements and short-term stock market reactions, and how these differ for forced- and non-forced divestitures. The following limitations should be considered:

Firstly, the availability of financial information about the target and the deal value is troubling in this study. The sample included only financial information about the TUP, while it would have been interesting to have additional financial information on the target and deal itself. In future studies, it could thus be interesting to incorporate additional financial information in the study. This could be done by using accounting-based approach, instead of the market-based approach that was used because of the recency of the events. By incorporating extra financial variables in the study, the regression model could be further improved in future research and develop from moderate to high explanatory power.

Secondly, the dependent variable 'DealTiming' indicates whether a divestiture is announced in a relatively calm period or in a period full of divestiture activities, changes in the macro environment, and pressing institutional demands and sanctions. In this way single forced divestitures that would already have been announced even without the outbreak of the

war could have been included in the sample. In future studies, it could than thus be interesting to further dive into the divestiture announcements, news, and more financial information to determine in which way the divestiture was forced.

Thirdly, the analysis only focused on measured short-term effects, as this was the only effects that could be measured due to the recency of the events. Nevertheless, would it be interesting for future research to also look at the long-term performance effects after the divestitures. In this way it can be checked if firms earn back their investments.

Fourthly, a limitation of this study is that the event window of forced divestitures needs to be kept tight, with -1 and +1 day around the announcement day, to prevent other activities in the turbulent environment from influencing the results. For future research this is a significant point to keep in mind.

Finally, this study had a specific focus, just on the effect of divestiture announcements on short-term stock market reactions, while it could also be very interesting for future research to look at other differences between forced and non-forced divestitures. Future research can explore how the divestiture processes differ, for example in speed, for forced and non-forced divestitures or further investigate the differences per industry or deal type. Additionally, for future research, interested in institutional theory, is it also interesting to approach the subject from the other side and study the reactions of the public towards firms that stayed in Russia.

6. Conclusion

In conclusion, this study provides valuable insights into the impact of divestiture announcements on short-term stock market reactions within the Russian context, highlighting the differences between forced and non-forced divestitures. It confirms the positive impact of non-forced divestiture announcements on short-term stock market reactions overall, supporting signalling theory.

The study contributes to the literature, institutional theory, with the finding that forced divestiture announcements can expect even more positive short-term stock market reactions, indicating that sanctions, institutional pressures, and other non-economic factors play an important role in explaining these reactions.

These findings have practical implications for corporate managers and investors, as the moment of divesting and the macro-economic environment can be used to predict returns for divestiture announcements. Additionally, in the world of today, full of rising geopolitical tensions, it is useful for managers and investors to understand the impact of forced divestiture announcements on stock market reactions and the role sanctions and institutional pressures.

Despite limitations, such as limited financial information of the target and the deal, this study contributes to the understanding of the relationship between divestiture announcements and short-term stock market reactions, and how these differ for forced and non-forced divestitures. Future research should address these limitations, explore additional financial factors influencing this relationship, and further investigate the differences between forced and non-forced divestitures.

7. References

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8. Appendices

Appendix A – Variable descriptions

Table 9

Overview of the variables with descriptions.

Dependent variable	Description	Expected sign
<i>CARs</i>	For calculating the Cumulative Abnormal Returns (CARs) the market model of MacKinlay is used. CARs are measured using an estimation window of 260 trading days and an event window of 3 days, -1 day before and +1 day after the day the divestiture is announced. The stock data is extracted from LSEG and calculated via STATA17.	
Independent variable		
<i>DealTiming</i>	A dummy variable is equal to one if the divestiture is announced after the outbreak, which took place on the 24 th of February in 2022, of the Russian-Ukrainian war and is equal to zero if announced before. This independent variable thus indicates whether the divestiture was a forced or non-forced from Russia. The data is extracted from the LSEG Divestiture Database.	+
Firm-level controls		
<i>lg_LongTermDebtTUP</i>	A continuous variable measuring the natural logarithm of the long-term debt of the ultimate parent of the target in the fiscal year of the announcement or the year before. The data is extracted from the LSEG Database.	-
<i>NetSalesorRevenueTUP</i>	A continuous variable measuring the net sales or revenue of the ultimate parent of the target in the fiscal year of the announcement or the year before. The data is extracted from the LSEG Database.	+/-
<i>IndTUPFacingRestr</i>	A dummy variable is equal to one if the industry in which the ultimate parent of the target operates in faces restrictions and is equal to zero if the industry does not face restrictions. The data is extracted from the LSEG Database.	-
Deal-level controls		
<i>TargetNationandInternationalTUP</i>	A dummy variable is equal to one if the target is in Russia, but the ultimate parent is located outside of Russia and is equal to zero if target is in the Unites States and the ultimate parent is located outside the United States. The data is extracted from the LSEG Database.	+

Appendix B – Research ethics

Research ethics

This section highlighted the essential ethical considerations for conducting this research. The Netherlands Code of Conduct for Research Integrity served as the foundation for ethical considerations (Algra et al., 2018). The guiding principles of the code of conduct for research integrity are *responsibility, independency, scrupulousness, transparency, and honesty*.

Honesty dictates that the research process must be accurately described and that the analyses' findings cannot be portrayed in a more favorable light than they are. *Scrupulousness* entails using scientific methodologies and taking the utmost care while designing, documenting, and sharing the research. Moreover, *transparency* is making sure that others can understand the data that formed the basis of the research, how the data were gathered, how the results were attained, and what role external stakeholders played. Although less in-depth than with primary research data, it is nevertheless crucial to explain how the data is gathered because this thesis relies on secondary data from the LSEG workspace and Orbis M&A databases. The next principle, *independence*, states that all stages of the research must be conducted independently and without regard to non-scholarly or scientific issues. The last concept, *responsibility*, requires understanding that I do not work in a vacuum and should consider the rights of test subjects—both human and animal—as well as commissioning parties, financing organizations, and the environment. While this thesis relies on secondary data, it won't directly hurt the interests of other people, animals, commissioning parties, funding agencies, or the environment, but it's still vital to consider any potential repercussions. Additionally, being responsible implies carrying out research that is pertinent to both science and society. All these guidelines were considered when determining the quality, reliability, and validity of this study.

Additionally, as this research article does not rely on primary data, the ethics concerning secondary data collection are very important. Therefore, the author reviewed the code of conduct from the concerning databases. As both LSEG workspace, and Orbis M&A made their code of conduct with rules for those who collected the data. The companies all have independent experts or departments committed to tracking integrity, impartiality, and independence of the data collection.

Validity and reliability



Validity and reliability are important criteria for the quality assessment of the thesis. According to (Hammersley, 1987) the validity of a measuring instrument is defined as; *“the property of a measure that allows the researcher to say that the instrument measures what he says it measure”* and the same author defines Reliability as *“ the extent to which measurements are consistent and repeatable. Thus, a highly reliable measure is one that does not fluctuate greatly because of random error”*. A robustness assessment will be performed to validate the validity of this thesis and that the results are consistent and trustworthy. The dataset used for this study contains a sizable and accurate sample of divestitures from Russia. The variables employed in this research are based on reliable sources and other academic papers using underlying theoretical frameworks, to assure validity. Additionally, it is assumed that the assumptions of all statistical tests are met to achieve statistical validity.

Thorough checks were conducted on the data obtained from LSEG workspace and Orbis M&A databases to ensure data quality. These databases are maintained by independent experts who prioritize data integrity. LSEG workspace has team of analysts who regularly update and verify the divestiture database. Besides that, is the reputation of LSEG build on their code of conduct and way of operating. Both LSEG workspace and Orbis M&A have robust mechanisms in place to assess data quality. By relying on reliable data sources, adhering to rigorous quality checks, and utilizing expert-reviewed databases, this study strives to uphold the validity, reliability, and overall quality of the research findings.

Appendix C – Sample distribution

Table 10 Sample distribution by Nation of Target Ultimate Parent

<i>TUPNation</i>	<i>Frequency</i>	<i>%</i>
<i>Australia</i>	25	0.937%
<i>Austria</i>	14	0.525%
<i>Bahrain</i>	2	0.075%
<i>Belgium</i>	2	0.075%
<i>Bermuda</i>	5	0.187%
<i>Brazil</i>	1	0.037%
<i>Chile</i>	73	2.735%
<i>China (Mainland)</i>	1	0.037%
<i>Colombia</i>	29	1.087%
<i>Croatia</i>	1	0.037%
<i>Cyprus</i>	16	0.599%
<i>Denmark</i>	11	0.412%
<i>Estonia</i>	3	0.112%
<i>Finland</i>	46	1.723%
<i>France</i>	67	2.510%
<i>Germany</i>	73	2.735%
<i>Greece</i>	1	0.037%
<i>Hong Kong</i>	10	0.375%
<i>Hungary</i>	2	0.075%
<i>India</i>	14	0.525%
<i>Ireland</i>	26	0.974%
<i>Isle of Man</i>	1	0.037%
<i>Israel</i>	14	0.525%
<i>Italy</i>	18	0.674%
<i>Japan</i>	97	3.634%
<i>Jersey</i>	1	0.037%
<i>Kazakhstan</i>	4	0.150%
<i>Luxembourg</i>	8	0.300%
<i>Mexico</i>	4	0.150%
<i>Netherlands</i>	16	0.599%
<i>New Zealand</i>	2	0.075%
<i>Norway</i>	9	0.337%
<i>Poland</i>	11	0.412%
<i>Portugal</i>	1	0.037%
<i>Puerto Rico</i>	1	0.037%
<i>Russia</i>	594	22.256%
<i>Singapore</i>	14	0.525%
<i>South Africa</i>	6	0.225%
<i>South Korea</i>	19	0.712%
<i>Spain</i>	12	0.450%
<i>Sweden</i>	28	1.049%
<i>Switzerland</i>	41	1.536%
<i>Taiwan</i>	5	0.187%
<i>Thailand</i>	1	0.037%
<i>Turkey</i>	5	0.187%
<i>Ukraine</i>	4	0.150%
<i>United Arab Emirates</i>	1	0.037%
<i>United Kingdom</i>	106	3.972%
<i>United States</i>	1,222	45.785%
<i>Vietnam</i>	1	0.037%
Total	2,669	100%



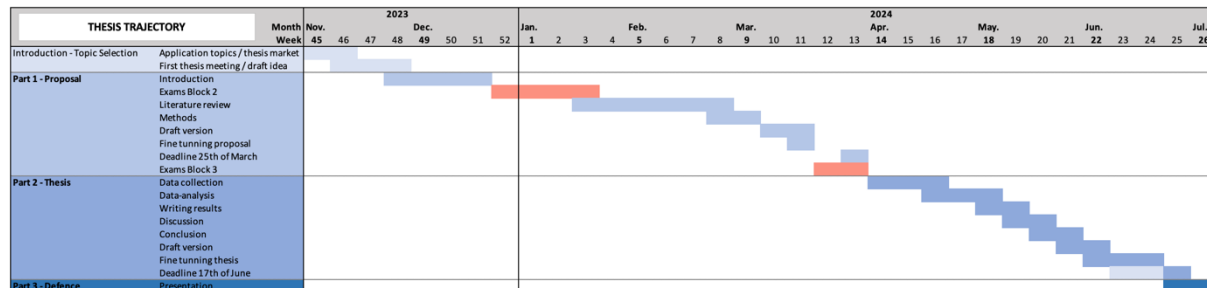
Table 11 Sample distribution Russia by Year Announced

<i>Year Announced</i>	<i>Frequency</i>
2014	34
2015	41
2016	33
2017	36
2018	14
2019	22
2020	13
2021	28
2022	147
2023	115
2024	12
Total	495

Appendix D – Planning

Figure 2

Weekly planning for the complete master thesis trajectory



Appendix E – Robustness Check

Variable	Obs.	Mean	Median	Std. dev.	Min	Max	25th	Percentile s 50th	75th
CARs2	2,421	.422	0	98.774	-3718.448	2837.639	-2.082	0	3.020
Deal Timing	2,669	.729	1	.444	0	1	0	1	1
lg_LongTerm DebtTUP	1,967	14.701	15.187	2.740	1.609	19.434	13.427	15.187	16.551
IndTUP FacingRestr	2,669	.927	1	.260	0	1	1	1	1
NetSalesor RevenueTUP	2,669	21,300,000	2,970,800	47,400,000	- 9,738,417	575,000,000	4,769	2,970,800	17,800,00 0
TargetNationand InternationalTUP	956	.518	1	.500	0	1	0	1	1

Table 12 Descriptive statistics Robustness check

Variable	1	2	3	4	5	6
CARs2	1.000					
DealTiming	.035	1.000				
lg_LongTermDebtTUP	-.191***	-.042*	1.000			
IndTUPFacingRestr	-.008	.040**	.063***	1.000		
NetSalesorRevenueTUP	-.003	-.013	.473***	.022	1.000	
TargetNationandInternationalTUP	.010	-.535***	.081**	-.096***	.067**	1.000

Table 13: Correlation matrix Robustness check

Statistical significance * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

DV = CARs	Controls (Model 0)	Model 1
DealTiming		1.246 (.166)
lg_LongTermDebtTUP	-.855 (.000)***	-.865 (.000)***
IndTUPFacingRestr	-3.583 (.037)**	-3.648 (.035)**
NetSalesorRevenueTUP	0.001 (.021)**	0.001 (.025)**
TargetNationandInternationalTUP	-.606 (.379)	-.041 (.962)
Cons	16.913 (.000)***	15.876 (.000)***
N	779	779
F-statistic	3.82***	3.11***
Overall R ²	.064	.065

Table 14: Individual regression results

Statistical significance * $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

Note: Standard coefficient with the statistical significances (In parentheses) are given. After running the OLS regressions. We test for multicollinearity using the variance-inflation factor (VIF). The VIF coefficients of the main variables do not exceed 1.4, which is materially below the threshold of 10.

Variable	Obs.	Mean	Std. Dev	Min	Max
CARs2	210	1.928	17.828	-20.117	245.279

Table 15: CARs for non-forced divestiture announcements from Russia by international TUP

Variable	Obs.	Mean	Std. Dev	Min	Max
CARs2	257	1.493	11.631	-20.594	95.065

Table 16: CARs for forced divestiture announcements from Russia by international TUP

Variable	Obs.	Mean	Std. Dev	Min	Max
CARs2	438	1.970	13.959	-81.753	100.695

Table 17: CARs for divestiture announcements from US by international TUP