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The impact of formal and informal institutions on stock market reactions to divestment announcements: A meta-analysis

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ABSTRACT

This study examines how institutional factors and cultural characteristics influence stock market reactions to divestment announcements. Drawing upon agency and institutional theories, we posit that divestment announcements in countries with stronger shareholder protection generate higher positive returns than divestments in countries with weaker shareholder protection. Furthermore, we contend that stock market reactions to divestment announcements tend to be negative in countries with a long-term orientation culture or high levels of corruption. To test these hypotheses, we conduct a meta-analysis of 144 primary studies with 202 effect sizes and 90,449 firm-level observations. The results indicate that, in general, divestments result in a strong positive stock market reaction. Furthermore, our findings suggest a positive moderation effect of a stable regulatory environment on the relationship between stock market reactions to divestments. While stock market reactions to divestments are negative in countries with a long-term cultural orientation, they tend to be positive in presence of external corruption.

1. Introduction

Divestments are a key component of corporate restructuring (Villalonga and McGahan, 2005). The term 'divestment' refers to changes in a firm's business portfolio and subsidiary ownership through acquisitions, sell-offs, spin-offs, carve-outs, management buy-outs, or liquidations (Brauer, 2006; Flickinger and Zschoche, 2018; Kolev, 2016). Despite extensive research on divestments, findings regarding their impact on stock market performance remain inconsistent. Specifically, a critical question remains unresolved: do divestments create or destroy shareholder value? While some studies report positive abnormal returns following divestment announcements (Coakley et al., 2008; Hoskisson and Johnson, 1992; John and Ofek, 1995), others report neutral or even negative abnormal returns (Boot, 1992; Doukas and Padmanabhan, 2002; Wright and Ferris, 1997; Veld and Veld-Merkoulova, 2004), suggesting that divestment outcomes are highly context-dependent. We focus on stock market reactions as they provide a forward-looking indicator of how investors revise their expectations regarding firm performance and future cash flows, reflecting the stock market's immediate assessment of the information conveyed by the divestment announcement.

In the context of this debate and building on previous studies (Arte and Larimo, 2019; Sousa and Tan, 2015), we contend that these inconsistencies may stem not solely from firm-level or transaction-specific factors, but from variations in the institutional environments in which firms are listed. Our key argument is that both formal and informal institutions influence shareholders' perception of

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divestments through their capacity to influence the shareholder (principal) – management (agent) relationship. However, in their seminal study, La Porta et al. (1998) document that shareholder rights vary significantly across countries and that different institutions provide varying degrees of shareholder protection mechanisms. Even among developed economies with ostensibly strong institutional frameworks, differences in governance traditions, market transparency, and cultural orientations can lead to divergent expectations about managerial intent and firm value creation. By integrating insights from agency theory and institutional theory, we argue that institutional quality provides a crucial contextual lens for understanding the heterogeneous stock market reactions to divestment announcements across countries.

We presume that among formal institutions, political stability and sound regulations are important determinants of stock market reactions to divestment announcements as they foster a positive principal-agent relationship by providing a strong framework for mitigating agency problems (Alexander, 2006). However, the principal-agent relationship is influenced by external factors such as corruption and national culture, which may have implications for the overall health and performance of the firm (Ulhøi, 2007). The principal-agent relationship becomes contentious in the presence of external corruption, leading to information asymmetry, power imbalance, and breakdown of trust firm (Donadelli et al., 2014; Tran, 2020). We initiate an investigation into the temporal dimension of national culture and its implications for corporate governance under the premise that shareholders' and managers' time and investment preferences should be aligned to enhance firm value. Specifically, we examine the cultural dimensions of long-term orientation (LTO) and uncertainty avoidance, as they are key determinants of financial decision making (Petersen et al., 2015). From a theoretical standpoint, LTO captures the temporal orientation of individuals and organisations, which reflects the degree to which cultures emphasise future-oriented versus short-term goals (Hofstede, 2001). This is particularly relevant in divestment decisions, where managerial and shareholder horizons must align for value creation. Similarly, uncertainty avoidance reflects the extent to which societies tolerate risk and ambiguity. Since divestments inherently involve uncertainty and signal changes in firm structure or strategic direction (Damaraju et al., 2014), uncertainty avoidance directly moderates market responses to such announcements.

We test our theory by conducting a meta-analysis of 144 primary studies. Meta-analysis is an important tool in the management literature as many primary studies lack the power to produce statistically significant results (Geyskens et al., 2009). It addresses the limitations of individual empirical studies by aggregating their findings into a single, weighted estimate, thereby correcting for artefact distortion and producing a more accurate measure of the true effect size (Hunter and Schmidt, 1990). Unlike traditional narrative or systematic reviews, this approach reduces several well-documented biases inherent in the literature, such as publication bias, sampling bias, and methodological heterogeneity (Paul and Barari, 2022) through the systematic integration and statistical weighting of effect sizes across diverse contexts (Lipsey and Wilson, 2001). Consequently, meta-analytic findings offer a more precise, reliable, and generalisable understanding of the relationship between divestment announcements and stock market reactions. Our approach is novel in both scope and theoretical framing compared to previous meta-analyses on divestments. We integrate a substantially broader body of literature that encompasses over 40 years of research (1983-2022), giving us to scope to conduct a longitudinal analysis of the divestment phenomenon and assess market responses through the combined lenses of agency theory and institutional theory, thereby offering a richer understanding of the mechanisms underpinning investor behaviour. Consequently, this study distinguishes itself both theoretically and empirically from prior meta-analytical works such as Kolev (2016), Lee and Madhavan (2010), and Schmid and Morschett (2020).

We use both the Hedges-Olkin type meta-analysis (HOMA) and meta-regression analysis (MARA), which allows us to contribute to the literature in the following ways. First, by providing an aggregate estimate, we resolve the inconsistencies and contradictory findings of previous studies. Second, we provide strong evidence that it is easier to formulate divestment decisions when the political environment is stable, and the regulations favour shareholders' rights. Third, we demonstrate that the presence of external corruption promotes a cohesive principal-agent relationship in a way that divestment decisions are made in favour of the firm. Finally, we add a fresh dimension to the divestment literature by demonstrating that cultural orientation and risk-taking tendency are important determinants of stock market reactions.

The remainder of the paper is organised as follows. We begin the theoretical discussion by providing a brief overview of the different forms of institutions that impact strategic decisions. We also review the role of shareholder rights in corporate governance by drawing links to the legal environment. We build on these sections to formulate our hypotheses. In our discussion leading to the central hypothesis on the relationship between divestment announcements and stock market reactions, we reconcile the conflicting arguments and findings posited by the extant literature. We draw upon the institutional theory to examine the moderating influence of formal and informal institutions on the relationship between divestment announcements and stock market reactions. Next, we unfold our research methodology by detailing the literature search and screening criteria, various meta-analytical procedures that were used to analyse the data, and variable measurement. We then present the results of our primary analysis and robustness tests. Finally, we discuss our findings by positioning them with the extant literature, present our theoretical contributions and practical implications, and provide future research directions by highlighting the key limitations of our study.

2. Institutions and shareholder rights

Institutions are the structures, rules, norms, and routines that serve as authoritative guidelines for socio-economic behaviour (Bardhan, 2005). The institutional theory investigates how these elements are created, adopted, and adapted to govern human behaviour. North (1990, p. 27) acknowledges that the 'theory of institutions is constructed from a theory of human behaviour combined with a theory of the costs of transacting. According to North's theory, formal institutions are the crystallisation of informal ones, and both dimensions co-evolve through socio-economic interactions. Formal institutions are legal structures that govern a country's administrative and economic environment, such as tax laws, regulations, and political freedoms. They are necessary to ensure that

business practices are ethical, fair, and efficient. Prior literature indicates that strong formal institutions are beneficial to business and investment. Formal institutions help firms grow financially by allocating capital, providing easy access to financial institutions, and facilitating external borrowing (Fisman and Love, 2003). According to Boudreaux and Nikolaev (2019), the importance of formal institutions outweighs the importance of human capital and financial resources. The literature also indicates that formal institutions are beneficial to efficient production because they promote innovation by providing intellectual property protection (Porter and van der Linde, 1995). Furthermore, formal institutions encourage investment in infrastructure development by lending credibility and effectiveness to government policies (Esfahani and Ramírez, 2003).

Informal institutions are unspoken and unwritten rules that govern human behaviour and decision-making (Crossland and Hambrick, 2011). According to North (1990), informal institutions are embedded in national culture and thus vary from country to country and region to region. Informal institutions stem from religion, beliefs, traditions, norms, habits, shared mental models, and ideologies (Denzau and North, 1994). Informal institutions are widely acknowledged to have a greater influence on a country's socio-economic conditions than formal institutions. Casson et al. (2010), for example, contend that informal institutions determine the quality, efficiency, and sustainability of formal institutions by governing the 'moral and ethical' behaviour of those who follow the rules and regulations. Furthermore, national culture, which is a key source of informal institutions, determines the extent to which individuals engage in activities that influence business efficiency, such as red-tapism (Kaufmann et al., 2018), corruption (Pirtea et al., 2019), and nepotism (Pearce, 2015). In the following sections, we explore the impact of formal institutions and informal institutions on the stock market reactions to divestment announcements.

Shareholder rights are widely recognised as an essential component of corporate governance. Payment rights, ownership rights, the power to elect the board, the right to participate in major corporate decisions, and the right to information are all examples of shareholder rights (Armour, 2000; La Porta et al., 1998). The extent to which shareholders can exercise their rights is determined by when and how they exercise them. Payment rights include the entitlement to receive dividends or to claim the firm's remaining assets upon liquidation, once all outstanding obligations have been settled. Dividends are distributed to shareholders during the life of a company, with the decision to declare them resting with the board of directors (Kraakman et al., 2017). However, shareholders can influence not only the timing but also, indirectly, the likelihood and consistency of dividend payments through their voting rights and their ability to appoint or remove board members responsible for determining payout policies. Consequently, dividend decisions reflect not only managerial discretion but also the overall effectiveness of shareholder governance mechanisms. Despite being one of the most fundamental shareholder rights (Armour, 2000), the right to payment can ultimately be exercised only through shareholders' control over the board. As shares constitute the personal property of shareholders, ownership rights are governed by property law principles (Velasco, 2007). Shareholders also retain the right to terminate their ownership by liquidating or selling their shares (Thompson, 1999).

The power to elect the board of directors is a core feature of corporate law. The shareholders exert control over the firm's operations through their right to vote and elect the directors (Mallin and Melis, 2012). Furthermore, shareholders receive dividends because they have the right to vote out directors who do not pay them (La Porta et al., 1998). Through voting, shareholders exercise their right to participate in major corporate decisions. This is common in companies with few shareholders, where ownership and control are not clearly separated (Bainbridge, 2005). Finally, the right to information entitles shareholders to information on the firm's financial statements, annual reports, and general meeting minutes. These documents provide vital information about the firm's general operations as well as any specific information that the shareholders may wish to review (Vutt and Vutt, 2015).

While all legal systems grant shareholders some rights, the extent and scope of these rights vary depending on the national legal systems. According to La Porta et al. (1998), the extent to which corporate law protects shareholder rights is determined by the origin of the legal system. Legal systems worldwide are based on English common law or French, German, and Scandinavian civil law. The authors suggest that the common law traditions are the most protective of shareholder rights among these four legal systems. The civil law traditions were observed to be less protective of shareholder rights, with French civil law providing the least protection to the shareholders. The differences in legal systems stem from a variety of factors, including the one share-one vote system, the right to vote in absentia, laws governing the blocking of shares during shareholder meetings, and minority shareholder protection.

A substantial body of literature recognises corruption as a pervasive institutional distortion that fundamentally alters managerial behaviour and investor perceptions. In economies characterised by high levels of corruption, weak enforcement mechanisms, and limited transparency exacerbate agency conflicts and promote short-term managerialism (Donadelli et al., 2014). Managers operating within such contexts tend to prioritise immediate and visible financial outcomes to signal competence and maintain legitimacy (Luo, 2005). The uncertainty and transactional inefficiencies generated by corruption intensify this tendency, encouraging managers to favour strategies that yield quick returns even when such actions may lead to management fraud (Zahra et al., 2005). This perception of opportunism weakens investor confidence and often results in muted or negative stock market reactions, reflecting the broader mistrust that corruption engenders within the corporate governance environment. Importantly, such actions in response to corruption also erode the mechanisms designed to protect shareholder rights.

A growing body of research highlights the influence of national culture, a core element of informal institutions, on how managers and investors interpret and respond to strategic restructuring decisions such as divestments. Among Hofstede's (2001) cultural dimensions, LTO and uncertainty avoidance have been particularly emphasised for their relevance to financial decision-making and market behaviour. Prior research on corporate governance and strategic management has emphasised that LTO and uncertainty avoidance are the most pertinent cultural variables in explaining firm-level change and investment behaviour (Alipour, 2021; Kalasin, 2021). LTO captures the extent to which societies value perseverance, thrift, and future-oriented goals, while uncertainty avoidance reflects the degree to which individuals seek stability and avoid ambiguity in decision contexts. Empirical studies indicate that in LTO societies, organisations and investors tend to emphasise sustainable value creation and future performance, which can affect how

divestments are perceived and evaluated (Flammer and Bansal, 2017). In contrast, short-term-oriented (STO) cultures are more likely to favour actions that yield immediate financial returns or visible performance improvements (Brauer, 2013). Similarly, research on uncertainty avoidance reveals that societies characterised by a strong aversion to uncertainty often interpret divestments through a risk-reduction lens, viewing such actions as a means of enhancing organisational stability (da Fonseca et al., 2024). Taken together, these findings suggest that cultural orientations towards time horizons and uncertainty tolerance shape both managerial reasoning and investor interpretation of divestment decisions, offering insight into cross-national differences in stock market reactions.

3. Theory and hypotheses

Our theoretical framework draws on two complementary perspectives, namely agency theory and institutional theory, to explain how governance mechanisms and institutional environments jointly shape market responses to corporate divestment decisions. Agency theory emphasises the importance of governance structures and incentive systems in mitigating conflicts of interest between managers and shareholders, thereby influencing strategic choices and performance outcomes. Institutional theory, in turn, extends this logic by recognising that managerial behaviour and market perceptions are embedded within broader formal and informal institutional contexts that determine what is considered legitimate and effective in a given environment. Accordingly, we focus on three formal institutional variables: (i) political stability, (ii) regulatory quality, and (iii) control of corruption as key determinants of managerial discretion, investor protection, and the enforcement of shareholder rights (Cumming et al., 2010; La Porta et al., 1998). Complementing these, we include two informal institutional dimensions: (iv) long-term orientation and (v) uncertainty avoidance, which capture underlying cultural values that influence risk tolerance, strategic time horizons, and investor interpretations of divestment announcements (Kalasin, 2021). Together, these five dimensions provide a comprehensive framework for understanding how institutional conditions moderate the relationship between divestment announcements and stock market reactions.

3.1. Divestment and stock market reactions

Theoretically, the price of an asset should equal the present value of expected future cash flows from the asset discounted at an appropriate discount rate. Thus, the stock price S_{it} of firm i at time t can be expressed as the discounted sum of all expected future dividends:

$$S_{i,t} = E_t\left[\sum_{k=1}^{\infty}\left(\frac{1+G_{i,t+k}}{1+R_{f,t+k}+ERP_{i,t+k}}\right)D_{i,t+k}\right]$$

where D denotes the dividend of firm i at time t, R_f is the risk-free interest rate, G is the expected growth rate of the firm's dividends, ERP is the equity risk premium demanded by shareholders, and $E[\bullet]$ denotes the expectation operator which is the conditional expectation formed using all publicly available information at time t. Under this simplistic discounted cash flow model, a divestment can influence the firm's stock price by altering stock market participants' expectations regarding future dividend payments or by changing the firm's perceived equity risk premium, which reflects the risk compensation demanded by shareholders over the risk-free rate. The stock price will increase if the divestment announcement leads to an upward revision of the expected growth rate of dividends or induces a reduction of the required risk premium, and vice versa. Under the efficient market hypothesis (Fama, 1970), stock price changes around divestment announcements should reflect market participants' revised rational expectations regarding the firm's future performance and risk profile in response to the divestment.

Divestments encompass a range of restructuring activities, including acquisitions, sell-offs, spin-offs, equity carve-outs, management buy-outs, and liquidations. Although these forms differ in motivation and execution, they share a unifying theme: the reconfiguration of assets to improve strategic focus and efficiency (Kolev, 2016). Prior studies have often examined these divestment types collectively to capture their overarching effect on shareholder value (Berger and Ofek, 1999). Nonetheless, disaggregated analyses reveal subtle differences across divestment modes, particularly regarding managerial intent, market signalling, and agency implications (Bergh et al., 2008; John and Ofek, 1995).

Existing literature offers several explanations for stock market reactions to divestments. Studies have suggested that pre-divestment performance and strategic motives influence stock market reactions to divestments (Arte et al., 2022; Jain, 1985; Montgomery and Thomas, 1988). Divestments are viewed as a tool for modifying a firm's capital structure or streamlining its business activities. While some scholars assert that divestment proceeds assist distressed firms in repaying outstanding debts (Blumberg and Owers, 1996; Francoeur and Niyubahwe, 2009), others contend that divestment proceeds are redirected to existing units or used to fund new projects (Bates, 2005; Kaiser and Stouraitis, 2001). One way for firms to overcome financial distress is to raise sufficient funds through asset sales (Campello et al., 2010). Firms exit distress when divestment proceeds are directed to raise the cash flow over the long-term debt (Whitaker, 1999). This is received positively by the shareholders as it indicates that management acknowledges the need for financial restructuring and is willing to reorganise the operations for future growth (Vijh, 2002).

Prior studies suggest that financially constrained firms underinvest, which restricts them from realising the full potential of their assets (Bates, 2005). Schlingemann et al. (2002) attribute this to the challenges in raising external finance or poor investment decisions. Divestments are useful under such circumstances as the divestment proceeds provide excess cash flow that managers may use to fund new projects or reinvest in promising value-enhancing objectives (Sun, 2012). From a shareholder perspective, such divestments demonstrate sound financial planning on the part of management, as the new investments are funded with equity capital rather than external borrowing (Bates, 2005). Some studies also suggest that firms divest physical assets and invest the proceeds in

intangible assets and research and development activities (Borisova and Brown, 2013). These strategic decisions benefit the firm as they improve long-run productivity and increase firm value (Karna et al., 2022). Shareholders receive such acts of 'creative destruction' positively.

Positive returns to divestments have been attributed to their ability to help firms refocus by reducing peripheral activities, selling fringe assets, and streamlining operations. In addition to raising extra cash through fringe asset sales, refocusing reduces the managerial burden and increases the decision-making efficiency (Zschoche, 2016). Thus, managers are able to focus on the core business (Daley et al., 1997). This increases shareholder value because of its performance-enhancing effect on other units (Brauer, 2009; Byerly et al., 2003). Divestments have also been suggested to reduce operational and transaction costs (Hanson and Song, 2000) and increase scale economies (John and Ofek, 1995). This results in higher profitability, the benefits of which are passed on to the shareholders in the form of higher dividends. Divestments are also suggested to influence the trust between shareholders and management (Arte et al., 2022). Managers are known to overinvest and diversify widely in the pursuit of self-gain and extend their control over the firm (Gleason et al., 2000). At the corporate level, such investments jeopardise the credibility of the firm in the market, where external stakeholders tend to separate themselves from the firm (Decker and Mellewigt, 2012). This leads to information asymmetries and a breakdown in the trust of the shareholders. Divestments correct such managerial behaviour by reducing their control over the diversified businesses and returning the resources in the form of sales proceeds.

Although the above discussion generally suggests that stock markets typically react positively to divestment announcements, there are arguments suggesting the contrary. From an agency theory perspective, the value from divestment materialises when the goals and interests of the shareholders (principal) and management (agent) are aligned (Arte et al., 2022). However, the value from divestment is lost when the goals are divergent or if the incentives for both parties are disproportionate (Woo et al., 1992). According to Boot (1992), managers avoid divestment to protect their self-interest with the fear that shareholders may perceive it as an admission of a bad investment. In line with this argument, Cho and Cohen (1997) found that managers hold on to poorly performing units as long as they can under the cover of the better-performing units. Similarly, according to the study by Wright and Ferris (1997), managers divest to increase their compensation, which reduces shareholder value and generates negative stock market reactions.

Stock market reactions have also been linked to the allocation of divestment proceeds. Borde et al. (1998) argue that relocating operations from an advanced economy to an emerging economy creates a positive stock market reaction because of the reduction of operating costs offered by such an arrangement. An antithesis to this argument would be relocating from an emerging economy to an advanced economy. Such an arrangement should typically increase the operating costs, and therefore, create a negative stock market reaction.

Some studies link stock market reactions to divestments to their implications for a firm's geographic scope, defined as the spatial dispersion of operations across locations, countries, and regions. Geographic diversification enables firms to mitigate regulatory risks, exploit location-specific advantages, and preserve strategic flexibility. By operating across a wider geographic scope, firms can spread the risk of market failure, accumulate learning about new markets, and access larger and more diverse demand bases (Verbeke et al., 2009). This strategy effectively gives firms operational flexibility to respond to external changes (Denis et al., 2002) and maintain steady performance by shifting production to favourable locations (Kim et al., 1993). Further, geographical expansion has been attributed to knowledge growth (Hennart, 2007), higher sales volume (Chiao et al., 2008), and scale economies (Lu and Beamish, 2004). The benefits from geographical expansion can be accrued from both domestic and foreign markets (Kim and Mathur, 2008) and depend on the firms' access to country-specific advantages (Dunning, 1998). By divesting their operations, firms risk losing their operational flexibility and ability to respond to external change. Moreover, their access to a larger market and country-specific advantages would diminish.

To summarise, prior theory offers opposing predictions regarding the stock market reactions to divestment announcements. While value-creation and refocusing arguments suggest positive abnormal returns, agency-based explanations highlight managerial self-interest and value-destroying divestments, implying negative market reactions. Given this theoretical tension, we test the following competing hypotheses:

Hypothesis 1a. Stock markets react positively to divestment announcements.

Hypothesis 1b. Stock markets react negatively to divestment announcements.

3.2. Political stability

Proponents of agency theory argue that politics is indeed agency and therefore, political stability has a significant influence over the principal-agent relationship. Scholars argue that political stability leads to more reliable regulations, stable economic policies, effective legal protections, superior corporate governance practices, and heightened trust (Lane, 2013; Tran and Tran, 2023). In a politically stable environment, policies, rules, and regulations are predictable, and the likelihood of quick transitions of the government is relatively low. This reduces the uncertainty in the external environment and fosters a strong principal-agent relationship where mutually beneficial long-term plans are drawn. Moreover, a stable political system promotes good governance and cooperation among all relevant stakeholders (Blind, 2007). As such, political stability provides an environment where both shareholders and managers can thrive.

A stable political environment helps prevent hostile takeovers by providing mechanisms such as the obligation to circulate information among the shareholders (Mathew, 2007), or by pressing managers to invite more bidders and encourage an auction (Deakin and Slinger, 1997). Theoretically, both mechanisms would result in the shareholders obtaining a higher value, but the degree of their effectiveness depends on the concentration of ownership and control. A country's political system influences the degree of control

afforded to the shareholders (La Porta et al., 1997). In some countries, such as the United States, ownership is dispersed among many shareholders, which gives little control to the shareholders over corporate affairs (Xu and Wang, 1999). In Europe, ownership is often concentrated in the hands of a few shareholders, commonly known as blockholding (Culpepper, 2010). This form of ownership gives excessive control to the shareholders to influence divestment decisions. Despite the differences between political systems, the arguments laid above suggest that a stable political environment fosters a healthy principal-agent relationship and reduces the probability of hostile takeovers. These considerations lead us to the following hypothesis:

Hypothesis 2. Stock market reactions to divestment announcements are more favourable in countries with a stable political environment.

3.3. Regulatory environment

While a strong regulatory environment helps firms grow financially by allocating equitable capital and providing safe access to finance and external borrowing (Fisman and Love, 2003), previous studies have also emphasised its role in monitoring corporate governance and maximising shareholder protection (La Porta et al., 1998). Sound regulations ensure that corporate strategies are implemented effectively without external challenges (Farjoun, 2010). They offer shareholder protection by ensuring that all shareholders have equal voting rights. These include the right to call extraordinary shareholder meetings as well as legal guarantees to challenge management decisions (Defond and Hung, 2004).

When shareholders have limited power, managers may pursue self-interests by divesting high-value units to allocate excessive remuneration or make value-reducing investments to extend their control over corporate affairs. Legal bodies in some countries control such behaviour by regulating investments and divestments (Palmer and Quinn, 2007). For instance, Balto's (2001) study on U.S. multinationals shows that the Federal Trade Commission requires firms to divest prior to new acquisitions, which may be deemed anti-competitive. This impacts shareholder value in the following three ways. First, it obligates the firm to narrow its focus, which has a direct impact on the overall firm performance. Second, it ensures the divestment proceeds are invested in new businesses that may increase future returns. Third, it controls the managers from making value-destroying investments in their self-interest.

An aspect that may reduce the value of divestment is the failure of the management to reveal the transaction price and payment method (Markides and Berg, 1992). There is more scope for hostile takeovers and fraudulent transactions when the price and payment method are not disclosed. Disclosure regulations protect shareholders by promoting transparency and increasing the information advantage to the seller and buyer (Oliver et al., 2014). Shareholders react positively to divestments when the decision, price, and payment method are publicly announced (Benou et al., 2008).

Some studies argue that firms divest without having a strategic plan (Markides and Berg, 1992). Such divestments are intended to temporarily inflate cash flows and falsify the financial image of the firm. This is harmful to the shareholders as it puts pressure on the present and future financial performance and reduces the external credibility of the firm. Regulatory bodies help minimise this risk by pressurising the management to conduct external audits instead of self-certifying the financial results (Mangala and Kumari, 2015). Moreover, shareholders may use the regulatory provisions and challenge the divestment decision through their voting rights. These considerations lead us to the following hypothesis:

Hypothesis 3. Stock market reactions to divestment announcements are more favourable in countries with a strong regulatory environment.

3.4. Corruption

The term ‘corruption’ refers to a wide range of human behaviour, attitudes, approaches, or social contexts that are illegally used to obtain illicit benefits (Campbell and Lord, 2018). Corruption in government offices is defined as the misuse of a bureaucrat's or an elected official's power for personal gain. Power abuse can include breaking the rules (Banerjee et al., 2012), selling government property (Shleifer and Vishny, 1993), nepotism (Pearce, 2015), or improperly influencing public policy (Jain, 2001). Shareholders elect the board of directors to oversee the daily operations of publicly traded companies. Given the inherent structure of publicly held organisations, the agents (elected directors or managers) have access to more information than shareholders. The shareholders, however, exercise control over the board and management through their shares and voting rights.

Agency conflict arises because of information asymmetry and power imbalance. Numerous studies have demonstrated that management tends to conceal information from shareholders to promote their personal interests (Wijayati et al., 2016). Information asymmetry leads to two additional problems. First, the shareholders of an organisation cannot determine whether the management is performing the tasks for which they are compensated. Second, the shareholders cannot determine if the management is efficient in safeguarding shareholder interests. Both issues indicate a breakdown in trust between the shareholders and management, which may lead to opportunistic behaviour from the managers. Opportunistic behaviour is perceived as self-serving (Defren et al., 2012). Therefore, managers may conceal information, mislead, or deceive the shareholders to increase their personal profits (Wright and Mukherji, 1999).

Agency conflict may also arise in divestment decisions due to managers’ incentives to either hold on to underperforming assets for too long, their decision to sell assets for personal gains, or poor governance. Managers may hold on to underperforming assets to protect their self-interests because a divestment decision is perceived as an indication of an inappropriate investment decision (Boot, 1992). Conversely, divestment allows managers to eliminate personal pressure and increase their personal gains (Wright and Ferris, 1997). A corrupt environment exacerbates agency conflicts by necessitating more cash flow for managers to make unofficial payments

(Tran, 2020). Evidence suggests that the incentive to extract personal gains is lower in countries with low corruption and better investor protection (Dahlquist et al., 2003). In contrast, the level of cash holdings is higher in countries with high corruption and poor investor protection (Thakur and Kannadhasan, 2019). Consequently, shareholders are likely to compel managers to pay dividends to prevent them from hoarding cash (Tran, 2020). Moreover, external corruption has a negative impact on managerial efficiency (Young et al., 2008). Therefore, a corrupt environment contributes to the deterioration of the manager-shareholder relationship. Since information asymmetry, agency conflict, and poor governance influence payout policies (Dewenter and Warther, 1998), we anticipate a negative stock market reaction to a divestment announcement in the presence of external corruption. These considerations lead us to the following hypothesis:

Hypothesis 4. Stock market reactions to divestment announcements are less favourable in countries with high levels of corruption.

3.5. Long term orientation

LTO is defined as a dimension of the national culture concerned with how people perceive and value time (Hofstede, 2001). It is the extent to which a nation's culture shapes its people to adopt a future-oriented view rather than a present/past-oriented view (Hofstede and Bond, 1988; Hofstede et al., 2005). Scholars have argued that LTO is an important determinant of the decision-making process because people's perception of time influences goals, the propensity to plan purchases, and interests in spending money (Bearden et al., 2006; Lastovicka et al., 1999). According to Sternad and Kennelly (2017), managers in an LTO culture commit to long-term goals that are mutually beneficial for the shareholders because they have a positive effect on the firm's performance and value. Similarly, Lin et al. (2019) discovered LTO to be strongly associated with the speed, comprehensiveness, and creativity of managers' strategic decisions, all of which have important performance implications (Menon et al., 1999; Souitaris and Maestro, 2010). Some scholars have also linked LTO to agency problem, where high LTO has been argued to cultivate a healthy principal-agent relationship by building trust, planning long-term goals, and reducing opportunism (Bae et al., 2012). Given these characteristics, LTO is particularly relevant to this study as it reflects the temporal perspective through which investors and managers evaluate strategic actions such as divestments by balancing immediate financial outcomes against expectations of long-term performance and value creation.

In theory, stock market reactions to divestment announcements in a LTO culture will be negative as individuals tend to show affinity towards keeping businesses afloat despite poor performance, hoping that they will become profitable over time (Sharma and Manikutty, 2005). The future wealth of individuals in a LTO culture depends on the accumulation of profits and dividends and is likely to retain equity (Engelen et al., 2020). Likewise, shareholders in a STO culture prefer immediate gratification over prolonged returns (Chen and Lai, 2015; Irving, 2009) and are less likely to retain equity in the firm. Bae et al. (2012) argue that LTO influences shareholders' expectations of returns because firms in a LTO culture are known to pay low dividends. Dividend payout is low in a LTO culture because individuals are willing to trade today's consumption for future earnings. Therefore, managers pay lower dividends in the short term with an emphasis on safeguarding future interests (Bae et al., 2012). When firms in such countries divest, they are likely to be perceived negatively as a sign of failed investment or a change in future goals.

Individuals in a STO culture prefer wealth today over an uncertain pay-off in the future (Martin et al., 2016) and divestments in such countries are often motivated by the desire to transfer wealth to shareholders (Jain, 1985; Nguyen, 2016). Therefore, stock market reactions to divestment announcements would be higher in such cultures because asset sales result in higher dividend payouts (Bates, 2005). Further, the managers' decision to distribute the divestment proceeds in the form of increased dividends effectively reduces agency conflict while preserving shareholders' wealth (d'Udekem, 2021). Thus, divestments are likely to be perceived positively in such countries as they imply the elimination of underperforming assets, an increase in scope, and an improvement in cash flows. To summarise, in a LTO culture, the abnormal returns to divestment announcements tend to be low, while in a STO culture, the abnormal returns tend to be high. These considerations lead us to the following hypothesis:

Hypothesis 5. Stock market reactions to divestment announcements are less favourable in a high long-term orientation culture.

3.6. Uncertainty avoidance

Uncertainty avoidance is the tendency to avoid risks. It explains the level of tolerance shown by individuals towards unpredictability and their willingness to either take control or let things happen (Hofstede, 2001). High uncertainty avoidance cultures tend to value consistency, predictability, stability, and clear rules, which encourage firms to use risk-reduction strategies. Firms in such cultures often diversify their businesses to counter risks (Qiu, 2014). As such, investments are likely to be seen much more positively in high uncertainty avoidance as compared to low uncertainty avoidance cultures. In fact, in cultures characterised by low uncertainty avoidance, individuals tend to be more open to taking risks or holding on to assets even under ambiguity (Rieger et al., 2015). It is more likely that firms in such cultures may view uncertainty as an opportunity to grow when conditions turn favourable.

The relationship between stock market reactions and divestment announcements in a high uncertainty avoidance culture is complex. On the one hand, firms in a high uncertainty avoidance culture are more likely to divest from areas that are risky, have uncertain outcomes, or lack clear strategies for success. In other words, a firm may divest a unit if it contributes to high volatility or presents challenges that can't be easily controlled or predicted. Empirical studies support this notion. For instance, Frijns et al. (2013) explore the relationship between uncertainty avoidance and corporate takeover decisions, revealing that firms in a high uncertainty avoidance culture are less likely to engage in risky investments. The risk aversion tendency is corroborated by Damaraju et al. (2014) who note that firms often view divestment as a method of reducing potential losses, aligning with the cultural preference for certainty. Thus, shareholders in a high uncertainty avoidance culture are likely to react positively to divestment announcements. On the

contrary, divestments typically result in changes to the structure of the firm, equity, returns on investment, and general operations of the firm (Arte et al., 2022). Since high uncertainty avoidance cultures show a preference towards stability, shareholders may react negatively to divestments as they tend to resist change and prefer to maintain the status quo (Kalasin, 2021).

To summarise, the extant literature provides conflicting expectations regarding the effect of uncertainty avoidance on stock market reactions to divestment announcements. On the one hand, divestments may be interpreted as risk-reducing actions consistent with the preferences of high uncertainty avoidance cultures. On the other hand, divestments represent organisational change, which may be resisted in cultures that strongly prefer stability and the status quo. Accordingly, we test the following competing hypotheses:

Hypothesis 6a. Stock market reactions to divestment announcements are more favourable in a high uncertainty avoidance culture.

Hypothesis 6b. Stock market reactions to divestment announcements are less favourable in a high uncertainty avoidance culture.

4. Research methodology

4.1. Literature search and screening criteria

A six-stage literature search strategy was used to identify studies that empirically investigated stock market reactions to divestment announcements. First, we conducted a search on electronic sources such as Scopus, ISI Web of Science, ABI/INFORM, and EBSCOhost using first order keywords such as 'exit*', 'dives*', 'spin-off*', 'sell-off*', 'carve-out*', and 'liquidat*'. These terms are frequently used in divestment and corporate restructuring literature reviews. Second, we combined the first order keywords with second order keywords such as 'shareholder*', 'stock*', and 'valu*'. Table 1 presents a keyword matrix along with the number of search hits. Third, we examined existing literature reviews on divestments (Arte and Larimo, 2019; Kolev, 2016; Lee and Madhavan, 2010; Schmid and Morschett, 2020; Silva and Moreira, 2019) including corporate divestments, asset restructuring, and corporate refocusing, using backward citation searches from their reference lists and forward citation searches via Google Scholar to identify additional relevant primary studies. Studies were included from these reviews only if they empirically examined stock market reactions to divestment announcements and reported sufficient statistical information for effect size extraction. Fourth, we retraced references from existing articles. Fifth, we used Google Scholar to forward trace articles. Finally, in accordance with best practices in meta-analytic research, we extended our search to include grey literature such as working papers, doctoral theses, conference proceedings, and unpublished reports (Eisend and Tarrahi, 2014). Inclusion of these sources helps to address the 'file drawer' problem (Rosenthal, 1995) and to mitigate the 'Matthew effect'[1] (Steel et al., 2021), whereas their exclusion leads to an overrepresentation of statistically significant findings and inflated effect sizes (Conn et al., 2003; McAuley et al., 2000). The six-stage literature search strategy yielded a pool of 5573 studies between 1983 and 2022. Over 87% of these studies were dropped for either of the following reasons: (1) duplicate studies (2,769); (2) conceptual or theoretical or review articles (1,668); and (3) abstracts or incomplete papers (421).

The above search resulted in 715 primary studies. We applied the following inclusion criteria to further restrict the sample to the most relevant studies. First, we only included studies that examined the relationship between divestment and stock market performance. This effectively eliminated studies that investigated the relationship between divestment and other performance measures (such as ROA, ROE, EBIT, and sales growth). Second, we only included studies that provided statistical values. In addition to the sample size N, these values included the correlation r, t-statistic, F-value, z-value, or β coefficient. Where needed, we transformed the t-statistic, F-value, z-value, or β coefficient into correlation r using procedures prescribed by Hunter and Schmidt (1990) and Lipsey and Wilson (2001). Third, we treated each sample independently in cases where the primary study was based on multiple samples, such as different industries, countries, or firm categories (large vs small firms). To ensure comprehensive coverage of the divestment literature, no explicit time restriction was imposed during the data collection process. All eligible studies published from the earliest available empirical work to the most recent were considered for inclusion. As a result, the final dataset spans studies published between 1983 and 2022, capturing five decades of research on divestments and stock market reactions. This inclusive approach aligns with prior meta-analytic studies (Arte et al., 2022; Kolev, 2016; Lee and Madhavan, 2010), which recommend incorporating the full temporal range of available evidence to minimise publication-period bias and to account for the evolution of theoretical perspectives and methodological practices over time. These criteria yielded 144 primary studies with 202 effect sizes and 90,449 firm-level observations. The 144 studies represent multiple disciplines,[2] including Finance, Economics, and Accounting (79), General management (35), Strategic management (9), International business (5), and unpublished works, conference papers or dissertations (16). A list of studies included in this paper is provided in Appendix A.

4.2. Meta-analytical procedure

We used appropriate procedures for correcting statistical artefacts prior to conducting the meta-analysis. To correct for the skewness in our sample, we used Fisher's three-step method to transform the correlations (Silver and Dunlap, 1987). First, we

[1] The 'file drawer' problem is the tendency for studies with non-significant or null findings to remain unpublished. The Matthew effect is a citation bias where high-citation sources are more likely to be included in the meta-analytical sample than the low-citation sources.

[2] The disciplinary classification of the studies was determined using the journal domain and indexing information from Web of Science and Scopus.

Table 1
Keyword matrix.

	keyword2	shareholder*	stock*	valu*
keyword1		18,047	88,999	397,434
exit*	9311	137	396	1575
dives*	1869	175	203	444
spin-off*	1751	59	105	363
sell-off*	296	34	79	72
carve-out*	303	20	36	79
liquidat*	2002	103	185	610

Note: The table represents search results from Scopus with the search query SUBJAREA (busi) SUBJAREA (econ) TITLE-ABS-KEY ("keyword1") and TITLE-ABS-KEY ("keyword2").

transformed the correlations into Fisher's z-values using the formula: $z_{ijk} = \frac{1}{2}\ln\left(\frac{1+r_{ijk}}{1-r_{ijk}}\right)$, where r denotes the correlation between variables i and j for study k. Second, the estimated z-values were averaged by assigning the weight of N-3, where N denotes the sample size of each observation. Third, the averaged z-values were back-transformed into the correlation coefficient $\bar{r}$ using the following formula: $\bar{r} = \frac{e^{2\bar{z}_{ij}}-1}{e^{2\bar{z}_{ij}}+1}$, where $\bar{z}$ denotes the weighted z-value between variables i and variables i and j. This procedure is common in meta-analytical studies as it normalises the distribution of effect sizes (Rosenthal, 1991) and accounts for undesirable correlation properties (Lipsey and Wilson, 2001).

The meta-analysis was conducted using both HOMA and MARA. HOMA is a structured meta-analytic approach that tests predefined theoretical hypotheses by aggregating and synthesising effect sizes across primary studies that examine the same underlying relationship. We used HOMA to calculate the mean correlation between divestment announcement and stock market reaction, along with the corresponding confidence interval (Hedges and Olkin, 1985). We used the correlation r as it is the most commonly reported effect size in the management literature (Geyskens et al., 2009). In cases where the correlation r could not be obtained from the primary study, we transformed other statistical information, such as t-statistic, F-value, z-value, or β coefficient, using the methods provided by Lipsey and Wilson (2001) and Peterson and Brown (2005). We applied the HOMA procedure to the original sample of 202 effect sizes.

MARA is a second-stage meta-analytic technique used to explore moderator effects, that is, to identify which contextual or study-specific factors explain the heterogeneity in effect sizes across studies. We used the MARA procedure to examine the moderating influence of formal and informal institutions on stock market reactions to divestment announcements. The MARA procedure is similar to weighted least squares regression analysis in that the relationship between the dependent and predictor variables is tested by modelling heterogeneity in the sample distribution (Carney et al., 2011; Lipsey and Wilson, 2001). The main advantage of MARA is that it allows modelling the variance in the effect size distribution in light of the variables that were not included in the primary studies (Marano et al., 2016). Since we were testing country-level moderators, we excluded studies in which we could not identify the sample's country of origin and studies that included a multi-country sample. After the exclusion, we were left with 126 studies that had firm-level observations from 16 countries.[3] Given the substantial variability of observed effects, we used a random-effects model to conduct the MARA (Borenstein et al., 2010; Steel et al., 2021).

4.3. Variable measurement

The dependent variable in our study is the reported stock market reaction to a divestment announcement in a given primary study. Specifically, we focused on cumulative abnormal returns (CAR) or buy-and-hold abnormal returns (BHAR) because these abnormal returns are the most commonly used variables for estimating stock market reactions to divestment announcements.[4] CAR captures the stock price reaction within the short-term event window around the divestment announcement, while BHAR measures the extended post-announcement response in stock prices.

Consistent with prior meta-analytic studies on divestments (Arte et al., 2022; Kolev, 2016; Lee and Madhavan, 2010), we initially categorised all divestment types under a unified framework to capture their common strategic essence as asset reallocation mechanisms. However, to address potential heterogeneity, we further disaggregated the sample into acquisitions, sell-offs, spin-offs, equity carve-outs, management buy-outs, or liquidations, estimating separate effect sizes for each category. This two-tier approach balances analytical comprehensiveness with sensitivity to contextual variation.

The institutional indicators used in this meta-analysis correspond to the country in which the firms were listed. Although the host-

[3] The 16 countries are Australia, Canada, China, France, Germany, Hong Kong, India, Indonesia, Japan, Malaysia, South Africa, South Korea, Spain, Taiwan, the U.K., and the U.S.A.

[4] Abnormal return is the difference between the observed and expected stock returns. Formally, the abnormal return, AR, for firm i at time t is defined as $AR_{i,t} = R_{i,t} - E[R_{i,t}]$, where R denotes stock return and $E[\bullet]$ denotes the expectation operator. Although divestment studies have used various alternative techniques to estimate the expected return, the most commonly used approach is the 'market model' in which the expected return for firm i at time t is defined as $E[R_{i,t}] = \alpha_i + \beta_i R_{M,t}$ where $R_{M,t}$ denotes return on the market index at time t, and α and β are parameters to be estimated from historical data. In this approach, abnormal return is then calculated as $AR_{i,t} = R_{i,t} - \alpha_i - \beta_i R_{M,t}$.

country environment of the divested business unit may also shape divestment motives, particularly in cross-border transactions, most studies in our sample report event data based on the parent firm's listed exchange. Therefore, consistent with previous meta-analytical studies (Flickinger and Zschoche, 2018), our analysis focuses on the country of firm's listing as the primary contextual frame. Information on the country of listing was sourced from the primary studies, and data were collected corresponding to the median year of observation of the primary studies. We used the World Bank's *Political stability* and *Regulatory environment* rating to assess the quality of a country's formal institutional environment. Political stability promotes a healthy investment environment by ensuring there is less political risk and uncertainty within a country. The regulatory environment assesses the extent to which the legal and regulatory environments facilitate or obstruct regular business activities and assist firms in becoming more productive. We measured corruption using the Corruption Perception Index (*CPI*) (Cumming et al., 2010; Tran, 2020), which is a widely used survey-based measure developed by Transparency International. We measured the *LTO* and *Uncertainty avoidance* of using Hofstede's scores. The information was obtained from http://www.geert-hofstede.com, version 2015. Other Hofstede dimensions, such as Power Distance, Individualism, and Masculinity, were excluded because they do not have clear theoretical linkages to the mechanisms by which divestment decisions affect stock market reactions.

We included a variety of country-level variables to capture the effect of institutional and macroeconomic environments. First, we examined the effects of country and economy size, income levels, and general price levels by including *Total GDP log*, *Population log*, *GDP* per capita, and *Inflation*. These variables have been observed to have an impact on stock market performance, corporate governance, and shareholder rights (Ferguson et al., 2017; Tripathi & Kumar, 2014). We captured the quality of formal institutions using three distinct, yet complementary variables. We included the variable *Government efficiency* because a lack of government effort or high government intervention decreases the investment efficiency of firms (Chen et al., 2011). Regardless of the political stability and government efficiency, corporate governance is weak, and transaction costs are high in the absence of the rule of law (Sharma, 2007). Thus, we included the variable *Rule of law*, measured as the confidence of the population in and the ability to abide by the rules of society. However, a democratic structure is essential for the rule of law to help improve corporate governance and reduce agency conflict (Chen and Yang, 2017). Thus, we measured *Level of democracy* in a country as the ability of the population to participate in selecting the government, freedom of expression and association, and free media. Data on country-level variables were sourced from the World Bank's World Development Indicators database, aligning with the median observation year of the primary studies to ensure temporal consistency across measures.

We included *Legal origin* to identify the origin of each country's company law (La Porta et al., 1998). Consistent with Marano et al. (2016), we used a binary variable where legal systems originating from civil law were assigned the value 0, and those from common law were assigned the value 1. While some studies (Mattei, 1997; Powell and Mitchell, 2007) have suggested that there are more than two types of legal systems (e.g., civil law, common law, statutory law, religious law, or mixed law), our choice for a binary variable is influenced by our sample where the majority of the primary studies either belonged to the common law or civil law traditions. However, the parsimonious and simplistic nature of this variable does not affect the generalisability of the results (Aguinis et al., 2008).

Since our dependent variable is abnormal returns, we included four variables to measure the size, intensity, and volatility of the stock markets. We measured the stock market size using *Listed firms* (total listings on the stock market per million population) and *Stock market cap* (market capitalisation of listed companies as a percentage of total GDP) (Berry et al., 2010). We included *Stocks traded* to measure the intensity of trading activity in the country. The variable *Stock market volatility*, measured as the standard deviation of the national stock market index's daily returns over a calendar year, captures the uncertainty in the stock market. The data were sourced from the World Bank's Global Financial Development database, corresponding to the median year of observation in the primary studies. To address the 'file-drawer problem', we included the variable *Published work,* where studies included in our study that are not published take the value of 0, and those that are published take the value of 1. Finally, we test the impact of the quality of the publication outlet on the effect sizes by including the Journal Impact Factor (*JIF*). Table 2 summarises the variable definitions.

The meta-analysis was conducted using two procedures. First, the HOMA procedure was used to calculate the meta-analytic mean correlation between divestment announcement and stock market reaction, along with the corresponding confidence interval (Hedges and Olkin, 1985). Following Marano et al. (2016), we used both Pearson's correlations and partial correlations in our analysis. We used the correlation r as it is the most commonly reported effect size in the management literature (Geyskens et al., 2009). In cases where the correlation r could not be obtained from the primary study, we transformed other statistical information, such as t-statistic, F-value, z-value, or β coefficient, using the methods provided by Lipsey and Wilson (2001) and Peterson and Brown (2005). We applied the HOMA procedure to the original sample of 202 effect sizes.

Second, we used the MARA procedure to examine the moderating influence of formal and informal institutions on stock market reactions to divestment announcements. The MARA procedure is similar to weighted least squares regression analysis in that the relationship between the dependent and predictor variables is tested by modelling heterogeneity in the sample distribution (Carney et al., 2011; Lipsey and Wilson, 2001). The main advantage of MARA is that it allows modelling the variance in the effect size distribution, considering the variables that were not included in the primary studies (Marano et al., 2016). Since we were testing country-level moderators, we excluded studies in which we could not identify the sample's country of origin and studies that included a multi-country sample. After the exclusion, we were left with a sample that had firm-level observations from 16 countries.[2] Given the substantial variability of observed effects, we used random-effects model to conduct the MARA (Borenstein et al., 2010; Steel et al., 2021).

Table 2
Variable definitions and measurement.

Variable	Definition	Measure
Total GDP log	Size of the economy	Log of total GDP (constant 2015 US$)
Population log	Size of the country	Log of total population
GDP per capita	Income level of a country	GDP per capita (constant 2015 US$)
Inflation	General price levels in the country	GDP deflator (annual %)
Government efficiency	Effectiveness of the government to provide quality public services independent of political pressure	Estimate: World Governance Indicators
Rule of law	The extent of confidence of the population in and ability to abide by the rules of society	Estimate: World Governance Indicators
Level of democracy	The ability of the population to participate in selecting the government, freedom of expression and association, and a free media	Estimate: World Governance Indicators
Legal Origin	Origin of the country's legal system	Binary: 0 = Civil law, 1 = Common law
Stock volatility	Uncertainty in the stock market	The standard deviation of the national stock market index's daily returns over a calendar year
Stock market cap	Size of the stock market	Market capitalisation of listed companies (% of GDP)
Stocks traded	The intensity of trading activity in the country	Total value of stocks traded (% of GDP)
Listed firms	Size of the stock market	Total listed firms in the country (per million population)
Published work		Binary: 0 = Unpublished, 1 = Published
JIF	Quality of publication outlet	Clarivate
Political stability	Perception of political (in)stability	Estimate: World Governance Indicators
Regulatory environment	The ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development	Estimate: World Governance Indicators
CPI	Perception of corruption in the country	Survey-based measure developed by Transparency International
LTO	Cultural orientation of a country (long term vs. short term orientation)	Hofstede's score
Uncertainty avoidance	Tendency of a culture to avoid taking risks	Hofstede's score

5. Results

5.1. HOMA results

The results of HOMA procedure are presented in Table 3. In Hypothesis 1a, we predicted a positive linkage between divestment and stock market reaction, whereas Hypothesis 1b proposed a negative linkage between divestment and stock market reaction. As indicated in Table 2, the mean *r* for *Divestment* is positive and significant ($\bar{r} = 0.196$, $p < 0.01$). The 95 percent confidence interval, ranging from 0.162 to 0.230, does not include zero and indicates that the effect is true, positive, and statistically significant (Lipsey and Wilson, 2001). This result lends support to Hypothesis 1a, leading to rejection of Hypothesis 1b. However, the heterogeneity was high and statistically significant as indicated by the Q-value ($Q = 4081.004$, $p < 0.001$) and I^2 test statistic ($I^2 = 95.075$).[5] This rejects the null hypothesis of homogeneity and indicates the presence of moderators that may potentially influence the relationship between divestments and abnormal stock returns (Lipsey and Wilson, 2001). Moreover, the high Q-value and I^2 test statistic suggest that this finding should be treated as an average correlation and not a true correlation value (Hedges and Olkin, 1985).

The HOMA analysis helps us identify the moderation effects of methodological artefacts and several other firm-level variables. Regardless of the methodology that has been used to estimate abnormal stock returns during the event window, the mean *r* is always positive and statistically highly significant. The HOMA results for divestment modes show that *M&A* ($\bar{r} = 0.264$, $p < 0.01$) tend to create stronger positive stock market reactions followed by *Sell-off* ($\bar{r} = 0.195$, $p < 0.001$) and *MBO* ($\bar{r} = 0.194$, $p < 0.05$). Consistent with the literature (Daley et al., 1997; Krishnaswami and Subramaniam, 1999; Perotti and Rossetto, 2007), we also find a positive mean *r* associated with *Spin-off* ($\bar{r} = 0.189$, $p < 0.001$) and *Equity carve-out* ($\bar{r} = 0.202$, $p < 0.01$). We also find that stock market reactions are positive to relatively large divestments ($\bar{r} = 0.109$, $p < 0.001$), or where the firm chooses to disclose the price ($\bar{r} = 0.099$, $p < 0.001$), or deals in cash ($\bar{r} = 0.125$, $p < 0.01$). Similar to prior studies (Dasilas and Leventis, 2018; Sun and Shu, 2011), we find that divesting related assets creates less-favourable abnormal returns ($\bar{r} = -0.050$, $p < 0.001$).

At the firm-level, the HOMA analysis shows a positive mean *r* for *Insider ownership* ($\bar{r} = 0.125$, $p < 0.01$), and negative for *Institutional ownership* ($\bar{r} = -0.212$, $p < 0.01$) and *Management ownership* ($\bar{r} = -0.051$, $p < 0.01$). The ownership of firms by institutional investors has been criticised due to their own internal agency problems and their role in controlling corporate behaviour (Gillan and Starks, 2003; Gorton and Kahl, 1999). Similarly, although managerial ownership should reduce agency problems, high ownership by managers may also lead to management entrenchment (Davies et al., 2005), which suggests that managers conduct divestments for their own benefit. However, at the agency level, we find that firms that offer better protection to the shareholders ($\bar{r} = -0.148$, $p < 0.05$) tend to generate negative stock market reactions to divestment announcements.

[5] The Q statistic assesses whether the variation in effect sizes across studies exceeds what would be expected by random sampling error, while the I^2 statistic represents the proportion of total variance attributable to true heterogeneity rather than chance. A significant Q value suggests heterogeneity in the sample, whereas higher I^2 values indicate greater inconsistency among study findings.

Table 3
Results of the Hedges-Olkin type meta-analysis (HOMA).

Variable		K	N	Mean r	SE	95% CI		Q	I^2	Fail-safe N	Trim-and-Fill		
						Lower	Upper				Left	Right	Mean r'
1	Overall (Hypothesis 1)	202	90449	0.196**	0.017	0.162	0.23	4081.004***	95.075	40316	0	50	0.331
	Valuation												
2	Short-term returns	188	66335	0.210***	0.02	0.171	0.249	3904.496***	95.211	39753	0	50	0.352
3	0 day	7	996	0.689**	0.241	0.217	1.162	328.621***	98.174	441	0	2	0.839
4	3 days	125	60577	0.201***	0.022	0.157	0.245	3040.605***	95.922	9443	0	36	0.319
5	7 days	42	3949	0.181***	0.049	0.084	0.278	330.503***	87.595	1017	9	0	0.084
6	11 days	14	813	0.133†	0.076	−0.016	0.282	52.683***	75.324	26	0	0	-
7	Long-term returns	14	24114	0.025	0.035	−0.044	0.095	72.335***	82.028	0	1	0	0.006
8	Upto 3 monthts	6	20202	0.188*	0.094	0.003	0.373	17.923**	72.103	5	3	0	−0.011
9	More than 3 months	8	3912	−0.053	0.057	−0.932	0.351	52.761***	86.733	0	0	1	0.016
	Methodology												
10	Market model	115	72074	0.275***	0.023	0.229	0.321	3243.283***	96.485	27468	0	34	0.436
11	Mean-adjusted model	10	824	0.415***	0.078	0.263	0.566	40.003***	77.502	306	0	0	-
12	Market-adjusted model	27	2916	0.090**	0.033	0.026	0.155	57.895***	55.091	94	7	0	0.023
13	Index model	8	2570	−0.037	0.063	−0.161	0.087	52.995***	86.791	0	0	0	-
14	Fama-French model	15	5867	0.132**	0.046	0.042	0.221	137.000**	89.781	194	0	0	-
15	Two-factor model	6	274	0.757**	0.269	−1.284	−0.23	77.203***	93.524	112	0	1	−0.568
16	Unspecified	21	5924	0.081	0.054	−0.025	0.187	286.158***	93.011	4	0	2	0.135
	Divestment mode												
17	Sell-off	91	48974	0.195***	0.024	0.148	0.242	1873.070**	95.195	9340	0	27	0.359
18	Spin-off	55	10536	0.189***	0.04	0.11	0.267	520.839***	89.632	1880	0	0	-
19	Equity carve-out	35	7271	0.202**	0.077	0.051	0.354	1296.089***	97.377	1399	0	11	0.358
20	MBO	2	132	0.194*	0.089	0.019	0.368	0.97	0.001	-	-	-	-
21	M&A	6	1232	0.264**	0.101	0.067	0.461	26.968***	81.46	29	3	0	0.108
22	Liquidation	5	701	−0.045	0.146	−0.331	0.24	37.666***	89.38	0	0	0	-
	Divestment motive												
23	Industry refocus	58	35957	0.181***	0.027	0.129	0.233	723.346***	92.12	2482	0	15	0.288
24	Geographical refocus	14	6904	0.116*	0.051	0.017	0.216	53.249***	75.586	21	0	2	0.001
25	Financing	21	16556	0.146***	0.034	0.08	0.213	323.168***	93.811	373	0	2	0.031
26	Distress	14	2214	0.261*	0.11	0.045	0.477	327.100***	96.026	534	0	0	-
27	Efficiency seeking	65	19328	0.245***	0.049	0.149	0.341	2268.725***	97.179	7130	0	0	-
28	Agency problem	22	4357	−0.075*	0.037	−0.147	−0.004	100.817***	79.17	92	0	1	−0.068
29	Unspecified	8	21603	0.318**	0.101	0.12	0.516	241.697***	97.104	219	0	0	-
	Deal characteristics												
30	Price disclosure	15	9374	0.099***	0.025	0.049	0.148	60.334***	76.796	196	0	2	0.123
31	Cash transaction	29	19665	0.125**	0.049	0.03	0.22	1060.591***	97.36	1123	0	10	0.194
32	Asset relatedness	23	16454	−0.050***	0.015	−0.079	−0.021	35.527*	38.074	107	0	8	−0.029
33	Relative asset size	47	17305	0.109***	0.023	0.064	0.155	304.944***	84.915	1041	8	0	0.051
	Ownership structure												
34	Insider ownership	30	8815	0.050**	0.018	0.014	0.085	68.455***	57.636	100	0	6	0.073
35	Outsider ownership	15	3626	−0.212*	0.09	−0.388	−0.035	350.702***	96.008	324	4	0	−0.283
36	Management ownership	13	4413	−0.051*	0.025	−0.1	−0.003	24.014*	50.029	16	4	0	−0.077
	Agency structure												
37	Shareholder rights	14	9495	−0.148*	0.072	−0.289	−0.008	548.241***	97.629	1529	2	0	−0.195
38	Change in TMT	17	4019	−0.071	0.121	−0.309	0.167	796.082***	97.99	430	5	0	0.18
39	Firm age	13	3100	−0.097*	0.039	−0.174	0.02	49.810***	75.908	57	2	0	−0.115

(*continued on next page*)

Table 3 (*continued*)

	Variable	K	N	Mean r	SE	95% CI		Q	I^2	Fail-safe N	Trim-and-Fill		
						Lower	Upper				Left	Right	Mean r'
	Firm size												
40	Log Sales	12	3073	−0.120**	0.043	−0.204	−0.036	45.202***	75.665	72	0	0	-
41	Log Assets	18	20613	−0.055**	0.018	−0.089	−0.021	48.114***	64.667	135	0	0	-
	Firm performance												
42	ROA	33	26776	0.017	0.034	0.05	0.084	692.841***	95.381	72	0	8	0.076
43	ROI	6	2051	0.063*	0.03	0.005	0.122	7.476	33.121	6	0	1	0.069
44	ROE	6	1296	0.074†	0.04	−0.004	0.152	9.087	44.978	6	0	0	-
45	EBITD	4	495	0.051	0.046	−0.038	0.141	0.298	0.001	0	0	0	-
46	Sales growth	8	6125	0.047*	0.021	0.006	0.087	14.807*	52.726	18	0	0	-
	Firm value												
47	MV/BV	21	17019	0.168**	0.053	0.064	0.272	616.476***	96.756	984	0	6	0.241
48	Tobin's Q	14	10575	0.181**	0.052	0.078	0.284	226.052***	94.249	442	0	2	0.209
49	Firm liquidity	14	12135	0.139†	0.08	−0.018	0.297	754.505***	98.277	677	0	4	0.206
50	Firm diversification	32	29073	0.114*	0.045	0.026	0.202	1146.718***	97.297	1319	0	7	0.15
51	Firm debt	41	19165	0.077**	0.027	0.023	0.131	446.488***	91.041	369	0	15	0.156

K = effect size, N = total sample size, SE = standard error, Q = Cochran's homogeneity test statistic, I^2 = scale free index of heterogeneity, Mean r' = adjusted mean r, MBO = management buy-out, M&A = merger and acquisition, TMT = top management team, ROA = return on assets, ROI = return on investment, ROE = return on equity, EBITD = earnings before interest, tax and depreciation, MV/BV = market value to book, ***$p < 0.001$, **$p < 0.01$, *$p < 0.05$, †$p < 0.1$.

Next, we find that stock market reactions to divestment announcements are negative among older ($\bar{r} = -0.097$, $p < 0.05$) and larger firms (Log Sales: $\bar{r} = -0.120$, $p < 0.01$; Log Assets: $\bar{r} = -0.055$, $p < 0.01$). The mean *r* for *Firm diversification* is positive ($\bar{r} = 0.114$, $p < 0.05$). This result contributes to the broad literature on corporate restructuring, where it has been argued that refocusing divestments by over-diversified firms are perceived favourably by the shareholders (Byerly et al., 2003; Chen and Guo, 2005; Zschoche, 2016). Further, the HOMA results suggest that divestments by indebted firms create positive stock market reactions as indicated by the positive mean *r* ($\bar{r} = 0.077$, $p < 0.01$). This again contributes to the broad literature on corporate restructuring, where scholars have argued that debt-financing divestments are an indication of sound strategic planning, bankruptcy avoidance, and performance enhancement of other business units (Finlay et al., 2018; Francoeur and Niyubahwe, 2009).

5.2. MARA results

We applied the MARA procedure to test the effects of formal and informal institutions on stock market reactions to divestment announcements. The results are presented in Table 4. We tested the effects of several country-level and publication-related variables. As shown in Table 4, the coefficient for GDP per capita is negative ($B = -0.099$, $p < 0.01$), which suggests that stock markets in advanced economies (measured as countries with high GDP per capita) tend to react negatively to divestment announcements. This is an interesting finding, as most of the primary studies included in the meta-analysis use samples from advanced economies (i.e., the U.S. and U.K.). Moreover, advanced economies have highly developed capital markets (Mauro, 2003) where firms are happy to pay higher dividends as they can always raise external capital (La Porta et al., 2000). The coefficient for *Inflation* is negative ($B = -0.079$, $p < 0.001$), which suggests that the volatility in the financial markets can negatively affect divestment decisions as shareholders seek to maintain their status quo, and inflated asset prices are likely to discourage potential investors. The coefficients for both *Total GPD* log and *Population* log were not significant, and we can rule out the possible effect of the size of the economy or country on stock market reactions to divestment announcements.

The positive coefficients for *Government efficiency* ($B = 0.092$, $p < 0.001$) corroborate the argument that countries with an efficient government foster a positive environment for good corporate governance (Aguilera and Cuervo-Cazurra, 2004). The coefficients for *Level of democracy* and *Rule of Law*, and *Legal origin* were not significant. This is an indication that the level of transparency in the macroeconomic environment or the origin and effectiveness of the legal system have no effect on how stock markets react to divestment announcements.

Since stock market volatility is closely associated with external uncertainty and potential policy changes (Białkowski et al., 2008; Bomfim, 2003), the negative coefficient associated with *Stock market volatility* ($B = -0.802$, $p < 0.05$) is an indication that firms are risk-averse to divesting their assets. The positive coefficient associated with *Listed firms* ($B = 0.012$, $p < 01$) is an indication that stock markets with a large number of listed firms are likely to perceive divestment positively than stock markets with a smaller number of listed firms. The coefficients for *Stock market cap* and *Stocks trade* are not significant, which rules out any influence of size and volume of the stock markets over their reactions to divestment announcements.

In Hypothesis 2, we proposed that a stable political environment fosters a strong principal-agent relationship and provides a strong legal framework to reduce hostile takeovers. Thus, stock markets are likely to react positively to divestment announcements. Our results support our hypothesis as indicated by the regression coefficient for *Political stability,* but the effect is not very strong ($B = 0.003$, $p < 0.01$). In Hypothesis 3, we propose that strong regulations provide a framework that ensures the shareholders' rights are protected, and any investment or divestment decisions are disclosed transparently. This gives confidence to the shareholders that the divestment decision was made in their interests, and thus, stock markets react positively. We found support for our hypothesis as the coefficient for *Regulations* is positive and significant ($B = 0.592$, $p < 0.1$).

Next, we proceed to test the moderation effects of informal institutions. In Hypothesis 4, we propose that stock market reactions to divestment announcements are less favourable in countries with high levels of corruption. Our key argument was that in the presence of external corruption, the trust between shareholders and managers breaks down, leading to agency conflict. Contrary to our prediction, the coefficient for *CPI* is positive ($B = 0.014$, $p < 0.05$), which rejects Hypothesis 4. In Hypothesis 5, we argue that individuals in long-term orientation cultures prefer future returns over immediate gains and perceive divestments negatively. The effect is strong, and our hypothesis was supported as indicated by the negative coefficient for *LTO* ($B = -0.679$, $p < 0.05$). Finally, in Hypothesis 6, we explore the complex relationship between uncertainty avoidance and stock market reactions to divestment announcements. We propose that stock market reactions to divestment announcements can be both positive and negative in high uncertainty avoidance cultures. On the one hand, individuals in such cultures have a low tolerance towards risk and are happy to divest low-performing businesses. On the other hand, individuals tend to resist change and are likely to view divestments negatively. Our results, however, suggest that *Uncertainty avoidance* does not seem to have any significant influence on how stock markets react to divestment announcements, and thus, Hypothesis 6 is rejected.

5.3. Publication bias and robustness tests

Before testing the publication bias and conducting robustness tests, we checked the sampling error variance in our study because the validity of results varies according to sampling error. We checked for sampling error variance following the procedure recommended by Hunter and Schmidt (1990). The sampling error variance was estimated as follows: $S_e^2 = \frac{(1-r^2)^2}{N-1}$, where *r* is the correlation coefficient and *N* is the average effect size. The estimated sampling error variance in our study was low and at an acceptable level of 0.054 (5.49%).

Table 4
Results of the meta-regression analysis (MARA).

Variables		B	SE
1	Intercept	0.502	0.823
2	Total GDP log	−0.037	0.039
3	Population log	−0.094	0.109
4	GDP per capita	−0.099**	0.040
5	Inflation	−0.079***	0.023
6	Government efficiency	0.092***	0.307
7	Rule of Law	−0.226	0.307
8	Level of democracy	0.144	0.354
9	Legal origin	−0.001	0.004
10	Stock volatility	−0.046*	0.021
11	Stock market cap	0.087	0.018
12	Stocks traded	0.001	0.002
13	Listed firms	0.012**	0.010
14	Published work	−0.071*	0.038
15	JIF	−0.087*	0.044
16	Political stability (H2)	0.003**	0.001
17	Regulatory environment (H3)	0.592†	0.394
18	CPI (H4)	0.014*	0.014
19	LTO (H5)	−0.679*	0.296
20	Uncertainty avoidance (H6)	−0.001	0.001
	K	156	
	Q	305.583***	
	Residual Q	2698.761***	

CPI = Corruption perception index, JIF = Journal Impact Factor, LTO = Long-term orientation, Q = Cochran's test of homogeneity, ***p < 0.001, **p < 0.01, *p < 0.05, †p < 0.1.

Publication bias is a common issue in the literature where published studies tend to report larger effect sizes and statistically significant positive results than unpublished works (Rosenberg, 2005; Rosenthal, 1979). Consistent with Arte and Larimo (2022), we employed Rosenthal's (1979) fail-safe N and Duval and Tweedie's (2000a) 'Trim and Fill' method to test the extent of publication. The results for both these tests suggest that publication bias is not a major concern in our meta-analysis. As shown in Table 2, the *Fail-safe N* for the overall sample is 40316. This means that we would need to locate and include 40316 'null' studies to turn the results of our meta-analysis non-significant. The 'Trim and Fill' method initially estimates and trims the asymmetric outlying part of the sample and then fills the plot by re-inserting the trimmed studies as well as their imputed counterparts around the centre. We estimated the asymmetric studies using the estimator R_0 because it is more stable than the other estimators (Duval and Tweedie, 2000b). The results for *Trim-and-Fill* test 50 missing studies with an adjusted mean *r* of 0.331. A graphical representation of the entire sample and the imputed 50 studies is presented in Fig. 1.

We checked the robustness of our results using various tests. First, we replicated the HOMA by replacing the *z*-transformed

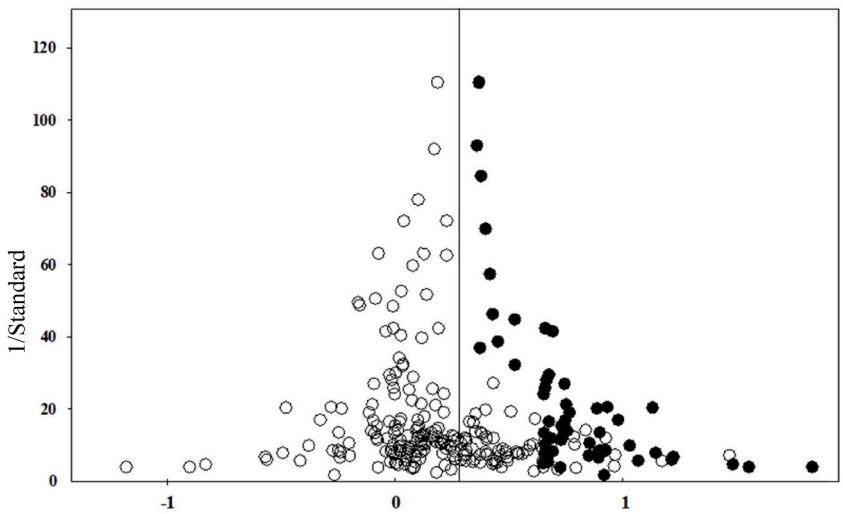

Fig. 1. Funnel plot.
Note: Hollow dots indicate effect size and solid dots indicate imputed studies.

correlations with raw correlations. Consistent with the results in Table 2, the mean *r* for the overall sample was 0.194 with a significance level of 0.1% and a confidence interval ranging from 0.161 to 0.226. Moreover, the consistent directionality of results for divestment modes (e.g., sell-offs, spin-offs, carve-outs, buy-outs, and acquisitions) across both HOMA procedures supports the robustness of the institutional explanations, while variations in magnitude align with prior evidence that managerial motives and market signalling differ by divestment type. Second, we conducted the HOMA procedure by including only one effect size per study (K = 144, N = 77,851). The results revealed that the mean *r* for the revised sample ($\bar{r} = 0.203$, $p < 0.001$) is identical to the mean *r* of our original analysis ($\bar{r} = 0.196$, $p < 0.01$). The confidence interval for the revised sample ranges from 0.163 to 0.242 and does not include zero, which indicates that the effect is statistically significant and comparable to the original analysis (Confidence interval = 0.162 to 0.230). The heterogeneity was high and statistically significant ($Q = 3365.300$, $p < 0.001$; $I^2 = 95.751$), which was again comparable to the original analysis ($Q = 4081.004$, $p < 0.001$; $I^2 = 95.075$), and indicates the presence of potential moderators. Furthermore, the consistent directionality of results across different divestments (sell-offs, spin-offs, carve-outs, buy-outs, and acquisitions), while variations in magnitude align with prior evidence that managerial motives and market signalling differ by divestment type. The results of these analyses are provided in Appendix B and C, respectively. Fourth, our sample size is considerably large and subject to the presence of outliers. The presence of outliers may cause distortion of the results (Yuan and Bentler, 2001). We checked for the presence of outliers using data-trimming techniques Hunter and Schmidt (1990). The two commonly used techniques are trimming the 2% of the top and bottom extremes of the sample (Hunter and Schmidt, 1990), and the more conservative 5% of the top and bottom extremes (Huber, 1981; Walfish, 2006). Neither test revealed any significant changes in the results.

6. Discussion

6.1. Summary

The objective of this study was to investigate the stock market reactions to divestment announcements under different institutional contexts. We developed our investigative framework by drawing upon the agency theory and institutional theory. The key premise of this study is that external institutions influence the decision to divest and the shareholders' perceptions of such decisions. We tested our framework using meta-analysis as it gave us the opportunity to pool a large sample of 202 effect sizes and over 90,000 firm-level observations. Our findings provide definitive evidence that stock markets react strongly and positively to divestment announcements. Moreover, we observe that formal institutional factors such as stable policies and reliable regulations foster a healthy principal-agent relationship, and therefore, divestments are perceived positively by the shareholders. Interestingly, our analysis reveals that the principal-agent relationship is stronger in the presence of external corruption, and therefore, divestments are perceived positively. While the importance of formal institutions for good corporate governance is well documented in the literature (e.g., Cumming et al., 2010; La Porta et al., 1998), we explore the role of national culture, especially LTO and uncertainty avoidance, as the determining factor of stock market reactions to divestment announcements. Given that LTO reflects the extent to which individuals and markets prioritise future-oriented objectives, patience, and strategic foresight over short-term gains, the inclusion of LTO as a cultural dimension captures not only the economic effect of divestment announcements on stock markets but also the perceptual aspect of how investors interpret such actions. As predicted, we find evidence that in cultures characterised by higher LTO, stock markets react less favourably to divestments, reflecting the tendency of individuals to emphasise long-term goals. We did not find support for our prediction concerning uncertainty avoidance, where we argued that uncertainty avoidance may have both a positive and a negative effect on divestments and the resulting stock market reactions.

In interpreting the results, it is important to consider not only the direction and statistical significance of the coefficients but also their magnitude, which reflects the economic significance of the observed effects. The effect sizes reported in the MARA indicate that institutional and cultural moderators such as corruption, LTO, and uncertainty avoidance exert non-trivial influences on stock market reactions to divestment announcements. These results demonstrate that the magnitude of institutional effects, though moderate, is both economically and theoretically significant in explaining heterogeneity across studies. In the following, we explicate our theoretical contributions, followed by managerial and policy implications, and limitations of our study.

6.2. Theoretical contributions

Theoretically, our study contributes to the literature in the following ways. First, our study contributes to the extensive literature on divestments by clarifying the ongoing debate on whether such strategic actions create or destroy shareholder value. By demonstrating that divestments, on average, generate positive stock market reactions, our findings suggest that shareholders interpret these announcements as signals of improved strategic focus, efficiency, and resource reallocation. This supports the view that divestments serve as mechanisms for value creation by helping firms overcome agency problems and focus on core competencies (Arte et al., 2022; Vidal, 2021). Thus, our results contribute to resolving prior mixed evidence (Berger and Ofek, 1999; Pearce and Patel, 2021; Francoeur and Niyubahwe, 2009) by providing meta-analytic confirmation that markets reward divestments as credible signals of organisational renewal and governance efficiency. This contribution advances understanding of divestments as strategic, value-enhancing actions rather than mere reactions to financial distress or performance decline.

Second, this study contributes theoretically by developing an integrative framework that links agency theory with institutional theory to explain the multi-level determinants of divestment decisions and the subsequent market reactions. While agency theory primarily focuses on the contractual dynamics and incentive misalignments between shareholders and managers, it often neglects the broader institutional and cultural environments in which these relationships are embedded. Prior research shows that institutional

contexts moderate the effectiveness of agency-based governance mechanisms, as national institutions define the legitimacy, credibility, and enforcement of managerial behaviour (Aguilera and Jackson, 2003). In weak institutional environments, agency problems are exacerbated due to limited enforcement and poor protection of shareholder rights, which increase information asymmetry and opportunistic behaviour (Giannetti, 2003). Conversely, robust institutional frameworks constrain such opportunism and align managerial incentives with shareholder interests (Lewellen and Lewellen, 2022). By incorporating institutional theory, we demonstrate that formal institutions, such as political stability, regulatory quality, and governance effectiveness, constrain managerial opportunism and enhance accountability mechanisms (Mitnick, 1984, 2019). At the same time, informal institutions, reflected in national cultural dimensions such as corruption levels, LTO, and uncertainty avoidance, shape managerial risk preferences, time horizons, and strategic commitment. Moreover, cultural orientations moderate how managers and investors interpret and respond to strategic actions. Specifically, LTO cultures promote trust and long-term value creation, thereby mitigating agency conflicts, whereas high uncertainty avoidance cultures influence risk perceptions and acceptance of strategic restructuring (Falamarzi et al., 2023). Building on this integration, our integrative framework extends existing theory by situating the principal–agent relationship within its institutional context, showing how both formal and informal institutions jointly act as boundary conditions that determine whether agency mechanisms lead to value-enhancing corporate outcomes.

Third, our findings extend institutional theory by illustrating the mechanisms through which both formal and informal institutions shape investment behaviour and market responses. While prior research generally asserts that stable institutions are conducive to business activity (North, 1990), our results demonstrate that such stability promotes effective governance structures by enhancing regulatory credibility and supporting transparent managerial practices (Dellepiane-Avellaneda, 2010). Moreover, we show that informal institutions, such as cultural orientation, reinforce these formal mechanisms by facilitating cooperative relationships between shareholders and management (Müller et al., 2014). In doing so, our study moves beyond confirming the institutional premise and empirically identifies how institutional quality translates into better governance and stronger investor confidence in the context of divestment decisions.

Fourth, our study contributes to institutional and agency theory by revealing a paradoxical relationship between corruption and corporate governance effectiveness. We initially posited that corruption would weaken governance by exacerbating information asymmetry and agency conflicts, thereby leading to negative stock market reactions. However, our empirical findings show that in certain contexts, corruption may exert a disciplining or pressure effect on managerial behaviour for effective governance, and firms with effective governance are perceived positively by the shareholders (Wu, 2005). Specifically, the need to signal legitimacy and credibility to investors places greater external scrutiny on managerial decisions, prompting firms to strengthen internal governance mechanisms and improve transparency. This finding aligns with institutional theory's argument that firms adapt to institutional imperfections through compensatory governance mechanisms (Roth and Kostova, 2003). From an agency perspective, this adaptive behaviour can be seen as a self-correcting response that enhances alignment between managerial actions and shareholder interests. Thus, rather than purely 'sanding the wheels' of governance, under certain conditions, corruption acts as a 'greasing' mechanism (Méon and Weill, 2010), intensifying managerial accountability and leading to more shareholder-oriented divestment decisions. Therefore, our study extends existing theorisation by showing that the effects of corruption on corporate strategy and market performance are context-dependent, moderated by the firm's governance quality and the institutional need for legitimacy.

In addition to revealing the moderation effect of formal and informal institutions, our study also reveals the true effect of income levels and income disparity in determining the stock market reactions to divestment announcements. Contrary to established knowledge that high-income countries have stable capital markets where firms pay higher dividends (La Porta et al., 2000), we find that shareholders in advanced economies do not favour divestments. This raises a critical question of whether the shareholders in advanced economies or in countries with income inequality have more power than the management. Finally, the divestment literature may benefit from further exploration of the link between agency conflict and corporate governance because these two factors have a significant influence on shareholder value. Since these two factors take effect internally within the firm, we suggest that future studies explore ways in which the trust between the management and shareholders can be reinforced, such that divestment decisions are beneficial not only to the shareholders but to all stakeholders.

6.3. *Managerial and policy implications*

Our findings have clear implications for managers and policy makers. Overall, we demonstrate that shareholders perceive divestments positively, which helps managers overcome the decision-making uncertainty and align their interests with those of the shareholders. We further expect that this will be fruitful in overcoming agency conflicts. While not a litmus test, we are also able to provide a decision-making spectrum regarding the choice of exit mode. To aid managers with divestment decision-making, we recommend the following sequence for selecting the appropriate divestment mode: (1) M&A, (2) Equity carve-out, (3) Sell-off, and (4) Spin-off. Our results concerning LTO are self-explanatory since shareholders in countries with a long-term orientation culture are likely to consider future gains over present returns or dividend payments. Rather, they are happy to reinvest the proceeds in future value-enhancing goals. This is an important contextual factor that managers should consider in building trust with the shareholders.

In environments characterised by weak regulatory enforcement or low investor confidence, divestment announcements may be interpreted as signals of managerial distress or opportunism. Similarly, in high uncertainty-avoidance cultures, investors may view corporate restructuring as destabilising, thereby attenuating or reversing the expected value gains. Thus, managers should carefully consider the institutional and cultural context when planning divestments, as the same strategic action can be perceived differently across settings. From a policy perspective, strengthening institutional quality and market transparency can help ensure that divestments are viewed as credible, value-enhancing decisions rather than reactive measures to mitigate inefficiency.

For policymakers, our findings highlight the significance of sound regulations and a stable political environment to offer maximum shareholder protection. The impact of these factors is primarily facilitated through the establishment of trust between shareholders and management. Sound regulations promote effective governance and provide a framework for upholding shareholder rights, which in turn aids in building trust. Moreover, when regulations are consistently enforced, they create an environment of reliability and transparency, which again fosters the principal-agent relationship. Political stability reduces external uncertainties and helps the shareholders feel more confident in delegating authority to agents. Thus, the confidence among shareholders that the management will act in their best interests leads to a strong principal-agent relationship and more stable corporations.

6.4. Limitations and future research direction

Our study is subject to several limitations. Being one of the first studies on this topic limits the generalisability of our investigative framework and empirical findings. The framework developed in this study draws upon the agency theory and institutional theory, and to the best of our knowledge, ours is one of the first studies to test the framework within the context of stock market reactions to divestment announcements. However, the novel approach and extremely narrow focus are subject to theoretical weaknesses. Our investigation assumes that the stock market reactions to divestment announcements are influenced by primary agency conflict, that is, conflict between the shareholders and managers. Secondary agency conflict arises between the shareholders when ownership and control are concentrated. When ownership and control are unevenly distributed, the majority shareholders are likely to gain favours from the management (Sutton et al., 2018) and restructuring decisions are misappropriated at the expense of minority shareholders (Singla et al., 2014). While evidence is not conclusive, stock markets must typically react negatively to divestments when control is heavily concentrated and capital is allocated inefficiently. On the contrary, research suggests that gains from divestment are higher for firms experiencing problems associated with ownership and control (Haynes et al., 2000). Thus, there is a need to resolve this debate and provide conclusive evidence.

A potential limitation of our study lies in the formulation of moderation effects that presents a directional expectation rather than fully balanced, competing alternatives. While this approach enhances analytical clarity and aligns with the prevailing theoretical consensus in the literature, it may understate the possibility that some relationships operate differently under varying contextual conditions. Future research could build on our framework by developing and empirically testing competing or conditional hypotheses that more explicitly capture this theoretical ambiguity. Such extensions would provide a better understanding of the contingent nature of divestment outcomes across different institutional and cultural settings.

Our findings related to national culture do not fully explain the negotiations and decision-making process. Informal institutions have multiple dimensions, several of which were not tested in our study, partly due to the nature of our research design. Non-temporal dimensions of culture, such as gender, have been argued to influence the negotiation approach and its outcomes (Kray et al., 2012; Kugler et al., 2018; Mazei et al., 2021). Furthermore, the gender of the top management team has also been associated with their risk-taking tendencies (Palvia et al., 2015), an element which was not tested in our study. Thus, we encourage future research to explore this dimension of national culture and identity in relation to divestment decisions and the resulting stock market reactions.

The role of corruption is a critical element of this study, as it directly influences the efficiency of a country's political and legal structures and, consequently, the credibility of its formal institutions. In the context of divestments, external corruption can act either as a ‘wheel greaser’ by facilitating negotiations and expediting agreements through informal mechanisms, or as a ‘wheel sander’ by undermining institutional trust and weakening formal governance systems (Méon and Weill, 2010). The latter may yield seemingly positive market reactions not because of efficiency gains, but due to investors' lack of faith in formal institutions and the resulting reinforcement of informal principal–agent relationships. To advance this line of inquiry, future research could undertake a more rigorous examination of corruption's multifaceted role in corporate governance and restructuring, recognising that different forms of corruption may exert distinct effects on firms and shareholders. This would require refining the conceptualisation of corruption by incorporating contextual factors such as national and sub-national cultural variations. Moreover, scholars could revisit the legal origins perspective traditionally based on La Porta et al. (1998), which has faced criticism for coding inconsistencies and limited construct validity. Alternative datasets, such as those developed by Deakin and colleagues (Armour et al., 2009; Deakin et al., 2007; Deakin, 2009), offer promising avenues for future research to more accurately capture institutional diversity and its implications for governance and market outcomes.

The lack of generalisability of our findings also stems from unintentional selection bias. Our MARA covers firm-level observations from 16 countries. The majority of the 16 countries and the resulting effect sizes are representative of the OECD countries[6] that are characterised by strong institutions and a stable economic environment. Thus, the true effect of formal institutions on divestment decisions remains open to scrutiny. We encourage future researchers to test our frameworks using a heterogeneous sample that is representative of the rich diversity of ways in which countries and their institutions differ. We encourage empirical research on stock markets located in the Global South countries, as there is a genuine lack of empirical research.

While our analysis suggests that stock markets react positively to divestments under politically stable conditions, recent empirical evidence appears to challenge this finding. In their examination of U.S. firms’ exit from Russia, Balyuk and Fedyk (2023) found that firms experience significant negative returns immediately prior to announcing their divestment decisions and the returns stabilise upon announcement. We thus call for further testing of the relationship to provide more conclusive and robust results.

[6] The countries include Australia, Canada, France, Germany, Japan, South Korea, Spain, the U.K., and the U.S.

A methodological limitation arises from potential endogeneity in divestment decisions, whereby the choice to divest may be influenced by unobservable factors, such as managerial expectations of future cash flows, resource redeployment opportunities, or internal inefficiencies, that simultaneously affect market valuation. As such, event-based abnormal returns likely reflect both the causal value effects of divestments as well as investors' revised expectations about the firm's unobserved resources and strategic position. While the meta-analytic aggregation reduces idiosyncratic study-level biases, causal inference remains constrained by the cross-sectional nature of event data. Future research could address this issue through multi-level meta-analyses incorporating study-level identification strategies or by integrating panel-data designs that explicitly instrument for restructuring intent, for instance, by utilizing policy reforms or shifts in governance mechanisms as exogenous shocks.

Finally, while our study focused on the institutional characteristics of the country of listing, future research could extend the analysis by incorporating the host-country environment of the divested units. Differences between home and host institutional settings, such as variations in regulatory quality, governance norms, and cultural distance, may jointly shape managerial motives for divestment and how investors interpret these transactions. Examining such cross-border institutional interactions would provide a richer understanding of how firms navigate multi-level governance pressures and how the international context moderates stock market responses to divestment announcements.

7. Conclusions

In the context of the ongoing debate, we sought answers to an important question in the corporate governance and strategic management literature: How do stock markets react to divestment announcements? We were able to provide a definitive answer that stock markets react positively to divestment announcements. Further, we were also able to demonstrate the role of formal and informal institutions in determining the stock market reactions through their capacity to influence the principal-agent relationship. An important question to assess while concluding a meta-analysis is: "Where are we now that this meta-analysis has been conducted?" (Rosenthal, 1995, p. 190). Considering our efforts in collecting, meta-analysing, and summarising the findings, we believe our paper has been successful in achieving the goals. However, given the depth and breadth of the divestment literature, we conclude that there is a lot more to explore along the avenues identified in this paper.

CRediT authorship contribution statement

Pratik Arte: Writing – review & editing, Writing – original draft, Software, Resources, Methodology, Investigation, Formal analysis, Data curation, Conceptualization. **Sami Vähämaa:** Writing – review & editing, Writing – original draft, Validation, Supervision, Resources, Investigation.

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Appendix A. List of studies included in the analysis

No.	Study	AR (%)	CAR (%)	Source
1	Afshar et al. (1992)	n.i.	n.i.	JBF
2	Aggarwal and Garg (2019)	0.905	(0, 1) 2.676	MF
3	Aktas et al. (2019)	n.i.	(-1, 1) 0.980	UP
4	Alexander et al. (1984)	−0.021	(-1, 1) −0.068	JOF
5	Amiri et al. (2022)	n.i.	n.i.	BJM
6	Ataullah et al. (2010)	n.i.	(-1, 1) 2.000	EFM
7	Atkins and Favreau (2022)	n.i.	n.i.	IJPE
8	Baltin (2007)	1.44	(-5, 0) 2.990	Diss
9	Benou et al. (2008)	0.76	(-1, 1) 0.870	QREF
10	Berger and Ofek (1999)		(-1, 1) 0.019	RFS
11	Bergh et al. (2008)	n.i.	n.i.	SMJ
12	Bhana (2005)	1.031	(0, 1) 6.095	IAJ
13	Bhana (2006)	0.245	(0, 1) −1.364	IAJ
14	Borde et al. (1998)	-	(-1, 2) 2.280	MDE
15	Boreiko and Murgia (2013)		(-1, 1) 4.800	UP
16	Borisova et al. (2013)	2.86	(-1, 1) 3.180	JFE
17	Brauer and Schimmer (2010)		(-1, 1) 0.070	JSM

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No.	Study	AR (%)	CAR (%)	Source
18	Briston et al. (1992)	−1.181	(-1, 0) −0.284	JBFA
19	Cai et al. (2018)	n.i.	n.i.	JMFM
20	Cao et al. (2006)	1.08	(-1, 1) 1.280	MRN
21	Cao et al. (2008)	4.16	(-1, 1) 4.110	RIBF
22	Chahine and Zeidan (2014)	n.i.	n.i.	JMG
23	Chai et al. (2018)	1.93	(-1, 1) 2.930	AJM
24	Chong et al. (2009)	n.i.	n.i.	JABS
25	Chung et al. (2019)		(0,1) −0.013	JKT
26	Clayton and Reisel (2013)	n.i.	n.i.	JCF
27	Clubb and Stouraitis (2002)	1.1	(-1, 1) 0.900	JBF
28	Coakley et al. (2008)	0.81	(-1, 1) 0.820	AFE
29	Comment and Jarrell (1995)	n.i.	n.i.	JFE
30	Cooney et al. (2004)	0.003	(0, 1) 0.017 for strategic divestment 0.002 for non-strategic divestment	AJM
31	Copeland et al. (1987)	-	(-1, 0) 3.000	BC
32	Cousin et al. (2016)	n.i.	n.i.	UP
33	Cusatis et al. (1993)	n.i.	n.i.	JFE
34	Danbolt (2004)	0.21	(0, 1) 0.223	EFM
35	Danso et al. (2021)	n.i.	(-1, 1) 7.400	MF
36	Dasilas and Leventis (2018)	1.664	(-1, 1) 2.290	JFS
37	Dasilas et al. (2011)	3.47	(-1, 1) 4.950	UP
38	de Ávila et al. (2010)	n.i.	(-1, 0) 13.100	ARLA
39	de Vroom and van Frederikslust (1999)		(-1, 1) 2.540	UP
40	Denning and Shastri (1990)	n.i.	(-6, 6) −0.010	JBFA
41	Dereeper and Mashwani (2013)	1.9	n.i.	UP
42	Desai and Jain (1999)	4.45	n.i.	JFE
43	Dittmar and Shivdasani (2003)	n.i.	(-1, 1) 0.022	JOF
44	Doukas and Padmanabhan (2002)	−0.299	(-1, 1) −0.871	JIFMA
45	Eckbo (1983)	3.13	(-1, 1) 6.240	JFE
46	Elsas and Löffler (2001)	1.08	(-5, 5) 3.980	UP
47	Fan (2022)	0.89	(-1, 1) 2.640	IJFS
48	Finlay et al. (2018)	-	(-1, 1) 1.05	JCF
49	Francoeur and Niyubahwe (2009a)	0.58	(-1, 1) 0.560	BFR
50	Francoeur and Niyubahwe (2009b)	n.i.	n.i.	IJMF
51	Fu (2002)	n.i.	n.i.	UP
52	Fuchs (2005)	1.11	(-1, 1) 2.190	UP
53	Magid Gadad and Thomas (2005)	0.81	(-1, 1) −1.12	AFE
54	Gleason et al. (2000)	-	(-1, 0) 0.650	IRFA
55	Goergen and Renneboog (2004)	-	(-2, 2) 12.960	EFM
56	Guedes and Parayre (1997)	0.042	-	JBF
57	Hanson and Song (2000)	-	(-1, 1) 0.602	JCF
58	Hanson and Song (2003)	-	(-1, 1) 0.175	JEF
59	Harris and Ravenscraft (1991)	n.i.	n.i.	JOF
60	Hearth and Zaima (1984)	-	(-7, 7) 0.355	FM
61	Hearth and Zaima (1986)	0.006	(-1, 0) 0.014	JBFA
62	Hirschey and Zaima (1989)	n.i.	(-1, 0) 1.640	JOF
63	Hirschey et al. (1990)	n.i.	(-1, 0) 1.470	JBF
64	Hite and Owers (1983)	0.01	(-1, 0) 0.033	JFE
65	Hite and Vetsuypens (1989) a	n.i.	(-1, 0) 1.120	JBF
66	Hite and Vetsuypens (1989) b	n.i.	n.i.	JOF
67	Hite et al. (1987)	n.i.	(-1, 0) 1.660	JFE
68	Hogan and Olson (2004)	n.i.	n.i.	JFR
69	Hulburt et al. (2002)	n.i.	n.i.	FM
70	Humphery-Jenner et al. (2019)	n.i.	n.i.	JBF
71	Jain (1985)	0.001	(-1, 1) 0.005	JOF
72	John and Ofek (1995)	−0.003	(-2, 0) 0.015	JFE
73	Kaiser and Stouraitis (2001)	n.i.	(-1, 0) 1.200	EFM
74	Kaiser and Stouraitis (1995)	-	(-15, 0) −1.420	EFM
75	Kaplan and Weisbach (1992)	n.i.	(-5, 5) 25.81	JOF
76	Kaprielyan (2016)	0.63	(-1, 1) 2.410	JMFM
77	Kim and Tan (2016)	n.i.	n.i.	RAF
78	Kirchmaier (2003)	4.1	(-1, 1) 5.400	UP
79	Kiymaz (2004)	0.64	(-1,1) 3.410	JBF
80	Kiymaz and Mukherjee (2000)	1.04	(-1, 0) 3.07	QJBE
81	Kiymaz and Mukherjee (2000)	2.12	(-1, 1) 4.770	FR
82	Klein (1986)	0.17	(-1, 1) 2.73	JOF
83	Klein (1986)	n.i.	(-1, 0) 1.060	MDE
84	Knauer et al. (2018)	0.005	(-1, 1) 0.007	MAR
85	Krishnaswami and Subramaniam (1999)	1.8	(-1, 1) 3.28	JFE
86	Kudla and McInish (1988)	-	(-7, 0) 1.810	SMR

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No.	Study	AR (%)	CAR (%)	Source
87	Lang et al. (1995)	n.i.	(-1, 0) 2.8	JFE
88	Lasfer et al. (1996)	0.58	(-1, 0) 0.820	FM
89	Lee and Lin (2008)	1.38	(0, 12 months) −7.100	EFM
90	Lee and Park (2016)	−0.22	(-1, 1) −0.150	EMFT
91	Linn and Rozeff (1984)	n.i.	(-1, 0) 1.450	MCFJ
92	Madura and Nixon (2002)	n.i.	n.i.	AFE
93	Mandiratta and Bhalla (2023)	n.i.	(0, 20) −4.058	BIJ
94	Mathur et al. (2006)	-	(-1, 1) 0.960	UP
95	Meschi (2005)	-	(-1, 1) 1.550	JIBS
96	Michaely and Shaw (1995)	n.i.	n.i.	FM
97	Miles and James (1983)	0.008	(0, 1) 0.033	JOF
98	Montgomery et al. (1984)	n.i.	(-12 months, 12 months) 7.250	AMJ
99	Mulherin and Boone (2000)	n.i.	(-1, 1) 3.040	JCF
100	Muller and Fischer (2014)	n.i.	n.i.	DB
101	Myer et al. (1992)	0.5	(-1, 0) 1.460	JAREUEA
102	Nguyen (2016)	0.293	(-1, 1) 0.465	JEF
103	Nichols et al. (2014)	n.i.	n.i.	COC
104	Nicholson and Salaber (2013)	India: 0.010 China: 0.002	(-3, 1) India: 0.012 China: 0.021	IBR
105	Nkongho and Makina (2020)	n.i.	n.i.	SAJEMS
106	Otsubo (2009)	1.46	(-1, 0) 4.450	JBR
107	Otsubo (2013)	0.817	(-3, 3) 1.669	JEB
108	Owen et al. (2010)	1.046	(-1, 1) 1.570	AF
109	Padmanabhan (2018)	−1.16	(-1, 1) 0.690	UP
110	Padmanabhan (2018)	0.01	(-1, 1) 4.332	Vision
111	Pettway et al. (1993)	-	-	FM
112	Pham et al. (2018)	n.i.	(0, 12 months) Equity carve-out: −0.010 Sell-off: 0.020	RAF
113	Pham et al. (2021)	n.i.	(0, 12 months) Equity carve-out: −0.050 Sell-off: 0.040	JBeF
114	Powell and Yawson (2005)	n.i.	n.i.	JBF
115	Powers (2003)	n.i.	n.i.	JFR
116	Prezas and Simonyan (2015)	n.i.	(-1, 1) Spin-offs: 4.400 Sell-offs: 1.340	JCF
117	Putri and Asandimitra (2016)	1.01	(-2, 1) 2.630	JBE
118	Qian and Sudarsanam (2007)	3.45	(-1, 1) 4.820	UP
119	Reuer (2001)	0.43	(-1, 1) 0.99	SMJ
120	Rosenfeld (1984)	Spin-offs: 0.045 Sell-offs: 0.017	(-1, 0) Spin-offs: 0.055 Sell-offs: 0.023	JOF
121	Sachdeva and Shah (2009)	n.i.	(-1, 1) 6.380	IJM
122	Schipper and Smith (1983)	-	(-1, 0) 2.800	JFE
123	Seward and Walsh (1996)	n.i.	n.i.	SMJ
124	Shyam Kumar (2005)	0.63	(-1, 1) 0.330	SMJ
125	Sicherman and Pettway (1992)	n.i.	(-1, 0) 0.920	FM
126	Sin and Ariff (2006)	1.795	n.i.	Conf
127	Skantz and Marchesini (1987)	0.214	(-1, 0) 0.413	JFR
128	Slovin et al. (1995)	n.i.	(0, 1) Equity carve-outs: −1.110 Spin-offs: 0.600 Sell-offs: 0.040	JFE
129	Smolnik (2020)	2.99	(-1, 1) 3.910	JBC
130	Sun and Shu (2011)	0.02	(-1, 1) 2.460	AEL
131	Sun (2012)	-	(-1, 1) 1.960	IJBRF
132	Tokbolat et al. (2021)	n.i.	n.i.	IRFA
133	Truong (2017)	n.i.	(-1, 1) 4.210	JED
134	Tsetsekos and Gombola (1992)	−0.08	(-1, 1) −0.010	JIBS
135	Veld and Veld-Merkoulova (2008)	2.017	(-1, 1) 3.070	FM
136	Veld and Veld-Merkoulova (2004)	1.25	(-1, 1) 2.660	JBF
137	Vijh (1999)	n.i.	n.i.	JFE
138	Vijh (2002)	0.67	n.i.	JOB
139	Vyas et al. (2015)	2.51	(-1, 1) 3.73	JMPP
140	Wagner (2005)	0.7	(-1, 1) 1.710	UP
141	Wright and Ferris (1997)	−0.24	(-1, 1) −0.090	SMJ
142	Zaima and Hearth (1985)	n.i.	n.i.	JFR
143	Zakaria and Arnold (2010)	2.2	(-1, 1) 5.110	Conf
144	Zakaria and Arnold (2012)	2.09	(-1, 1) 5.040	AJFA

AEL	Applied Economics Letters	JBFA	Journal of Business Finance & Accounting
AF	Accounting and Finance	JBR	Journal of Business Research
AFE	Applied Financial Economics	JCF	Journal of Corporate Finance

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AJFA	Asian Journal of Finance & Accounting	JEB	Journal of Economics and Business
AJM	Australian Journal of Management	JED	Journal of Economic Development
AMJ	Academy of Management Journal	JEF	Journal of Economics and Finance
ARLA	Academia Revista Latinoamericana de Administración	JFE	Journal of Financial Economics
BC	Book Chapter	JFR	Journal of Financial Research
BFR	Banking and Finance Review	JFS	Journal of Financial Stability
BIJ	Benchmarking: An International Journal	JIBS	Journal of International Business Studies
BJM	British Journal of Management	JIFMA	Journal of International Financial Management and Accounting
COC	Corporate Ownership & Control	JKT	Journal of Korea Trade
Conf	Conference paper	JMFM	Journal of Multinational Financial Management
DB	Die Betriebswirtschaft	JMG	Journal of Management & Governance
Diss	Doctoral Dissertation	JMPP	Journal of Management & Public Policy
EFM	European Financial Management	JOB	Journal of Business
EMFT	Emerging Markets Finance and Trade	JOF	Journal of Finance
FM	Financial Management	JSM	Journal of Strategy and Management
FR	Financial Review	MAR	Management Accounting Research
IAJ	Investment Analysts Journal	MCFJ	Midland Corporate Finance Journal
IBR	International Business Review	MDE	Managerial and Decision Economics
IJBFR	International Journal of Business and Finance Research	MF	Managerial Finance
IJFS	International Journal of Financial Studies	MRN	Management Research News
IJM	International Journal of Management	QJBE	Quarterly Journal of Business and Economics
IJMF	International Journal of Managerial Finance	QREF	Quarterly Review of Economics and Finance
IJPE	International Journal of Production Economics	RAF	Review of Accounting and Finance
IRFA	International Review of Financial Analysis	RFS	Review of Financial Studies
JABS	Journal of Asia Business Studies	RIBF	Research in International Business and Finance
JAREUEA	Journal of the American Real Estate and Urban Economics Association	SAJEMS	South African Journal of Economic and Management Sciences
JBC	Journal of Business Chemistry	SMJ	Strategic Management Journal
JBE	Journal of Business and Economics	SMR	Sloan Management Review
JBeF	Journal of Behavioral Finance	UP	Unpublished work
JBF	Journal of Banking & Finance		

Appendix B. Results of the HOMA for raw correlations effect measure

Variable		K	N	Mean r	95% CI		Q	I^2	Fail-safe N	Trim-and-Fill		
					Lower	Upper				Left	Right	Mean r'
1	Overall (Hypothesis 1)	202	90449	0.194***	0.161	0.226	4081.004***	95.075	40316	0	50	0.32
	Valuation											
2	Short-term returns	188	66335	0.207***	0.17	0.244	3904.496***	95.211	39753	0	50	0.338
3	0 day	7	996	0.598**	0.214	0.822	328.621***	98.174	441	0	2	0.685
4	3 days	125	60577	0.199***	0.156	0.241	3040.605***	95.922	9443	0	36	0.309
5	7 days	42	3949	0.179***	0.083	0.271	330.503***	87.595	1017	9	0	0.083
6	11 days	14	813	0.132†	−0.016	0.275	52.683***	75.324	26	0	0	-
7	Long-term returns	14	24114	0.025	−0.044	0.094	72.335***	82.028	0	1	0	0.006
8	Upto 3 monthts	6	20202	0.186*	0.003	0.356	17.923**	72.103	5	3	0	−0.011
9	More than 3 months	8	3912	−0.053	−0.163	0.058	52.761***	86.733	0	0	1	0.016
	Methodology											
10	Market model	115	72074	0.268***	0.225	0.31	3243.283***	96.485	27468	0	34	0.41
11	Mean-adjusted model	10	824	0.392***	0.257	0.513	40.003**	77.502	306	0	0	-
12	Market-adjusted model	27	2916	0.090***	0.026	0.154	57.895***	55.091	94	7	0	0.023
13	Index model	8	2570	−0.037	−0.16	0.087	52.995***	86.791	0	0	0	-
14	Fama-French model	15	5867	0.131**	0.042	0.217	137.000***	89.781	194	0	0	-
15	Two-factor model	6	274	−0.639**	−0.857	−0.266	77.203***	93.524	112	0	1	−0.514
16	Unspecified	21	5924	0.081	−0.025	0.185	286.158***	93.011	4	0	2	0.134
	Divestment Mode											
17	Sell-off	91	48974	0.192***	0.147	0.237	1873.070**	95.195	9340	0	27	0.344
18	Spin-off	55	10536	0.186***	0.109	0.261	520.839***	89.632	1880	0	0	-
19	Equity carve-out	35	7271	0.200**	0.051	0.34	1296.089***	97.377	1399	0	11	0.343
20	MBO	2	132	0.191*	0.019	0.352	0.97	0.001	-	-	-	-
21	M&A	6	1232	0.258**	0.067	0.431	26.968***	81.46	29	3	0	0.108
22	Liquidation	5	701	−0.045	−0.319	0.236	37.666***	89.38	0	0	0	-
23	Unspecified	8	21603	0.308**	0.119	0.475	241.697***	97.104	219	0	0	-
	Divestment Motive											
24	Industry refocus	58	35957	0.179***	0.128	0.229	723.346***	92.12	2482	0	15	0.28
25	Geographical refocus	14	6904	0.116*	0.017	0.212	53.249***	75.586	21	0	2	0.001
26	Financing	21	16556	0.145***	0.08	0.21	323.168***	93.811	373	0	2	0.031
27	Distress	14	2214	0.255*	0.045	0.444	327.100***	96.026	534	0	0	-

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Variable		K	N	Mean r	95% CI		Q	I^2	Fail-safe N	Trim-and-Fill		
					Lower	Upper				Left	Right	Mean r'
28	Efficiency seeking	65	19328	0.240***	0.148	0.328	2268.725***	97.179	7130	0	0	-
29	Agency problem	22	4357	−0.075*	−0.146	−0.004	100.817***	79.17	92	0	1	−0.068
	Deal characteristics											
30	Price disclosure	15	9374	0.098***	0.049	0.147	60.334***	76.796	196	0	2	0.122
31	Cash transaction	29	19665	0.124**	0.03	0.217	1060.591***	97.36	1123	0	10	0.192
32	Asset relatedness	23	16454	−0.050***	−0.079	−0.021	35.527*	38.074	107	0	8	−0.028
33	Relative asset size	47	17305	0.109***	0.064	0.154	304.944***	84.915	1041	8	0	0.051
	Ownership structure											
34	Insider ownership	30	8815	0.050**	0.014	0.085	68.455***	57.636	100	0	6	0.072
35	Institutional ownership	15	3626	−0.209*	−0.37	−0.035	350.702***	96.008	324	4	0	−0.276
36	Management ownership	13	4413	−0.051*	−0.1	−0.003	24.014*	50.029	16	4	0	−0.077
	Agency structure											
37	Shareholder rights	14	9495	−0.147*	−0.281	−0.008	548.241***	97.629	1529	2	0	−0.193
38	Change in TMT	17	4019	−0.07	−0.299	0.166	796.082***	97.99	430	5	0	−0.178
39	Firm age	13	3100	−0.096*	−0.172	−0.02	49.810***	75.908	57	2	0	−0.115
	Firm size											
40	Log Sales	12	3073	−0.119**	−0.201	−0.036	45.202***	75.665	72	0	0	-
41	Log Assets	18	20613	−0.055**	−0.089	−0.021	48.114***	64.667	135	0	0	-
	Firm performance											
42	ROA	33	26776	0.017	−0.05	0.084	692.841***	95.381	72	0	8	0.076
43	ROI	6	2051	0.063*	0.005	0.121	7.476	33.121	6	0	1	0.069
44	ROE	6	1296	0.074†	−0.004	0.151	9.087	44.978	6	0	0	-
45	EBITD	4	495	0.051	−0.038	0.14	0.298	0.001	0	0	0	-
46	Sales growth	8	6125	0.047*	0.006	0.087	14.807*	52.726	18	0	0	-
	Firm value											
47	MV/BV	21	17019	0.167**	0.064	0.266	616.476***	96.756	984	0	6	0.237
48	Tobin's Q	14	10575	0.179**	0.078	0.276	226.052***	94.249	442	0	2	0.206
49	Firm liquidity	14	12135	0.138†	−0.018	0.289	754.505***	98.277	677	0	4	0.203
50	Firm diversification	32	29073	0.113*	0.026	0.199	1146.718***	97.297	1319	0	7	0.149
51	Firm debt	41	19165	0.077**	0.023	0.13	446.488***	91.041	369	0	15	0.155

K = effect size, N = total sample size, SE = standard error, Q = Cochran's homogeneity test statistic, I2 = scale free index of heterogeneity, Mean r' = adjusted mean r, MBO = management buy-out, M&A = merger and acquisition, TMT = top management team, ROA = return on assets, ROI = return on investment, ROE = return on equity, EBITD = earnings before interest, tax and depreciation, MV/BV = market value to book, ***p < 0.001, **p < 0.01, *p < 0.05, †p < 0.1.

Appendix C. Results of the HOMA for single effect size per study

Overall (Hypothesis 1)	Mean r	95% CI	
		Lower	Upper
Raw correlation	0.200***	0.162	0.237
Fisher's Z	0.203***	0.163	0.242

K = 144, N = 77851, Cochran's Q = 3365.300***, I^2 scale free index of heterogeneity = 95751, Fail safe N = 22698, CI = Confidence interval, ***p < 0.001.

Data availability

Data will be made available on request.

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