



## Governance, Financial, And Macroeconomic Determinants Of Long-Term Shareholder Returns Following Divestitures: Evidence From India

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### Introduction

Corporate divestitures, including spin-offs, carve-outs, and demergers, represent a critical component of corporate restructuring strategies aimed at refocusing operations, alleviating financial distress, and unlocking shareholder value (Hite & Owers, 1983; John & Ofek, 1995; Feldman & McGrath, 2016). The finance literature consistently documents that such transactions yield abnormal stock market returns in the short term (Miles & Rosenfeld, 1983; Desai & Jain, 1999) and, in many cases, generate sustained long-term outperformance (Cusatis, Miles, & Woolridge, 1993; Veld & Veld-Merkoulova, 2004). However, the

### Abstract

This study examines the governance, financial, and macroeconomic determinants of long-term shareholder returns following divestitures in India. Using data from 203 listed firms undertaking spin-offs, demergers, and asset sales between 2010 and 2023, long-run performance is measured through Buy-and-Hold Abnormal Returns (BAHRs). Employing a robust linear model with Huber's M-estimator, the analysis reveals that focus-increasing divestitures and higher board independence have a negative influence on returns, while asset turnover enhances value creation. GDP growth exerts a significant adverse effect, underscoring macroeconomic sensitivity. Findings extend global divestiture literature to emerging markets, highlighting governance structures, operational efficiency, and economic cycles as key determinants.

**Keywords:** Corporate Divestitures; Buy-and-Hold Abnormal Returns (BAHRs); Corporate Governance; Emerging Markets (India); Robust Regression Analysis

magnitude and persistence of these wealth effects remain contingent on governance structures, firm-specific financial conditions, and macroeconomic environments in which divestitures occur (Feldman, Amit, & Villalonga, 2019; Erl, Kiesel, & Schiereck, 2025).

Two complementary strands of research frame this debate. First, the governance perspective emphasises the role of board independence, audit committee oversight, CEO duality, and ownership identity in conditioning market reactions to restructuring. Evidence suggests that governance attributes not only influence divestiture

decision-making but also shape investor perceptions of managerial credibility and post-divestiture performance prospects (Gani & Jermias, 2006; Feldman, 2016; Feldman et al., 2019). Second, the financial health perspective draws on models of distress and efficiency to argue that divestitures are often undertaken to raise liquidity, reduce leverage, or improve capital allocation (Afshar, 1994; Finlay, Marshall, & McColgan, 2018). Distressed firms, in particular, may utilise asset sales and spin-offs as a signalling mechanism to regain investor confidence, resulting in favourable market responses (Erl et al., 2025).

The literature also emphasises the significance of macroeconomic and industry conditions in driving divestiture waves and influencing long-term returns. Harford (2005) demonstrates that corporate restructuring clusters around periods of high liquidity and industry shocks, while Erl and Kiesel (2021) show that consolidation pressures in global industries can influence both the likelihood and valuation of divestitures. In emerging economies, macro-level dynamics such as GDP growth, credit cycles, and financial crises can significantly alter shareholder wealth effects (Saini, Ahmad, & Bekiros, 2021). This suggests that the outcomes of divestitures cannot be fully understood without embedding firm-level strategies within broader economic and institutional contexts.

Despite the richness of international evidence, studies focusing on India remain relatively scarce, even though Indian corporations—often structured as family-owned conglomerates—have engaged extensively in spin-offs and demergers since the liberalization era (Vyas, Pathak, & Saraf, 2015; Gupta, Kumar, & Chattopadhyay, 2022; Nazir & Chisti, 2025). These firms offer a particularly relevant setting for examining the interplay between governance, financial determinants, and macroeconomic cycles. Unlike developed markets, where institutional ownership and liquid capital markets dominate, India's unique governance structures, concentrated ownership, and evolving regulatory frameworks present different mechanisms through which divestiture announcements may be priced.

Methodologically, research on long-term performance after corporate events faces well-documented challenges. Conventional long-horizon tests, whether based on cumulative abnormal returns (CARs) or buy-and-hold abnormal returns (BHARs), are prone to misspecification due to skewness, new listing bias, and survival effects (Barber & Lyon, 1997; Kothari & Warner, 1997). Fama (1998) further argues that many apparent anomalies are artefacts of methodology rather than genuine departures from efficiency, underscoring the need for robust statistical approaches. Against this backdrop, applying robust regression techniques to Indian data can provide new insights into the governance, financial, and

macroeconomic drivers of shareholder wealth creation following divestitures.

This study makes a significant contribution to the literature in three key ways. First, it extends the evidence on shareholder wealth effects of divestitures to an emerging market context, where institutional settings and ownership patterns differ significantly from the U.S. and European samples that dominate prior research. Second, it explicitly integrates governance variables (board independence, audit committee independence, CEO duality) and financial indicators (Altman Z-score, leverage, profitability, and asset turnover) with macroeconomic factors (GDP growth) to provide a multidimensional view of post-divestiture performance. Finally, it employs robust estimation techniques that mitigate biases arising from non-normality and influential observations, thereby strengthening the reliability of inferences on long-term shareholder returns.

## LITERATURE REVIEW

The early literature on corporate divestitures established that announcements of spin-offs and asset sales generate positive abnormal returns for parent firms. Hite and Owers (1983) found that U.S. spin-offs are associated with immediate wealth creation, while Cusatis, Miles, and Woolridge (1993) documented both short-term gains and long-term outperformance, partly due to the increased likelihood of spun-off entities. Desai and Jain (1999) reinforced these findings by demonstrating that focus-increasing divestitures yield stronger long-term returns than non-focus divestitures, underscoring the importance of strategic scope in explaining market reactions. In European markets, Veld and Veld-Merkoulova (2004) reported similar positive short-term effects, with meta-analysis evidence suggesting that most international spin-offs deliver consistent wealth gains (Veld & Veld-Merkoulova, 2009).

Evidence from India supports these global findings. Vyas, Pathak, and Saraf (2015) reported significant positive abnormal returns around demerger announcements in a sample of 51 Indian firms. More recent studies have expanded this evidence base: Gupta, Kumar, and Chattopadhyay (2022) analysed 221 Indian spin-offs (2003–2020) and confirmed consistently positive abnormal returns, with stronger effects for low-priced firms. Nazir and Chisti (2025) corroborated these findings, reporting robust wealth creation across industries, with the trading sector showing the highest gains. Collectively, these studies highlight that divestitures remain an effective mechanism for shareholder value creation in India, although the magnitude and persistence of gains may vary by sector and transaction type.

The debate over long-term shareholder returns following divestitures intersects with broader questions about market efficiency. Early studies, such as those by Miles and Rosenfeld (1983) and Cusatis et al. (1993), documented

sustained abnormal returns of up to three years post-spin-off, raising questions about market underreaction. However, methodological critiques soon followed. Barber and Lyon (1997) demonstrated that long-horizon return tests are prone to misspecification, especially when using BHARs, due to skewness and new listing biases. Similarly, Kothari and Warner (1997) demonstrated that rejection rates in long-horizon event studies frequently exceed nominal significance levels, suggesting spurious anomalies. Fama (1998) argued that the distinction between overreaction and underreaction anomalies is consistent with the efficiency hypothesis, and that most long-term “anomalies” dissipate with the improvement of methods.

Despite these critiques, evidence continues to suggest that divestitures may deliver long-run benefits under certain conditions. Southmayd (2012) found that U.S. spin-offs in the 2000s outperformed benchmarks over three years, while Chai, Lin, and Veld (2017) reported long-run excess performance for Australian spin-offs, particularly those that increased their operational focus. In India, empirical work remains limited, with most studies focused on announcement-window returns. Extending analysis to long-term buy-and-hold abnormal returns (BAHRs) in the Indian context, therefore, represents a critical gap, particularly given methodological debates over how to correctly measure them.

Corporate governance has emerged as a key determinant of restructuring performance. Feldman (2016) demonstrated that spin-offs improve internal capital allocation efficiency, especially in moderately diversified firms, by reducing managerial attention constraints. Feldman, Amit, and Villalonga (2019) extended this perspective by showing that family ownership structures significantly influence the wealth effects of acquisitions and divestitures, with family sellers benefiting more when transacting with non-family acquirers. Similarly, Erl, Kiesel, and Schiereck (2025) highlighted that board turnover, blockholder changes, and CEO succession are important precursors of divestiture programs, with disclosure and transparency amplifying positive stock market reactions.

Within the Indian context, governance remains especially salient, given the prevalence of family-controlled business groups. Studies by Gani and Jermias (2006) underscore that board independence interacts with strategic choices to affect firm performance. Recent Indian spin-off studies (Gupta et al., 2022; Nazir & Chisti, 2025) do not explicitly account for governance heterogeneity, suggesting a gap that this paper addresses by incorporating board independence, CEO duality, and audit committee oversight into the analysis.

Financial considerations are a recurrent theme in divestiture literature. Afshar (1994) demonstrated that distressed firms frequently resort to divestitures as a

mechanism to avoid bankruptcy, with Altman Z-scores serving as useful predictors of restructuring. Finlay, Marshall, and McColgan (2018) documented that fire-sale divestitures during industry distress yield lower abnormal returns, highlighting liquidity constraints as a value-destroying force. Erl et al. (2025) similarly found that financial distress often triggers divestiture programs; however, the wealth effects depend critically on whether these programs are communicated transparently.

In India, where conglomerates often face financing constraints, divestitures may serve both liquidity-raising and strategic purposes. Gupta et al. (2022) argue that spin-offs reduce information asymmetries and improve efficiency, while Vyas et al. (2015) find that Indian demergers consistently enhance shareholder wealth even without explicit distress motives. This suggests that both proactive efficiency-seeking and reactive distress management may drive Indian divestiture activity.

A growing body of research emphasises the influence of macroeconomic and industry dynamics on divestiture outcomes. Harford (2005) showed that merger and divestiture waves are driven by economic shocks and liquidity conditions, rather than purely managerial timing. Erl and Kiesel (2021) found that divestitures in consolidating industries (e.g., the global brewing industry) yield heterogeneous reactions, depending on the industry structure. In India, Saini, Ahmad, and Bekiros (2021) demonstrated that business cycles typically lead credit cycles, with procyclicality intensifying during crises such as demonetization and the NBFC shock. This suggests that timing divestiture announcements relative to macroeconomic cycles could critically affect shareholder wealth outcomes.

For emerging economies, where firms often rely heavily on bank-driven credit cycles, divestitures may serve as a mechanism to smooth financial volatility. By embedding GDP growth and credit cycle dynamics into divestiture performance models, this study extends existing literature by situating firm-level restructuring decisions within broader macroeconomic frameworks.

Event study methodology remains the standard approach for analysing divestiture effects (Brown & Warner, 1980; MacKinlay, 1997). However, the challenge of accurately capturing long-run returns persists. Barber and Lyon (1997) and Kothari and Warner (1997) caution against naive use of BHARs, while Fama (1998) emphasises that methodological artefacts may explain many anomalies. Recent studies advocate for robust regression and bootstrap methods to mitigate the effects of outliers and distributional misspecification (Miller, 2023). In this spirit, the present study adopts a robust linear modelling approach, ensuring that non-normality or extreme observations do not unduly influence inferences on governance, financial, and macroeconomic determinants.

## METHODOLOGY

### Research Design

This study does not employ an event study-based framework to evaluate the long-term shareholder returns of Indian firms following divestiture announcements. While short-horizon studies have consistently reported positive abnormal returns around such events (Hite & Owers, 1983; Desai & Jain, 1999; Vyas et al., 2015), the long-run measurement of abnormal returns poses well-documented challenges due to skewness, survival bias, and methodological misspecification (Barber & Lyon, 1997; Kothari & Warner, 1997; Fama, 1998). To address these concerns, this study employs Buy-and-Hold Abnormal Returns (BAHRs) as the primary metric of long-term performance, supplemented with robust regression techniques to mitigate biases arising from non-normality and influential observations.

### Sample and Data

The dataset comprises 203 Indian listed firms that announced divestitures between 2010 and 2023. Divestiture events include spin-offs, demergers, and asset sell-offs formally disclosed to stock exchanges. For each firm, share price data were retrieved to compute post-event buy-and-hold returns over 3 year horizons. Financial variables—including leverage, profitability, sales, and asset turnover—were obtained from annual reports and database sources. Governance indicators (board independence, audit committee independence, and CEO duality) were collected from the CMIE Prowess IQ database. Macroeconomic data, including annual GDP growth rates, were sourced from the Reserve Bank of India and the World Bank databases.

### Variables

The dependent variable is the long-term shareholder return, measured through firm-level BAHRs relative to benchmark portfolios. The independent variables span three categories:

**Governance determinants:** board independence (ratio of independent directors to total number of directors), audit committee independence, CEO duality (dummy variable).

**Financial determinants:** Altman Z-score (2000 revision), leverage (total debt-to-assets), return on assets, sales and asset size (log-transformed), and asset turnover.

**Macroeconomic determinants:** annual GDP growth rate in the year of divestiture, serving as a proxy for broader business cycle conditions.

A dummy variable for focus-increasing divestitures was constructed based on National Industrial Classification (NIC) codes, consistent with prior studies (Desai & Jain, 1999; Gupta et al., 2022).

### Estimation Technique

Pre-estimation diagnostics revealed departures from classical linear regression assumptions. The Jarque–Bera test confirmed significant non-normality of residuals ( $p < .001$ ), while Cook’s Distance indicated that 6.79% of observations exceeded the  $4/n$  threshold, suggesting the presence of influential outliers. While homoscedasticity (Breusch–Pagan test,  $p = .352$ ) and multicollinearity (maximum VIF = 2.97) were not concerns, the violation of normality and the proportion of influential cases rendered Ordinary Least Squares (OLS) estimates unreliable.

Accordingly, the analysis employed a Robust Linear Model (RLM) with Huber’s M-estimator, which down-weights extreme residuals and provides more reliable coefficient estimates under non-normal error distributions. This approach has been advocated in recent methodological literature as a remedy to the misspecification risks inherent in long-run abnormal return studies (Barber & Lyon, 1997; Miller, 2023).

### Model Specification

The empirical model is specified as:

$$BAHR_i = \alpha + \beta_1 Focus_i + \beta_2 ZScore_i + \beta_3 BoardInd_i + \beta_4 CEO Duality_i + \beta_5 AuditInd_i + \beta_6 MCap_i + \beta_7 Leverage_i + \beta_8 \ln(Sales_i) + \beta_9 \ln(Assets_i) + \beta_{10} ROA_i + \beta_{11} AssetTurn_i + \beta_{12} GDPGrowth_t + \epsilon_i$$

### Justification of Approach

This methodological design ensures three advantages. First, by combining firm-level governance and financial indicators with macroeconomic conditions, the model integrates multiple layers of determinants that have been separately emphasised in prior literature (Feldman, 2016; Erl et al., 2025; Saini et al., 2021). Second, the application of robust regression techniques directly addresses the statistical fragility of long-run return tests identified in foundational studies (Kothari & Warner, 1997; Fama, 1998). Finally, focusing on Indian divestitures extends the literature beyond developed markets, offering new insights into how emerging-market institutional structures and economic cycles mediate shareholder wealth outcomes.

## RESULTS AND DISCUSSIONS

Table 1

Robust Linear Model (HuberT) Coefficient Estimates, Standard Errors, t/z Statistics, p-values, and 95% Confidence Intervals

Predictor	Coefficient	Std. Error	t/z	p	95% CI Lower	95% CI Upper
Constant	1.052	0.766	1.374	.169	-0.449	2.553

Focus increasing (1 = Yes)	-0.310	0.151	-2.045	.041	-0.607	-0.013
Altman Z-score (2000) safe zone	0.048	0.341	0.140	.889	-0.622	0.717
Board independence (no. of independent directors)	-1.596	0.675	-2.365	.018	-2.919	-0.273
CEO duality (1 = Yes)	0.090	0.160	0.561	.575	-0.223	0.402
Audit committee independence	0.100	0.433	0.232	.816	-0.747	0.948
Market capitalisation (1 year before)	0.000	0.000	-0.577	.564	0.000	0.000
Total debt to total assets	-0.093	0.249	-0.373	.709	-0.580	0.394
Ln total sales	0.056	0.059	0.939	.348	-0.061	0.172
Annual GDP growth rate	-0.111	0.029	-3.873	<.001	-0.167	-0.055
Return on assets (previous year)	-0.012	0.009	-1.292	.196	-0.030	0.006
Ln total assets	-0.013	0.073	-0.175	.861	-0.156	0.130
Asset turnover	0.445	0.152	2.929	.003	0.147	0.742

Note. Bold p-values indicate statistical significance at  $p < .05$ . RLM = Robust Linear Model (HuberT).

Prior to estimation, the dataset underwent comprehensive diagnostic testing to assess conformity with the classical linear regression assumptions. Normality of residuals was

evaluated using the Jarque–Bera test, which indicated a statistically significant deviation from normality ( $p < .001$ ). This violation implied that the residual distribution was not Gaussian, potentially affecting the validity of standard OLS inference.

Homoscedasticity was examined using the Breusch–Pagan test, which yielded a non-significant result ( $p = 0.352$ ), indicating constant variance in residuals and thus no evidence of heteroscedasticity.

Multicollinearity was assessed using the Variance Inflation Factor (VIF), with a maximum observed VIF of 2.971, which is well below the commonly accepted threshold of 10. This suggests that multicollinearity was not a concern.

Autocorrelation was checked using the Durbin–Watson statistic ( $DW = 1.92$ ), which was close to the ideal value of 2, indicating minimal serial correlation in residuals.

Influential data points were examined through Cook’s Distance, with 6.79% of observations exceeding the  $4/n$  threshold, surpassing the 5% tolerance level and suggesting the presence of influential cases that could unduly affect OLS estimates.

Given the violation of normality and the excessive proportion of influential observations, the estimation methodology was switched from conventional Ordinary Least Squares (OLS) to a Robust Linear Model (RLM) using Huber’s M-estimator. This approach mitigates the undue influence of outliers, down-weights extreme residuals, and provides more reliable coefficient estimates under non-normal error distributions, thereby ensuring robust inference.

The model identifies four statistically significant predictors of the dependent variable. Focus-increasing divestitures are associated with a negative and significant effect ( $\beta = -0.310$ ,  $p = .041$ ), suggesting that transactions that narrow operational scope tend to produce lower returns in the long term when controlling for other factors. Board independence has a significant negative association ( $\beta = -1.596$ ,  $p = .018$ ), potentially reflecting higher monitoring costs or slower decision-making in firms with more independent directors.

Macroeconomic conditions, captured by annual GDP growth rate, exert a strong negative influence ( $\beta = -0.111$ ,  $p < .001$ ), implying that divestitures undertaken in high-growth years may yield comparatively lower buy-and-hold returns, possibly due to alternative investment opportunities available to shareholders. Conversely, asset turnover demonstrates a positive and significant association ( $\beta = 0.445$ ,  $p = .003$ ), highlighting the efficiency benefits of asset utilisation in enhancing shareholder wealth post-divestiture.

Other governance and firm-specific metrics—such as Altman Z-score, CEO duality, audit committee

independence, leverage, sales size, and profitability—were not statistically significant, suggesting that their influence on long-term market reaction may be limited in the Indian divestiture context.

From a theoretical standpoint, these findings contribute to the literature on corporate restructuring and the governance-performance linkage, reinforcing the notion that the market's long-term reaction to divestitures is not solely a function of financial health, but also shaped by strategic scope changes, governance structures, and the macroeconomic context.

For practitioners, the negative impact of focus-increasing divestitures suggests that managerial narratives and investor communication strategies must address market concerns about reduced diversification benefits. Moreover, the adverse association with board independence invites further examination of how governance structures can be optimised to balance oversight with strategic agility.

Finally, the macroeconomic sensitivity indicated by GDP growth rate underscores the need to strategically time divestiture announcements in relation to broader economic cycles, while the positive role of asset turnover highlights operational efficiency as a tangible lever for post-divestiture value creation.

## CONCLUSION

This study examines the governance, financial, and macroeconomic factors influencing long-term shareholder returns following divestitures in India. Using a dataset of 203 listed firms announcing spin-offs, demergers, or asset sales between 2010 and 2023, long-run performance is measured through Buy-and-Hold Abnormal Returns (BAHRs). Diagnostic tests revealed significant non-normality and influential cases, leading to estimation using a robust linear model (Huber's M-estimator). Results show that focus-increasing divestitures and greater board independence have a negative impact on returns, whereas asset turnover enhances shareholder wealth creation. Macroeconomic conditions, as proxied by GDP growth, exert a significant negative influence, suggesting that divestitures in high-growth years underperform relative to those in low-growth periods. Other governance and financial indicators are insignificant. By integrating firm-level governance, financial health, and macroeconomic dynamics within a robust estimation framework, this study contributes to the divestiture literature by extending evidence to the Indian context and highlighting operational efficiency and economic cycles as critical drivers of shareholder wealth.

## Disclosure

There was no conflict of interest for any of the writers.

Chat-GPT was used to draft this article..

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