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Board Demography and Divestitures: The Impact of Gender and Racial Diversity on Divestiture Rate and Divestiture Returns

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# Abstract

Drawing on resource dependence theory and group diversity research, this paper examines how board gender and racial diversity impact corporate divestitures. We argue that due to the diverse experiences, knowledge, and perspectives that female and racial minority directors bring to the boardroom, it is more difficult and time-consuming for the board to reach a consensus and pursue a common course of action. Consistent with this argument, our results indicate that board gender and racial diversity lead to longer divestiture completion times and a lower divestiture rate. Additionally, we argue that due to their cognitive heterogeneity, diverse boards likely exchange a greater variety of information, engage in more thorough discussions, and implement greater oversight of divestitures, leading to more positive divestitures returns. Offering mixed support for this argument, we found that while gender diversity increased divestiture returns, racial diversity was associated with lower divestiture returns.

# Introduction

Corporate divestitures, defined as adjustments to a business portfolio via a sell-off, spin-off, carve-out, or sale of assets (Brauer, 2006; Kolev, 2016), represent major restructuring activities oriented towards correcting inefficient organizational structure, alleviating problems of resource misallocation, better adaption to environmental conditions, and improving firm performance (Hoskisson and Johnson, 1992; Lee and Madhavan, 2010). Board of directors, as a key strategic decision-making authority in the firm, are charged with monitoring and providing counsel to corporate managers undertaking such substantive corporate actions. As part of their role, corporate directors are expected to thoroughly review the need to divest, evaluate divestitures’ risks and benefits, and authorize management to pursue divestitures (e.g., Johnson et al., 1993).

Given their prominent role in corporate decisions, it is not surprising that research has examined the link between board of directors and corporate divestitures with the main focus being on how board structural characteristics, such as director independence and CEO duality (see for review Brauer, 2006; Kolev, 2016), affect divestment decisions. The focus of this research has provided interesting insights by highlighting how structural attributes of the board that influence the ability of the board to exercise power influence divestiture actions and success. However, this research has paid less attention to attributes of the board that are likely to influence the cognitions and perspectives available on the board and the level of debate the board will undertake as it considers potential divestiture actions. This gap is notable since boards of directors are comprised of individual directors and it is the specific values, characteristics, and perspectives of directors that determine the interactions, dynamics, and decision making in the boardroom (e.g., Carpenter et al., 2004; Golden and Zajac, 2001; Hambrick and Mason, 1984) and ultimately impact divestitures. Thus, we believe that research examining the diversity of board members on key dimensions would offer insights into understanding the impact of the board on divestment actions since the mix of board members with different attributes that lead to different values and perspectives is likely to have a significant influence on how the board processes potential strategic actions, such as divestments.

Focusing on the link between board diversity and divestitures is important for at least two reasons. From a theoretical standpoint, Upper Echelons Theory posits that group demographic diversity reflects the different views, perspectives, and experiences of group members and thus affects group dynamics, relationships, and functioning (Hambrick and Mason, 1984). Consistent with this argument, demographic diversity has been shown to have a strong impact on group decision making and firm outcomes (Jehn et al., 1999; Pelled et al., 1999; Williams and O'Reilly, 1998). Furthermore, existing work suggests that examining the effects of board diversity is particularly relevant in contexts of major strategic changes. For example, scholars have shown that female and racial minority directors influence strategic decisions, such as acquisitions (Chen et al., 2016), strategic change (Triana et al., 2013), and innovation (Miller and Triana, 2009).

We extend this work by examining whether and how board gender and racial diversity influence divestiture decisions and market reactions to those decisions. Prior research has demonstrated that these two demographic traits are associated with how individuals and groups sense their environment, process information, and develop choice preferences (e.g., Akinola et al., 2018; Eagly et al., 2003; Herring, 2009; Miller and Triana, 2009; O'Neill and O'Reilly III, 2011; Richard, 2000; Richard et al., 2007). Thus, we expect that gender and racial diversity will influence how boards evaluate potential corporate decisions and the counsel they provide to top managers. Board diversity is likely to influence the comprehensiveness of decision evaluations which will impact the frequency of strategic choices, the time it takes to complete actions, and the quality of the boards' decision making. Turning to our specific context of divestitures, we argue that the effects of these demographic attributes will be evident in the frequency and timing of divestitures as well as the stock market's reactions to divestitures.

Focusing on board gender and racial diversity is also important from practical standpoint. Given growing calls from external stakeholders for greater minority representation on boards (Goodman and O'Kelley, 2017), firms have made consistent efforts to increase gender and racial diversity on corporate boards. For example, the percentage of female directors on Fortune 500 companies has increased from 16.4% in 2011 to 21% in 2016 (2020wob, 2016). In addition, there has been a slight increase in the percentage of racial minority directors on Fortune 500 firms – while African American, Asian, and Hispanic directors occupied 12.7% of the board seats in 2010, this number has increased to 14.5% in 2016 (Deloitte, 2016). While such statistics point at the increasing role of women and racial minority directors, it is important to know how gender and racial diversity impact critical strategic decisions, such as divestitures, and their performance implications.

With this study, we aim to contribute to existing research in several ways. First, we add to the divestiture literature by theorizing how board gender and racial diversity affect divestiture rate, timing, and returns. To that end, we draw on resource dependence theory (RDT) (Pfeffer and Salancik, 1978) and group diversity research (Jehn et al., 1999; Pelled et al., 1999; Williams and O'Reilly, 1998). The presence of female and minority directors on the board brings diverse experiences, knowledge, and perspectives, which impact board functioning, the counsel the board provides to the CEO, and decision-making processes. Because diverse board members express various ideas and divergent opinions, directors are more likely to disagree on a common course of action, experience difficulty in reaching a consensus (Chen et al., 2016), and exhibit slower decision-making processes (Hambrick et al., 1996). Additionally, board members are more likely to provide divergent counsel to the firm's CEO.

These factors are likely to have a significant impact on the divestiture decision-making process for at least three reasons. First, greater diversity on the board is likely to increase the amount of information considered by the board in the decision process. Second, the wider range of experiences and perspectives on the board will likely trigger more extensive discussion and debate when considering potential divestitures. Third, when providing advice to the CEO, a more diverse board is likely to provide more divergent perspectives that may lead the CEO to question his or her own initial impressions of the divestiture. These three outcomes of board diversity are, in turn, likely to have an influence on both the rate and timing of firm divestitures. With the wider range of information considered, extended debate that diversity is likely to trigger, and longer due diligence needed to respond to concerns a diverse board will raise, the number of strategic actions the firm will be able to undertake will be reduced, and the time taken to complete actions will increase (Ancona and Caldwell, 1992).

At the same time, since the inclusion of female and racial minority directors increases the variety of information exchanged in the boardroom, the thoroughness of discussions, and oversight of corporate strategic choices (Adams and Ferreira, 2009), investors are likely to have greater confidence in the decisions undertaken by the board and are likely to see actions taken by the board as being more legitimate and reflective of stakeholder concerns. Thus, we expect to see that board diversity is related to more positive market reactions to divestiture announcements. By shifting the focus away from studying environmental and firm structural drivers of divestitures (Brauer, 2006; Johnson, 1996) towards board gender and racial diversity, this paper responds to calls for deeper examination of the role of board demography on divestitures (Kolev, 2016).

Second, the paper extends research in the RDT tradition. While prior studies have primarily emphasized the benefits that various directors bring to the firm (Hillman and Dalziel, 2003; Hillman et al., 2007; Pfeffer and Salancik, 1978), this study provides a more detailed understanding of how female and racial minority directors may contribute to the firm. Results reveal that while they might undertake fewer divestitures per year and take longer time to complete divestitures, diverse boards can screen more diligently divestment opportunities and thus prioritize the pursuit of divestitures with the strongest potential returns.

Finally, the paper contributes to research on the link between gender/race and strategic leadership. However, instead of looking at the distant link between women or minorities and corporate performance (Erhardt et al., 2003; Hoobler et al., 2016; Julian and Ofori-Dankwa, 2017; Nguyen and Faff, 2007; Post and Byron, 2015; Richard, 2000; Rose, 2007), we follow recommendations to get “closer to the action” (Devers et al., 2008) and focus on examining a more proximal issue – how gender and racial diversity impact firm strategic behavior in the form of divestitures.

# Theory and hypotheses

Boards of directors play a central role in the governance of the firm and are charged with strategy formulation and active participation in and oversight of strategic initiatives (Johnson et al., 1996). More specifically, directors' tasks are associated with monitoring a broad set of strategic activities, assessing their relevance and contribution to firm performance, authorizing management to pursue those activities, and intervening when those strategic activities undermine shareholders’ interests (Eisenhardt, 1989). In addition, directors provide advice and counsel to firm managers related to the formulation and implementation of strategic activities (Hillman and Dalziel, 2003; Lorsch and Maclver, 1989).

One major strategic activity in which board of directors are involved is decisions related to the scope of the firm, including corporate divestitures (Brauer, 2006; Johnson, 1996). Since divestitures are associated with the sale of corporate assets and/or the separation of business units from the parent firm, they lead to significant changes in the internal structural arrangements of the firm, can alter its competitive position in the market, and generate intense political struggles and resistance from managers and employees (Dial and Murphy, 1995; Hoskisson and Johnson, 1992; Pines, 1984). Given the inherently complex and uncertain nature of divestitures (Sanders, 2001), the board of directors has the duty to thoroughly assess the need for divesting, identify potential assets or corporate units to be divested, evaluate the consequences for various stakeholders, and oversee the implementation of divestitures (Gole and Hilger, 2008; Johnson et al., 1993; Kolev, 2016).

Existing research argues that a key determinant of how a board conducts its tasks is its level of diversity and in particular its gender and racial diversity (Adams and Ferreira, 2009; Johnson et al., 2013; Nielsen and Huse, 2010). Because diversity affects directors' interactions and decision making (e.g., Jehn et al., 1999; Pelled et al., 1999; Williams and O'Reilly, 1998), it has a direct bearing on the board's ability to counsel management on and oversee the execution of various strategic activities (Chen et al., 2016; Cumming et al., 2015; Miller and Triana, 2009; Triana et al., 2013). In this study, we focus on how board gender and racial diversity impact corporate divestitures by drawing on RDT and group diversity research.

RDT (Pfeffer and Salancik, 1978) argues that through its directors a firm can secure various resources which are essential for its functioning and success. For example, directors can bring legitimacy and reputation which enhance not only the firm's public image (Selznick, 1949) but also its financial performance (Certo et al., 2001). Furthermore, based on their own experiences, expertise, and skills, directors can provide valuable advice to assist firm managers in strategy formulation and execution of strategic decisions (Hillman and Dalziel, 2003). Different directors possess unique cognitive perspectives, viewpoints, and ideas on how the firm should function and what strategic activities should be implemented to achieve a competitive advantage. As more diverse directors are present on the board, its collective knowledge base becomes more heterogeneous due to larger variety of perspectives, viewpoints, and opinions. Greater cognitive diversity could increase the number of potential strategic actions and alternatives that are proposed and discussed in the boardroom.

Yet, such diversity generates complex dynamics and interactions among board members which affect the decision-making processes in the boardroom (Huse, 2008; Jehn et al., 1999). Prior findings show that when women and racial minorities join a male-dominated board, they add unique experiences, knowledge, and expertise (Hillman et al., 2002, 2007) which change the functioning of the board in two important ways. First, the inherent differences among gender- and racial-diverse board members can generate cohesion and coordination problems (Smith et al., 1994) that undermine reaching agreement (Knight et al., 1999). Similarly, the larger amount of diverse perspectives discussed among board members “could potentially impede … ability to reach consensus” (Triana et al., 2013: 612) or at least could increase the time necessary to process all available viewpoints and opinions (Jackson, 1992). As a result, a diverse board would be slower in finalizing strategic decisions, would implement fewer decisions and engage in fewer strategic initiatives (Chen et al., 2016). In the context of divestitures, this suggests that board gender and racial diversity would be negatively related to the firm's divestiture rate – that is, the firm will pursue fewer divestitures over a period of one year.

Second, a gender- and racial-diverse board is exposed to greater number of perspectives and can review existing issues from multiple angles (Cox et al., 1991). This enhances the board's problem-solving skills (Hambrick et al., 1996) and can result in higher-quality decisions (Hambrick and Mason, 1984). In particular, a diverse board is better equipped to provide comprehensive advice to managers on various strategic initiatives (Miller and Triana, 2009) and to diligently monitor their implementation (Adams and Ferreira, 2009). Regarding divestitures, a gender- and racial-diverse board is expected to pursue and engage in value-enhancing divestitures – something the market would value and react positively to. Below, we theorize in greater details on the role of gender and racial diversity on divestiture rate, divestiture completion time, and divestiture returns.

## Role of gender and racial diversity on divestiture rate and completion time

Boards of directors have been traditionally comprised of Caucasian male directors (Catalyst, 2015) which has the potential to result in a degree of homogeneity in experiences, expertise, and views on firm functioning (e.g., Chatman et al., 1998). When women and racial minorities join the boardroom, they bring a different set of experiences, opinions, and perspectives about firm strategy and various strategic initiatives that should be undertaken. Prior research has shown that such diversity negatively affects team cohesion (Horwitz and Horwitz, 2007) and hinders strategic consensus (Knight et al., 1999). Instead of focusing on strategic initiatives, a diverse board needs to address coordination and collaboration issues among its members (Jehn, 1997); this ultimately reduces the number of decisions made and the number of strategic initiatives undertaken (Ancona and Caldwell, 1992).

Moreover, board gender and racial diversity is associated with slower decision making because directors need more time to assimilate and process the different views and perspectives expressed by board members (Jackson, 1992; Nemeth and Staw, 1989). For example, Hambrick et al. (1996) show that greater diversity among firm leaders leads to longer time for executing and responding to competitive actions. Consequently, by impeding decision-making and implementation speed, board diversity would lead to fewer decisions and activities undertaken as well as longer decision processes. In support of those arguments, Chen and colleagues show that adding women to the board leads to “more thorough intra-board discussions” which “increase the time taken to reach a decision” resulting in lower acquisition rates (Chen et al., 2016: 306). Similarly, scholars find that a gender-diverse board exhibits more extensive and longer decision-making processes which result in smaller amounts of strategic change (Triana et al., 2013).

Finally, prior research offers evidence that women and racial minorities exhibit greater risk aversion compared to white-male counterparts (Finucane et al., 2000; Jeong and Harrison, 2017). Given that divestitures are inherently risky and uncertain strategic activities, a diverse board is more likely to outline their potential downsides and question the necessity to divest. While such concerns on divestitures could be addressed through more discussions and deliberations, it would take more time for a diverse board to settle the debate in the boardroom leading to longer divestiture completion time and a lower divestiture rate.

Alternatively, a homogenous board shares similar experiences and perspectives which encourage greater cohesion and quick consensus on strategic decisions (Hogg and Terry, 2000; Pelled et al., 1999). Within such a board, directors’ “opinions will be more homogenous; discussions will be more streamlined” (Chen et al., 2016: 306) which facilitate the implementation of more strategic initiatives.

Translating these arguments to corporate divestitures, we expect board gender and racial diversity to increase divestiture completion time and reduce the annual number of divestitures undertaken by a firm. Compared to a homogenous board, a board with an increasing number of female and minority directors would face many different perspectives and opinions on divestitures. In addition, diverse directors are more likely to identify problems with potential divestitures and question the necessity to divest. Hence, there is a greater likelihood that any divestiture deal is rejected; or least, it would take longer for the board to approve a divestiture. As a result, a gender- and racial-diverse board would engage in a smaller rate of divestitures per year. Stated formally:

**Hypothesis 1a**

**(H1a).** Board gender diversity is negatively related to divestiture rate.

**Hypothesis 1b**

**(H1b).** Board racial diversity is negatively related to divestiture rate.

**Hypothesis 1c**

**(H1c).** Board gender diversity is positively related to divestiture completion time.

**Hypothesis 1d**

**(H1d).** Board racial diversity is positively related to divestiture completion time.

## Interactive effects of gender and racial diversity on divestiture rate and completion time

In addition to their direct effects, we examine the interaction of both types of diversity to jointly influence divestiture completion time and divestiture rate. Prior research in corporate governance posits that different governance factors can either substitute or complement each other's impact on various firm outcomes (Aguilera et al., 2008). In our context, we expect that gender and racial diversity will reinforce each other and lead to longer divestiture completion times and lower divestiture rates for two primary reasons. First, as discussed earlier, board diversity is associated with expression and evaluation of multiple perspectives on potential divestitures; such discussions in the boardroom take longer time and slow down the actual decision on undertaking divestitures (e.g., Chen et al., 2016; Nemeth and Staw, 1989). Adding more diverse directors to the board is likely to exacerbate this decision-making process. Combining female and racial minority directors with their Caucasian male counterparts should result in even more extensive and elaborate discussions, undermine decision speed and ultimately result in fewer divestitures per year.

Second, having female and racial minority directors is likely to generate additional issues with board cohesion and consensus (e.g., Horwitz and Horwitz, 2007). While a diverse board could address and alleviate those challenges associated with the internal dynamics and relations in the boardroom, it still distracts directors and shifts their attention away from quickly agreeing on whether to pursue divestiture. Formally stated:

**Hypothesis 2a**

**(H2a).** Board racial and gender diversity will interact to lead to lower divestiture rate.

**Hypothesis 2b**

**(H2b).** Board racial and gender diversity will interact to lead to greater divestiture completion time.

## Role of gender and racial diversity on divestiture returns

While the previous set of hypotheses argued that gender and racial diversity lead to lower divestiture rates and longer completion times, diverse boards still engage in divestment activities. And ultimately, it is important to examine the influence of board diversity on the value investors see with the divestitures a firm pursues.

Prior research provides conflicting views on the effects of diversity on firm performance. Scholars arguing for a detrimental impact of diversity point that it can generate group cohesion and coordination problems. Individuals tend to identify with and build stronger relationships with similar others and exhibit bias and mistrust towards people who are dissimilar. Such in-group/out-group division can increase interpersonal conflict (Pelled, 1996) and hinder interactions and communication within the whole group (Earley and Mosakowski, 2000; Lau and Murnighan, 1998). As a result, group members experience lower desire to collaborate (Li and Hambrick, 2005) leading to suboptimal decisions and reduced performance (e.g., Barkema and Shvyrkov, 2007; Richard et al., 2007). Additionally, the lengthened debate among board members could inhibit the ability of the board to act on a strategic opportunity in a timely manner (Lee and Madhavan, 2010).

Despite the potential drawbacks of diversity, there is ample evidence that diversity could be beneficial to decision quality and ultimately to firm performance. We argue that gender and racial diversity on the board will lead to more positive investor assessments of the value of divestiture actions since investors will see that diversity on the board will enhance board decision making and thus lead to better divestiture decisions by bringing in diverse views and stimulating task conflict. First, board diversity enhances the range of information the board considers, including the assessment of the potential for downside implications of decisions. As the ‘value in diversity perspective’ argues (Cox et al., 1991), diverse teams possess a broader range of experiences, knowledge, and cognitions allowing them to share diverse opinions and to evaluate more thoroughly different strategic alternatives (Gabaldon et al., 2018; Watson et al., 1993). For example, given than gender- and racial-diverse directors are likely to outline various concerns on the potential risks of divesting (Barber and Odean, 2001; Finucane et al., 2000; Jeong and Harrison, 2017), the board should engage in more comprehensive evaluation of which divestitures are most appropriate to undertake. Second, the addition of female and/or racial minority directors to the board is likely to increase task conflict on the board, which is associated with increased information elaboration (Joshi and Roh, 2009), critical thinking (Baron, 1991; Meissner et al., 2017), more diligent monitoring (Adams and Ferreira, 2009), more thorough decision evaluation (Schwenk & Valacich, 1994), and greater decision team creativity (De Dreu, 2006). Thus, gender and racial board diversity should lead to more task conflict which increases the quality of divestiture decisions and facilitates the pursuit of more effective divestitures. Understanding the potential benefits of gender and racial diversity in the boardroom on both the board's problem-identifying and problem-solving skills (Hambrick et al., 1996; Nielsen and Huse, 2010) and the ability of the board to provide comprehensive advice to managers (Chen et al., 2016; Miller and Triana, 2009), investors are likely to have greater confidence in and evaluation of divestiture decisions endorsed by a diverse board. Third, research on group dynamics suggests that the beneficial impact of diversity on group decision making is enhanced when group members recognize the knowledge and expertise of fellow diverse members. Given that minority directors are not randomly appointed to the board and rather have earned their membership due to unique skills, experience, and know-how (Hillman et al., 2002, 2007), their opinions and competencies would be more easily accepted by the Caucasian male directors leading to more comprehensive board strategic decisions (Bezrukova et al., 2009; Homan et al., 2007; Hutzschenreuter and Horstkotte, 2013). As a result, investors would assess more positively divestiture decisions conducted by a board with greater gender and racial diversity.

Additionally, the presence of female and racial minority directors can increase a firm's reputation (Albinger and Freeman, 2007; Turban and Greening, 2007) and enhance the public's perception of the legitimacy and appropriateness of the board's decisions. Since female and racial minority directors are linked to different firm stakeholders (Hillman et al., 2002, 2007; Miller and Triana, 2009), they could more effectively represent the interests of those groups in the boardroom. For example, because divestitures could have a negative impact on firm employees (Johnson et al., 1990; Pines, 1984), a diverse board is more likely to encourage comprehensive assessment of divestitures' potential outcomes to ensure they benefit multiple groups of firm stakeholders. Ultimately, gender and racially diverse boards can convey greater legitimacy in their divestiture decisions, suggesting that divestiture decisions by firms with diverse boards will be assessed positively by the market. Thus, we hypothesize that:

**Hypothesis 3a**

**(H3a).** Board gender diversity is positively related to divestiture returns.

**Hypothesis 3b**

**(H3b).** Board racial diversity is positively related to divestiture returns.

## Interactive effects of racial and Gender Diversity on divestiture returns

While the preceding two hypotheses outlined the separate effect of gender and racial diversity and argued that the benefits of diversity would outweigh some of its potential negative effects on divestiture returns, it is important to consider their joint impact on divestiture returns. Looking at gender diversity in isolation, it can encourage more comprehensive discussion and assessment of strategic choices (Nemeth, 1992; Watson et al., 1993) and facilitate more task conflict (Jehn et al., 1999) and less groupthink (Janis, 1982); all of those should facilitate more diligent board assessment and oversight of divestitures resulting in positive market reactions. Similarly, when examined independently, racial diversity has also been found to generate beneficial effects for firm strategic activities (Miller and Triana, 2009) which would be positively valued by the market. Prior research argues that different types of diversity are likely to reinforce each other and have a stronger joint impact on performance (Jackson and Joshi, 2004). While the existence of multiple minority categories, such as gender and race, could generate interpersonal conflict and cohesion problems (Pelled, 1996), we believe that the joint effect of gender and racial diversity would be beneficial for divestiture returns. In particular, the presence of female and racial minority directors creates multiple different sub-groups of directors reducing the possibility for a strong division among board members along a single sub-group characteristic (e.g., Earley and Mosakowski, 2000). Prior evidence suggests that such a situation weakens the cognitive biases among sub-groups and encourages more information exchange and debate (e.g., Barkema and Shvyrkov, 2007; Hutzschenreuter and Horstkotte, 2013). Furthermore, according to recategorization theory (Gaertner et al., 1989) when a director is different along a salient dimension from the majority sub-group (for example, gender) but similar on another salient dimension (for example, race), that director is likely to be perceived as belonging to the majority sub-group. As a result, in the presence of various minority categories on the board, such as racial and gender, minority directors are more likely to be viewed as equal board members and should feel more comfortable and willing to express their opinions and viewpoints (e.g., Gibson and Vermeulen, 2003). This would facilitate information exchange, task conflict and thorough debates, and improve the ability of the whole board to identify and oversee the execution of high-quality divestitures. As a result, the market is expected to react more positively to divestiture announcements conducted by boards with both gender and racial diversity.

**Hypothesis 4**

**(H4).** Board racial and gender diversity will interact to lead to more positive divestiture returns.

# Methods

## Sample

The paper uses a sample of S&P 1500 firms over the period 1996–2012 to test the relationships between board diversity and divestitures. Information for the variables in the study came from several sources: director gender and race and other board characteristics was obtained from ISS (formerly RiskMetrics); firm characteristics came from Compustat; divestiture data was accessed through the Securities Data Corporation (SDC). The final sample used for testing H1a, H1b, and H2a was 1303 firms and 10414 firm-year observations.

To test H1c, H1d, H2b, H3a, H3b, and H4, we used only firms that had conducted at least one divestiture per year. This allowed us to examine the time needed to complete a divestiture and to measure the market response to the announcement of a divestiture (Brauer and Wiersema, 2012). Stock market information for each announced divestiture was obtained from Eventus. This resulted in a sample of 613 firms with a total of 2056 divestiture event observations for testing the hypotheses on divestiture completion time and 528 firms with a total of 1698 divestiture event observations for testing the hypotheses on divestiture returns.

## Dependent variables

For testing H1a, H1b, and H2a, the dependent variable is divestiture rate. It is an annual frequency-based measure and is calculated as the number of divestitures undertaken by a firm over the period of one year (Kuusela et al., 2016; Sanders, 2001). Each time a firm engages in a sell-off, spin-off, carve-out, or sale of corporate units, it is considered a separate divestiture.1 Because the main arguments in the paper draw on the idea that gender and racial diversity hinder agreement among directors and slow down decision making in the boardroom, a frequency-based measure matches well the theoretical model tested.2

For testing H1c, H1d, and H2b, the dependent variable is divestiture completion time. We measured it as the number of days elapsed between the date the divestiture was announced and the date the divestiture was effectively closed.

For H3a, and H3b, and H4, the dependent variable is divestiture returnsand is operationalized as the cumulative abnormal returns (CAR) associated with a divestiture announcement. This is consistent with prior research examining the implications of corporate divestitures (Brauer and Wiersema, 2012; Rosenfeld, 1984; Vijh, 2002). CAR is assessed via an event-study methodology and represents the cumulative difference between observed and predicted return of a divesting firm's security during a period (event window) surrounding the divestiture announcement. Thus, CARs is calculated as the difference between actual return of a security for the event window and the normal return of the security if the divestiture event had not happened (McKinley, 1997). CAR is estimated with the following formula: ARit = Rit – (αi + βiRmt), in which Rit and Rmt are the returns on security i and the market portfolio m for the period t, αi is a constant, and βi is the beta of security i. Parameters α and β are assumed constant for the estimation period which begins 295 days before the announcement date and ends 45 days before the announcement date (McNamara et al., 2008). CAR is measured over a 5-day window (2 trading days before to 2 trading days after the announcement of an event). Utilizing a short window provides several advantages. First, changes in the divesting firm's security price are easily attributable to the divestiture. Second, a short window limits the influence of other confounding events. To further reduce the possibility that confounding events are driving the security price, we checked whether the focal firm engaged in acquisitions during the same time window in which it conducted a divestiture. 38 such cases were excluded from the analyses.

## Independent variables

Gender and racial diversity. Diversity is measured with Blau's index of heterogeneity: (1-Σρi2), where ρi is the proportion of board members in each of the i categories (Blau, 1977). In the case of gender diversity, the index could range from 0 (all board members belong to one gender) to 0.5 (there are equal number of male and female directors). For racial diversity, directors are placed into four categories: Asian, Black, Hispanic, and White (Miller and Triana, 2009; Triana et al., 2013). As a result, the index ranges from 0 (all directors belong to one race) to 0.75 (there are equal number of directors in each category). The use of Blau's index is recommended for measuring diversity (Harrison and Klein, 2007) and has been extensively used when measuring diversity among the firm's leaders (Hambrick et al., 1996; Miller and Triana, 2009; Triana et al., 2013; Wiersema and Bantel, 1992).

## Control variables

We controlled for a number of variables that have been found to affect divestitures. Simultaneous divestiture is a dummy variable with values of 1 when multiple divestitures were conducted by the firm on the same day and 0 otherwise. Acquisition activity might drive divestitures and was measured as the number of acquisitions in the previous year (Brauer and Laamanen, 2014). Prior performance was calculated as the difference between firm return on assets (ROA) and average industry ROA for each 4-digit SIC code. Since larger firms are more likely to divest (Bergh, 1997) we included firm size measured as the log of firm assets. Diversification has been found to affect divestitures since it increases bureaucracy and reduces the ability to manage the firm effectively (Bergh and Lawless, 1998). We calculated level of diversification as the entropy measure (Jacquemin and Berry, 1979). Availability of resources can serves as a buffer to financial problems and can reduce the likelihood of divesting (Brauer, 2006). Thus, we measured slack (current assets over current liabilities) (Iyer and Miller, 2008) and free cash flow (operating income – taxes – interest expense – depreciation – preferred dividend – common dividend)/equity (Haleblian et al., 2012). We accounted for capital expenses in the current year to reflect the firm's investment patterns. Since prior experience with divestitures is likely to impact future divestment activities we controlled for divestiture experience which is operationalized as the total number of divestitures executed by the firm in the five years before the current divestiture (Doan et al., 2018).3Since industry conditions have been found to impact divestitures (Bergh and Lawless, 1998; Brauer and Wiersema, 2012), we accounted for industry munificence and industry dynamism. Munificence was estimated by regressing industry sales on a year counter variable for each five-year window. The obtained regression coefficient for the year counter variable was divided by the mean of industry sales (Dess and Beard, 1984). This approach was repeated for each four-digit SIC code industry. Dynamism was obtained from the same regressions as munificence and was calculated as the standard error of the regression coefficient divided by the mean of industry sales (Dess and Beard, 1984). We also accounted for several board characteristics. Board size was measured by the total number of directors (Chen et al., 2016). Board independence represents the degree to which corporate directors are independent of the CEO and is operationalized as the ratio of board members who are classified as neither “inside” nor “related outside” to total board members. (Dalton et al., 1998). Duality is a dummy variable taking the values of 1 (the CEO and board chairman positions are held by the same person) and 0 otherwise (Boyd, 1995). Tenure heterogeneity is calculated as the coefficient of variation of directors' tenure (Wiersema and Bantel, 1992). Age heterogeneity is operationalized as the coefficient of variation of directors' age4 (Tihanyi et al., 2000). We also included year dummies and a financial industry dummy indicating whether divesting firms were banking and financial institutions. All independent and control variables were measured in the year before the firm undertook divestitures unless otherwise stated.

In testing the hypotheses regarding divestiture completion time and divestiture returns, we accounted for the following additional variables: cash amount used in the divestment process, annual divestitures (number of divestitures conducted by the firm in the same year), divestiture relative size (value of divested assets divided by firm sales), and relatedness of the divestiture (a dummy variable equal to 1 if the focal firm and the divestiture are in the same 2-digit SIC code and 0 otherwise). For models with divestiture completion time as the dependent variable, we also controlled for the total industry divestiture completion time and total number of firms in each 4-Digit SIC code industry since they reflect the level of competition in the industry which could impact the time a board of directors takes to complete a divestiture. The dependent variables of divestiture completion time and divestiture returns are only present in situations when firms conducted a divestiture. This creates a potential problem of sample selection bias. To address it, we relied on a Heckman two-stage procedure (Heckman, 1976). In the first stage, we estimated the probability of firms engaging in a divestiture. The dependent variable in this first-stage regression is Divestiture: a dummy variable indicating whether firms engaged in a divestiture or not. Divestiture was regressed on several firm and board characteristics: acquisition activity, firm performance, firm size, diversification, slack, free cash flow, capital expenses, divestiture experience, munificence, dynamism, board size, board independence, CEO duality, board tenure and age heterogeneity, board gender and racial diversity, year dummies, and financial industry dummy. From that first-stage regression, we created an inverse Mills ratio which was used as a control variable in the regressions predicting divestiture returns5 (the second-stage regressions). An important part of the Heckman procedure is to include at least one independent variable in the first-stage regression which is not included in the second-stage regression (Sartori, 2003). In this case, slack served as this variable. In addition, slack was a valid exclusion restriction since it was significantly correlated with Divestiture in the first-stage regression but was unrelated to the ultimate dependent variables (divestiture completion time and divestiture returns).

## Estimation method

The study utilizes a panel data design where a focal firm conducts multiple divestitures over time. Using ordinary least squares regression is inappropriate because of the lack of independence among observations within a firm (Bliese, 2000; Certo and Semadeni, 2006). Following prior research on corporate strategic change and restructuring, we relied on generalized estimation equations (GEE) (Quigley and Hambrick, 2012). GEE's advantage is that they offer maximum likelihood estimates and account for non-independence of multiple observations per firm (Hanley et al., 2003). GEE models require the specification of a distribution family, link function, and correlation structure. Since divestiture rate is a limited-count variable, we used a Negative binomial distribution, negative binomial link function and exchangeable correlation structure. When the dependent variable was divestiture completion time, we used Negative binomial distribution, log link function, and exchangeable correlation structure. For divestiture returns as a dependent variable, we used a Gaussian distribution, identity link function, and exchangeable correlation structure (Pan et al., 2018; Quigley and Hambrick, 2012; Wowak et al., 2015).

To reduce multicollinearity concerns, all variables are standardized with a mean of zero and a standard deviation of one. None of the variance inflation factors exceeded 3.06 which further reduces concerns over multicollinearity (Cohen et al., 2003). To reduce the impact of extreme outliers, we winsorized the following variables at the 99th percentile (Haleblian et al., 2012; Kolev et al., 2014): divestiture returns, acquisition activity, prior performance, slack, free cash flow, capital expenses, dynamism, and divestiture relative size.

# Results

Table 1, Table 2 present means, standard deviations, and correlation coefficients for the variables in the models. The descriptive statistics clearly indicate that gender and racial diversities are far away from equality and female and racial minority directors are largely underrepresented in corporate boards. Table 3 provides a detailed breakdown of the proportion of those directors. In particular, in 83% of the boards in the sample the ratio of female directors is at or below 20%. Similarly, in 89% of the boards in the sample the ratio of racial minority directors is at or below 20%. Furthermore, we would like to note that the average divestiture returns in our sample (see Table 2) are positive and significant (CAR of 0.8%) which is consistent with prior research on divestitures (e.g., Brauer and Wiersema, 2012; Chen and Feldman, 2018; Feldman et al., 2016). Table 4, Table 5 include the tests of the proposed hypotheses.

### Table 1. Descriptive statistics and correlation for models predicting divestiture rate.a.

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Variables** | **Mean** | **SD** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** |
| 1. Divestiture rate | 0.17 | 0.53 | 1.00 |  |  |  |  |  |  |  |  |
| 2. Simultaneous divestiture | 0.00 | 0.04 | 0.15 | 1.00 |  |  |  |  |  |  |  |
| 3. Acquisition activity | 0.34 | 0.66 | 0.08 | −0.00 | 1.00 |  |  |  |  |  |  |
| 4. Prior performance | 0.84 | 2.34 | −0.02 | 0.00 | 0.03 | 1.00 |  |  |  |  |  |
| 5. Firm size | 7.64 | 1.49 | 0.25 | 0.03 | 0.11 | −0.04 | 1.00 |  |  |  |  |
| 6. Diversification | 0.32 | 0.42 | 0.15 | −0.00 | 0.04 | −0.03 | 0.26 | 1.00 |  |  |  |
| 7. Slack | 2.25 | 1.67 | −0.12 | −0.02 | −0.00 | 0.07 | −0.39 | −0.16 | 1.00 |  |  |
| 8. Free cash flow | 0.10 | 0.18 | −0.04 | −0.01 | 0.04 | 0.01 | 0.06 | −0.02 | −0.08 | 1.00 |  |
| 9. Capital expenses | 355 | 775 | 0.22 | 0.02 | 0.09 | −0.03 | 0.62 | 0.11 | −0.22 | 0.01 | 1.00 |
| 10. Divestiture experience | 0.72 | 1.61 | 0.33 | 0.03 | 0.05 | −0.02 | 0.40 | 0.23 | −0.16 | −0.04 | 0.32 |
| 11. Munificence | 0.06 | 0.09 | 0.01 | 0.01 | 0.09 | 0.02 | −0.00 | −0.10 | 0.01 | 0.05 | 0.05 |
| 12. Dynamism | 0.03 | 0.02 | 0.03 | −0.00 | −0.01 | −0.06 | −0.07 | 0.03 | 0.06 | −0.10 | −0.02 |
| 13. Board size | 9.33 | 2.42 | 0.15 | 0.01 | 0.00 | −0.04 | 0.55 | 0.25 | −0.32 | 0.03 | 0.32 |
| 14. Board independence | 0.71 | 0.16 | 0.05 | 0.01 | −0.01 | 0.06 | 0.22 | 0.09 | −0.07 | 0.01 | 0.12 |
| 15. Duality | 0.58 | 0.49 | 0.05 | 0.01 | −0.00 | 0.00 | 0.14 | 0.10 | −0.08 | 0.01 | 0.11 |
| 16. Tenure heterogeneity | 0.75 | 0.27 | 0.00 | −0.01 | −0.03 | −0.01 | 0.02 | 0.04 | −0.02 | −0.01 | 0.01 |
| 17. Age heterogeneity | 0.13 | 0.04 | −0.06 | −0.00 | 0.01 | 0.01 | −0.16 | −0.13 | 0.11 | 0.00 | −0.10 |
| 18. Financial industry dummy | 0.02 | 0.15 | −0.02 | −0.01 | 0.01 | −0.03 | 0.06 | −0.07 | −0.06 | 0.06 | −0.04 |
| 19. Gender diversity | 0.17 | 0.14 | 0.07 | 0.01 | −0.01 | −0.02 | 0.37 | 0.09 | −0.24 | 0.06 | 0.17 |
| 20. Racial diversity | 0.09 | 0.13 | 0.07 | −0.01 | 0.00 | 0.00 | 0.38 | 0.08 | −0.13 | 0.03 | 0.25 |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Variables** | **10** | **11** | **12** | **13** | **14** | **15** | **16** | **17** | **18** | **19** |
| 10. Divestiture experience | 1.00 |  |  |  |  |  |  |  |  |  |
| 11. Munificence | −0.07 | 1.00 |  |  |  |  |  |  |  |  |
| 12. Dynamism | 0.01 | −0.08 | 1.00 |  |  |  |  |  |  |  |
| 13. Board size | 0.21 | −0.05 | −0.07 | 1.00 |  |  |  |  |  |  |
| 14. Board independence | 0.14 | −0.13 | −0.01 | 0.09 | 1.00 |  |  |  |  |  |
| 15. Duality | 0.06 | 0.01 | 0.02 | 0.06 | 0.08 | 1.00 |  |  |  |  |
| 16. Tenure heterogeneity | 0.04 | −0.01 | −0.01 | 0.12 | −0.04 | −0.07 | 1.00 |  |  |  |
| 17. Age heterogeneity | −0.09 | 0.03 | −0.01 | −0.13 | −0.19 | −0.12 | 0.05 | 1.00 |  |  |
| 18. Financial industry dummy | −0.03 | −0.01 | 0.05 | 0.08 | 0.01 | −0.02 | −0.03 | 0.01 | 1.00 |  |
| 19. Gender diversity | 0.15 | −0.10 | −0.11 | 0.35 | 0.27 | 0.06 | 0.06 | −0.10 | 0.04 | 1.00 |
| 20. Racial diversity | 0.20 | −0.09 | −0.05 | 0.23 | 0.25 | 0.07 | −0.00 | −0.09 | 0.03 | 0.27 |

a

N = 10413; Correlations smaller than −0.02 and larger than 0.03 are significant at the 0.05 level.

### Table 2. Descriptive statistics and correlations for models predicting divestiture completion time and divestiture returns.b.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Variables** | **Mean** | **SD** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** | **13** | **14** | **15** | **16** |
| 1. Divestiture completion time | 63.8 | 84.2 | 1.00 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2. Industry completion time | 285 | 448 | 0.15 | 1.00 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 3. Industry total firms | 14.2 | 14.6 | 0.04 | 0.59 | 1.00 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 4. Divestiture returns | 0.008 | 0.056 | 0.07 | 0.02 | −0.02 | 1.00 |  |  |  |  |  |  |  |  |  |  |  |  |
| 5. Simultaneous divestiture | 0.01 | 0.10 | 0.01 | −0.00 | 0.02 | −0.01 | 1.00 |  |  |  |  |  |  |  |  |  |  |  |
| 6. Annual divestitures | 2.26 | 2.67 | 0.02 | 0.37 | 0.19 | 0.09 | 0.01 | 1.00 |  |  |  |  |  |  |  |  |  |  |
| 7. Acquisition activity | 0.57 | 0.97 | 0.01 | 0.01 | 0.03 | −0.01 | −0.03 | 0.14 | 1.00 |  |  |  |  |  |  |  |  |  |
| 8. Prior performance | 0.66 | 1.95 | −0.08 | −0.09 | 0.02 | 0.01 | 0.00 | −0.04 | 0.02 | 1.00 |  |  |  |  |  |  |  |  |
| 9. Firm size | 8.85 | 1.50 | 0.11 | 0.25 | 0.20 | 0.01 | −0.00 | 0.28 | 0.14 | −0.05 | 1.00 |  |  |  |  |  |  |  |
| 10. Diversification | 0.52 | 0.50 | −0.00 | −0.05 | −0.25 | −0.01 | −0.05 | 0.14 | 0.05 | −0.06 | 0.31 | 1.00 |  |  |  |  |  |  |
| 11. Free cash flow | 0.07 | 0.20 | 0.00 | −0.11 | −0.10 | −0.01 | 0.01 | −0.07 | 0.10 | 0.05 | 0.09 | 0.00 | 1.00 |  |  |  |  |  |
| 12. Divestiture experience | 2.69 | 4.04 | −0.02 | 0.16 | 0.11 | 0.05 | −0.02 | 0.38 | 0.11 | 0.02 | 0.38 | 0.18 | −0.09 | 1.00 |  |  |  |  |
| 13. Munificence | 0.07 | 0.08 | 0.00 | 0.04 | 0.16 | 0.01 | 0.01 | 0.14 | 0.21 | −0.06 | 0.03 | −0.07 | 0.02 | −0.10 | 1.00 |  |  |  |
| 14. Dynamism | 0.03 | 0.03 | 0.02 | 0.35 | 0.20 | 0.05 | −0.02 | 0.43 | −0.01 | −0.07 | 0.04 | 0.06 | −0.18 | 0.31 | 0.00 | 1.00 |  |  |
| 15. Amount cash | 92.8 | 12.4 | −0.04 | −0.05 | −0.01 | −0.06 | 0.02 | −0.02 | −0.00 | 0.01 | −0.04 | −0.01 | 0.04 | −0.03 | −0.04 | −0.03 | 1.00 |  |
| 16. Divestiture relative size | 0.05 | 0.09 | 0.22 | −0.08 | −0.04 | 0.15 | 0.01 | −0.12 | −0.10 | 0.02 | −0.32 | −0.15 | −0.05 | −0.15 | 0.02 | −0.03 | −0.04 | 1.00 |
| 17. Relatedness | 0.33 | 0.47 | −0.03 | 0.09 | 0.27 | −0.03 | 0.04 | 0.00 | −0.01 | 0.01 | 0.02 | −0.25 | −0.04 | −0.01 | 0.05 | −0.03 | 0.04 | −0.00 |
| 17. Board size | 10.46 | 2.61 | 0.06 | 0.05 | −0.06 | 0.02 | −0.02 | 0.06 | −0.01 | −0.08 | 0.46 | 0.25 | 0.03 | 0.09 | −0.03 | −0.04 | −0.02 | −0.15 |
| 19. Board independence | 0.74 | 0.16 | 0.04 | 0.13 | 0.14 | 0.04 | 0.01 | 0.03 | −0.06 | 0.10 | 0.25 | 0.08 | 0.05 | 0.12 | −0.16 | 0.09 | −0.01 | −0.07 |
| 20. Duality | 0.66 | 0.47 | 0.05 | 0.07 | −0.03 | −0.00 | −0.01 | 0.05 | 0.02 | −0.03 | 0.17 | 0.14 | −0.04 | −0.01 | 0.01 | 0.04 | −0.03 | −0.05 |
| 21. Tenure heterogeneity | 0.76 | 0.27 | 0.01 | 0.00 | 0.00 | 0.03 | −0.02 | 0.06 | −0.12 | 0.00 | −0.01 | 0.04 | 0.01 | 0.03 | −0.01 | 0.09 | 0.04 | 0.02 |
| 22. Age heterogeneity | 0.12 | 0.04 | −0.03 | −0.02 | 0.01 | −0.01 | 0.01 | 0.02 | 0.07 | 0.05 | −0.18 | −0.07 | −0.07 | −0.03 | 0.02 | 0.01 | 0.00 | 0.07 |
| 23. Financial industry dummy | 0.01 | 0.12 | 0.01 | −0.05 | −0.04 | −0.03 | −0.01 | −0.05 | −0.03 | −0.03 | 0.01 | −0.08 | 0.04 | −0.05 | 0.02 | 0.03 | −0.02 | −0.01 |
| 24. Gender diversity | 0.2 | 0.12 | 0.14 | −0.01 | −0.09 | 0.04 | 0.02 | −0.08 | 0.02 | 0.00 | 0.28 | 0.09 | 0.10 | 0.04 | −0.07 | −0.20 | −0.00 | −0.10 |
| 25. Racial diversity | 0.12 | 0.14 | 0.06 | 0.10 | 0.01 | −0.03 | −0.05 | 0.15 | −0.01 | −0.00 | 0.41 | 0.08 | 0.04 | 0.23 | −0.18 | −0.02 | −0.01 | −0.15 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Variables** | **17** | **18** | **19** | **20** | **21** | **22** | **23** | **24** |
| 17. Relatedness | 1.00 |  |  |  |  |  |  |  |
| 18. Board size | −0.11 | 1.00 |  |  |  |  |  |  |
| 19. Board independence | 0.02 | −0.01 | 1.00 |  |  |  |  |  |
| 20. Duality | −0.06 | 0.08 | 0.12 | 1.00 |  |  |  |  |
| 21. Tenure heterogeneity | 0.01 | 0.11 | 0.00 | −0.14 | 1.00 |  |  |  |
| 22. Age heterogeneity | 0.08 | −0.11 | −0.19 | −0.16 | 0.01 | 1.00 |  |  |
| 23. Financial industry dummy | 0.00 | 0.06 | −0.02 | −0.08 | −0.03 | 0.01 | 1.00 |  |
| 24. Gender diversity | 0.00 | 0.21 | 0.21 | 0.08 | 0.00 | −0.11 | 0.02 | 1.00 |
| 25. Racial diversity | 0.01 | 0.16 | 0.23 | 0.08 | −0.08 | −0.17 | −0.01 | 0.24 |

b: N = 1698; Correlations larger in absolute value than 0.05 are significant at 0.05 level.

### Table 3. Proportion of female and racial minority directors in the sample.

|  |  |
| --- | --- |
| **Proportion of female directors** | **Proportion of cases in the sample** |
| Female ratio ≤ 10% | 36% |
| 10% < Female ratio ≤ 20% | 47% |
| 20% < Female ratio ≤ 30% | 13% |
| 30% < Female ratio ≤ 40% | 3.6% |
| 40% < Female ratio <50% | 0.4% |
| aFemale ratio = 50% | 0.06% |
| Proportion of racial minority directors | Proportion of cases in the sample |
| Racial minority ratio ≤ 10% | 69% |
| 10% < Racial minority ratio ≤ 20% | 20% |
| 20% < Racial minority ratio ≤ 30% | 7.5% |
| 30% < Racial minority ratio ≤ 40% | 3.2% |
| 40% < Racial minority ratio <50% | 0.3% |
| Racial minority ratio = 50% | 0% |

a: A single case in the sample.

### Table 4. Effects of gender and racial diversity on divestiture rate.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variables** | **Model 1** | **Model 2** | **Model 3** | **Model 4** |
| Constant | −1.971∗∗∗∗ | −2.144∗∗∗∗ | −2.106∗∗∗∗ | −2.036∗∗∗∗ |
|  | (0.126) | (0.125) | (0.123) | (0.131) |
| Simultaneous divestiture | 0.058∗∗∗∗ | 0.051∗∗∗∗ | 0.048∗∗∗∗ | 0.057∗∗∗∗ |
|  | (0.003) | (0.004) | (0.005) | (0.003) |
| Acquisition activity | 0.066∗∗∗∗ | 0.061∗∗∗∗ | 0.067∗∗∗∗ | 0.058∗∗∗∗ |
|  | (0.011) | (0.012) | (0.015) | (0.012) |
| Prior performance | 0.008 | −0.043∗∗ | −0.042∗ | −0.005 |
|  | (0.020) | (0.022) | (0.026) | (0.025) |
| Firm size | 0.458∗∗∗∗ | 0.508∗∗∗∗ | 0.536∗∗∗∗ | 0.524∗∗∗∗ |
|  | (0.040) | (0.044) | (0.047) | (0.045) |
| Diversification | 0.082∗∗∗∗ | 0.086∗∗∗∗ | 0.078∗∗∗∗ | 0.071∗∗∗∗ |
|  | (0.017) | (0.019) | (0.021) | (0.020) |
| Slack | −0.230∗∗∗∗ | −0.230∗∗∗∗ | −0.223∗∗∗∗ | −0.255∗∗∗∗ |
|  | (0.053) | (0.054) | (0.056) | (0.056) |
| Free cash flow | −0.093∗∗∗∗ | −0.057∗∗∗ | −0.080∗∗∗ | −0.054∗∗∗ |
|  | (0.019) | (0.018) | (0.025) | (0.021) |
| Capital expenses | −0.001 | −0.007 | −0.012 | −0.002 |
|  | (0.014) | (0.014) | (0.020) | (0.015) |
| Divestiture experience | 0.131∗∗∗∗ | 0.129∗∗∗∗ | 0.081∗∗∗∗ | 0.125∗∗∗∗ |
|  | (0.008) | (0.009) | (0.012) | (0.011) |
| Munificence | 0.015 | 0.023 | 0.052∗∗ | 0.001 |
|  | (0.025) | (0.027) | (0.026) | (0.028) |
| Dynamism | 0.121∗∗∗∗ | 0.127∗∗∗∗ | 0.062∗∗∗ | 0.121∗∗∗∗ |
|  | (0.029) | (0.029) | (0.021) | (0.029) |
| Board size | 0.025 | −0.001 | 0.032 | 0.033 |
|  | (0.026) | (0.025) | (0.030) | (0.030) |
| Board independence | 0.066∗∗ | 0.067∗∗ | 0.050 | 0.082∗∗ |
|  | (0.028) | (0.030) | (0.031) | (0.032) |
| Duality | −0.015 | −0.028 | 0.001 | −0.021 |
|  | (0.024) | (0.025) | (0.024) | (0.025) |
| Tenure diversity | 0.017 | 0.021 | −0.018 | −0.014 |
|  | (0.021) | (0.022) | (0.026) | (0.025) |
| Age diversity | 0.001 | −0.007 | −0.015 | 0.003 |
|  | (0.025) | (0.027) | (0.032) | (0.027) |
| Financial industry dummy | −0.096 | −0.096 | −0.128 | −0.104 |
|  | (0.080) | (0.080) | (0.086) | (0.081) |
| Gender diversity (GD) |  | −0.096∗∗∗ |  | −0.085∗∗ |
|  |  | (0.035) |  | (0.034) |
| Racial diversity (RD) |  |  | −0.084∗∗ | −0.050 |
|  |  |  | (0.034) | (0.032) |
| RD X GD |  |  |  | −0.062∗∗ |
|  |  |  |  | (0.028) |
|  |  |  |  |  |
| Wald Chi2 | 3249\*\*\*\* | 3429\*\*\* | 1714\*\*\*\* | 2408\*\*\*\* |

N = 10413

Robust standard errors in parentheses; ∗p < 0.1, ∗∗p < 0.05, ∗∗∗p < 0.01, ∗∗∗∗p < 0.001 (two-tailed).

Year dummies calculated in the models but excluded from table for brevity.

### Table 5. Effects of gender and racial diversity on divestiture completion time and divestiture returns.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Divestiture completion time** |  |  |  | **Divestiture returns** |  |  |  |
|  | **Model 5** | **Model 6** | **Model 7** | **Model 8** | **Model 9** | **Model 10** | **Model 11** | **Model 12** |
| **Constant** | 4.070∗∗∗∗ | 4.121∗∗∗∗ | 4.097∗∗∗∗ | 4.117∗∗∗∗ | 0.003 | 0.003 | 0.004 | 0.003 |
|  | (0.139) | (0.145) | (0.141) | (0.144) | (0.007) | (0.007) | (0.007) | (0.007) |
| **Industry completion time** | 0.140∗∗∗ | 0.122∗∗∗ | 0.137∗∗∗ | 0.117∗∗ |  |  |  |  |
|  | (0.044) | (0.045) | (0.044) | (0.046) |  |  |  |  |
| **Industry total firms** | −0.205∗∗ | −0.171∗ | −0.194∗∗ | −0.168∗ |  |  |  |  |
|  | (0.098) | (0.099) | (0.097) | (0.099) |  |  |  |  |
| **Simultaneous divestiture** | −0.018 | −0.020 | −0.015 | −0.018 | −0.001 | −0.001 | −0.001 | −0.002 |
|  | (0.024) | (0.020) | (0.024) | (0.022) | (0.001) | (0.002) | (0.001) | (0.002) |
| **Annual divestitures** | −0.043 | −0.041 | −0.047 | −0.037 | 0.005∗∗ | 0.005∗∗ | 0.005∗∗ | 0.005∗∗∗ |
|  | (0.047) | (0.045) | (0.047) | (0.046) | (0.002) | (0.002) | (0.002) | (0.002) |
| **Acquisition activity** | 0.025 | 0.024 | 0.027 | 0.022 | −0.001 | −0.001 | −0.001 | −0.001 |
|  | (0.038) | (0.036) | (0.038) | (0.036) | (0.001) | (0.001) | (0.001) | (0.001) |
| **Prior performance** | −0.102∗∗∗ | −0.100∗∗∗ | −0.103∗∗∗ | −0.102∗∗∗ | 0.000 | 0.000 | 0.000 | 0.000 |
|  | (0.035) | (0.034) | (0.034) | (0.033) | (0.001) | (0.001) | (0.001) | (0.001) |
| **Firm size** | 0.419∗∗∗∗ | 0.395∗∗∗∗ | 0.401∗∗∗∗ | 0.395∗∗∗∗ | 0.002 | 0.001 | 0.003 | 0.002 |
|  | (0.054) | (0.054) | (0.056) | (0.056) | (0.003) | (0.003) | (0.003) | (0.003) |
| **Diversification** | −0.055 | −0.052 | −0.052 | −0.051 | −0.002 | −0.002 | −0.002 | −0.002 |
|  | (0.037) | (0.036) | (0.036) | (0.036) | (0.001) | (0.001) | (0.001) | (0.001) |
| **Free cash flow** | 0.011 | 0.007 | 0.010 | 0.005 | 0.001 | 0.001 | 0.001 | 0.001 |
|  | (0.029) | (0.027) | (0.028) | (0.026) | (0.002) | (0.002) | (0.002) | (0.002) |
| **Experience** | −0.130∗∗∗ | −0.126∗∗∗ | −0.130∗∗∗ | −0.120∗∗ | 0.002 | 0.002 | 0.002 | 0.002 |
|  | (0.043) | (0.046) | (0.043) | (0.049) | (0.002) | (0.002) | (0.002) | (0.002) |
| **Munificence** | 0.003 | 0.004 | 0.007 | 0.007 | −0.001 | −0.001 | −0.001 | −0.001 |
|  | (0.036) | (0.036) | (0.037) | (0.036) | (0.002) | (0.002) | (0.002) | (0.002) |
| **Dynamism** | 0.031 | 0.048 | 0.035 | 0.050 | −0.000 | 0.000 | −0.000 | 0.000 |
|  | (0.032) | (0.032) | (0.032) | (0.032) | (0.001) | (0.001) | (0.001) | (0.001) |
| **Cash** | −0.084∗∗∗ | −0.083∗∗∗ | −0.085∗∗∗ | −0.083∗∗∗ | −0.002∗ | −0.002∗ | −0.002∗ | −0.002∗ |
|  | (0.030) | (0.030) | (0.030) | (0.031) | (0.001) | (0.001) | (0.001) | (0.001) |
| **Divestiture relative size** | 0.350∗∗∗∗ | 0.347∗∗∗∗ | 0.351∗∗∗∗ | 0.349∗∗∗∗ | 0.009∗∗∗∗ | 0.009∗∗∗∗ | 0.009∗∗∗∗ | 0.009∗∗∗∗ |
|  | (0.025) | (0.024) | (0.025) | (0.024) | (0.002) | (0.002) | (0.002) | (0.002) |
| **Relatedness** | 0.011 | 0.012 | 0.013 | 0.014 | −0.001 | −0.001 | −0.001 | −0.001 |
|  | (0.033) | (0.033) | (0.033) | (0.033) | (0.001) | (0.001) | (0.001) | (0.001) |
| **Board size** | 0.051 | 0.038 | 0.051 | 0.045 | 0.000 | 0.000 | 0.001 | 0.000 |
|  | (0.043) | (0.044) | (0.043) | (0.044) | (0.002) | (0.002) | (0.002) | (0.002) |
| **Board independence** | 0.036 | 0.017 | 0.031 | 0.025 | 0.003∗ | 0.003 | 0.003∗ | 0.003∗ |
|  | (0.038) | (0.039) | (0.038) | (0.039) | (0.002) | (0.002) | (0.002) | (0.002) |
| **Duality** | 0.005 | −0.005 | 0.004 | −0.011 | −0.001 | −0.001 | −0.001 | −0.001 |
|  | (0.033) | (0.033) | (0.033) | (0.032) | (0.002) | (0.002) | (0.002) | (0.002) |
| **Tenure diversity** | −0.007 | −0.020 | −0.005 | −0.017 | 0.002 | 0.001 | 0.001 | 0.001 |
|  | (0.031) | (0.031) | (0.031) | (0.031) | (0.001) | (0.001) | (0.001) | (0.001) |
| **Age diversity** | −0.016 | −0.006 | −0.013 | −0.004 | −0.001 | −0.001 | −0.001 | −0.001 |
|  | (0.036) | (0.037) | (0.036) | (0.037) | (0.001) | (0.001) | (0.001) | (0.001) |
| **Inverse mills ratio** |  |  |  |  | 0.006∗∗ | 0.006∗∗ | 0.005 | 0.005 |
|  |  |  |  |  | (0.003) | (0.003) | (0.003) | (0.003) |
| **Financial industry dummy** | −0.110∗∗ | −0.103∗∗ | −0.106∗∗ | −0.102∗∗ | −0.005 | −0.005 | −0.005 | −0.005 |
|  | (0.047) | (0.048) | (0.047) | (0.048) | (0.004) | (0.004) | (0.004) | (0.004) |
| **Gender diversity (GD)** |  | 0.126∗∗∗∗ |  | 0.122∗∗∗ |  | 0.003∗ |  | 0.003∗ |
|  |  | (0.038) |  | (0.037) |  | (0.002) |  | (0.002) |
| **Racial diversity (RD)** |  |  | 0.039 | 0.001 |  |  | −0.002 | −0.003∗∗ |
|  |  |  | (0.039) | (0.035) |  |  | (0.001) | (0.001) |
| **RD x GD** |  |  |  | 0.056∗ |  |  |  | 0.003∗∗ |
|  |  |  |  | (0.029) |  |  |  | (0.001) |
| **Wald Chi2** | 369\*\*\*\* | 406\*\*\*\* | 391\*\*\*\* | 433\*\*\*\* | 88\*\*\*\* | 91\*\*\*\* | 91\*\*\*\* | 95\*\*\*\* |

For models 5–8, N = 2056 For models 9–12, N = 1698.

Robust standard errors in parentheses.

∗p < 0.1.

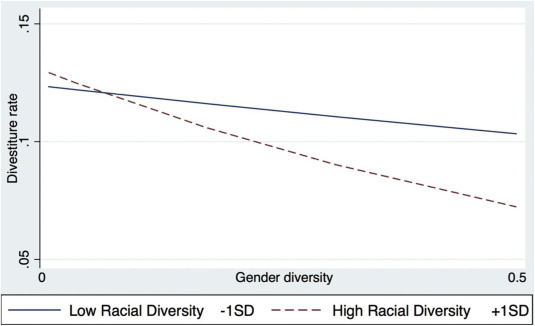
∗∗p < 0.05.

∗∗∗p < 0.01.

∗∗∗∗p < 0.001 (two-tailed).

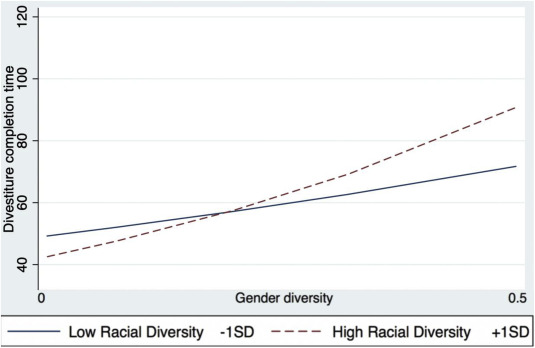
Year dummies calculated in the models but excluded from table for brevity.

Models 1–4 in Table 4 show the results when the dependent variable is divestiture rate. Models 1 is the base models with control variables only. Most of those variables are in line with findings from prior research. In particular, simultaneous divestiture, acquisition activity, firm size, diversification, divestiture experience, dynamism, and board independence are positively related to divestiture rate. In contrast, slack and free cash flow lead to lower divestiture rate. In H1a, we argued that gender diversity will be negatively related to divestiture rate. Consistent with H1a (see Model 2), the coefficient of gender diversity is negative (β = −0.096, p < 0.01). H1b argued for a similar effect of racial diversity on divestiture rate. Since the coefficient in Model 3 is negative (β = −0.084, p < 0.05), this Hypothesis is also supported. H2a stated that racial and gender diversity will interact and will jointly lead to a lower divestiture rate. The interaction term in Model 4 is negative (β = −0.062, p < 0.05) providing support for the hypothesis (see Fig. 1). In terms of practical significance, we estimated that for two otherwise identical boards the divestiture rate for a board with gender diversity at 1 standard deviation above the mean was about 21% lower compared to a board with 0 gender diversity. For racial diversity, that number was about 14.5%.



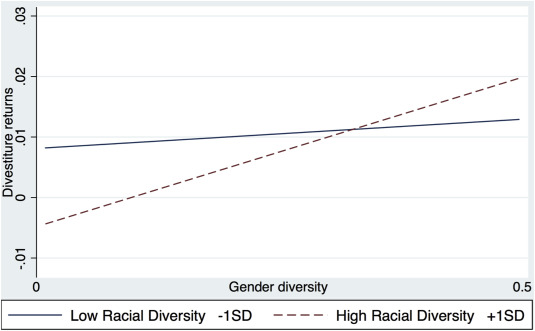
### Fig. 1. Interaction of gender and racial diversity on divestiture rate.

Models 5–8 in Table 5 present the impact of board diversity on divestiture completion time. Consistent with H1c, in Model 6 we found that gender diversity is positively related to divestiture completion time (β = 0.126, p < 0.001). In H1d, we argued that gender diversity increases divestiture completion time. While the coefficient of gender diversity was positive, it was not significant and thus, the Hypothesis was not supported (Model 7). We found support for H2b which posited that gender and racial diversity would interact to increase divestiture completion time (β = 0.056, p < 0.10 in Model 8). The visual representation of the interaction effect is presented in Fig. 2. In addition to the statistical significance of our results, we examined the practical significance of board diversity on divestitures. For two otherwise identical boards, the difference in divestiture completion times between a board with no gender diversity and a board with gender diversity at 1 standard deviation above the mean was 20 days, a 43% increase in completion time.



### Fig. 2. Interaction of gender and racial diversity on divestiture completion time.

Models 9–12 in Table 5 show the results when divestiture returns is the dependent variable. H3a argued that greater gender diversity leads to more positive market reaction to divestitures. Model 12 reveals that the coefficient of gender diversity is positive (β = 0.003, p < 0.10) which is in line with the Hypothesis. In H3b, we theorized that racial diversity increases divestiture returns. The negative coefficient (β = −0.003, p < 0.05) is opposite to H3b and indicates that the market reacts negatively when a racial-diverse board drives divestitures (see Model 12). We also estimated the magnitude of the effect for gender diversity. Since the average total assets of a divesting firm in the sample are $17.7B and the standardized coefficient of gender diversity is 0.003, the difference in value for a divesting firm with high gender diversity (+1 standard deviation) versus low gender diversity (−1 standard deviation) is around $106M. H4 argued that racial diversity will strengthen the positive effect of gender diversity on divestiture returns. Since the interaction term in Model 12 is positive (β = 0.003, p < 0.05), H4 is supported. The interaction effect of racial and gender diversity on divestiture returns is shown in Fig. 3.



### Fig. 3. Interaction of gender and racial diversity on divestiture returns.

# Discussion

This paper examined the impact of board gender and racial diversity on corporate divestitures. Drawing on RDT and group diversity research, we theorized on how board diversity would impact divestiture completion times and rates and divestiture returns. Viewing directors as providers of diverse cognitive perspectives and ideas (Hillman et al., 2002; Hillman and Dalziel, 2003; Pfeffer and Salancik, 1978), we argued that the addition of female and racial minority directors to the boardroom would impact the dynamics, interactions, and decision-making processes within the board in two important ways. First, the addition of diverse directors can hinder board cohesion and reaching consensus on whether to undertake divestitures (Horwitz and Horwitz, 2007; Knight et al., 1999) because directors need to spend additional efforts and time on addressing their differences rather than focusing on completing the task at hand (Jehn, 1997). While diverse directors can ultimately achieve consensus, it is at the expense of slower decision making since they need longer time to process and review the multiple diverse perspectives and ideas shared in the boardroom (Chen et al., 2016; Jackson, 1992). Hence, a diverse board is associated with longer divestiture completion time and a smaller number of completed divestitures over the course of one year or a lower divestiture rate. The results in the present study provided overall support for those arguments since board gender and racial diversity led to lower divestiture rates and gender diversity increased divestiture completion times. The effects of gender and racial diversity also reinforced each other, and their joint impact translated into an even lower divestiture rate and longer divestiture completion times.

Second, the addition of female and racial minority directors to a white male-dominated board was expected to improve the investor reactions to divestitures. We argued that diversity would lead to better investor reactions since it would give investors greater confidence in the decision process and the legitimacy of the board and its actions. More diverse directors are associated with sharing of different perspectives and viewpoints which helps with more thorough review of potential divestitures and diligent assessment of their risks and benefits from multiple angles (e.g., Adams and Ferreira, 2009; Watson et al., 1993). Investors are likely to conclude that greater comprehensiveness during the divestiture decision-making process allows directors to pursue high-quality divestitures. Furthermore, since they are linked to different stakeholders and can effectively represent their interests within the firm (Hillman et al., 2002; Miller and Triana, 2009), diverse directors likely enhance the legitimacy and appropriateness of divestiture decisions which should be perceived positively by the market. Yet, we found only partial support for those arguments: gender diversity was positively related to divestiture returns but racial diversity exhibited a negative effect.

These results point to significant differences between gender and racial diversity's impact on group dynamics and decision-making processes and raise the question of why such differences exists. We offer several potential explanations. First, there is evidence in prior research (Fisher et al., 2012; Harrison et al., 2002) that racial diversity might have a stronger effect on group perceptions of dissimilarity which hinders group cohesion. In particular, a board with “a variety of races may be less likely to develop a team identity, thus resulting in team members' not sharing task-relevant information” (Bell et al., 2011: 731) which inhibits effective decision making. This is consistent with arguments that when multiple subcultures, such as various racial subcultures, exist within a group, communication between them is more difficult (Earley and Mosakowski, 2000; Richard et al., 2004) and inhibits effective decision making. Ultimately, the market might show hesitation towards the ability of racially diverse boards to capture the potential benefits of diverse perspectives, ideas, and viewpoints.

Second, research on group dynamics suggests that the relative size of the minority subgroup is critical for effective communication and capturing the benefits of diversity. A larger minority group leads to smaller in-group/out-group social biases and encourages information sharing among diverse group members (Alexander et al., 1995) which improves the quality of group decisions. In our context of board diversity, the empirical data reveals that the gender diversity index is almost twice as large as the racial diversity index. This suggests that the racial minority subgroups might be isolated by the majority Caucasian subgroup which reduces communication among all group members and hinders decision-making quality.

We conducted a supplementary analysis to further examine potential ways through which racial diversity might impact board dynamics and ultimately divestiture decisions. In particular, we created a dummy variable reflecting cases in which a board had only a single member from a racial minority group; we also created a dummy variable to represent cases in which a board had two or more members from a racial minority group. Results indicated that the latter dummy was negatively related to divestiture returns. We speculate that the market views the presence of racial minority coalition(s) as leading to more challenges for the whole board to engage in comprehensive decision making and agree on value-enhancing divestitures, triggering a negative market reaction to divestitures.

Our findings indicate that under specific circumstances board racial diversity might not be detrimental to divestiture returns. In particular, we found that the negative effect of racial diversity could be negated by the presence of greater gender diversity. The simultaneous existence of diverse minority categories on the board can serve as a signal of inclusiveness, making those minority directors more comfortable and willing to share their opinions (e.g., Barkema and Shvyrkov, 2007; Gibson and Vermeulen, 2003). More directly, as reflected in Fig. 3, gender diversity on the board alone does not result in significantly more positive reactions to divestiture announcements. However, the combination of gender and racial diversity leads to significantly more positive investor reaction. Thus, we see evidence that the combined presence of both gender and racial diversity on the board appears to enhance the value of the diverse perspectives they bring which leads to decisions that are seen positively by investors.

This result extends prior arguments that the relationship between racial diversity and performance is more complex than previously suggested (Richard et al., 2004) and the benefits of racial diversity could be captured under various contingencies, such as type of firm strategy or firm strategic orientation (Richard et al., 2003, 2004). In particular, prior studies suggest that firms with culture and climate focusing on diversity and inclusiveness are able to reap the benefits of diversity (Chatman et al., 1998; Hopkins and Hopkins, 2002). For example, Richard and colleagues find that racial diversity can improve firm performance when coupled with firm practices encouraging participative and collaborative strategic decision making (Richard et al., 2013). We see indirect support for this argument in the findings of stronger market reactions to divestiture announcements in firms with both gender and racial diversity. Firms that have recruited different types of minority groups to their boards are more likely to value the diversity these group members provide and are more likely to emphasize broad input to decision making.

## Implications for theory and practice

The paper contributes to research on divestitures by examining the role of an understudied but important antecedent to divesting. While prior research has extensively focused on various environmental and firm structural factors (Brauer, 2006; Johnson, 1996), it has overlooked the impact of board demography. Given that directors’ gender and race can affect decision-making processes and strategic choices within the board (Hambrick and Mason, 1984), this paper extends our understanding of additional drivers of divestitures, such as board gender and racial diversity. It would be warranted for future research to look at the interaction of board demography, board structure, and environmental conditions and examine what combination of those factors translates into the strongest performance implications of divestitures.

The paper also extends research on RDT by theorizing on the processes and activities through which female and racial minority directors contribute to the firm. Results indicate that the impact of such directors is nuanced and dependent on the particular outcome variable. Given the prevailing belief and empirical evidence that more divestitures are beneficial to the firm (Lee and Madhavan, 2010), some could use the negative relationship between board diversity and divestiture rate to advocate against more women and racial minorities in the boardroom. Yet, such clams would provide a partial view on how board gender and racial diversity contribute to the firm and its shareholders. While it could lead to the implementation of fewer divestitures and make the board “miss” on some available divestment opportunities, board diversity (in particular gender diversity alone and in combination with racial diversity) could facilitate careful assessment of potential divestitures, diligent screening of the most appropriate divestitures, and effective pursuit of divestitures with the highest expected returns.

Finally, the study contributes to research on the role of women and minorities in strategic leadership. Yet, we move away from the dominant paradigm to examine how firm performance is directly impacted by female/minority leaders (Carter et al., 2010; Post and Byron, 2015; Richard, 2000) and rather point at their impact on specific strategic decisions, such as divestitures. Hence, the paper allows to shift the focus from the well-established question “Do female and minorities matter in strategic management?” to the more specific question “How and in what capacity do female and minorities matter?”.

The results that board gender and racial diversity exhibit differentiated impact on divestiture returns have important implications for research on team diversity. In line with prior findings (Bell et al., 2011; Sacco and Schmitt, 2005; Tyran and Gibson, 2008), we can conclude that not all types of board diversity are the same. Compared to directors’ gender, the race of directors might be a more salient cue that generates stronger distinctions and subgroups among directors resulting in reduced cohesion, cooperation, and suboptimal decision making. A deeper understanding of the complex nature of board racial diversity is definitely warranted in order to advance diversity research at the apex of the firm.

The findings of the study also present some practical implications for firms. First, board gender and racial diversity play a strong role on divestitures but the consequences are different depending on whether divestiture rate or divestiture returns are concerned. If the objectives of the firm are to undertake divestitures that would be perceived positively by the market, the firm should emphasize a diverse board (gender diversity alone or coupled with racial diversity). Yet, if a priority for the firm is to achieve quick deal completion and greater annual divestiture rate, then a homogenous board is better suited for this objective. Thus, when firms and shareholders deliberate the composition of the board they should focus not only on more vs. less diversity but also on type of diversity among directors.

Second, the direct negative effects of racial diversity can be used by some to question the value of racial diversity. However, we believe it is important to view racial diversity not in isolation but in the context of its interactions with other factors in the firm. For example, firms need to focus on creating a climate of inclusion and tolerance (Chatman et al., 1998; Hopkins and Hopkins, 2002) towards minorities in the upper echelons of the firm to encourage effective team functioning. Furthermore, promoting the value of diversity (Homan et al., 2007) through diversity training and leadership intervention (e.g., Fisher et al., 2012) could convert the negative effects of racial diversity into performance gains for firms.

Finally, it is important that firms proactively communicate to external constituents not only the presence of female and racial minority directors but also the existing practices for effective integration of those minorities in the boardroom. More specifically, educating financial analysts who follow the firm on the potential benefits of gender and racial diversity can serve as an important tool for affecting how the market reacts to the announcement of different firm strategic actions.

## Limitations and future research

This paper theorized on the underlying mechanisms through which gender and racial diversity impact divestitures but we did not measure directly director discussions, sharing of viewpoints, or evaluation of perspectives. Thus, the study could receive criticism common to diversity research that demographic variables only proxy for directors’ experiences, skills, and expertise. Nevertheless, we believe this should be less of a problem with the variables of gender and race. Because the latter are very salient and easily observable characteristics, strong arguments have been made that surface-level diversity can trigger expression of various perspectives, encourage comprehensive evaluation of ideas, and improve decision making (Dezsö and Ross, 2012). Ideally, future research could utilize surveys and interviews of diverse boards to obtain data on board interactions and dynamics which would allow for a direct test of those underlying mechanisms.

The hypotheses on divestiture returns were built on the idea that the market's assessment of divestitures is based on the characteristics of directors. Stated differently, board gender and racial diversity would serve as a proxy for judging the ability of diverse boards to undertake effective and value-enhancing divestitures. Yet, we did not have direct observations on what actually drives the market and financial analysts' reaction to divestitures – is it the characteristics of directors or the quality of board decision-making processes? Drawing on interviews with financial analysts, scholars could disentangle those two factors and examine which one plays greater role in impacting analysts' assessment of divestitures. Such findings could contribute to signaling theory and impression management research and shed more light on how firms should interact with the external stakeholders – is symbolism (e.g., presence of minority directors) sufficient to trigger positive market reaction to a strategic action or it needs to be supplemented by substance (e.g., disclosing the comprehensiveness of the decision-making process)?

Another potential limitation of the study is the reliance on S&P 1500 firms. While such an approach enables the utilization of a larger sample across various industries, it still restricts the generalizability of the findings to relatively large and public U.S. firms. It would be interesting to examine in the future whether gender and racial diversity exhibit similar effects across different types of firms, such as family firms. Given that the latter are strongly focused on maintaining the firm intact and emphasize a culture of preserving firm boundaries (Gomez-Mejia et al., 2007), it is important for future research to examine whether board diversity could overcome such tendencies with regards to divestment decisions. Furthermore, future research could conduct a comparative study between U.S. and non-U.S. firms, especially firms from countries with mandatory quotas for women and minority directors. Will the market react similarly to divestitures guided by boards with voluntary vs. mandatory gender/racial composition?

An additional avenue for future research could be focused on contingencies of the main relationship between board diversity and divestiture returns. As we discussed earlier in the practical implications, prior research suggests that a climate promoting inclusion and acceptance of female and racial minorities can contribute to effective team functioning. Thus, it would be interesting to examine whether firms utilizing diversity training for corporate directors achieve stronger cohesion, information sharing, and ultimately conduct better strategic decisions.

# Conclusion

In summary, this paper examined the role of board gender and racial diversity on corporate divestitures. Findings suggest that greater gender and racial diversity lead to longer divestiture completion time and lower divestiture rate. Moreover, gender diversity separately and when interacting with racial diversity results in more positive divestiture returns.

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