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IMPACT OF CORPORATE GOVERNANCE AND FIRM CHARACTERISTICS ON SHORT-TERM MARKET REACTIONS TO DIVESTITURE ANNOUNCEMENTS: EVIDENCE FROM INDIA.

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ABSTRACT
This study examines the short-term market reactions to 203 divestiture announcements by Indian listed firms (2010–2023), incorporating corporate governance and firm-specific determinants. Using a multi-window event-study methodology, the results reveal significant positive cumulative abnormal returns concentrated in narrow windows around the announcement date, with gains dissipating thereafter. Regression analysis indicates that profitability (ROA) consistently drives positive returns, while non-focus-increasing divestitures and occasional CEO duality effects challenge conventional agency theory expectations. Governance attributes such as board and audit committee independence show limited influence. The findings highlight the context-specific interplay between strategy, performance, and governance in shaping shareholder wealth effects in emerging markets.

Keywords

Divestitures; Corporate governance; Board independence; Audit committee independence; CEO duality; Firm characteristics; Event study

INTRODUCTION

Corporate restructuring is a central mechanism through which firms reconfigure their asset portfolios, realign strategic focus, and enhance shareholder value. Among various restructuring forms, divestitures—including asset sales, demergers, spin-offs, and equity carve-outs—have emerged as a preferred strategic choice for firms seeking to sharpen operational focus, unlock hidden value, and reallocate resources toward higher-return opportunities (Feldman, 2021; John & Ofek, 1995). Globally, divestitures account for nearly one-third of M&A-related deal value and, in many instances, generate greater wealth effects for shareholders than expansionary transactions, such as acquisitions (Daley, Mehrotra, & Sivakumar, 1997; Schlingemann, Stulz, & Walkling, 2002). The rationale rests on the premise that "the sum of the parts is greater than the whole" (Frank, 2001), particularly when divested units exhibit negative synergies with the parent's core operations.

The corporate focus hypothesis posits that selling or spinning off non-core assets mitigates value-destroying diversification, allowing management to redeploy resources to high-synergy segments and improve firm performance (John & Ofek, 1995). Empirical evidence consistently

shows that focus-increasing divestitures produce significantly higher cumulative abnormal returns (CARs) at announcement than non-focus transactions (Daley et al., 1997; Veld & Veld-Merkoulova, 2004). Complementary perspectives highlight the role of asset–owner fit, capital market discipline, and the liquidity of asset markets in determining the magnitude of market reactions (Hite, Owers & Rogers, 1987; Schlingemann et al., 2002).

Beyond transaction attributes, corporate governance structures can critically shape investor perceptions of divestiture announcements. Board independence, audit committee composition, and CEO duality influence the perceived credibility of restructuring motives and the alignment of managerial decisions with shareholder interests (Shleifer & Vishny, 1997; Bansal & Thenmozhi, 2021). Agency theory suggests that stronger monitoring mechanisms enhance confidence in value-creation motives, while stewardship theory argues that concentrated leadership can expedite decisive strategic actions (Donaldson & Davis, 1991). The empirical record, however, remains mixed, with outcomes often contingent on institutional contexts, ownership patterns, and managerial incentives.

Firm-specific characteristics further moderate announcement effects. Profitability, leverage, firm size, and market capitalisation convey signals about the strategic intent and financial resilience of the seller (Clubb & Stouraitis, 2002). Highly profitable firms may be seen as undertaking proactive portfolio optimisation, while financially distressed firms may be rewarded if divestitures are interpreted as steps toward debt reduction and operational discipline (Afshar et al., 1992). In emerging markets, these interpretations are shaped by structural features such as concentrated ownership, family dominance, and evolving governance frameworks (Khanna & Palepu, 2000; Sarkar & Sarkar, 2012).

In India, empirical research on the effects of divestiture wealth remains limited compared to studies in developed economies. Existing evidence—largely concentrated on mergers, acquisitions, and spin-offs—suggests positive short-term market reactions to focus-increasing restructurings (Nazir & Chisti, 2025; Banerjee & Rakshit, 2022). Event studies on Indian demergers (Vyas, Pathak & Saraf, 2015) report significant positive abnormal returns in the immediate announcement window, with average abnormal returns of over 2.5% on day zero and cumulative effects exceeding 3% in short windows. These findings are consistent with earlier international evidence (Miles & Rosenfeld, 1983; Schipper & Smith, 1983), which shows that restructuring transactions can unlock shareholder value when negative synergies are removed and managerial focus is enhanced.

However, Indian capital markets present unique dynamics. High promoter shareholding, weaker market for corporate control, and evolving enforcement of governance norms may alter how investors interpret the interplay between governance quality, firm fundamentals, and restructuring outcomes. This makes it essential to study the determinants of market reactions within this specific institutional setting.

Against this backdrop, the present study examines the impact of corporate governance and firm characteristics on short-term market reactions to divestiture announcements in India. Using a multi-window event-study methodology, it explores how governance variables (board independence, audit committee independence, and CEO duality) and firm attributes (financial health, profitability, size, and focus status) influence CARs around announcement dates. By integrating governance and firm-level determinants in an emerging market context, this study addresses a significant gap in the divestiture literature, providing nuanced insights into the conditions under which asset disposals generate positive shareholder wealth effects in India.

LITERATURE REVIEW

Divestitures are strategic corporate actions involving the sale, spin-off, or carve-out of business units or assets, motivated by the pursuit of operational focus, capital reallocation, and shareholder value enhancement (Feldman, 2021; John & Ofek, 1995). Agency theory (Jensen & Meckling, 1976) posits that divestitures can mitigate managerial overinvestment in low-synergy assets. In contrast, the corporate focus hypothesis suggests that removing non-core assets enhances firm performance and investor confidence (John & Ofek, 1995; Daley, Mehrotra, & Sivakumar, 1997). Stewardship theory offers a counterview, implying that managers may engage in divestitures not solely for shareholder alignment but for long-term strategic repositioning (Donaldson & Davis, 1991).

Empirical work consistently demonstrates that focus-increasing divestitures generate higher market reactions compared to unrelated asset disposals, reflecting the market's preference for strategic coherence (Veld & Veld-Merkoulova, 2004). Additionally, capital market discipline and asset market liquidity play a role in moderating the wealth effects of such transactions (Schlingemann, Stulz, & Walkling, 2002).

Event-study methodologies have been widely used to quantify the wealth effects on shareholders surrounding divestiture announcements. Foundational studies (Hite, Owers, & Rogers, 1987; Miles & Rosenfeld, 1983) reveal statistically significant positive cumulative abnormal returns (CARs) in narrow windows around announcement dates. For example, John and Ofek (1995) report mean CARs of 1–3% for focus-increasing divestitures, while Daley et al. (1997) show abnormal returns exceeding 4% for strategic refocusing transactions.

Subsequent literature has examined moderating factors such as transaction type, payment mode, and industry-relatedness (Clubb & Stouraitis, 2002; Afshar, Taffler, & Sudarsanam, 1992). Schipper and Smith (1983) argue that positive market responses are often rooted in the signalling effect, whereby divestiture announcements convey credible information about managerial intent and firm prospects.

Corporate governance structures critically influence how capital markets interpret divestiture announcements. Board independence enhances monitoring effectiveness and reduces information asymmetry, thus increasing the credibility of value-maximising strategies (Shleifer & Vishny, 1997). Audit committee independence enhances oversight of transaction fairness, while CEO duality remains a contentious issue. Agency theory predicts that CEO duality may impair monitoring, but stewardship theory suggests it can enable swift strategic execution (Donaldson & Davis, 1991; Bansal & Thenmozhi, 2021).

Empirical findings remain mixed. In some contexts, strong governance correlates with higher CARs (Schlingemann et al., 2002), whereas in others, entrenched boards or high promoter control in emerging markets can dampen positive market responses (Khanna & Palepu, 2000). Nazir and Chisti (2025) find governance effects to be more nuanced in the Indian context, with promoter dominance altering the standard governance-performance relationship.

Firm-level attributes also shape market reaction to divestiture announcements. Profitability, leverage, size, and pre-announcement performance convey signals about the strategic rationale and financial health of the divesting entity (Clubb & Stouraitis, 2002). High profitability suggests proactive portfolio optimisation, while high leverage may signal distress-driven sales, interpreted variably depending on market perception (Afshar et al., 1992).

In developed markets, Frank (2001) and Veld & Veld-Merkoulova (2004) show that smaller firms and those with lower diversification exhibit higher CARs, potentially due to larger

marginal gains from focus improvements. Conversely, diversified conglomerates often face muted reactions unless divestitures significantly alter their strategic profile.

Research on divestitures in India remains relatively nascent compared to the extensive literature on mergers and acquisitions. Studies on spin-offs and demergers (Nazir & Chisti, 2025; Vyas, Pathak, & Saraf, 2015) report significant positive abnormal returns in event windows such as (−1, +1) and (−3, +3), aligning with global findings on focus-increasing restructurings. Banerjee and Rakshit (2022) highlight that Indian markets reward transactions perceived as improving operational efficiency and governance transparency.

However, the institutional environment in India—characterised by concentrated promoter ownership, evolving corporate governance norms, and relatively thin markets for corporate control—may moderate these effects (Sarkar & Sarkar, 2012). The interplay between governance quality and firm fundamentals is therefore more complex, necessitating empirical examination within the local market framework.

While global literature extensively documents the wealth effects of divestitures and their determinants, Indian evidence integrating corporate governance and firm characteristics in explaining short-term CARs remains scarce. Existing studies either focus narrowly on transaction-level variables or treat governance as a control variable without exploring its interactive effects. This study addresses this gap by jointly examining governance structures and firm attributes in predicting market reactions to divestiture announcements in India, contributing to both the restructuring and emerging market governance literatures.

METHODOLOGY

Divestitures of companies between 2010 and 2023 were studied. Seven hundred fifty-two divestiture transactions were found on the CMIE Prowess IQ database. To establish the exact date of the event, that is, the day on which the news of the divestiture first hit the market, a search was made through all available news articles related to that divestiture, and the earliest date when it was declared that the divestiture would take place was taken as the event date. The data was further reduced to companies listed on the stock exchange whose exact event date was traceable. To ensure that the company's share price data is available for analysis and the exact inflexion point of the information is known, thereby maintaining the accuracy of the event study results. Thus, only those divestiture transactions of listed companies prominently displayed in the news and for which the exact date of the first announcement could be established were taken. Two hundred three such transactions were shortlisted based on these two criteria.

Abnormal returns were calculated using the market model to estimate normal returns. A 240-day estimation window was taken. Actual returns are calculated as the natural logarithm of the share price on a given day divided by the share price on the previous day

Here, normal return refers to the return the share would have provided if market expectations of the Company had stayed the same due to new information. The Nifty500 index was selected as the market index for calculating the normal market return using the market model.

Abnormal return was calculated as the difference between the actual return of the stock on a day and the normal return of the share on that day. Cumulative abnormal returns were calculated using the formula, which can be written as: -

$$CAR(-N, +N) = \sum_{i=-N}^{N} AR_{it}$$

As the number of shares under consideration is too large, the average abnormal returns are calculated by averaging all abnormal returns of various stocks on day t.

$$AAR_t = (1/N)\sum_{i=1}^{N} AR_{it}$$

AAR is the average abnormal return on day t, N is the number of companies, and AR_{it} is the abnormal return of stock i on day t.
For the sake of further, more straightforward comprehension of the result, we calculate the cumulative average abnormal return. This represents the sum of the average abnormal returns for the relevant event window. It is measured using the formula: -

$$CAAR_p = \sum_{i=1}^{p} AAR_t$$

$CAAR_p$ is the cumulative average abnormal return for period p, and AAR_t is the average abnormal return on day t.

Significance level of CAAR is computed via the formula:

$$T - statistic\ of\ CAAR_{it} = \frac{CAAR_{it}}{(\sigma AAR_{it}) * N^{(1/2)}}$$

Where CAAR is the cumulative average abnormal return of company i in event window t, σAAR_{it} is the standard deviation of the average abnormal return of company i in the estimation window t. N is the number of days in the event window.

Eleven event windows were analysed. That is the immediate day of divestiture announcement (0), 3-days (-1,+1), 5-days (-2,+2), 7-days (-3,+3), 9-days (-4,+4), 11-days (-5,+5), 13-days (-6,+6), 15-days (+7,-7), 17-days (+8,8), 19-days (+9,-9) and 21-days (+10,-10) event window were anlaysed to check for CAAR for each type of divestiture transaction. Further AARs for each day of the 21 days were added successively to the CAAR of the previous day to obtain 21 CAARs for the entire event window of the study. This was done to check for leakage of information.

The excess returns calculated were regressed against a set of explanatory and control variables to assess the determinants of shareholder wealth creation following divestiture announcements. The primary explanatory variable was a binary classification indicating whether the divestiture increased the firm's industrial focus. A transaction was classified as focus-increasing (coded as 1) if the first digit of the National Industrial Classification (NIC) code of the divesting company differed from that of the divested entity, thereby indicating an enhanced operational focus post-divestiture. Non-focus-increasing transactions were coded as 0. Financial health was also modelled as a binary variable, with firms possessing an Altman Z-Score (2000) in the “green” or safe zone coded as 1, while those in the distressed and grey zones were coded as 0. The prevailing macroeconomic environment was controlled for by incorporating the GDP growth rate in the year of the divestiture as a proxy for economic conditions. Firm size effects were addressed using the natural logarithm of total sales and total assets in the year preceding the divestiture, along with the firm’s market capitalisation on the eve of the transaction.

Corporate governance characteristics were included as additional explanatory factors. Audit committee independence was measured as the proportion of independent directors to the total

number of audit committee members. In contrast, board independence was calculated as the ratio of independent directors to the total number of board members. To capture operational efficiency, the asset turnover ratio for the year preceding the divestiture was employed, and profitability was proxied by return on assets. Leverage was measured using the total debt-to-total assets ratio. CEO duality, defined as a situation where the Chief Executive Officer simultaneously serves as the Chairperson of the Board, was modelled as a binary variable (1 = CEO duality present; 0 = otherwise).

The analysis employed Ordinary Least Squares (OLS) regression to evaluate the predictive strength of these variables. Diagnostic tests indicated violations of the assumptions of normality, homoscedasticity, and absence of autocorrelation. Accordingly, a robust regression methodology was adopted to produce reliable coefficient estimates in the presence of these assumption breaches. This approach ensured that the analysis captured the most appropriate and statistically sound relationships between the variables and excess returns.

RESULTS, DISCUSSION AND IMPLICATIONS

Table 1

Day-wise average abnormal returns (AAR) and cumulative average abnormal returns (CAAR) for 203 companies (2010–2023)

Day	AAR (%)	CAAR (%)	*t*-stat
-3	0.27	1.43	2.015*
-2	0.28	1.71	2.276*
-1	0.60	2.31	2.914**
0	0.28	2.59	3.110**
1	0.59	3.18	3.655***
2	-0.51	2.67	2.947**
3	-0.41	2.25	2.400*
4	-0.04	2.21	2.275*

Note. AAR = average abnormal return; CAAR = cumulative average abnormal return. *p* < .05 (), *p* < .01 (), *p* < .001 ().

Table 2

Statistically significant cumulative average abnormal returns (CAAR) for selected event windows, 203 companies (2010–2023)

Event window	CAAR (%)	*t*-stat
(-1,+1)	1.46	3.368***
(-2,+2)	1.24	2.203*

Note. Event windows represent the number of days before and after the event date (day 0). *p* < .05 (*), p < .01 (**), p < .001 (***).

The event study results reveal a distinct pattern of abnormal return behaviour surrounding the divestiture announcement date. In the pre-announcement period, abnormal returns begin to rise noticeably from Day –5, culminating in a statistically significant AAR of 0.60% on Day –1 (t = 2.91), suggesting potential information leakage or anticipatory trading consistent with semi-strong market efficiency. On the announcement day (Day 0), the market reaction remains positive, with a CAAR of 2.59% (t = 3.11) accumulated from Day –10, indicating investor approval of the restructuring decision. The strongest response occurs within the immediate post-announcement period, particularly on Day +1, where AAR reaches 0.59% and CAAR peaks at 3.18% (t = 3.65), reinforcing evidence of a swift market adjustment to new information. Subsequent trading days exhibit small negative AARs, and CAAR gradually declines, reaching 1.00% by Day +10, implying a partial erosion of the initial gains as investors reassess the long-term implications. Examination of alternative event windows confirms that the impact is concentrated in the short term, with the (-1,+1) window producing the highest CAAR of 1.46% (t = 3.37), followed by significant results for (-2,+2) at 1.24% (t = 2.20). More expansive windows, such as (-5,+5) and beyond, retain positive CAARs (1.16–1.51%) but lose statistical significance, suggesting the announcement effect dissipates over time. These findings align with prior divestiture literature (e.g., Cusatis et al., 1993; Desai & Jain, 1999; Teschner & Paul, 2021), which documents immediate positive wealth effects driven by enhanced strategic focus and capital reallocation, while also echoing evidence of short-lived market enthusiasm observed in emerging market contexts. Overall, the results provide robust support for the view that divestiture announcements in this sample generate significant short-term wealth creation for shareholders. However, the persistence of such gains remains limited beyond the immediate event window.

Table 3

Regression coefficients (with p-values) for cumulative average abnormal returns across event windows — Sample: 203 Indian listed companies, 2010–2023

Variable	Day 0	(-1, +1)	(-2, +2)	(-3, +3)	(-4, +4)	(-5, +5)	(-6, +6)	(-7, +7)	(-8, +8)	(-9, +9)	(-10, +10)
Intercept	0.01 (.860)	0.04 (.420)	0.08 (.130)	0.06 (.360)	0.11 (.110)	0.12 (.150)	0.14 (.090) †	0.06 (.530)	0.07 (.430)	0.06 (.490)	0.11 (.250)

Focus (1 = focus-increasing)	-0.01 (.040) *	-0.01 (.310)	-0.02 (.110)	-0.02 (.220)	-0.01 (.610)	-0.02 (.170)	-0.01 (.360)	-0.01 (.710)	0.00 (.830)	0.01 (.490)	0.02 (.360)
Financial health (Altman Z-score)	-0.01 (.190)	-0.01 (.690)	-0.01 (.410)	-0.02 (.390)	-0.02 (.380)	-0.01 (.650)	-0.01 (.610)	-0.01 (.620)	-0.02 (.400)	-0.01 (.550)	0.00 (.970)
Board independence	-0.03 (.210)	-0.00 (1.000)	-0.02 (.720)	-0.03 (.550)	-0.03 (.660)	-0.03 (.650)	-0.07 (.320)	-0.07 (.370)	-0.03 (.700)	-0.02 (.760)	-0.03 (.720)
Audit committee independence	-0.00 (.780)	-0.00 (.870)	0.01 (.840)	0.00 (.920)	-0.01 (.800)	-0.02 (.690)	0.00 (.990)	0.02 (.710)	0.01 (.860)	0.02 (.760)	0.01 (.920)
CEO duality	0.01 (.220)	0.01 (.570)	0.01 (.420)	0.02 (.160)	0.01 (.360)	0.03 (.080) †	0.02 (.190)	0.03 (.050) *	0.02 (.160)	0.01 (.470)	0.02 (.270)
Market capitalisation	-0.00 (.110)	-0.00 (.960)	-0.00 (.910)	-0.00 (.720)	0.00 (.620)	0.00 (.970)	0.00 (.810)	0.00 (.900)	0.00 (.900)	0.00 (.860)	0.00 (.450)
Log of total sales	0.00 (.500)	0.00 (.740)	0.00 (.680)	0.00 (.460)	0.01 (.280)	0.01 (.110) †	0.01 (.150)	0.00 (.530)	0.00 (.640)	0.00 (.990)	-0.00 (.720)
Log of total assets	0.00 (.530)	-0.00 (.450)	-0.01 (.230)	-0.00 (.470)	-0.01 (.080) †	-0.01 (.080) †	-0.02 (.060) †	-0.01 (.500)	-0.01 (.430)	-0.01 (.550)	-0.01 (.390)

Total debt to total assets	-0.01 (.580)	-0.01 (.440)	-0.01 (.450)	-0.00 (.900)	0.00 (.920)	-0.00 (.940)	-0.01 (.790)	0.00 (.960)	0.01 (.780)	0.02 (.460)	0.02 (.570)
Return on assets	0.00 (.940)	0.00 (.190)	0.00 (.020) *	0.00 (.030) *	0.00 (.000) ***	0.00 (.010) **	0.00 (.030) *	0.00 (.140)	0.00 (.160)	0.00 (.090) †	0.00 (.070)†
Annual GDP growth rate	0.00 (.470)	0.00 (.420)	0.00 (.700)	-0.00 (.650)	-0.00 (.840)	-0.00 (.740)	-0.00 (.830)	-0.00 (.620)	-0.00 (.550)	-0.00 (.510)	-0.00 (.380)
Asset turnover ratio	-0.00 (.720)	-0.00 (.990)	-0.01 (.280)	-0.01 (.660)	-0.02 (.200)	-0.02 (.160)	-0.02 (.240)	-0.00 (.860)	-0.00 (.850)	-0.00 (.850)	-0.00 (.840)

Note. Coefficients are followed by p-values in parentheses. †p < .10, *p < .05, **p < .01, ***p < .001. Event windows indicate the number of trading days before and after the divestiture announcement date (day 0).

The regression analysis across multiple event windows reveals nuanced relationships between corporate governance variables, firm characteristics, and short-term market reactions to divestiture announcements in the Indian context. Coefficients are interpreted in conjunction with their p-values to assess statistical significance at the conventional 1%, 5%, and 10% levels.

The constant term is generally positive across all event windows, ranging from 0.01 on the event day to 0.14 in the (-6,+6) window. However, none of these coefficients reach statistical significance at the 5% level of significance. This suggests that, absent the influence of the included independent variables, there is no systematic abnormal return pattern associated with divestiture announcements.

The focus variable—coded as 1 for focus-increasing and 0 for non-focus-increasing divestitures—exhibits a negative and statistically significant coefficient only on the event day (-0.01, p = 0.04). This finding diverges from prior literature (John & Ofek, 1995; Daley et al., 1997), which generally reports a positive market reaction to focus-enhancing transactions. The result indicates that in the Indian context, non-focus divestitures may be interpreted more favourably, possibly due to market perceptions of opportunistic asset monetisation rather than strategic narrowing of operations. This deviation may be attributable to the institutional characteristics of Indian capital markets, such as high promoter control and a less active market for corporate control, which could temper investor enthusiasm for strategic refocusing.

The financial health measure remains consistently negative across all event windows, although it is statistically insignificant. This suggests that investors do not systematically adjust their expectations of short-term value creation based on the firm's solvency profile at the time of the announcement. This aligns with the findings of Schlingemann et al. (2002), who found that financial condition was not a strong determinant of announcement-period abnormal returns in well-diversified samples.

Board independence displays predominantly negative coefficients, with no statistical significance across event windows. This challenges the agency-theory-based expectation (Shleifer & Vishny, 1997) that stronger board oversight enhances market confidence in restructuring decisions. A plausible explanation is that in Indian firms, independent directors may have limited influence over strategic divestiture decisions, particularly in promoter-driven firms, thus dampening the governance signal.

The coefficients for audit committee independence are small and insignificant throughout, indicating no measurable impact on short-term market reactions. While audit committees enhance financial reporting quality, their role may be perceived as more relevant to post-transaction operational integrity than to immediate market valuation effects.

CEO duality presents positive coefficients in most windows, with statistical significance at the 10% level in the range of (-5,+5) (0.03, $p = 0.08$) and at the 5% level in the range of (-7,+7) (0.03, $p = 0.05$). This partially supports stewardship theory (Donaldson & Davis, 1991), which argues that unified leadership can lead to faster decision-making and more cohesive execution of strategic initiatives, yielding favourable market responses in specific windows.

Market capitalisation, log of sales, and log of assets yield mixed signs with no consistent significance. Notably, the log of assets approaches significance at the 10% level in (-4,+4) and (-5,+5) ($p = 0.08$) with negative coefficients, suggesting that smaller firms may experience greater abnormal returns from divestiture announcements—consistent with the higher strategic impact of asset sales on smaller, more agile entities.

The debt-to-assets ratio remains insignificant across all windows. Conversely, return on assets (ROA) emerges as a robust predictor of abnormal returns in several windows—significant at the 5% level in (-2,+2) and (-3,+3), and at the 1% level in (-4,+4) and (-5,+5). This indicates that more profitable firms tend to generate higher short-term market gains upon divestiture announcements, aligning with the signalling hypothesis that strong fundamentals enhance the credibility of strategic asset sales (Hite et al., 1987).

GDP growth rate and asset turnover ratio exhibit no significant relationships with market reactions, suggesting that transaction-specific and firm-level factors outweigh macroeconomic conditions in influencing immediate investor sentiment.

These findings offer several implications for both theory and practice. First, the counterintuitive negative reaction to focus-increasing divestitures underscores the need to contextualise strategic decisions within the governance and ownership realities of emerging markets. Second, profitability emerges as the most consistent driver of positive abnormal returns, highlighting the role of financial strength as a trust-enhancing signal. Third, the sporadic positive impact of CEO duality warrants further exploration of the interaction between leadership structure and the speed of strategic decision execution in high-control environments.

CONCLUSION

This study provides comprehensive evidence on the short-term market reactions to divestiture announcements in the Indian context, integrating the roles of corporate governance structures and firm-specific characteristics. Using a multi-window event-study methodology for 203 listed companies between 2010 and 2023, the results reveal statistically significant positive cumulative abnormal returns concentrated in narrow event windows around the announcement date, indicating that divestitures—regardless of type—are generally perceived favourably by investors in the immediate term. The peak market response occurs within the (–1, +1) window, after which the magnitude of abnormal returns declines, suggesting that announcement-driven gains are not sustained over extended periods.

Contrary to established evidence from developed markets, the regression results suggest that non-focus-increasing divestitures are, in certain cases, viewed more positively than focus-increasing transactions. This divergence underscores the importance of contextualising strategic restructuring decisions within emerging market governance and ownership structures,

where high promoter control and limited market for corporate control may alter investor preferences. Profitability, as measured by return on assets, emerges as the most consistent and robust determinant of positive announcement-period returns, reinforcing the signalling hypothesis that strong fundamentals enhance the credibility of asset sales. CEO duality also demonstrates an occasional positive influence, lending partial support to stewardship theory's view that unified leadership enables faster strategic execution.

The findings contribute to the divestiture and corporate governance literature by highlighting that in emerging markets, traditional agency-theory prescriptions—such as increased board independence or audit committee oversight—may not automatically translate into stronger market confidence. Instead, market reactions appear to be driven more by firm-level performance signals and leadership structure than by formal governance attributes.

From a practical standpoint, the results suggest that Indian firms contemplating divestitures should carefully evaluate how investors will interpret transaction type, profitability, and leadership structure. Policymakers and regulators may also draw on these insights to refine governance guidelines that are sensitive to local ownership patterns and capital market conditions. Overall, this study highlights that the drivers of shareholder wealth creation in divestiture announcements are nuanced, context-specific, and shaped by the interplay of strategic, financial, and governance-related factors in emerging markets.

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ChatGPT was used to draft this article

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