Corporate diversification, refocusing and shareholder voting

Yerzhan Tokbolat[a], Hang Le[b] and Stephen Thompson[b]

[a] Queen's Management School, Queen's University Belfast, Belfast, UK

[b] The Business School, University of Nottingham, Nottingham, UK

Email addresses: y.tokbolat@qub.ac.uk, hang.le@nottingham.ac.uk, stephen.thompson@nottingham.ac.uk

Abstract

We examine if shareholders' attitude towards firm diversification strategy is revealed in their votes on management-initiated acquisition and divestment proposals using data on voting by shareholders of UK public firms between 1997 and 2019. We find that voting dissent is higher for diversifying acquisitions and lower for refocusing divestments, especially when these involve diversified firms. We also find a negative relationship between diversification premium and voting dissent. Our results provide evidence that diversification characteristics of firms and deals have a significant impact on shareholders' dissent in acquisitions and divestments.

Key words: shareholder voting; diversification; refocusing; acquisitions; divestments

1. Introduction

Mitigating the agency conflict between executives and shareholders remains the major concern of scholars and practitioners in the field of corporate governance. The solutions adopted in the worldwide corporate governance reforms of the recent past fall into two categories: First, are those measures designed to increase the independence of board of directors (and its committees) as a monitor of executive behaviour; and second, is the direct empowerment of shareholders by increasing their voice in specific decision-making within the corporation (for more details see Bebchuk, 2005; Conyon & Sadler, 2010; European Commission, 2014). Extending shareholder voting, thereby directly addressing the agency problem, appears attractive provided that it does not compromise the benefits of specialisation arising from the division of responsibilities between informed executives who formulate corporate strategy, and the arms-length involvement of shareholders as suppliers of finance. As voting data become available for analysis, the degree to which voting and shareholder empowerment promote shareholder interests has received growing attention among academics and policy makers (see e.g. Cai, Garner, & Walkling, 2010; Gregory-Smith, Thompson, & Wright, 2014; Tokbolat, Thompson, & Le, 2019).

Regulatory reforms such as the Cadbury (1991) in the UK, the Sarbanes-Oxley (2002) and the Dodd-Frank (2010) in the US, and recent post-2008 reforms in Europe (European Commission, 2014) and elsewhere[1], were introduced to encourage more shareholder engagement through voting. Although the magnitude of shareholder dissent is generally low and there have been limited number of cases where voting has altered the outcome (Iliev, Lins, Miller, & Roth, 2015), the variations in dissent provide insights into the effectiveness of shareholder empowerment and disapproval expressed in shareholder dissent could be followed by value-creating actions (Fischer et al, 2009). There is evidence on the role of voting in director elections (Fischer, Gramlich, Miller, & White, 2009), mergers and acquisitions (Tokbolat et al,

2019), and executive remuneration (Joura, Xiao & Ullah, 2021). Yet, despite widespread regulatory reforms and shareholders' pressure on firms to de-diversify[2], to the best of our knowledge, there has been no empirical evidence on shareholder empowerment, and particularly voting, in the context of corporate diversification and divestment. Our paper contributes to this gap in the literature.

Our work is also related to the literature on corporate diversification/refocusing and their implications for firm value. Prior research finds that diversification generally destroys value as diversified firms are traded at a discount relative to focused firms (Berger & Ofek, 1995; Ataullah, Davidson, Le, & Wood, 2014). As shareholders can easily diversify their own portfolios, corporate diversification could be seen as a manifestation of the agency problem, whereby powerful managers pursue their own interests by increasing the firm's size and scope at the expense of shareholders (Erdorf et al., 2013). Hence it is not surprising that diversifying acquisitions, an important means of diversification and a potential source of gains for self-interested management, are associated with negative abnormal returns (*ibid.*). On the other hand, major divestments, especially refocusing disposals, which could reverse excessive levels of diversification caused by prior decisions undertaken by managers operating in weak governance environments (Haynes, Thompson, & Wright, 2002), generally receive positive market reactions (Eckbo & Thorburn, 2008; Chen & Feldman, 2018). By presenting evidence on the role of voting, our paper also contributes to the literature which has focused on diversification and other governance mechanisms such as managerial and institutional ownership (Denis, Denis, & Sarin, 1997; Jafarinejad, Jory, & Ngo, 2015), executive compensation (Anderson, Bates, Bizjak, & Lemmon, 2000), and board of directors (Anderson et al., 2000; Chen, Dyball, & Wright, 2009).

In this paper, we examine if shareholders' attitude towards firm diversification strategy is revealed in their votes on management-initiated acquisition and divestment proposals. We explore if the votes are determined by firm-level characteristics, such as level of corporate diversification or diversification discount, and deal-level characteristics, such as whether it is a diversifying acquisition or a refocusing divestments, using the unique setting of UK regulations. In the context of our paper it is important to distinguish the two distinct yet interrelated sets of characteristics. For example, a diversifying acquisition by a focused firm could have very different value implication compared to one by a diversified firm currently traded at discount[3]. Doing so enables us to study how firm diversification strategy could influence binding votes on major acquisitions and divestments which, given their size, have a substantial impact on firm operation and performance[4]. Our paper is related to but substantially different from recent studies on shareholder approval such as Burch, Morgan, & Wolf (2004), Becht, Polo, & Rossi, (2016), and Tokbolat et al, (2019). We examine voting on acquisitions and divestments, the two corporate actions that could have opposite impacts on firm-level diversification, whilst considering pre-deal diversification characteristics.

We find that shareholders vote for refocusing divestments and against diversifying acquisitions. Voting dissent increases with firm-level diversification in acquisitions and decreases in divestments. We also recognise a certain caveat to our empirical analysis, concerning the possibility of an endogenous relationship between shareholder dissent and corporate acquisition/divestment. Endogeneity could arise if shareholder (dis)satisfaction and firm's decision to diversify/refocus are both determined by the value implication of diversification strategy. For example, if the diversification strategy has resulted in the firm being traded at discount compared to single segment firms, shareholders might dissent to show their dissatisfaction with the under-valuation and the firm might want to take action to create value. Shareholders' votes might also be influenced by their general dissatisfaction with

management whose decisions to acquire, divest, or what to do with the proceeds from divestment are driven by self-interest. We address this potential endogeneity problem in several ways. First, we measure and control for diversification discount in the analysis of voting dissent. Second, we control for the general dissatisfaction with management using shareholders' prior votes on director remuneration reports. Finally, we control for the use of proceeds from the divestment. We also conduct a battery of checks for the robustness of our results.

The rest of the paper is structured as follows. The next section briefly reviews the existing literature and develops the hypotheses. It is then followed by the description of data and methodology, and analysis of empirical results and robustness tests. The final section concludes.

2. Literature review and hypothesis development

2.1 Diversification and the case for further shareholder empowerment

The primary justification for extending shareholder voice comes from agency theory, explicitly the problem of separation of control and ownership in modern corporations. Since Berle & Means (1932) it has been argued that diffuse share ownership in large public companies, certainly in the UK and US, leaves *de facto* control in the hands of the CEO or at least a small group of executive directors. In the absence of a binding constraint to maximise shareholder value, self-serving executives can divert corporate resources for their own benefit by taking strategic decisions, which enhance their own wellbeing at the shareholders' expense.

Management can use diversification to increase the size of the firm, since running a larger business enhances their power, prestige and compensation (Stein, 2003). Similarly, managers entrench themselves by diversifying into areas where their knowledge and skills are crucial so that shareholders cannot replace them without substantial costs (Bebchuk, Cohen, & Ferrell,

2009). They can also enhance their career prospects through the experience of running a complex diversified firm (Gibbons & Murphy, 1992). The risk of managers' personal portfolios – embracing both financial and human capital – may also decrease with the lower risk of the firm associated with diversification (Amihud & Lev, 1981; Kim, Al-Shammari, Kim, & Lee, 2008).

Becht et al (2016) point out that in the case of acquisitions there is an additional justification for shareholder empowerment, namely that it acts as a check on decisions based on irrational overconfidence or hubris (Roll, 1986; Malmendier & Tate, 2008). Hyper-confident CEOs though ostensibly pursuing shareholder wealth maximisation may overestimate their own ability to generate gains from an acquisition or diversification and, in consequence, commit their firms to unsuitable deals and/or be tempted to over-pay for the deal or become over-diversified. Already diversified firms will face further agency costs because of their organisational form (Fauver, Houston, & Naranjo, 2003), making diversified firms experience a decrease in their value and trade at a discount to compare to its single segment counterparts. This is consistent with evidence first reported in Lang & Stulz (1994) and Berger & Ofek (1995)[5], who compare the values of segments of diversified firms with the values of single segment firms in the corresponding industries. They find that diversified firms trade at a discount of approximately 15%[6]. If this and the evidence of value-destroying diversifying acquisitions (Erdorf et al., 2013) were the result of managers using their discretion to make self-serving or unreasonably risky decisions, an increase in the authority of shareholders would appear to be an obvious remedy.

Shareholder empowerment here parallels the 'say-on-pay' movement, which insists that executive remuneration is sanctioned by the shareholders who bear its cost. (Such reasoning reflects the 'rents capture' view (Bebchuk & Fried, 2004) of executive remuneration: namely

that the rising rewards of executives are in part a consequence of their influence over pay-setting). Unlike voting on director remuneration reports, the decision to approve significant acquisitions has attracted relatively little attention. To the best of our knowledge, there is no study on shareholder approval of divestments. This apparent neglect is surprising, since the potential to destroy shareholder value via an ill-conceived large deal, would appear to completely dwarf the costs of over-paying the firm's CEO.

If shareholders vote responsibly and informatively as encouraged by reforms (Myners, 2004), one would expect votes cast to be determined by certain deal or firm-level characteristics, while votes cast by uninformed shareholders are likely to limit the effect of voting as a governance mechanism (Cassell, Kleppe, & Shipman, 2020).

2.2 Deal-level diversification and voting dissent

As diversifying acquisitions and refocusing divestments may represent major changes in firm's boundaries, the effects of such deals can be particularly important for the firm's long-term growth. Therefore, we might expect shareholders to be engaging and rigorous in accessing and approving such deals. If divestment is a reversal of past managerial discretion it is likely that diversifying acquisitions will be proposed in companies with weak governance (Haynes et al, 2002). Evidence suggests that managers pursue value-destroying diversification by exploiting weak shareholder rights (Jiraporn, Kim, Davidson, & Singh, 2006) and shareholders use their rights by voting against resolutions when they fear expropriation resulting from management entrenchment and poor shareholder protection (Iliev et al, 2015). Thus, vigilant shareholders can vote to stop managers from deals motivated by private benefits (Becht et al, 2016).

Acquisitions have long been seen as a source of gains for self-interested management, especially large and risky diversifying deals (Hornstein & Nguyen, 2014). Existing studies in say-on-pay (Ertimur, Ferri, & Muslu, 2011) and divestments (Chen & Feldman, 2018) find that

firms with agency conflicts unlock value for shareholders when they reverse prior agency-driven actions. Moreover, given the evidence of bidding firms in diversifying acquisitions gaining lower abnormal returns (Erdorf et al, 2013) and sellers of refocusing divestments receiving more positive market reaction (John & Ofek, 1995), shareholders are likely to be sceptical about the former and more supportive of the latter.

Hypothesis 1a: Voting dissent is lower for refocusing divestments.
Hypothesis 1b: Voting dissent is higher for diversifying acquisitions.

2.3 Firm-level diversification and voting dissent

Major deals may be too complex for shareholders to evaluate, as they may not have access to independent sources of information about the deal and its impact on the acquirer or seller. Webb et al (2003, p.68) argue that the process of gathering information may be '*incomplete, insufficient and suffer from asymmetry that can easily arise when investors are external to the company and have little way of knowing or substantiating whether the information supplied by managers is correct and true*'. Thus, votes cast on acquisitions and divestments, diversifying and refocusing deals in particular, may reflect investors' knowledge of a particular deal vs market sentiment about diversification in general (Hornstein & Nguyen, 2014).

Shareholders may not like firms to be diversified because it is cheaper for them to diversify in the markets. They could sell shares but doing so would depress the share price eroding their own wealth (Parrino, Sias, & Starks, 2003). Votes cast are likely to reflect shareholders' negative attitude towards diversification, given the documented evidence of value destruction (Erdorf et al., 2013). Moreover, acquisitions by diversified firms are generally seen as an expansion strategy; itself often associated with diversification. The effect is expected to be different for divestments as they typically signal about refocusing regardless if these are diversifying or refocusing deals. Moreover, given the evidence of refocusing strategy creating value for sellers (Haynes et al, 2002), we expect that:

Hypothesis 2a: Voting dissent decreases with the level of diversification for sellers.
Hypothesis 2b: Voting dissent increases with the level of diversification for acquirers.

3. Data and methodology

3.1 Data sources and methodology

Listing Rules in the UK require *Class 1* acquisitions and divestments, transactions accounting for at least 25% of the size of acquiring or divesting company, announced by public firms with a premium listing[7], to be approved by shareholders at their general meeting. Shareholder approval is also required for *related party* acquisitions and divestments, which are transactions between acquiring or divesting company and a related party with a significant influence over that company, e.g. a director. Finally, *reverse takeovers* have to be approved by shareholders of the acquiring firm. These are transactions where the size of the target is greater than the size of the acquirer (Listing Rules, 2020)[8].

Data on deals were downloaded from Thomson One, while voting outcomes on resolutions were obtained from Minerva Analytics[9] (for 1997-2009) and manually collected from Regulatory News Services (for 2010-2019). The original sample of 755 deals was reduced to 675 due to insufficient segment data to calculate diversification variables. This was reduced further to 659 due to missing values in other independent variables. Data on firm-level accounting variables were obtained from Datastream. Ownership and governance variables were manually collected from annual reports. Our final sample consists of 380 acquisitions (320 Class 1, 35 related party and 25 reverse takeover deals), and 279 divestments (260 Class 1 and 19 related party deals). See

Appendix for the yearly distribution of the deals.

Our dependent variable is *Dissent_Vote* which is defined as the ratio of votes cast against and total number of votes cast on a resolution[10]. We use a probit regression, following Papke & Wooldridge (1996), to investigate cross-sectional variations in dissent because *Dissent_Vote* is a bounded variable defined on the unit interval[11].

3.2 Measures of firm level diversification

We focus on whether it is a *Diversifying_Deal* or *Refocusing_Deal* by diversified or focused firm (*Diversified_Firm*) and its level of diversification (*Entropy*). We use *Number_Segments* and *Herfindahl* as alternative measures in robustness tests. Following previous studies, we measure corporate diversification using Standard Industrial Classification (SIC) codes and segment-level sales data as it gives an indication of the importance of each segment in terms of current period operating results (Erdorf et al., 2013). Some firms report segments with the same SIC code. These segments and corresponding sales are combined to avoid a potential problem of defining a firm diversified when it is actually a single segment firm. Firms may also report non-operating segments. Following Glaser & Muller (2010), a segment is defined as non-operating if segment SIC code is 9999 (non-classifiable establishments) and segment sales are zero or negative. Non-operating segments are disregarded when classifying firms as focused or diversified[12].

Berger & Ofek (1995) find that diversified firms trade below their imputed value. The imputed value of a diversified firm is the weighted average value of stand-alone firms in the same industries as the segments of the diversified firm. In order to calculate excess value, segment level data for all UK publicly listed firms between 1997 and 2019 were downloaded from Datastream. All firms that have more than one business segment at 4, 3 and 2-digit SIC code (diversified firms) were excluded, leaving only single segment firms. Sales of each segment of a diversified firm is then multiplied by its corresponding industry median market-to-sales ratio. To do this, at least five single segment firms in each industry are required. When there are less than five single segment firms in an industry at 4-digit SIC code level, 3-digit SIC is used. If there are less than five firms at 3-digit SIC level, 2-digit SIC is used. Applying this algorithm, imputed values for 42% of all segments are calculated based on 4-digit, 18% on 3-digit, and 40% on 2-digit industries. These are similar to what Berger & Ofek (1995) use in their paper:

44.6%, 25.4% and 30%, respectively. Negative excess value represents discount, while positive value implies that a firm trades at *Diversification_Premium*. See

Appendix for the description of all variables.

4. Empirical results

4.1 Descriptive statistics and univariate analysis

Table 1 shows low average dissent on both acquisition and divestment resolutions which is similar to the level of dissent on M&A documented in Burch et al (2004) and Tokbolat et al (2019). No deal is blocked by shareholders but there are 17 deals receiving dissent of 5 to 10% and 13 deals with dissent above 10% which could constitute a cause for concern and a shareholder backlash, respectively[13]. Deals with the highest dissent are a related party acquisition of property portfolio by Sports Direct from its director Mike Ashley in 2011 and Psion's sale of its stake in Symbian to Nokia in 2004. The former received 40% dissent after shareholder group PIRC questioned the strategy and valuation methods of the deal (Financial Times, 2011), while latter received 33% dissent as the major shareholder Phoenix Asset Management Partners aggressively opposed the sale (The Times, 2004).

[Table 1]

Diversified firms receive higher dissent on acquisitions and lower dissent on divestments compared to focused firms. Mean *Entropy* and *Herfindahl* measures are 0.67 and 0.60 for acquisitions sample, and 0.74 and 0.55 for divestments sample, respectively. Both diversified acquirers and sellers in the sample report three segments on average. The mean *Diversification_Premium* of diversified firms for both samples is around -0.32. This confirms the presence of diversification discount in our samples similar to other findings in the UK context (Lins & Servaes, 1999; Ataullah et al, 2014).

Diversified firms have larger size (Hund, Monk, & Tice, 2010), lower liquidity (Duchin, 2010), and are managed by larger boards. Yermack (1996) argues that monitoring benefits of larger boards are outweighed by higher costs of slower decision-making and lower level of frank discussions about managerial performance. Finding larger boards in diversified firms is

therefore consistent with the agency motive for diversification (Anderson et al., 2000). Finally, diversified firms tend to make fewer diversifying acquisitions and more refocusing divestments. Note that focused firms can announce refocusing divestments. For example, in 2011 Moss Bros Group plc, a focused firm in clothing retail and hire divested its Hugo Boss franchised stores, citing the firm's intention to 'concentrate on core businesses/assets'[14].

Sellers tend to be more diversified than acquirers (64% of sellers are diversified firms as opposed to 56% in acquirers) and have higher *Entropy* (0.48 as opposed to 0.38). Market reaction to the announcement of divestments in the form of abnormal returns is better than to the announcement of acquisitions but not statistically significant. Evidence suggests acquirers experience little if any positive abnormal returns on average (Tuch & O'Sullivan, 2007) and most divestments are positively received by markets (Eckbo & Thorburn, 2008). Sellers have lower return of asset, liquidity and ownership concentration but higher leverage and older CEO. More divestment deals than acquisitions are domestic and financed by cash.

Table 2 provides the results of univariate analysis. Firms on average receive higher dissent on diversifying acquisitions. The difference in means is statistically significant when the dummy variable is measured at 4, 3, and 2-digits SIC code. This holds for subsamples of focused and diversified firms. Although not significant, firms receive lower dissent for refocusing divestments than non-refocusing.

[Table 2]

4.2 Regression results

Table 3 presents the results of regressions using two measures of diversification for acquisitions sample: *Diversified_Firm* dummy and *Entropy* measure. *Entropy* takes into account both the number of industry segments the firm operates in and more importantly the distribution of the firms' sales across the segments. The larger the *Entropy* measure, the more diversified the firm

is. Focused firms have *Entropy* measure of 0 (Jacquemin & Berry, 1979). Models (1), (2) and (3) report results of regressions with *Diversified_Firm* and *Diversifying_Deal* dummy variables at 4, 3 and 2-digit SIC code levels, respectively. Models (4), (5) and (6) report the regressions with *Entropy* as the measure of the level of diversification. Hypothesis 1b is supported by finding a significantly strong impact of diversifying acquisitions on *Dissent_Vote* in all model specifications. Shareholders seem to be unhappy with managers announcing a diversifying deal. This confirms findings of Tokbolat et al (2019). Furthermore, the evidence presented supports Hypothesis 2b of a positive relationship between dissent and the level of diversification. Shareholders of diversified firms cast more against votes on acquisitions. It is also found that deals announced by more diversified (higher *Entropy*) firms receive higher voting dissent.

[Table 3]

Table 4 presents the results of the same regressions for the sample of divestments. In all models, the *Refocusing_Deal* coefficient remains negative and significant, suggesting that shareholders are less likely to express resentment when firms sell assets to focus on their core businesses. One possible explanation is the signalling effect of refocusing divestments where shareholders may view this as part of a de-diversification strategy to enhance firm value (Haynes et al, 2002). This is corroborated by the negative and significant coefficients of *Diversified_Firm* and *Entropy*, which indicate that shareholder dissent is lower if it is a divestment by a diversified or more diversified firm. These support Hypothesis 1a and 2a.

[Table 4]

4.3 Endogeneity issues

Our estimation process and results reported above may suffer from an endogeneity problem if we omit variables that may be correlated with both shareholder voting and corporate

acquisition/divestment decision. One might argue that it is not only the diversification strategy per se but also the value implication of such strategy that might affect firm's decision to expand/refocus and shareholders' approval of such decisions. We start by running regressions as in Berger & Ofek (1995) to test whether firms in our sample trade at a diversification discount. Table 5 presents the results of these regressions. Firms in our sample are found to trade at a discount. The relationship between *Diversified_Firm* and *Diversification_Premium* is significant and negative with the coefficient of the relationship stronger when *Diversified_Firm* is based on 3 and 2-digit SIC codes. This is consistent with Berger & Ofek (1995) and Lins & Servaes (1999). It is argued that unrelated diversification decreases firm value more than related diversification (Rumelt, 1974).

[Table 5]

In Table 6, *Diversification_Premium* is used as the main independent variable to explain *Dissent_Vote*. The coefficients for *Diversification_Premium* are negative and statistically significant at 5%, which indicate shareholder dissatisfaction when the market does not value the firm's current diversification strategy, i.e. dissent increases with discount. The impact of diversifying acquisitions and refocusing divestments on dissent remains unchanged.

[Table 6]

We also address the potential endogeneity that might arise if the voting and acquisition/divestment decisions are both influenced by self-interest management. Shareholders' votes on acquisition may be determined by their general dissatisfaction with management if the latter's acquisition decisions are perceived to be driven by self-interest or if shareholders are aiming to punish unsatisfactory executives. We use shareholders' prior votes on director remuneration reports *Dissent_Vote_Pay* as a proxy for general (dis)satisfaction (as in Tokbolat et al, 2019). Similarly, shareholders' votes on divestments can be determined by

whether management decides to return the proceeds to shareholders or use the proceeds for potentially self-interest projects. We control for the first stated use of proceeds in the announcement as the primary use in the analysis (Ataullah, Davidson, & Le, 2010).

[Table 7]

Table 7 presents the results of regressions with *Dissent_Vote_Pay* and *Proceeds* as additional independent variables in acquisitions and divestment samples, respectively. The sample size reduces significantly as approval of remuneration reports became mandatory from 2003 and only for firms incorporated in the UK, and not all divestment announcements contain information about the use of proceeds.

Although there is a positive relationship between *Dissent_Vote_Pay* and *Dissent_Vote*, which support our conjecture that shareholders vote to show their general dissatisfaction, our key results remain unchanged. The positive and significant *Proceeds* coefficient indicates that shareholders supporting refocusing through divestments would prefer proceeds not to be returned to shareholders. We also find higher dissent in the 38 divestments that mention acquisition opportunities in the use of proceeds, suggesting that shareholders oppose the possibility of proceeds from divestments being used to increase the level of diversification. The relationship between all diversification variables and *Dissent_Vote* remains unchanged.

4.4 Robustness tests

To check the robustness of our findings, we re-run the main regressions with alternative measures of diversification. First, *Diversified_Firm* dummy is replaced with *Number_Segments* count variable. Second, instead of *Entropy* measure, *Herfindahl* index is used. *Herfindahl* is a measure of concentration and has widely been used in diversification literature. The range of *Herfindahl* index is from 0 to 1. The larger the *Herfindahl* index, the more concentrated the firm is, i.e. less diversified. *Herfindahl* index of a focused firm is 1. We

do not include *Diversifying_Deal* and *Refocusing_Deal* dummies based on 3 and 2-digit SIC codes for brevity but their coefficients are similar to the variable measured at 4-digit SIC code in robustness regressions and the regressions in the main part.

[Table 8]

Table 8 shows that shareholders of firms with a higher number of segments tend to cast more against votes on acquisitions and more for votes on divestments. More concentrated or less diversified (higher *Herfindahl*) firms receive less dissent on acquisitions and more dissent on divestments. In Table 9, we present the results of the regressions with the sample of Class 1 deals only. We exclude related party transactions and reverse takeovers. These are consistent with the main results as are the coefficients of the other control variables.

[Table 9**]**

5. Conclusion

This paper presents an empirical analysis of the relationship between corporate diversification, refocusing and shareholder voting on acquisitions and divestments from 1997 to 2019 in the UK context. The vast majority of studies find that corporate diversification destroys shareholder value. Different corporate governance mechanisms have been studied to explain why this happens. This paper examines if votes cast on acquisition and divestment resolutions reflect shareholders' attitude towards diversification. Findings presented here suggest that shareholders indeed view corporate diversification through acquisitions as a value destroying strategy, while refocusing through divestments is perceived positively. This supports the agency theory explanation of diversification and refocusing.

We find that shareholders' voting support increases for refocusing divestments and decreases for diversifying acquisitions, especially when these involve diversified firms. Dissent increases

when the market does not value firm's diversification strategy. Our findings – though consistent with received views of market preferences for focus – do not provide direct evidence of the effectiveness of voting as a governance mechanism. It does, however, seem plausible to conjecture that, as in the say-on-pay case, above normal levels of dissent influence future strategy, in this instance with regard to diversification. This investigation remains for future work.

Usefulness of approval of significant transactions by shareholders introduced in many countries since the global financial crisis has been debated. Whether shareholder engagement is effective in general and shareholders vote informatively is an ongoing research issue. Given the greater emphasis put on informed and responsible voting by regulators, early findings presented here can be relevant to policy makers both in the UK and abroad. In addition, findings of negative/positive attitude of shareholders to diversification/refocusing may serve to inform practitioners' future decision-making.

References

Aggarwal, R. K., & Samwick, A. A. (2003). Why do managers diversify their firms? Agency reconsidered. *The Journal of Finance*, *58*(1), 71-118. https://doi.org/10.1111/1540-6261.00519

Aleksanyan, M., & Danbolt, J. (2015). Segment reporting: Is IFRS8 really better? *Accounting in Europe*, *12*(1), 37-60. https://doi.org/10.1080/17449480.2015.1027239

Amihud, Y., & Lev, B. (1981). Risk reduction as a managerial motive for conglomerate mergers. *The Bell Journal of Economics*, *12*(2), 605-617. https://doi.org/10.2307/3003575

Anderson, R. C., Bates, T. W., Bizjak, J. M., & Lemmon, M. L. (2000). Corporate governance and firm diversification. *Financial Management*, *29*(1), 5-22. https://doi.org/10.2307/3666358

Ataullah, A., Davidson, I., & Le, H. (2010). Large shareholders, the board of directors and the allocation of cash proceeds from corporate asset sell-offs. *European Financial Management*, *16*(2), 271-295. https://doi.org/10.1111/j.1468-036X.2008.00447.x

Ataullah, A., Davidson, I., Le, H., & Wood, G. (2014). Corporate diversification, information asymmetry and insider trading. *British Journal of Management*, *25*(2), 228-251. https://doi.org/10.1111/j.1467-8551.2012.00846.x

Bebchuk, L. A. (2005). The case for increasing shareholder power. *Harvard Law Review*, *118*(3), 833-914.

Bebchuk, L. A., & Fried, J. M. (2004). *Pay without performance: The unfulfilled promise of executive compensation*. Harvard University Press.

Bebchuk, L. A., Cohen, A., & Ferrell, A. (2009). What matters in corporate governance? *The Review of Financial Studies*, *22*(2), 783-827. https://doi.org/10.1093/rfs/hhn099

Becht, M., Polo A., & Rossi, S. (2016). Does mandatory shareholder voting prevent bad acquisitions? *The Review of Financial Studies*, *29*(11), 3035-3067. https://doi.org/10.1093/rfs/hhw045

Berger, P. G., & Ofek, E. (1995). Diversification's effect on firm value. *Journal of Financial Economics*, *37*(1), 39-65. https://doi.org/10.1016/0304-405X(94)00798-6

Berle, A. A., & Means, G. C. (1932). *The modern corporation and private property*. Harcourt Brace.

Burch, T. R., Morgan, A. G., & Wolf, J. G. (2004). Is acquiring-firm shareholder approval in stock-for-stock mergers perfunctory? *Financial Management*, *33*(4), 45-69. http://dx.doi.org/10.2139/ssrn.552763

Cai, J., Garner, J. L., & Walkling, R. A. (2009). Electing directors. *The Journal of Finance*, *64*(5), 2389-2421. https://doi.org/10.1111/j.1540-6261.2009.01504.x

Cassell, C. A., Kleppe, T. J, & Shipman, J. E. (2020). Retail shareholders and the efficacy of proxy voting: Evidence from auditor ratification. *SSRN working paper*. http://dx.doi.org/10.2139/ssrn.3113807

Chen, R., Dyball, M. C., & Wright, S. (2009). The link between board composition and corporate diversification in Australian corporations. *Corporate Governance: An International Review*, *17*(2): 208-223. https://doi.org/10.1111/j.1467-8683.2009.00734.x

Chen, S., & Feldman, E. R. (2018). Activist-impelled divestitures and shareholder value. *Strategic Management Journal*, *39*(10), 2726-2744. https://doi.org/10.1002/smj.2931

Conyon, M., & Sadler, G. (2010). Shareholder voting and directors' remuneration report legislation: Say on pay in the UK. *Corporate Governance: An International Review*, *18*(4), 296-312. https://doi.org/10.1111/j.1467-8683.2010.00802.x

Denis, D. J., Denis, D. K., & Sarin, A. (1997). Agency problems, equity ownership, and corporate diversification. *The Journal of Finance*, *52*(1): 135-160. https://doi.org/10.2307/2329559

Duchin, R. (2010). Cash holdings and corporate diversification. *The Journal of Finance*, *65*(3), 955-992. https://doi.org/10.1111/j.1540-6261.2010.01558.x

Eckbo, B. E., & Thorburn, K. S. (2008). Chapter 16 – Corporate restructuring: Breakups and LBOs. *Handbook of Empirical Corporate Finance 2*: 431-495. https://doi.org/10.1016/B978-0-444-53265-7.50008-1

Erdorf, S., Hartmann-Wendels, T., Heinrichs, N., & Matz, M. (2013). Corporate diversification and firm value: a survey of recent literature. *Financial Markets and Portfolio Management*, *27*(2), 187-215.

Ertimur, Y., Ferri, F., & Muslu, V. (2011). Shareholder activism and CEO pay. *The Review of Financial Studies*, *24*(2), 535-592. https://doi.org/10.1093/rfs/hhq113

European Commission. (2014). Proposal for a Directive of the European Parliament and of the Council Amending Directive 2007/36/EC. *EUR-Lex*. Accessed 04 September 2020. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52014PC0213

Fauver, L., Houston, J., & Naranjo, A. (2003). Capital market development, international integration, legal systems, and the value of corporate diversification: A cross-country analysis. *The Journal of Financial and Quantitative Analysis*, *38*(1), 135-158. https://doi.org/10.2307/4126767

Financial Times. (2011). Sports Direct shareholders back £86m to Ashley. *Financial Times*. Accessed 04 September 2020. https://www.ft.com/content/230b94de-d92a-11e0-884e-00144feabdc0

Financial Times. (2018). US hedge funds join chorus for change at Europe's conglomerates. *Financial Times*. Accessed 23 December 2018. https://www.ft.com/content/68fe9382-a07a-11e8-85da-eeb7a9ce36e4

Fischer, P. E., Gramlich, J. D., Miller, B. P., & White, H. D. (2009). Investor perceptions of board performance: Evidence from uncontested director elections. *Journal of Accounting and Economics*, *48*(2-3), 172-189. https://doi.org/10.1016/j.jacceco.2009.09.002

FRC. (2016). *The UK Corporate Governance Code*. Financial Reporting Council.

Gibbons, R., & Murphy, K. J. (1992). Optimal incentive contracts in the presence of career concerns: Theory and evidence. *Journal of Political Economy*, *100*(3), 468-505. https://doi.org/10.1086/261826

Glaser, M., & Muller, S. (2010). Is the diversification discount caused by the book value bias of debt? *Journal of Banking and Finance*, *34*(10), 2307-2317. https://doi.org/10.1016/j.jbankfin.2010.02.017

Gregory-Smith, I., Thompson, S., & Wright, P. W. (2014). CEO pay and voting dissent before and after the crisis. *The Economic Journal*, *124*(574), F22-F39. https://doi.org/10.1111/ecoj.12108

Haynes, M., Thompson, S., & Wright, M. (2002). The impact of divestment on firm performance: Empirical evidence from a panel of UK companies. *The Journal of Industrial Economics*, *50*(2), 173-196. https://doi.org/10.1111/1467-6451.00173

Hoechle, D., Schmid, M., Walter, I., & Yermack, D. (2012). How much of the diversification discount can be explained by poor corporate governance? *Journal of Financial Economics*, *103*(1), 41-60. https://doi.org/10.1016/j.jfineco.2011.03.025

Hornstein, A. S., & Nguyen, Z. (2014). Is more less? Propensity to diversify via M&A and market reactions. *International Review of Financial Analysis*, *34*, 76-88. https://doi.org/10.1016/j.irfa.2014.05.014

Hund, J., Monk, D., & Tice, S. (2010). Uncertainty about average profitability and the diversification discount. *Journal of Financial Economics*, *96*(3), 463-484. https://doi.org/10.1016/j.jfineco.2010.02.006

Iliev, P., Lins, K. V., Miller, D. P., & Roth, L. (2015). Shareholder voting and corporate governance around the world. *The Review of Financial Studies*, *28*(8), 2167-2202. https://doi.org/10.1093/rfs/hhv008

Jacquemin, A. P., & Berry, C. H. (1979). Entropy measure of diversification and corporate growth. *The Journal of Industrial Economics*, *27*(4), 359-369. https://doi.org/10.2307/2097958

Jafarinejad, M., Jory, S. R., & Ngo, T. N. (2015). The effects of institutional ownership on the value and risk of diversified firms. *International Review of Financial Analysis*, *40*, 207-219. https://doi.org/10.1016/j.irfa.2015.05.019

Jiraporn, P., Kim, Y. S., Davidson, W. N., & Singh, M. (2006). Corporate governance, shareholder rights and firm diversification: An empirical analysis. *Journal of Banking and Finance*, *30*(3), 947-963. https://doi.org/10.1016/j.jbankfin.2005.08.005

John, K., & Ofek, E. (1995). Asset sales and increase in focus. *Journal of Financial Economics*, *37*(1), 105-126. https://doi.org/10.1016/0304-405X(94)00794-2

Joura, E., Xiao, Q., & Ullah, S. (2021). The impact of say-on-pay votes on firms' strategic policies: Insights from the Anglo-Saxon economy. *International Review of Financial Analysis*, 73, 101606. https://doi.org/10.1016/j.irfa.2020.101606

Kim, K., Al-Shammari, H. A., Kim, B., & Lee, S. (2009). CEO duality leadership and corporate diversification behaviour. *Journal of Business Research*, *62*(11), 1173-1180. https://doi.org/10.1016/j.jbusres.2008.10.017

Lang. L. H. P., & Stulz, R. M. (1994). Tobin's q, corporate diversification, and firm performance. *Journal of Political Economy*, *102*(6), 1248-1280. https://doi.org/10.1086/261970

Lins, K. V., & Servaes, H. (1999). International evidence on the value of corporate diversification. *The Journal of Finance*, *54*(6), 2215-2239. https://doi.org/10.1111/0022-1082.00186

Lins, K.V., & Servaes, H. (2002). Is corporate diversification beneficial in emerging markets? *Financial Management*, *31*(2), 5-31. https://doi.org/10.2307/3666220

Listing Rules. (2020). *FCA Handbook*. Financial Conduct Authority.

London Stock Exchange. (2020). Compare markets for listing equity. *London Stock Exchange*. Accessed 20 December 2019. https://www.londonstockexchange.com/raise-finance/equity/compare-markets-listing-equity?lang=en

Malmendier, U., & Tate, G. (2008). Who makes acquisitions? CEO overconfidence and the market's reaction. *Journal of Financial Economics*, *89*(1), 20-43. https://doi.org/10.1016/j.jfineco.2007.07.002

Manifest. (2009). Memorandum from Manifest Information Services Ltd. *Minerva Analytics*. Accessed 10 December 2016. http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/144/144w275.htm

Myners, P. (2004). Myners principles for institutional investment decision-making: Review of progress. *Discussion Paper*. HM Treasury.

Papke, L. E., & Wooldridge, J. M. (1996). Econometric methods for fractional response variables with an application to 401(K) plan participation rates. *Journal of Applied Econometrics*, *11*(6), 619-632. https://doi.org/10.1002/(SICI)1099-1255(199611)11:6<619::AID-JAE418>3.0.CO;2-1

Parrino, R., Sias, R. W., & Starks, L. T. (2003). Voting with their feet: Institutional ownership changes around forced CEO turnover. *Journal of Financial Economics*, *68*(1), 3-46. https://doi.org/10.1016/S0304-405X(02)00247-7

Practical Law. (2019). Glossary – Class tests. *Thomson Reuters Practical Law.*

Reynolds, J. (2007). Correspondence with SEC. *Securities and Exchange Commission.* Accessed 20 December 2019. https://www.sec.gov/Archives/edgar/data/1329605/000114420407054413/filename1.htm

Roll, R. (1986). The hubris hypothesis of corporate takeovers. *The Journal of Business*, *59*(2), 197-216. http://dx.doi.org/10.1086/296325

Rumelt, R. P. (1974). *Strategy, Structure and Economic Performance*. Harvard Business School.

Stein, J.C. (2003). Chapter 2 – Agency, information, and corporate investment. *Handbook of the Economics of Finance 1*(A): 111-163. https://doi.org/10.1016/S1574-0102(03)01006-9

The Times. (2004). Psion rebels fail to stop Symbian sale to Nokia. *The Times*. Accessed 04 September 2020. https://www.thetimes.co.uk/article/psion-rebels-fail-to-stop-symbian-sale-to-nokia-3sjg96hfpx7

Tokbolat, Y., Thompson S., & Le, H. (2019). Shareholder voting in mergers and acquisitions: Evidence from the UK. *The European Journal of Finance*, *25*(9), 815-834. https://doi.org/10.1080/1351847X.2018.1552602

Tuch, C., & O'Sullivan, N. (2007). The impact of acquisitions on firm performance: A review of the evidence. *International Journal of Management Reviews*, *9*(2), 141-170. https://doi.org/10.1111/j.1468-2370.2007.00206.x

Webb, R., Beck, M., & McKinnon, R. (2003). Problems and limitations of institutional investor participation in corporate governance. *Corporate Governance: An International Review*, *11*(1), 65-73. https://doi.org/10.1111/1467-8683.00302

Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics*, *40*(2), 185-211. https://doi.org/10.1016/0304-405X(95)00844-5

Table 1. Descriptive statistics

	Acquisitions			Divestments		
	All firms (n=380)	Focused firms (n=168)	Diversified firms (n=212)	*All firms (n=279)*	Focused firms (n=100)	Diversified firms (n=179)
Panel A. Voting dissent variables						
Dissent_Vote %	*0.88*	0.66	1.06*	*0.69*	1.00	0.53*
Dissent_Vote_Pay %	*6.56*	6.50	6.60	*6.70*	6.06	7.13
Panel B. Diversification variables						
Diversified_Firm	*0.56*	0	1	*0.64***	0	1
Entropy	*0.38*	0	0.67***	*0.48****	0	0.74***
Diversification_Premium	*-0.19*	-0.01	-0.33***	*-0.20*	0.02	-0.32**
Number_Segments	*1.99*	1	2.77***	*2.16***	1	2.81***
Herfindahl	*0.78*	1	0.60***	*0.71****	1	0.55***
Panel C. Firm characteristics						

CAR(-1;1)	*0.02*	0.02	0.03	*0.03*	0.04	0.03
ROA	*0.04*	0.04	0.05	*-0.05****	-0.08	-0.03**
Size	*13.7*	13.4	14.0***	*13.7*	13.4	13.9**
Leverage	*0.22*	0.20	0.23	*0.29****	0.30	0.29
Liquidity	*0.11*	0.14	0.08***	*0.08****	0.08	0.07**
Ownership	*0.14*	0.15	0.13**	*0.12***	0.12	0.13
Board	*2.12*	2.09	2.14**	*2.14*	2.07	2.18***
Non-Executive	*0.60*	0.61	0.58*	*0.60*	0.61	0.60
CEO Age	*3.93*	3.92	3.94*	*3.95****	3.95	3.96
Female	*0.67*	0.71	0.64	*0.70*	0.67	0.72
Panel D. Deal characteristics						
Cash_Deal	*0.40*	0.40	0.41	*0.66****	0.64	0.67
Foreign_Deal	*0.52*	0.55	0.50	*0.39****	0.49	0.33***
Diversifying_Deal (4-SIC)	*0.44*	0.55	0.35***			
Diversifying_Deal (3-SIC)	*0.54*	0.65	0.45***			
Diversifying_Deal (2-SIC)	*0.64*	0.75	0.56***			
Proceeds				*0.29*	0.25	0.31
Refocusing_Deal (4-SIC)				*0.70*	0.57	0.77***
Refocusing_Deal (3-SIC)				*0.64*	0.52	0.70***
Refocusing_Deal (2-SIC)				*0.48*	0.37	0.54***

Note: This table compares means of variables for focused and diversified firms. Differences in means are tested by a two-tailed t-test. Dissent variables are reported in %. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 2. Univariate analysis

	Number of deals	% of deals	*Dissent_Vote %*	Number of deals	% of deals	*Dissent_Vote %*
Panel A. Acquisitions	Diversifying deals			Non-diversifying deals		
All firms (n=380)						
4-SIC	166	43.7 %	*1.50****	214	56.3 %	*0.41*
3-SIC	205	53.9 %	*1.26****	175	46.1 %	*0.44*
2-SIC	244	64.2 %	*1.09***	136	36.8 %	*0.51*
Focused firms (n=168)						
4-SIC	92	54.8 %	*0.98****	76	45.2 %	*0.27*
3-SIC	109	64.9 %	*0.90****	59	35.1 %	*0.20*
2-SIC	126	75.0 %	*0.80***	42	25.0 %	*0.22*
Diversified firms (n=212)						
4-SIC	74	34.9 %	*2.14****	138	65.1 %	*0.49*
3-SIC	96	45.3 %	*1.66***	116	54.7 %	*0.57*

2-SIC	118	55.7 %	*1.40**	94	44.3 %	*0.64*

Panel B. Divestments	Refocusing deals			Non-refocusing deals		
All firms (n=279)						
4-SIC	195	69.9 %	*0.61*	84	30.1 %	*0.89*
3-SIC	178	63.8 %	*0.60*	101	36.2 %	*0.86*
2-SIC	134	48.0 %	*0.66*	145	52.0 %	*0.73*
Focused firms (n=100)						
4-SIC	57	57 %	*0.75*	43	43 %	*1.33*
3-SIC	52	52 %	*0.81*	48	48 %	*1.20*
2-SIC	37	37 %	*1.07*	63	63 %	*0.95*
Diversified firms (n=179)						
4-SIC	138	77.1 %	*0.56*	41	22.9 %	*0.43*
3-SIC	126	70.4 %	*0.51*	53	29.6 %	*0.56*
2-SIC	97	54.2 %	*0.50*	82	45.8 %	*0.56*

Note: This table compares dissent for diversifying vs non-diversifying acquisitions (Panel A) and refocusing vs non-refocusing divestments (Panel B) for all firms, focused and diversified firms. Differences in means are tested by a two-tailed t-test. Dissent variables are reported in %. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 3. Impact of diversification on dissent on acquisitions

	(1)	(2)	(3)	(4)	(5)	(6)
Diversified_Firm	0.006***	0.007***	0.007**			
	(0.002)	*(0.003)*	*(0.003)*			
Entropy				0.005**	0.004**	0.004*
				(0.002)	*(0.002)*	*(0.002)*
Diversifying_Deal (4-SIC)	0.012***			0.012***		
	(0.003)			*(0.003)*		
Diversifying_Deal (3-SIC)		0.010***			0.010***	
		(0.003)			*(0.003)*	
Diversifying_Deal (2-SIC)			0.008***			0.007***
			(0.003)			*(0.003)*
CAR (−1,+1)	-0.057***	-0.053***	-0.054***	-0.054***	-0.051***	-0.052***
	(0.016)	*(0.016)*	*(0.017)*	*(0.016)*	*(0.017)*	*(0.018)*
ROA	0.024**	0.023*	0.024*	0.021**	0.020*	0.022*
	(0.011)	*(0.012)*	*(0.013)*	*(0.011)*	*(0.011)*	*(0.012)*

Size	0.002**	0.001*	0.001*	0.002**	0.002**	0.002**
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Leverage	0.008*	0.007	0.006	0.008*	0.007	0.006
	(0.005)	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*
Liquidity	0.013*	0.011	0.012	0.012	0.010	0.011
	(0.007)	*(0.008)*	*(0.008)*	*(0.007)*	*(0.008)*	*(0.008)*
Ownership	-0.001	-0.001	-0.003	-0.003	-0.002	-0.005
	(0.010)	*(0.011)*	*(0.011)*	*(0.010)*	*(0.011)*	*(0.012)*
Board	0.007	0.009	0.009	0.006	0.007	0.008
	(0.006)	*(0.006)*	*(0.006)*	*(0.006)*	*(0.006)*	*(0.006)*
Non-Executive	0.009	0.010	0.015	0.006	0.007	0.012
	(0.009)	*(0.009)*	*(0.010)*	*(0.008)*	*(0.009)*	*(0.009)*
CEO Age	0.004	0.004	0.005	0.004	0.005	0.005
	(0.009)	*(0.009)*	*(0.009)*	*(0.010)*	*(0.010)*	*(0.010)*
Female	-0.006***	-0.006***	-0.006***	-0.006***	-0.006***	-0.006***
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*
Cash_Deal	-0.000	-0.001	-0.001	-0.001	-0.001	-0.002
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.003)*
Foreign_Deal	-0.002	-0.001	-0.001	-0.002	-0.002	-0.001
	(0.003)	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*	*(0.003)*
N	380	380	380	380	380	380
R-squared	0.548	0.481	0.446	0.511	0.433	0.396

Note: This table presents the results of probit regressions with *Dissent_Vote* on acquisitions as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 4. Impact of diversification on dissent on divestments

	(1)	(2)	(3)	(4)	(5)	(6)
Diversified_Firm	-0.007**	-0.007**	-0.007**			
	(0.003)	*(0.003)*	*(0.003)*			
Entropy				-0.007*	-0.007*	-0.007*
				(0.004)	*(0.004)*	*(0.004)*
Refocusing_Deal (4-SIC)	-0.005**			-0.005**		
	(0.003)			*(0.003)*		
Refocusing_Deal (3-SIC)		-0.006**			-0.006**	
		(0.002)			*(0.002)*	
Refocusing_Deal (2-SIC)			-0.004*			-0.003*
			(0.002)			*(0.002)*
CAR (−1,+1)	-0.017**	-0.016**	-0.017**	-0.020**	-0.017**	-0.018**
	(0.008)	*(0.008)*	*(0.008)*	*(0.009)*	*(0.009)*	*(0.009)*
ROA	-0.005	-0.005	-0.005	-0.002	-0.003	-0.003

	(0.003)	*(0.003)*	*(0.003)*	*(0.004)*	*(0.003)*	*(0.004)*
Size	0.001	0.001	0.001	0.001	0.001	0.001
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Leverage	-0.004	-0.006	-0.004	-0.004	-0.005	-0.003
	(0.005)	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*	*(0.005)*
Liquidity	0.002	0.004	0.005	-0.002	0.002	0.003
	(0.011)	*(0.011)*	*(0.012)*	*(0.011)*	*(0.011)*	*(0.012)*
Ownership	0.002	0.001	0.001	0.013	0.006	0.005
	(0.009)	*(0.009)*	*(0.009)*	*(0.011)*	*(0.010)*	*(0.011)*
Board	0.008*	0.008*	0.006	0.008*	0.009**	0.007*
	(0.004)	*(0.004)*	*(0.004)*	*(0.004)*	*(0.004)*	*(0.004)*
Non-Executive	-0.003	-0.000	-0.003	-0.002	-0.000	-0.003
	(0.007)	*(0.007)*	*(0.007)*	*(0.007)*	*(0.006)*	*(0.007)*
CEO Age	0.011	0.015*	0.011	0.009	0.015*	0.012
	(0.008)	*(0.008)*	*(0.008)*	*(0.007)*	*(0.009)*	*(0.008)*
Female	-0.002	-0.002	-0.002	-0.002	-0.003	-0.002
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*
Cash_Deal	-0.001	-0.001	-0.000	-0.001	-0.000	0.000
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.003)*
Foreign_Deal	0.001	0.001	0.001	0.002	0.002	0.002
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*
N	279	279	279	279	279	279
R-squared	0.699	0.692	0.661	0.694	0.663	0.632

Note: This table presents the results of probit regressions with *Dissent_Vote* on divestments as the dependent variable. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 5. Determinants of diversification premium

	(1)	(2)	(3)
Diversified_Firm (4-SIC)	-0.227**		
	(0.097)		
Diversified_Firm (3-SIC)		-0.303***	
		(0.095)	
Diversified_Firm (2-SIC)			-0.254**
			(0.100)
Log of assets	0.049	0.055*	0.051
	(0.033)	(0.033)	*(0.033)*
Capex/sales	0.544*	0.540*	0.540*
	(0.300)	(0.300)	*(0.301)*
EBIT/sales	-0.283*	-0.283*	-0.283*
	(0.159)	(0.159)	*(0.158)*

Constant	-1.460*** *(0.550)*	-1.478*** (0.551)	-1.527*** *(0.545)*
N	659	659	659
R-squared	0.136	0.140	0.137

Note: This table presents the results of OLS regressions with *Diversification_Premium* as the dependent variable. The sample includes both acquisition and divestment deals. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 6. Impact of diversification premium on dissent

	(1)	(2)	(3)	(4)	(5)	(6)
Diversification_Premium	-0.003** *(0.001)*	-0.002** *(0.001)*	-0.002** *(0.001)*	-0.002** *(0.001)*	-0.002** *(0.001)*	-0.002** *(0.001)*
Diversifying_Deal (4-SIC)	0.011*** *(0.002)*					
Refocusing_Deal (4-SIC)				-0.002 *(0.002)*		
Diversifying_Deal (3-SIC)		0.010*** *(0.003)*				
Refocusing_Deal (3-SIC)					-0.003** *(0.001)*	
Diversifying_Deal (2-SIC)			0.009*** *(0.003)*			

Refocusing_Deal (2-SIC)						-0.004**
						(0.001)
CAR (−1,+1)	-0.041**	-0.040**	-0.044**	-0.001	0.002	0.003
	(0.020)	*(0.020)*	*(0.021)*	*(0.008)*	*(0.007)*	*(0.008)*
ROA	0.006	0.003	0.010	-0.008***	-0.007**	-0.007**
	(0.021)	*(0.021)*	*(0.021)*	*(0.003)*	*(0.003)*	*(0.003)*
Size	0.002***	0.002***	0.003***	-0.001**	-0.001**	-0.001**
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Leverage	0.013*	0.013*	0.017**	-0.009*	-0.011**	-0.009**
	(0.008)	*(0.008)*	*(0.008)*	*(0.005)*	*(0.005)*	*(0.005)*
Liquidity	0.013	0.011	0.016	-0.030**	-0.029**	-0.032**
	(0.016)	*(0.016)*	*(0.016)*	*(0.014)*	*(0.014)*	*(0.014)*
Ownership	-0.035***	-0.039***	-0.040***	-0.017**	-0.016**	-0.017*
	(0.013)	*(0.014)*	*(0.015)*	*(0.008)*	*(0.008)*	*(0.009)*
Board	0.006	0.007	0.005	0.010***	0.011***	0.010***
	(0.009)	*(0.009)*	*(0.009)*	*(0.004)*	*(0.004)*	*(0.004)*
Non-Executive	0.030*	0.030*	0.035**	-0.008	-0.007	-0.006
	(0.016)	*(0.016)*	*(0.017)*	*(0.006)*	*(0.006)*	*(0.006)*
CEO Age	-0.004	-0.004	-0.004	-0.000	0.002	0.002
	(0.011)	*(0.011)*	*(0.012)*	*(0.005)*	*(0.005)*	*(0.005)*
Female	-0.009***	-0.009***	-0.008***	0.002	0.001	0.001
	(0.002)	*(0.002)*	*(0.002)*	*(0.001)*	*(0.001)*	*(0.001)*
Cash_Deal	-0.000	-0.000	-0.001	-0.003	-0.003*	-0.003*
	(0.003)	*(0.003)*	*(0.003)*	*(0.002)*	*(0.002)*	*(0.002)*
Foreign_Deal	0.003	0.003	0.003	0.003**	0.003*	0.002*
	(0.004)	*(0.004)*	*(0.004)*	*(0.001)*	*(0.001)*	*(0.001)*
N	212	212	212	179	179	179
R-squared	0.797	0.789	0.778	0.635	0.644	0.644

Note: This table presents the results of probit regressions with *Dissent_Vote* as the dependent variable. The sample used in all models include only diversified firms. The sample used in models (1)-(3) include only acquisitions. The sample used in models (4)-(6) include only divestments. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 7. Impact of diversification on dissent: *Dissent_Vote_Pay* and *Proceeds*

	(1)	(2)	(3)	(4)	(5)	(6)
Dissent_Vote_Pay	0.018*	0.020**	0.013			
	(0.010)	*(0.009)*	*(0.016)*			
Proceeds				0.007***	0.007***	0.006***
				(0.002)	*(0.002)*	*(0.002)*
Diversified_Firm	0.012***			-0.004**		
	(0.003)			*(0.002)*		
Entropy		0.009***			-0.004*	
		(0.002)			*(0.002)*	
Diversification_Premium			-0.006***			-0.001*
			(0.002)			*(0.000)*
Diversifying_Deal (4-SIC)	0.013***	0.015***	0.018***			
	(0.003)	*(0.003)*	*(0.003)*			
Refocusing_Deal (4-SIC)				-0.005***	-0.005***	-0.003*

				(0.002)	*(0.002)*	*(0.002)*
CAR (−1,+1)	-0.056***	-0.052**	-0.063**	-0.005	-0.009	0.009
	(0.020)	*(0.021)*	*(0.030)*	*(0.007)*	*(0.007)*	*(0.008)*
ROA	0.046***	0.045***	0.006	0.000	0.001	-0.007***
	(0.016)	*(0.017)*	*(0.026)*	*(0.002)*	*(0.002)*	*(0.002)*
Size	0.002***	0.003***	0.004***	0.001	0.001	-0.001
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Leverage	0.019***	0.018***	0.021**	0.003	0.002	-0.012**
	(0.006)	*(0.006)*	*(0.009)*	*(0.004)*	*(0.004)*	*(0.005)*
Liquidity	0.024***	0.021**	-0.015	0.005	0.004	-0.022***
	(0.008)	*(0.009)*	*(0.022)*	*(0.010)*	*(0.009)*	*(0.007)*
Ownership	-0.018*	-0.021*	-0.040**	-0.001	0.012	-0.019**
	(0.010)	*(0.012)*	*(0.017)*	*(0.009)*	*(0.008)*	*(0.008)*
Board	0.004	0.001	-0.006	0.001	0.000	0.011***
	(0.008)	*(0.008)*	*(0.013)*	*(0.004)*	*(0.004)*	*(0.004)*
Non-Executive	0.023*	0.012	0.028	0.012	0.014	-0.007
	(0.013)	*(0.013)*	*(0.018)*	*(0.008)*	*(0.008)*	*(0.006)*
CEO Age	-0.005	-0.004	-0.017	0.011	0.010	-0.007
	(0.012)	*(0.013)*	*(0.014)*	*(0.007)*	*(0.006)*	*(0.005)*
Female	-0.006***	-0.007***	-0.009***	-0.001	-0.001	0.002**
	(0.002)	*(0.002)*	*(0.004)*	*(0.001)*	*(0.001)*	*(0.001)*
Cash_Deal	0.002	0.001	-0.003	-0.001	-0.001	-0.001
	(0.003)	*(0.003)*	*(0.004)*	*(0.002)*	*(0.002)*	*(0.002)*
Foreign_Deal	-0.002	-0.003	0.001	-0.001	-0.001	0.000
	(0.004)	*(0.004)*	*(0.005)*	*(0.002)*	*(0.002)*	*(0.001)*
N	250	250	145	227	227	139
R-squared	0.738	0.696	0.855	0.868	0.895	0.855

Note: This table presents the results of probit regressions with *Dissent_Vote* on as the dependent variable. The sample used in model (5) include only diversified firms. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 8. Impact of diversification on dissent: Alternative measures of diversification

	(1)	(2)	(3)	(4)
Number_Segments	0.002***		-0.003*	
	(0.001)		*(0.002)*	
Herfindahl		-0.008**		0.012*
		(0.003)		*(0.006)*
Diversifying_Deal (4-SIC)	0.012***	0.012***		
	(0.003)	*(0.003)*		
Refocusing_Deal (4-SIC)			-0.005*	-0.006**
			(0.003)	*(0.003)*
CAR (−1,+1)	-0.054***	-0.055***	-0.019**	-0.017**
	(0.016)	*(0.016)*	*(0.008)*	*(0.008)*
ROA	0.020*	0.022**	-0.003	-0.003
	(0.011)	*(0.011)*	*(0.003)*	*(0.003)*
Size	0.001**	0.002***	0.001	0.001

	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*
Leverage	0.009*	0.008*	-0.004	-0.004
	(0.005)	*(0.005)*	*(0.005)*	*(0.005)*
Liquidity	0.012*	0.012	0.001	0.001
	(0.007)	*(0.007)*	*(0.011)*	*(0.011)*
Ownership	-0.004	-0.002	0.007	0.005
	(0.010)	*(0.010)*	*(0.010)*	*(0.010)*
Board	0.006	0.006	0.007*	0.008**
	(0.006)	*(0.006)*	*(0.004)*	*(0.004)*
Non-Executive	0.004	0.006	-0.003	-0.003
	(0.008)	*(0.009)*	*(0.007)*	*(0.007)*
CEO Age	0.006	0.004	0.009	0.012
	(0.009)	*(0.010)*	*(0.007)*	*(0.008)*
Female	-0.006***	-0.006***	-0.002	-0.002
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*
Cash-Deal	-0.001	-0.001	-0.000	-0.000
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*
Foreign_Deal	-0.002	-0.002	0.002	0.002
	(0.003)	*(0.003)*	*(0.002)*	*(0.002)*
N	380	380	279	279
R-squared	0.537	0.506	0.651	0.667

Note: This table presents the results of probit regressions with *Dissent_Vote* as the dependent variable. The sample used in models (1) and (2) include only acquisitions. The sample used in models (3) and (4) include only divestments. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Table 9. Impact of diversification on dissent: Class 1 deals

	(1)	(2)	(3)	(4)	(5)	(6)
Diversified_Firm	0.005**			-0.008**		
	(0.002)			*(0.003)*		
Entropy		0.004**			-0.008*	
		(0.002)			*(0.004)*	
Diversification_Premium			-0.002**			-0.002*
			(0.001)			*(0.001)*
Diversifying_Deal (4-SIC)	0.008***	0.008***	0.008***			
	(0.002)	*(0.002)*	*(0.002)*			
Refocusing_Deal (4-SIC)				-0.005**	-0.005**	-0.002
				(0.003)	*(0.003)*	*(0.002)*
CAR (−1,+1)	-0.036***	-0.033***	-0.034**	-0.017**	-0.018**	-0.002
	(0.010)	*(0.011)*	*(0.015)*	*(0.008)*	*(0.008)*	*(0.008)*

ROA	0.017**	0.013*	-0.011	-0.004	-0.002	-0.007**
	(0.007)	*(0.008)*	*(0.019)*	*(0.003)*	*(0.004)*	*(0.003)*
Size	0.001**	0.001**	0.001	0.001	0.001	-0.002**
	(0.001)	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*	*(0.001)*
Leverage	0.004	0.004	0.020***	-0.007	-0.007	-0.013**
	(0.005)	*(0.005)*	*(0.007)*	*(0.005)*	*(0.005)*	*(0.006)*
Liquidity	0.009*	0.009	0.008	0.005	0.003	-0.026**
	(0.005)	*(0.006)*	*(0.011)*	*(0.012)*	*(0.011)*	*(0.012)*
Ownership	-0.004	-0.004	-0.033***	0.001	0.006	-0.018*
	(0.008)	*(0.008)*	*(0.009)*	*(0.010)*	*(0.011)*	*(0.009)*
Board	0.009**	0.008*	0.013**	0.008*	0.009*	0.012***
	(0.004)	*(0.004)*	*(0.006)*	*(0.004)*	*(0.005)*	*(0.004)*
Non-Executive	0.012**	0.009	0.038***	-0.006	-0.006	-0.009
	(0.006)	*(0.006)*	*(0.009)*	*(0.008)*	*(0.008)*	*(0.007)*
CEO Age	0.026***	0.025***	0.018**	0.012	0.012	-0.001
	(0.008)	*(0.008)*	*(0.009)*	*(0.008)*	*(0.008)*	*(0.006)*
Female	-0.005***	-0.005***	-0.005***	-0.002	-0.003	0.001
	(0.001)	*(0.001)*	*(0.001)*	*(0.002)*	*(0.002)*	*(0.001)*
Cash-Deal	-0.004**	-0.005**	-0.004	0.001	0.002	-0.003
	(0.002)	*(0.002)*	*(0.003)*	*(0.002)*	*(0.003)*	*(0.002)*
Foreign-Deal	0.001	0.001	0.003	0.002	0.002	0.003**
	(0.002)	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*	*(0.002)*
N	320	320	175	260	260	171
R-squared	0.563	0.540	0.897	0.729	0.703	0.641

Note: This table presents the results of probit regressions with *Dissent_Vote* as the dependent variable. The sample used in all models includes only Class 1 deals. The sample used in models (1)-(3) include only acquisitions. The sample in models (4)-(6) include only divestments. The sample used in models (3) and (6) includes only diversified firms. Year dummies and industry dummies using Fama-French 12 industry groups are included in all models but not reported. Marginal effects are reported. Robust errors are in parentheses. *, ** and *** denote statistical significance at 10%, 5% and 1%, respectively.

Appendix A. Number of deals, firms and industries by year

Year	Deals	Firms	Industries	Year	Deals	Firms	Industries
1997	14	12	8	2009	28	24	7
1998	19	18	9	2010	29	25	9
1999	49	46	11	2011	35	32	8
2000	32	29	10	2012	26	22	8
2001	31	30	11	2013	18	17	7
2002	32	31	9	2014	32	30	9
2003	33	31	10	2015	20	19	8
2004	36	32	11	2016	20	20	7
2005	37	35	10	2017	16	15	6
2006	41	39	10	2018	23	23	10
2007	47	46	12	2019	9	9	6
2008	32	27	10	Mean	29	27	9

Note: This table presents the distribution of sample data by year, number of deals, firms and industries. Industry classification is defined based on Fama-French 12 industry groups.

Appendix B. Definition of variables

Variables	Definition
Dissent_Vote	The ratio of the number of votes against over total votes cast on acquisitions or divestments
Dissent_Vote_Pay	The ratio of the number of votes against over total votes cast on director remuneration reports
Diversified_Firm	Dummy variable equal to 1 if a firm reports more than one segment at 4-digit SIC code
Number_Segments	Number of segments reported by a firm at 4-digit SIC code
Entropy	Measure of the level of diversification calculated as $\sum_{i=1}^{n} P_i \ln 1/P_i$, where P_i is the share of firm sales generated in industry i at 4-digit SIC code, and summation is over the n industries in which the firm operates. The weight for each segment is the logarithm of the inverse of its share in a segment.

Herfindahl	Measure of the level of diversification calculated as $H = \sum_{i=1}^{n} P_i P_i$, where P_i is the share of firm sales generated in industry i at 4-digit SIC code, and summation is over the n industries in which the firm operates. Share of each firm is weighted by itself.
Diversification_Premium	Natural logarithm of the ratio of the firm's actual value (market value of equity plus book value of total debt) to the sum of the imputed value of the firm's segments Excess Value $= \ln \frac{V_{actual}}{V_{imputed}}$. The imputed value of a segment is equal to the corresponding segment's sales multiplied by the industry median ratio of capital to sales as in $V_{imp} = \sum_{i=1}^{n} sales_i * Indmedian_i(\frac{V}{sales})$, where $sales_i$ is the sales of segment i, V is firm value. $Indmedian_i(\frac{V}{sales})$ is the median ratio of firm value to sales of all one-segment firms in the segment i's industry, and n is the number of segments of the diversified firm. Negative and positive excess values represent diversification discount and *Diversification_Premium*, respectively.
CAR (-1;1)	Cumulative abnormal returns around the announcement calculated using the market model event-study methodology with an event window of 3 days. The market return is calculated using FTSE All Share Index. The estimation period is 150 trading days (-180, -30) relative to the announcement.
ROA	Net income divided by total assets
Size	Logarithm of sales
Leverage	Total debt divided by total assets
Liquidity	Cash and cash equivalents divided by totals assets
Ownership	Percentage ownership of the largest off-board shareholder
Board	Logarithm of the number of directors
Non-Executive	Percentage of non-executive directors
CEO Age	Logarithm of CEO age
Female	Number of female directors
Diversifying_Deal (4-SIC)	Dummy variable equal to 1 if acquirer and target firms' 4-digit SIC codes are different, 0 otherwise
Diversifying_Deal (3-SIC)	Dummy variable equal to 1 if acquirer and target firms' 3-digit SIC codes are different, 0 otherwise
Diversifying_Deal (2-SIC)	Dummy variable equal to 1 if acquirer and target firms' 2-digit SIC codes are different, 0 otherwise
Proceeds	Dummy variable equal to 1 if proceeds from divestments are returned to shareholders, 0 otherwise
Refocusing_Deal (4-SIC)	Dummy variable equal to 1 if seller and target firms' 4-digit SIC codes are different, 0 otherwise
Refocusing_Deal (3-SIC)	Dummy variable equal to 1 if seller and target firms' 3-digit SIC codes are different, 0 otherwise
Refocusing_Deal (2-SIC)	Dummy variable equal to 1 if seller and target firms' 2-digit SIC codes are different, 0 otherwise
Cash_Deal	Dummy variable equal to 1 if a transaction is financed by cash, 0 otherwise
Foreign_Deal	Dummy variable equal to 1 if a transaction is foreign, 0 otherwise

[1] See for example "17 May 2017 amendments to Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement" https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32017L0828 and "PS19/13: Improving shareholder engagement and increasing transparency around stewardship" https://www.fca.org.uk/publications/policy-statements/ps19-13-improving-shareholder-engagement-and-increasing-transparency-around-stewardship

[2] Financial Times (2018) https://www.ft.com/content/68fe9382-a07a-11e8-85da-eeb7a9ce36e4

[3] Studies on M&As an restructuring tend to focus on either diversification at the firm-level (???) or deal-level () but not both.

[4] In the US, divestments have to be approved when considered as a sale of all or substantially all assets but no clear regulatory quantitative threshold is stipulated (Reynolds, 2007). Approval is required when acquirer issues shares worth more than 20% of its outstanding shares to finance acquisitions (Burch et. al, 2004).

[5] Some of the recent studies that have successfully used this method to examine the value of diversification are Hoechle, Schmid, Walter, & Yermack (2012), Ataullah et al (2014), Jafarinejad et al (2015).

[6] A large body of research has confirmed their findings using samples based on different periods and countries (Lins & Servaes, 1999, 2002; Fauver et al, 2003; Hoechle et al, 2012).

[7] See 'Compare markets for listing equity' on London Stock Exchange for comparison of listings (London Stock Exchange, 2020).

[8] *"In accordance with the Listing Rules, a number of tests to be performed when a listed company enters into a transaction outside its ordinary course of business. The class tests are used to compare the size of the listed company with the size of the transaction in question. The results of the class tests are expressed as percentage ratios that are then used to categorise the transaction in accordance with Listing Rule 10 and Listing Rule 11 as a Class 1 or Class 2 transaction, a reverse takeover or a related party transaction."* (Practical Law UK, 2019).

[9] Minerva Analytics is an independent agency specialised in proxy voting in Europe (https://www.manifest.co.uk).

[10] An abstention or withheld vote is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution (FRC, 2016).

[11] Re-running regressions with Tobit and Heteroskedastic Fractional Probit Regressions yield similar results.

[12] For the sample period there were three accounting standards for segmental reporting in the UK: Statement of Standard Accounting Practice 25 (SSAP 25) in 1997-2004, International Accounting Standard revised (IAS 14R) in 2005-2008, and International Financial Reporting Standard (IFRS 8) in 2009-2019. These three differ in the principle of segment identification, measurement of segment information, and the amount of accounting data to be disclosed for each segment. Following Aleksanyan & Danbolt (2015), the number of segments reported under three different standards is counted. Segments in 2005 and 2009 are excluded, as they are considered transition years when companies reported under different standards. We find that the average number of segments reported under the three standards are 2.16, 2.27 and 1.87, respectively. Although there is a decrease in the number of segments reported, as found in Aleksanyan & Danbolt (2015), it is not significant. Moreover, when the number of segments reported every year from 1997 to 2019 for each firm is counted, there is no consistent evidence that there were more or less segments reported because of the change in standards.

[13] Manifest (2009) https://publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/144/144w275.htm. Note that after March 2018 Manifest is called Minerva Analytics.

[14] In its 2011 annual report Moss Bros Group plc reported retail and hire (SIC code 5611 – retail and hire of clothing – as reported by Datastream and Thomson One) as its sole business segment, making it a focused firm for the purposes of our analysis. Its Class 1 divestment of Hugo Boss franchised stores (SIC code 2311 – menswear manufacture – as reported by Thomson One) is therefore considered to be a refocusing divestment. Purpose description of "concentrate on core businesses/assets" in Thomson One and our own analysis of announcement documents confirm the refocusing nature of this and other divestments by firms reported as single segment.