Additional Information for Journal's web site

Table 9. Industry Concentration of Companies

2-digit SIC	No. of Companies	%
2	29	22.0
3	27	20.5
4	27	20.5
5	11	8.3
6	28	21.2
7	6	4.5
8	2	1.5
9	2	1.5
Total	*132*	*100.0*

Note: firms have been classified according to the SIC in which they had the majority of their sales

Table 10. Industry Concentration of Divestments with Reported Sales Price, 1985-1993

2-digit SIC	No. of Divestments	%	Value (£000's)	%
1	63	3.4	5705465	10.2
2	294	16.0	9676916	17.3
3	369	20.1	5090170	9.1
4	441	24.0	15606124	27.9
5	25	1.4	223744	0.4
6	423	23.0	14039918	25.1
7	44	2.4	503423	0.9
8	116	6.3	2237437	4.0
9	64	3.5	2852732	5.1
Total	*1839*	*100.0*	*55935929*	*100.0*

Definitions of Additional Variables

Import Intensity. Import intensity was measured as imports divided by total domestic sales in each 3-digit SIC industry. The value of imports was calculated at the 3-digit SIC level for manufacturing firms from the source tapes of the OECD. The reported values were converted from US dollars using the end of year dollar-sterling exchange rates obtained from Datastream. This variable was only available for 79 of our own sample firms. In particular, it was unavailable for firms engaged in some service sector activities, including distribution, for which we were able to derive (CONC) and (MS) measures.

Industry Betas. Each firm was matched according to its primary industry 3-digit SIC code with the relevant London Business School *Risk Management Services* (RMS) stock market grouping. The RMS industry classification is somewhat less aggregated than the FT Actuaries Industry Indices for the same period. The RMS classification was subject to minor revisions over the period, with some industries – principally in manufacturing – being amalgamated and others disaggregated. The RMS beta estimates are derived from a regression of the industry returns on to the market return. We used the equal-weighted industry portfolio measure, rather than the market value-weighted measure, which appeared to be less likely to be dominated by firm-specific information relating to one or two large firms. The RMS measures use trade to trade data, to avoid problems associated with thin trading, and include a Baysian correction - see RMS: Quarterly Estimates by LBS Finance Services. The yearly estimate was taken from the Jan-March edition of RMS, which typically relied upon stock market data up to the middle of the previous calendar year.

Requirements for Reporting Segment Data in the UK

The disclosure of product segment data by UK companies is regulated by legislation, accounting standards and stock exchange rules (Pricewaterhouse Coopers, 1999). The Companies Act 1985, which consolidated previous legislation, requires that where companies have carried on two or more classes of business that differ substantially from each other the notes to the financial statements must give a description of each business and the amount of turnover that is attributable to each business (4 Sch 55(1) as amended by SI 1996/189). The Act provides that the determination of a company’s classes of businesses derives solely from the opinion of the directors. The principal relevant statement of standard accounting practice

(SSAP25) provides guidance on determining classes of business that essentially takes a 'risks and reward approach' whereby products or services with significantly differing risks, rewards and prospects should not be combined together to create a reportable segment. SSAP25 also imposes additional, mandatory, segmental disclosure requirements on public and large companies, unless they avoid disclosure by taking advantage of the prejudicial override exemption of the Act by which directors can decide not to provide disaggregated information if they determine it would be seriously prejudicial to the company's interests. These additional requirements relate to disclosure of the result (i.e. profit) before taxation, minority interests and extraordinary items and net assets. SSAP25 paragraph 34 indicates that result should normally be disclosed before interest. A segment's assets and liabilities may include not only assets and liabilities relating exclusively to that segment but also an allocation of shared assets and liabilities. In addition, Financial Reporting Statement 3 (Reporting Financial Performance) states that if an acquisition, sale or termination (which may be only part of a segment under SSAP25) has a material impact on a major business segment this impact should be disclosed and explained. Stock exchange rules require listed companies to comply with the Act and with SSAP25. A discussion paper issued by the Accounting Standards Board in 1996 sought views on whether the identification of segments and disclosure of information requirements of SSAP25 should be changed. An important distinction between the US FASB and the IASC accounting standards relating to segmental reporting and SSAP25 concerns the basis for distinguishing segments. In contrast to the 'risks and reward' approach adopted in the UK, these standards take a 'management' approach whereby reportable segments constitute organisational units for which financial results are maintained and analysed by management as an integral part of their management and control procedures.

Pricewaterhouse Coopers (1999), *Student's Manual of Accounting: The Guide to UK Accounting Law and Practice*, London: International Thomson Business Press.

Table 11. Profitability Equations, 1989-1993

	(1)	(2)	(3)
$\Delta ROCE_{it-1}$	0.512†	0.496†	0.511†
	(9.060)	(8.885)	(10.442)
ΔCON_{it}	0.607	0.528	0.665
	(2.579)	(2.221)	(3.126)
ΔMs_{it}	0.722	0.958	0.528
	(1.887)	(2.071)	(1.466)
$\Delta[Ms*Con]_{it}$	-0.863	-0.937	-0.893
	(2.533)	(2.312)	(2.924)
ΔLEV_{it}	0.0001	0.0001	0.0002
	(0.364)	(0.276)	(1.192)
$\Delta BETA_{it}$	-0.144	-0.172	-0.132
	(2.109)	(2.308)	(2.010)
DIV_{it}	0.0001	0.0258	0.0075
	(0.504)	(1.967)	(2.359)
DIV_{it-1}	0.0017	0.0565	0.0097
	(1.924)	(2.338)	(2.287)
DIV_{it-2}	0.0021	0.0507	0.0184
	(2.562)	(2.053)	(4.997)
DIV_{it-3}	0.0013	0.0870	0.0099
	(1.819)	(2.339)	(2.800)
Wald1	141.64	107.91	147.23
[df]	[10]	[10]	[10]
Wald2	10.04	9.01	29.75
[df]	[4]	[4]	[4]
Serial Correlation	0.664	0.682	0.792
[p-value]	[0.507]	[0.495]	[0.428]
Sargan	21.82	21.43	23.31
[p-value]	[0.590]	[0.613]	[0.502]
No. of firms	132	132	132
No. of observations	608	608	608

Notes: the dependent variable is ROCE. Equations (1)-(3) are estimated in first-differences using Arellano and Bond's (1991) GMM estimator. Equation (1) uses the number of divestments. Equation (2) uses the proportion of assets divested. Equation (3) measures divestment as a dichotomous variable equal to one for the year in which a divestment occurred and zero otherwise. A † denotes an instrumented variable. The instruments used are lagged values of ROCE. Absolute asymptotic t-statistics are given in parentheses below the estimated coefficients. Wald1 tests the overall significance of the equation. Wald2 is a test on the subset of divestment variables. Sargan is a chi-square test of the overidentifying restrictions. The serial correlation test is an N(0,1) test for second-order serial correlation.

Table 12. Profitability Equations, 1989-1993

	(1)	(2)	(3)
$\Delta ROCE_{it-1}$	$0.420^{\dagger}$	$0.395^{\dagger}$	$0.416^{\dagger}$
	(7.997)	(8.352)	(9.078)
ΔCON_{it}	0.634	0.619	0.724
	(3.480)	(3.603)	(4.176)
ΔMs_{it}	$0.240^{\dagger}$	$0.150^{\dagger}$	$0.295^{\dagger}$
	(1.170)	(0.696)	(1.328)
$\Delta[Ms*Con]_{it}$	$-0.974^{\dagger}$	$-0.814^{\dagger}$	$-1.066^{\dagger}$
	(2.868)	(2.609)	(3.136)
ΔLEV_{it}	0.0003	0.0003	0.0003
	(2.912)	(2.554)	(2.837)
DIV_{it}	0.0001	0.007	0.0035
	(1.182)	(0.782)	(1.239)
DIV_{it-1}	0.0012	0.0269	0.0071
	(1.660)	(1.759)	(2.024)
DIV_{it-2}	0.0018	0.0329	0.0142
	(2.441)	(1.991)	(4.679)
DIV_{it-3}	0.0009	0.0400	0.0079
	(1.398)	(1.793)	(2.649)
Wald1	109.13	102.31	132.60
[df]	[9]	[9]	[9]
Wald2	7.78	14.02	30.28
[df]	[4]	[4]	[4]
Wald3	12.15	10.51	15.23
[df]	[5]	[5]	[5]
Serial Correlation	0.413	0.410	0.442
[p-value]	[0.679]	[0.682]	[0.658]
Sargan	37.52	39.38	40.15
[p-value]	[0.667]	[0.586]	[0.533]
No. of firms	132	132	132
No. of observations	608	608	608

Notes: the dependent variable is ROCE. Equations (1)-(3) are estimated in first-differences using Arellano and Bond's (1991) GMM estimator. Equation (1) uses the number of divestments. Equation (2) uses the proportion of assets divested. Equation (3) measures divestment as a dichotomous variable equal to one for the year in which a divestment occurred and zero otherwise. A † denotes an instrumented variable. The instruments used are lagged values of ROCE, MS and MS*CON. Absolute asymptotic t-statistics are given in parentheses below the estimated coefficients. All equations include time dummies. Wald1 tests the overall significance of the equation. Wald2 is a test on the subset of divestment variables. Wald3 tests the joint significance of the time dummies. Sargan is a chi-square test of the overidentifying restrictions. The serial correlation test is an N(0,1) test for second-order serial correlation.

Table 13. Profitability Equations, 1989-1991

	(1)	(2)	(3)
$\Delta ROCE_{it-1}$	0.454†	0.45†	0.40†
	(3.685)	(3.650)	(3.003)
ΔCON_{it}	1.68	1.79	1.84
	(2.159)	(3.789)	(4.327)
ΔMs_{it}	1.86	1.99	1.58
	(1.874)	(2.581)	(1.69)
$\Delta[Ms*Con]_{it}$	-2.868	-3.05	-2.96
	(2.264)	(2.469)	(2.174)
ΔLEV_{it}	0.0004	0.0003	0.0006
	(0.620)	(0.512)	(1.302)
ΔIMP_{it}	-0.401	-0.21	-0.19
	(1.008)	(0.505)	(0.407)
DIV_{it}	0.0005	0.042	0.0239
	(0.154)	(1.860)	(3.122)
DIV_{it-1}	0.003	0.060	0.0157
	(1.645)	(1.690)	(1.687)
DIV_{it-2}	0.002	0.038	0.0228
	(1.794)	(1.090)	(2.750)
DIV_{it-3}	0.003	0.008	0.0068
	(1.140)	(0.608)	(0.846)
Wald1	40.40	77.42	48.33
[df]	[10]	[10]	[10]
Wald2	9.103	8.44	15.585
[df]	[4]	[4]	[4]
Wald3	1.61	6.12	1.65
[df]	[3]	[3]	[3]
Serial Correlation	0.989	1.222	0.759
[p-value]	[0.449]	[0.249]	[0.448]
Sargan	9.18	10.51	8.434
[p-value]	[0.515]	[0.485]	[0.674]
No. of firms	79	79	79
No. of observations	226	226	226

Notes: the dependent variable is ROCE. Equations (1)-(3) are estimated in first-differences using Arellano and Bond's (1991) GMM estimator. Equation (1) uses the number of divestments. Equation (2) uses the proportion of assets divested. Equation (3) measures divestment as a dichotomous variable equal to one for the year in which a divestment occurred and zero otherwise. A † denotes an instrumented variable. The instruments used are lagged values of ROCE. Absolute asymptotic t-statistics are given in parentheses below the estimated coefficients. All equations include time dummies. Wald1 tests the overall significance of the equation. Wald2 is a test on the subset of divestment variables. Wald3 tests the joint significance of the time dummies. Sargan is a chi-square test of the overidentifying restrictions. The serial correlation test is an N(0,1) test for second-order serial correlation.

Table 14. Profitability Equations Conditioned by Strategic and Governance Characteristics, 1989-1991

	(1)	(2)
$\Delta ROCE_{it-1}$	0.39†	0.408†
	(3.049)	(2.958)
ΔCON_{it}	1.502	1.830
	(3.860)	(4.268)
ΔMs_{it}	1.175	1.573
	(1.427)	(1.701)
$\Delta[Ms*Con]_{it}$	-1.978	-2.899
	(1.635)	(2.155)
ΔLEV_{it}	0.0005	0.0006
	(1.138)	(1.243)
ΔIMP_{it}	-0.219	-0.248
	(0.510)	(0.554)
$[Div*Comp]_{it}$	0.023	
	(2.285)	
$[Div*Comp]_{it-1}$	0.022	
	(1.844)	
$[Div*Comp]_{it-2}$	0.006	
	(0.454)	
$[Div*Comp]_{it-3}$	0.0204	
	(2.090)	
$[Div*Noncomp]_{it}$	0.021	
	(2.121)	
$[Div*Noncomp]_{it-1}$	0.016	
	(1.299)	
$[Div*Noncomp]_{it-2}$	0.030	
	(2.255)	
$[Div*Noncomp]_{it-3}$	-0.0005	
	(0.049)	

Table 14. (contd.)

	(1)	(2)
$[Div*Strong]_{it}$		-0.0002
		(0.015)
$[Div*Strong]_{it-1}$		-0.003
		(0.135)
$[Div*Strong]_{it-2}$		0.027
		(1.569)
$[Div*Strong]_{it-3}$		0.003
		(0.179)
$[Div*Weak]_{it}$		0.029
		(3.499)
$[Div*Weak]_{it-1}$		0.019
		(2.057)
$[Div*Weak]_{it-2}$		0.023
		(2.333)
$[Div*Weak]_{it-3}$		0.007
		(0.955)
Wald1	69.17	55.71
[df]	[14]	[14]
Wald2	19.81	20.11
[df]	[8]	[8]
Wald3	1.15	1.46
[df]	[3]	[3]
Wald4	3.75	8.41
[df]	[4]	[4]
Serial Correlation	0.574	0.737
[p-value]	[0.566]	[0.461]
Sargan	9.27	8.92
[p-value]	[0.597]	[0.629]
No. of firms	79	79
No. of observations	226	226

Notes: the dependent variable is ROCE. Equations (1)-(2) are estimated in first-differences using Arellano and Bond's (1991) GMM estimator. Equation (1) defines a complex firm as one whose assets*diversification is greater than or equal to the median value for the sample as a whole. A non-complex firm is where these conditions do not hold. Equation (2) defines strong governance as the existence of a blockholder and equity ownership greater than or equal to the median value for the sample as a whole. Weak governance is where these conditions do not hold. A † denotes an instrumented variable. The instruments used are lagged values of ROCE. Absolute asymptotic t-statistics are given in parentheses below the estimated coefficients. All equations include time dummies. Divestment is measured by a binary variable. Wald1 tests the overall significance of the equation. Wald2 is a test on the subset of divestment variables. Wald3 tests the joint significance of the time dummies. Wald4 tests the difference between categories. Sargan is a chi-square test of the overidentifying restrictions. The serial correlation test is an N(0,1) test for second-order serial correlation.

Table 15. Robustness Tests

	(1) Coefficient (*t*-ratio)	(2) Coefficient (*t*-ratio)	(3) Coefficient (*t*-ratio)
Base specification (Table 6)			
a. Leverage			
Base specification except:			
LEV = debt-to-assets	0.0003	0.0001	0.0005
	(1.055)	(0.435)	(1.592)
b. Profitability			
Base specification except:			
(i) Π = industry unadjusted ROCE			
DIV_{it}	0.001	0.003	0.010
	(0.449)	(0.927)	(1.867)
DIV_{it-1}	0.002	0.035	0.011
	(1.807)	(2.973)	(1.932)
DIV_{it-2}	0.003	0.033	0.014
	(3.217)	(2.490)	(2.361)
DIV_{it-3}	0.001	0.037	0.004
	(1.810)	(2.065)	(1.611)
(ii) Π = industry unadjusted OPM			
DIV_{it}	0.001	0.008	0.002
	(1.116)	(1.930)	(1.342)
DIV_{it-1}	0.001	0.022	0.003
	(2.571)	(3.763)	(1.974)
DIV_{it-2}	0.002	0.040	0.004
	(3.460)	(4.922)	(2.395)
DIV_{it-3}	0.002	0.056	0.003
	(3.177)	(4.957)	(2.570)
(ii) Π = trading profit divided by the average opening and closing net assets			
DIV_{it}	-0.0003	0.011	0.013
	(0.286)	(0.833)	(3.165)
DIV_{it-1}	0.0012	0.044	0.0121
	(1.704)	(3.285)	(2.894)
DIV_{it-2}	0.0019	0.0266	0.0093
	(2.639)	(1.646)	(2.105)
DIV_{it-3}	0.0015	0.051	0.0059
	(2.591)	(1.816)	(1.735)

Notes: Equation (1) uses the number of divestments. Equation (2) uses the proportion of assets divested. Equation (3) measures divestment as a dichotomous variable equal to one for the year in which a divestment occurred and zero otherwise.