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LE DIVORCE

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For most of this year, corporate America has exhibited a full-blown case of merger mania. Deals worth more than a trillion dollars have been announced. But there is also something odd going on: the urge to merge has been accompanied by an urge to purge. According to S. & P., the number of spinoffs announced so far this year is nearly thirty per cent higher than the number for the whole of 2013, and, in the past month, three big tech companies announced breakups. Hewlett-Packard and Symantec are both dividing their operations in two, while eBay is spinning off PayPal—all dramatic changes of direction. Between 2001 and 2011, Hewlett-Packard spent almost sixty-six billion dollars on acquisitions in the hope of making itself a one-stop shop for tech customers. Symantec is effectively reversing its 2005 acquisition of Veritas, which it said at the time would create great "synergies" among its products. As for eBay, as recently as January it was telling investors that "we have been successful exactly because PayPal and eBay are together." Now all these companies are saying that the parts are more valuable than the whole.

No one's upset about the U-turns, because breakups, unlike mergers, have a solid track record. Studies have found that spun-off stocks have consistently beaten the market by a wide margin. Emilie Feldman, an assistant professor of management at Wharton who has done a series of studies of divestitures, told me, "It isn't just the stock price. Spinoffs also improve the short- and long-term performance of the companies themselves." In companies with lots of divisions and product lines, it's hard for executives to concentrate on the core business. "When you're mixing and matching and trying lots of different things at the same time, it's just a constant drain on executives' attention," Feldman said. In a study she conducted of the reasons companies give for splitting, ninety-two per cent said that improving "managerial focus" was key.

Breaking up has other advantages, especially if one part of your company is growing faster than the rest, or is significantly more profitable. These days, PayPal is likely more valuable, in investors' eyes, than eBay. So, if you're working for PayPal but getting compensated in part with eBay stock options, you're being paid less than if the companies were separate. Feldman, in a study of more than two hundred spinoffs, found that people running higher-earning divisions were undercompensated relative to performance. After a spinoff, she said, "everything falls right into line, and people get paid based on their performance." Especially in a place like Silicon Valley, that makes it a lot easier to hire and keep the right people.

The success of divestitures doesn't mean that mergers are always a mistake. The acquisition of PayPal by eBay, in 2002, was the kind of deal that often works—the purchase, at a reasonable price, of a young company that truly complements the buyer's core business. (Google's acquisition of YouTube is another example.) Being bought by eBay gave PayPal credibility and access to a huge customer base. But, as PayPal got bigger and eBay became less important to its business, the ownership structure got to be a burden. It limited PayPal's ability to form partnerships with eBay's competitors, like Amazon and Google, and, many have argued, made the company less innovative than it could have been. The decision to split is a recognition that PayPal has outgrown its parent.

In other cases, spinoffs are the final verdict on mergers that should never have happened in the first place. Symantec's acquisition of Veritas was predicated on that shakiest of justifications—"synergy." Symantec was a data-security company and Veritas a data-storage company; they were supposed to be a natural fit because, well, we all want the stuff we store to be safe, right? But it was a hopeless fit: the storage and security markets were very dissimilar, involving completely different sets of buyers. Symantec wasted years trying to integrate operations before admitting defeat. The storage division is now worth twenty per cent less than it was a decade ago.

And Symantec is hardly alone. The brute fact is that most mergers don't work. Aswath Damodaran, a finance professor at N.Y.U., has said, "More value is destroyed by acquisitions than by any other single action taken by companies." Furthermore, a study of some thirty-seven hundred acquisitions between 1990 and 2007 found that big mergers, like the ones Symantec and H.-P. did, were less likely to improve the bottom line than small ones. "Even when you have a deal that looks lovely on paper, it's a huge challenge," Feldman says. "Getting cultures to fit together, getting people to stay on board, merging I.T. systems and back offices: all these things are really hard." If we're seeing a boom in corporate divorce, it's in part because the past decade gave us so many bad marriages.

Still, it's unlikely that corporate America will lose its penchant for getting hitched. Between Wall Street's desire to keep the deal pipeline stoked and the unshakable conviction of C.E.O.s that they can beat the odds, the trend toward consolidation is sure to continue. In fact, as soon as eBay announced the PayPal spinoff people began saying that the ideal outcome would be for PayPal to be acquired by some big company. The projected synergies, you can be sure, will be amazing. ♦

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