The explosion in the volume and value of mergers and acquisitions (M&As) in the 1990s has become commonplace in the comments in the economic and business press. The impression that we often get is that there are more and more companies merging and that companies in general are becoming bigger and bigger. The data, of course, backs up this impression: as Figure 7.1 shows us, M&A activity has increased enormously in recent years, only to taper off recently because of the drop in the world stock markets from 2001 on.

**Figure 7.1** Mergers and acquisitions, 1990–2001

*Source: Thomson International Securities*
This phenomenon is very important for the management of a company, since it is just the way that the strategies of diversification, internationalization and so on that we have been discussing are carried out. M&As are not, therefore, a strategy in themselves but rather a way of implementing a company’s strategy. The growth of the company, along the three axes of integration, diversification and internationalization can occur in an organic way or by acquisition. In the first case, the company hires people, builds factories and introduces new brands or products. In the second, the company acquires other companies that are already involved in the operations that it wants to establish in order to grow along the three axes. This is why, in practice, mergers and acquisitions represent an important part of the company’s strategic activity, although they are a strategic means, not an end.

But it is also frequently mentioned that, in spite of their popularity, mergers and acquisitions are not a one-way ticket to success: a great many fail. Although data are not precise (we would have to start with a long discussion on how to define exactly ‘failure’), the studies that have been published by academics as well as consulting companies on the issue show that two-thirds of the M&As are failures, in the sense that they do not reach the desired objectives and, in many cases, destroy value for the shareholders (that is, the additional profits, although they may exist, do not compensate for what was paid for them).¹ Thus, in the latest of these studies, the consultancy KPMG analysed the 500 largest M&A deals made between 1996 and 1998. The results, a few years later, are striking: more than a third of the companies that bought another had already sold it, or were trying to. Even more shocking: 32% of the presidents or financial directors concerned with originating the deals had lost their jobs. The great majority (more than two-thirds) have destroyed value for the shareholders.²

There is a phenomenon, less discussed but no less common, which we could call ‘demergers’: companies that bought others at a high price because they expected to earn a lot with them, selling them some years later, after heavy losses, often for much less than they paid. These cases go from BMW getting rid of Rover, six years and DM6 billion later, for £1 sterling; to AT&T, which first bought NCR, in 1990, for $6 billion, only to get rid of it through a ‘spin-off’ in 1995; afterwards it entered the cable business, paying billions again, only to proceed in 2001 to separate itself from these companies too.

In many cases, demergers are not the response to a failure as obvious as the previous ones, but rather to the recognition that some businesses are better separated than together, as we saw in the previous chapter. In recent years we have seen the separation of Vivendi Environment (water treat-