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Spare a thought for Rupert Murdoch. After a lifetime of building his media empire, he's split News Corporation in two companies: one with its publishing properties and another holding its entertainment entities. To be sure, corporate divorces can be just as painful as "real" ones (and poor Rupert has recently been in the throes of both). If breakups can be avoided, they usually are. But sometimes they can't be. And such events in the corporate world are usually heralded with messages much like Murdoch's proclamation that News Corp's split would "unlock the true value" of its assets because "they are undervalued...." But there's usually much more to the story than that.

Corporate breakups are a bit like earthquakes: We know they'll happen, we just can't predict exactly when or where. And they unfold in much the same way: Seismic pressures build over time until they are released by some triggering event that catalyzes a massive fracturing of the status quo. Often, stagnant or lagging shareholder returns create the seismic pressures for companies to split; and the triggers can be anything from a deal gone bad (Vivendi) to an activist investor taking a material shareholding (Kraft), a succession problem (Cardinal Health), a power struggle (Viacom), or any number of other things. For News Corp, the trigger was its phone-hacking scandal in the U.K. This was the "butterfly flapping its wings" that set off a chain reaction and ultimately led to its corporate divorce.

But seismic pressures and triggers don't *cause* corporate divorce any more than they cause earthquakes; they are symptoms that emerge from more deeply systemic factors. The real cause of a corporate split is the lack of what a company needs to produce high-performing businesses: tangible portfolio synergies, effective internal governance, and distinctive enterprise-level capabilities. You don't need all three, but in our experience you need at least one.

This helps to explain why some corporations come under pressure to break up while other—every bit as diversified—companies, the likes of GE, Danaher, and Disney, seem free of such pressure.

For example, Danaher produces high-performing businesses through its well-known Policy Deployment management system, an internal governance process driven by its corporate center. GE and Disney do it with their enterprise-level capabilities: GE's widely admired ability to develop general management talent for engineered product businesses and Disney's uncanny knack for developing and commercializing family-friendly characters.

But when a company's businesses are *under*performing in their markets, they are likely suffering from some combination of negative synergies between them, a dysfunctionally intrusive corporate center, and a lack

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of distinctive enterprise-level capabilities. And when a company's businesses are underperforming, then so is the company. This will inevitably lead to disappointing shareholder returns, which will ultimately raise questions about "the whole versus the sum of its parts" and force companies into the argument that breaking up will "unlock" value. But will it?

Corporate divorce will "unlock value" only if it unlocks better performance from the company's individuals businesses because they can do better as independent entities or within some other company. Take the 2005 split of Viacom into CBS and the new Viacom. The old Viacom had no enterprise capabilities that were particularly important to CBS, and it had a bad habit of draining cash flow from the broadcasting business in order to fund the programming side. CBS did indeed perform much better once it was freed of the negative effects of old Viacom's internal governance. If breaking up the old Viacom "unlocked value," it isn't because its businesses were undervalued when together; it's because they are able to perform better as separate entities.

This brings us back to the questions of the day: Was News Corp's split inevitable, and is PepsiCo next? The answers are *yes* and *maybe.*

News Corp's split was inevitable because the underperformance of the individual businesses translated into chronically poor shareholder returns. All that was needed was a trigger—any trigger—to set things in motion. Agitated investors felt empowered by the phone-hacking scandal to question the value of News Corp's sprawling empire, and Murdoch's hand was forced because he was unable to show tangible evidence of the company's positive contribution to its business units' performance. More likely, the two new companies will no longer be burdened by whatever was hindering them to perform well when they were part of the old News Corporation.

As for PepsiCo, after its shares underperformed the S&P 500 for the last several years, activist investor Nelson Peltz is proposing that it split the company's snacks and drinks businesses into two separate entities. Thus the seismic pressure (lagging shareholder returns) and trigger (an activist investor) are in place for a corporate fracture. If Peltz gets traction in his bid to split the company, management and the board will have to demonstrate that PepsiCo's businesses can outperform in their markets specifically because of the company's internal governance, enterprise capabilities, or portfolio synergies. Otherwise, PepsiCo may very well be the next Big One.

Strategists should never stop asking, "Are our individual businesses consistently outperforming in their markets? If so, how much of their outperformance can be attributed to the company? If not, how much of their underperformance can be laid at the company's feet?" These questions are simple to ask, but very difficult to answer honestly because of the stakes involved. Yet they must be asked and answered when times are good. Once the pressures start to build, it's often too late. The stakes will have grown even higher and the immediate interests of managers, investors, founders, and other stakeholders will be diverging even more sharply. This is when companies are forced to split. News Corp is simply the latest of many major corporate earthquakes, and PepsiCo shows that new fault lines are building all the time? +

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