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Understanding a demerger process: The divorce metaphor

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ABSTRACT

This article contributes to the literature on mergers and acquisitions that hitherto has neglected the demerger of previously merged/acquired firms by offering a process description. To provide structure and deliver insights into such a process, we apply the metaphor of a divorce process and use insights from a case study—namely, the demerger between Ford Motor Company and Volvo Cars Corporation. Our findings suggest that a demerger process of previously merged/acquired firms can be divided into six phases: disillusionment, erosion, detachment, physical separation, mourning, and second adolescence/hard work. The motives for the initial merger or acquisition and the degree of integration are possible factors argued to play a major role in the identified phases during the demerger.

1. Introduction

Mergers and acquisitions (M&As) are among the most noteworthy corporate strategies in today's globalized business landscape as they are used to accelerate growth, access and expand on valuable capabilities or assets, and reduce competition (Brueller, Carmeli, & Markman, 2018; Caiazza & Volpe, 2015). In 2016, M&A activity reached its third highest deal value since 2007, with more than 17,000 deals worth USD 3.2tn (Mergermarket, 2016). However, many M&As fail to meet their objectives (Steigenberger, 2017), resulting in reported M&A failure rates as high as 70% (Christensen, Alton, Rising, & Waldeck, 2011). Not surprisingly, many M&As not meeting expected goals are later divested (Bergh, 1997; Ravenscraft & Scherer, 1987; Shimizu, 2007; Shimizu & Hitt, 2005). Even in the 1990s, Kaplan and Weisbach (1992) learned that 44% of the acquisitions in their study were later divested. Two decades later, Deloitte (2018) found that 70% of 123 global organizations stated that they had undertaken more than one demerger in the preceding three years and equally as many expected to make at least one in the coming two years.

The terms *demerger* and *divestiture* are often used as synonyms, among others, resulting in the fact that no common definition exists for a demerger (Böllhoff, Brast, & Grüger, 2007). Whereas some researchers understand a demerger as one form of divesture (e.g., Kirchmaier, 2003; Stonham, 1997)—that is, to spin off a division of an existing entity into a separate entity without any change in the ownership—others use the term *demerger* as an umbrella term for all firm divestitures (e.g., Basak, 2016). These studies lack a differentiation of the reasons behind the deal – that is, whether the divestiture is merely a reflection of the economic cycle, a proactive strategic step or a means to reverse a previous strategic decision. In this study, drawing on the thoughts of Charifzadeh (2002) and Cascorbi (2003), we define a demerger as the reversal of a previous M&A between two firms, where the pre-M&A status is re-established, either completely or partly. The demerged entity can be spun off, divested, or sold. Please note that a demerger can be the reversal of both a previous merger and an acquisition. Henceforth, when using the term *demerger*, we refer to this definition.

Despite demergers being widespread, such restructurings have with few exceptions (Hoare & Cartwright, 1997; Shimizu & Hitt, 2005; Xia & Li, 2013) been ignored in the M&A literature. Furthermore, these studies have neglected the actual separation process or offer only a conceptual description (e.g., Böllhoff et al., 2007; Pickering, 2002). Similarly, the divestiture literature has a long tradition of studying the splitting up of firms into two or more independent entities (Kirchmaier, 2003; Xia & Li, 2013), but not the separation of two previously merged or acquired units, which is different and requires special attention (Hoare & Cartwright, 1997; Xia & Li, 2013). A possible explanation for the lack of research into demergers is that they are perceived as defeat and a sign of weak management (Böllhoff et al., 2007), making access difficult for researchers. Then again, demergers can also serve as important strategic tools to generate value by, for example, removing inefficient organizational structures, handling strategic misfit, and eliminating negative synergies (Kirchmaier, 2003). Consequently, this paper argues that research is needed to explore and thereby create a

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better understanding of demergers of previously merged or acquired firms. Hence, this paper addresses the following research question: How does the demerger process of previously merged or acquired firms unfold? The aim of this paper is to propose a process description to provide structure and deliver insights into the demerger process of previously merged or acquired firms. By offering such a process description, we contribute to the demerger literature—and thereby, as previously elaborated, the divestiture and M&A literature—that hitherto largely has ignored the actual demerger process.

The lack of studies in this area made us search for other streams of research to elucidate the demerger process and, just like the literature on M&As that has applied the marriage and related metaphors to discuss M&As (Allred, Boal, & Holstein, 2005; Cartwright & Cooper, 1993, 1996; Kale & Singh, 2009; Rottig, 2013; Schweizer, 2005), we apply the metaphor of a divorce process using insights from the fields of sociology and psychology (e.g., Allen & Hawkins, 2017; Amato, 2010; Amato & Anthony, 2014; Angwin & Meadows, 2015; Basak, 2016; Bauer & Matzler, 2014; Bergh, 1997, 2015; Bergh, Johnson, & Dewitt, 2008; Berman, 1988; Bigley & Wiersema, 2002; Kessler, 1975; O'Connell Corcoran, 1997). The demerger between Ford Motor Company (FMC) and Volvo Cars Corporation (VCC) is used to illustrate the unfolding of the process. As is true for any single case study, it is also important to emphasize the idiosyncrasies of the case. We study the demerger of a previous acquisition of VCC by FMC that occurred due to unachieved synergies as well as a strategic change in FMC due to a constrained financial situation. Furthermore, immediately after the demerger, VCC was sold to Zhejiang Geely Holding Group (Geely). Hence, referring to the previously discussed definition of a demerger, we study the reversal of a previous acquisition, where the pre-acquisition status is re-established completely and the demerged unit is sold. As discussed in the concluding part, we have gained insightful findings from the study for further research, yet these idiosyncrasies have impact on our findings.

The paper is organized as follows. In the next section, insights from the divestiture literature and the rare papers on demergers are presented to frame the demerger process. A complete overview of the former literature is not offered (for a recent overview, please see Bergh, 2015); rather, as our aim is to study the process of the demerger of previously merged or acquired firms, we focus on insights gained from the divestiture literature that assist in understanding the reasons for and the subsequent implementation of a demerger. We use the term *demerger* even if the authors cited used other terminology if their description is congruent with our definition. Partly provoked by empirical insights from the case study and drawing on the thoughts of Cartwright and Cooper (1993), we include insights from the M&A literature and, in particular, refer to studies on the post-M&A integration process. At least intuitively, whereas a demerger is the reversal of an M&A, the subsequent disintegration process can be mirrored with the post-M&A integration process (Cartwright & Cooper, 1993; Schweizer & Lagerström, 2014). This discussion is followed by findings from studies capturing the divorce process between spouses, which offer an encompassing framework. Thereafter, methodological considerations of our abductive case study are discussed, followed by an introduction to the case. Then the case is discussed through the lens of the emerged theoretical framework. Finally, we conclude with contributions and avenues for further research.

2. Demergers

Researchers have shown only sporadic interest in the demerger of previously merged or acquired firms, despite demergers often being described as the consequence of failed M&As (Brauer, 2006; Johnson, 1996; Xia & Li, 2013). The demerger literature emphasizes the various triggers resulting in demergers, which are usually summarized in terms of external or internal antecedents. External antecedents include competition, industry growth, environmental uncertainty, and changes in regulations or the opinions of financial analysts (Chen & Merville, 1986; Dundas & Richardson, 1980; Hopkins, 1991; Powell & Yawson, 2005). Examples of internal antecedents are a business unit's low performance due to over-diversification (Haynes, Thompson, & Wright, 2003), high debt levels, changes of strategic corporate focus (Hoskisson & Johnson, 1992), changes in top management and ownership (Bergh, 1997; Bigley & Wiersema, 2002; Zaheer, Schomaker, & Genc, 2003; Denis & Kruse, 2000; Hamilton & Chow, 1993; Hoskisson, Johnson, & Moesel, 1994; Weisbach, 1995), the non-existence of or reduction in the parenting advantage for the corporate parent (Goold & Campbell, 1998), and changes in the power relationship between the parent firm and its subunit (Xia & Li, 2013). Furthermore, firms are more likely to demerge previously acquired subunits that were initially unrelated (Bergh, 1997; Chang, 1996; Kaplan & Weisbach, 1992; Ravenscraft & Scherer, 1987; Xia & Li, 2013). Most of these triggers for demergers can also be found in the M&A literature, although they are discussed as reasons why M&As fail and can be broadly summarized as lack of strategic fit, lack of cultural fit, and poor implementation (for a review, see Angwin & Meadows, 2015).

Böllhoff et al. (2007) offer a similar distinction between internal and external antecedents. However, they conclude that the motives behind the demerger decision (e.g., size of the demerged units, chosen legal form, and/or industry characteristics) have no impact on the success or failure of the demerger. Rather, adequate planning and implementation, in combination with a strongly involved management team, as well as efforts to reduce the negative impact of potential internal resistance toward the demerger are important factors for a successful demerger. This focus on the importance of the actual implementation of a demerger and the potential resistance toward a demerger is an echo from the M&A literature (e.g., Haspeslagh & Jemison, 1991; Buono & Bowditch, 2003). Pickering (2002) further argues that the degree of integration between the previously merged units is an important aspect to consider when trying to understand the process and the outcome of a demerger. Understanding and considering the emotions of employees are additional issues influencing the propensity for a successful demerger (Pickering, 2002). Furthermore, because an M&A often involves large financial and managerial commitment, corporate management may be subject to strong inertial forces working against a reversal of the initial decision and demerge the previously acquired unit (Shimizu & Hitt, 2005), which in turn influences the propensity to effectively demerge. The M&A literature further highlight the top management team's self-interest and overconfidence when discussing the reasons for and outcomes of M&As (e.g., Jemison & Sitkin, 1986). As Haspeslagh and Jemison (1991) explained, until the M&A announcement is made, the negotiations are typically well-kept secrets involving only members of the very top management. Then again, the importance of (top) managers should not be overestimated. Not only are managers subject to pressure from external and internal stakeholders resulting in the need to engage in micro politics (Rees & Edwards, 2009), but their capacity to focus attention is limited, implying that managers concentrate on some topics while neglecting others (Yu, Engleman, & Van de Ven, 2005). M&A integration—and this is also most likely true for demergers (Schweizer & Lagerström, 2014)—might therefore be the result of negotiations, compromise, and collective sense-making and not pure strategic managerial decision-making (Steigenberger, 2017).

Although we still have very limited knowledge of the process and outcome of demergers, some literature has examined the actions taken by the corporate parent after the demerger decision (Thywissen, 2015). The four main topics addressed are the communication pattern with and involvement of the separated unit in the planning (Brauer, 2009; Moschieri, 2011), the choice of divestiture mode (Bergh et al., 2008; Nixon, Roenfeldt, & Sicherman, 2000), negotiations with potential buyers (Boone & Mulherin, 2007), and how to detach the unit (Mankins, Harding, & Weddigen, 2008). Only a few conceptual papers (Böllhoff et al., 2007; Pickering, 2002) have outlined an actual demerger process. Böllhoff et al. (2007) suggest five major phases: (1) decision-making process resulting in the demerger decision, (2) creation of dedicated project teams preparing the demerger, (3) (legal) preparation/restructuring of the to-be demerged unit, (4) search for buyers, and (5) sell-off. Pickering (2002) identifies six phases with particular emphasis on the time prior to the actual demerger: (1) establish the to-be demerged unit; (2) determine assets, liabilities, and people to be included in the unit; (3) build capabilities in the unit; (4) establish capabilities in the parent firm; (5) commercialize (previous internal) relationships and processes between the parent and the unit; and (6) develop service-level agreements for corporate services to be provided on an interim basis by the parent. Pickering (2002) thus offers details in the second step in his process as he argues that it is particularly challenging because employees and assets are often shared between units, and there is a need to ensure that all units have the required assets and skills to go forward. Another challenge, not the least if the to-be demerged unit is heavily integrated in the parent and/or to be sold to another firm, is the need to build up capabilities (e.g., leadership, strategy, commercial services, business processes, and information technology [IT] systems) in the unit.

The demerger process is a rather lengthy, complicated, and gradual process taking up to two years to commence (Böllhoff et al., 2007). Hoare and Cartwright (1997) claim that, even if efforts are made to create a freestanding independent firm, the end result of a demerger is often a quasi-independent firm. Hence, some of the systems, procedures, and culture of the parent firm may still remain after the demerger takes place, although over time the demerged unit may evolve into a separate organization with its own new culture (Hoare & Cartwright, 1997). The quasi-independency—drawing on insights outlined in the M&A literature—can possibly be explained due to difficulties of knowledge transfer and recombination (cf. Capron, Dussauge, & Mitchell, 1998) or difficulties to rebuild an organizational identity (cf. Van Knippenberg & Van Leeuwen, 2001). Drawing on the thoughts of Schweizer and Lagerström (2014), other interesting insights from the vast literature on post-M&A integration are that the disintegration process following a demerger decision can be divided in task disintegration and human disintegration and functional disintegration (cf. Birkinshaw, Bresman, & Håkanson, 2000). Following a similar logic (see also Cartwright & Cooper, 1993), the expected depth of disintegration (cf. Bauer & Matzler, 2014) and the demerging units' expected fairness (cf. Colquitt, Conlon, Wesson, Porter, & Ng, 2001) and trust (cf. Graebner, 2009) during the process are most likely to have an impact on the demerger outcome. Steigenberger (2017) offers an integrated framework, arguing in the M&A literature that four groups of topics can be identified that independently and conjointly affect integration outcomes: context (including, for example, relatedness of firms; cultural differences; prior integration experience; employees' ex ante perception), structural interventions (e.g., integration depth; integration speed), leadership and communication-based interventions (e.g., management of cultural differences and leadership styles), and collective sense-making and negotiations. Presumably, these topics can also be expected to impact the disintegration and, thus, the demerger outcome (cf. Cartwright & Cooper, 1993).

As mentioned in the introduction, to elucidate the demerger process and be consistent with the literature on M&As that has applied the marriage and related metaphors to discuss M&As (Allred et al., 2005; Cartwright & Cooper, 1993, 1996; Kale & Singh, 2009; Rottig, 2013; Schweizer, 2005), we apply the metaphor of divorce to provide structure and deliver insights into the demerger process of previously merged or acquired firms. Metaphors are explicitly used in qualitative research as a means to examine phenomena from a unique and creative point of departure, provide structure to empirical data, and make sense of a process in a new light (Carpenter, 2008). The following section summarizes some main patterns discussed in research on divorces.

3. Divorces

As mentioned by Allen and Hawkins (2017), there is rich, but also diversified literature on divorces in the field of sociology and psychology. Research has focused on, among others, various predictors of divorces (e.g., Amato, 2010), as well as effects of divorce on the well-being of adults (e.g., Lansford, 2009) and children (e.g., Amato & Anthony, 2014). As Symoens, Bastaits, Mortelmans, and Bracke (2013) summarized, research consistently reports a higher prevalence of distress among divorced compared to married couples, as well as lower levels of happiness and satisfaction with life in general. A divorce involves many feelings, such as feelings of pain, grief, guilt, and resentment that may be experienced simultaneously with feelings of relief, attachment, and even renewed attraction (Berman, 1988). In combination with stressors such as marital discord, financial problems, a move, single parenting, multiple losses, and litigation, Lancer (2020) ranks a divorce just above death in terms of severity of stress. Furthermore, if the divorce is not a mutual decision, the one leaving often feels guilt while the one being left is not only less prepared, but also often experiences greater anger as a result (Lancer, 2020). Then again, understanding a marriage due to a divorce as a wholly unpleasant experience is often unfair and can hinder the divorcing couple from reaching acceptance, focusing on the future, taking responsibility for actions, and acting with integrity (O'Connell Corcoran, 1997).

Of interest to our study is that the literature on divorces understands that a divorce not the entire fault of one spouse or the result of one incident, but a process that extends over long periods of time (e.g., Bohannan, 1973; Crosby, Gage, & Raymond, 1983; Cherlin, 2009; Emery & Dillon, 1994; Kaslow, 1984; Kessler, 1975; Ponzetti & Cate, 1988; Shapiro, 1984). These studies all suggest a predictable sequence of stages that an individual undergoes in the process of divorce (e.g., pre-divorce, divorce, and post-divorce phases) (Proulx, 1991; Salts, 1985). The stages used to outline a divorce process share many characteristics, even if they are named differently, partly due to different foci, including the role of a settlement agreement (Kressel, Jaffee, Tuchman, Watson, & Deutsch, 1980), parenting roles (Emery & Tuer, 1993), and conflict resolution (Emery & Dillon, 1994). In the discussion that follows, we mainly refer to the seminal works of Kessler (1975) and Bohannan (1973) as their process descriptions offer a holistic understanding of the process, in contrast to many other studies that focus more on specific phases. It is important to note that, whereas the parties involved in a divorce are in the same legal and physical stage of the often lengthy breaking-up process, emotionally they might be at different stages (O'Connell Corcoran, 1997). Also, a common problem is that the parties have not yet separated emotionally, although they are physically apart (Lancer, 2020).

Kessler (1975) illustrates the divorce process with seven stages. The process starts with a *disillusionment* phase, where one party begins to focus more on major differences rather than similarities and shared experiences in the relationship, often resulting in disappointment, and thus starts to spend more time dwelling on the negative (Kessler, 1975). It is in this phase that the relationship starts to deteriorate (Vaughan, 1986).

The second phase, called *erosion,* consists of vague feelings of discontent often based on stored resentments or a breach of trust (Kessler, 1975), where the reasons for dissatisfaction are not always known. In some cases, there is still an openness to working things out (e.g., marital counselling or a second honeymoon might occur). In this phase, the communication is often negative and the spouses withhold emotional energy from the relationship (Bohannan, 1973). It is also not uncommon for one or both spouses to look outside the relationship to fulfill unmet needs (Kessler, 1975). Hence, the spouses are growing apart, often investing most of their emotional energy elsewhere, whether in their careers, community involvement, or their parenting roles (Bohannan, 1973). Furthermore, instead of dealing with the underlying issues at the core of their marital difficulties, couples often argue over sex and money, which are commonly accepted areas of disagreement, resulting in the real problem areas becoming blurred and leading to a subsequent inability to resolve them (Bohannan, 1973). Spouses start to fantasize about a divorce, consider the pros and cons, and shape a strategy for a separation, often accompanied by mixed feelings such as fear, denial, anxiety, guilt, anger, and grief (O'Connell Corcoran, 1997).

In the third phase, *detachment* occurs as the important underlying issues have not been successfully addressed (Kessler, 1975). Communication often becomes superficial, conflicts are fueled anew, and shared experiences as well as intimacy decrease markedly (Kessler, 1975). Consequently, thoughts of separation/divorce increase, and reversing the process becomes more difficult at this stage as at least one spouse is usually already emotionally disengaged (Kessler, 1975). Partners might create emotional distance, such as by disparaging the other in order to leave, and the likelihood for an affair to occur is relatively high (O'Connell Corcoran, 1997). If one partner is emotionally still in the first phase, he or she will feel rejected and experience low esteem, denying what is going on. Partners often go public with the decision (e.g., children find out), thereby setting the tone for the divorce process (cf. Ponzetti & Cate, 1988; Salts, 1985). Typical feelings during this third phase include anger, resentment, sadness, guilt, anxiety for family, and/or impatience.

The fourth phase, *physical separation*, is tense with confusion, uncertainty, and disorganization, and many lifestyle adjustments must be made as legal, financial, and custody matters are resolved (Kessler, 1975). This is a stressful time that involves feelings such as sadness, anger, loneliness, anxiety, a sense of failure, guilt, and sometimes relief (Kessler, 1975). Thereafter follows a phase of *mourning*, which is a tough phase for the spouse who did not initiate the divorce (Kessler, 1975). Ambivalence toward the spouse, combined with ongoing contact concerning joint assets or parenting issues, serves to trigger the pain of the loss anew, which prevents the parties from directing their energies to dealing with the present (Kessler, 1975).

Next, the spouses often go into a phase of *second adolescence*, in which they (again) become autonomous in most areas of life. Identity issues are very prominent (Kessler, 1975). Finally, spouses make sense of what and why the divorce happened in the *hard work* phase. Partners commonly accept that the marriage was not that happy and regain power and control (O'Connell Corcoran, 1997). Individuals create a plan for the future, develop a new identity, and discover new talents and resources; they feel they have a second chance and eventually achieve a sense of wholeness (Bohannan, 1973; Kessler, 1975; Vaughan, 1986). In many cases, the last two phases are integrated into each other (i.e., they are not easily separable from one another).

4. Methodology

We ask the following research question: How does the demerger process of previously merged or acquired firms unfold? The aim of this paper is to propose a process description of a demerger of previously merged or acquired firms by applying the metaphor of divorce, the demerger and divestiture literature, studies on M&As, and insights from a single case study. We employ a single case study approach due to the exploratory nature of the study and to reach the necessary level of detail in the data required (Easton, 2010; Siggelkow, 2007; Yin, 2003). Drawing on Stake (1994), our case study can be described as an instrumental case study as it provides us with empirical insights into our aim to refine theory through an iterative process moving between data and theory (from divorce, demerger, divestiture, and M&A literature), with the ultimate objective of matching theory and reality (cf. Dubois & Gadde, 2002). Highlighting the ability to learn from a particular case conditioned by the environment context—namely, understanding as a tool and a platform for discussions—the case played a supportive role, facilitating the understanding of a demerger process (cf. Dubois & Gadde, 2002). We study FMC's acquisition of VCC in 1999 and the subsequent demerger in 2010, when VCC was sold to Geely. We became aware of the demerger between FMC and VCC while involved in a research project on the internationalization process of firms from emerging markets (i.e., when studying Geely's acquisition of VCC). We realized that the demerger of VCC from FMC influenced Geely's acquisition and understood that the literature hitherto had neglected the demerger of previously merged or acquired firms—an insight resulting in the study reported here. Through our involvement in the study of Geely's acquisition of VCC, we had already established relationships with managers involved in the demerger process, and access to study the demerger process in detail was readily granted. More specifically, we made the choice to focus on the demerger of VCC's product development (PD) organization from FMC, which makes sense because in this unit the previous integration between the two firms was high, thereby facilitating our observations of the demerger (cf. Merriam, 1998). Then again, as already mentioned in the introduction, as with any single case study, it is important to emphasize this case study's idiosyncrasies; therefore, we study the reversal of a previous acquisition, where the pre-acquisition status is re-established completely and where the demerged unit is sold. As we will discuss in more detail below, we used abductive logic in our study or, using the words of Dubois and Gadde (2002), a systematic combining approach as our theoretical framework, empirical fieldwork, and case analysis evolved largely simultaneously.

As previously mentioned, through our involvement in a previous study, we had a certain pre-understanding of the case studied herein as VCC managers, when interviewed about the Geely acquisition, often referred to the previous demerger from FMC. Once we had decided to study the demerger in detail, we made a first round of data collection focusing on the demerger (see the detailed description of data collection below) to develop a chronological depiction of the demerger process and the various phases involved (cf. Langley, 1999). The outlined case narrative was then used as a point of departure for sorting and coding what were interpreted as important activities and events that took place during the demerger process. We focused on what actions were taken at different points in time and when as well as the managers' experiences. The coding was open and exploratory in that the empirical data guided the coding (cf. Corley & Gioia, 2004). As illustrated in Table 1 (left-hand side), the events were grouped into different stages that could be separated with clear transitions, taking the demerger into a new phase (e.g., discontent is spurring and deteriorating financial results).

In the next step, we connected the phases of the demerger between FMC and VCC to the phases often used to describe how the divorce process between spouses unfolds; partly inspired by the M&A literature's preference to use a marriage as a metaphor for an M&A, we came to realize that our empirically induced phases were analogous and comparable to such a process to a very high extent (see right-hand side of Table 1). Using insights made from the divorce literature on how spouses experience and behave in the various phases, combined with the literature on demergers and divestitures, we built a preliminary conceptualization or—using the words of Dubois and Gadde (2002)—articulated preconceptions for a demerger process between two previously merged or acquired firms. We deliberately restrained ourselves from developing a pre-determined, narrow, preliminary conceptualization, such as consisting of various propositions, as we wanted to be open enough and not be guided solely by a conceptualization when returning to the case (data collection round 2; see below) (cf. Dubois & Gadde, 2002). We wanted the evolving framework to direct the search for empirical data, but at the same time also let empirical observations redirect and enrich the evolving framework (cf. Dubois & Gadde, 2002). Hence, empirical insights made during the data collection process also influenced our continuously emerging framework. For example, we increasingly realized the importance of considering insights from the post-M&A integration literature to be able to explain the demerger process studied and, hence, included those in the theoretical part of this article. In other words, as is typical in abductive studies, our presented theoretical framework consists of theories included at different stages during the continuous empirical confrontation of the framework. To summarize, while collecting data and searching for useful theory in parallel, we continuously confronted an emerging conceptualization explaining the demerger process of two previously

Table 1
Coding of empirical data.

Examples of Important Events and Activities	Phases in Divorce
↓ **Failure of the PAG Strategy [1999–2002]** - Large differences between the brands - Lack of synergies between VCC and FMC - Focus on own brand—detached interests - Disconnected aims - - Deteriorating results, red figures	Disillusionment
Discontent is spurring and deteriorating financial results	
↓ **Revitalizing the PAG Strategy—Increased Integration [2002–2006]** - Discontent with the relationship - Strategy for common parts and shared engineering activities (PAG) - Search for synergies across brands both in PAG and with FMC - Loss of market share - - VCC brand suffering from the strategy	Erosion
VCC loses influence and has continuous bad financial results	
↓ **One Ford [2007–2009]** - Launch of the One Ford strategy - Synergies across brands not in focus - Sell-out of sister brands - Centralization of engineering initiatives to US - VCC building internal R&D capabilities - - Initiation of the Delta 1 project	Detachment
Result of the Delta 1 project	
↓ **The Demerger [started spring/early summer 2009]** - Ford ready to go through with the demerger - VCC fighting for the relationship - Demerger decision announced - VCC developing a business strategy and mapping future requirements	Physical separation
FMC approval of VCC strategy	
↓ **Disintegration [from summer/autumn 2009]** - Demerger accepted by FMC and VCC - Planning and implementing the demerger - VCC eventually planning for the future and negotiating with FMC - - Initiation of the Delta 2 project for settling and handling the disintegration	Mourning
Settlement of the disintegration agreement	
↓ **Geely's Acquisition of VCC [March 2010]** - VCC presented as a standalone company - Negotiations with possible new partners - VCC bought by Geely - New president and chief executive of Volvo appointed - - "Volvo is Volvo and Geely is Geely"	Second adolescence/ Hard work

merged or acquired firms with the case. Following the suggestion of Dubois and Gadde (2002), we stopped this iteration once we felt that we had a conceptualization that matched theory with the data (see Fig. 1).

As previously mentioned, the data were collected in two rounds. In total, 14 interviews (11 with VCC managers, 1 with a consultant, and 2 with FMC managers) were conducted (see Table 2). All the interviewees (except the consultant) can be classified as middle managers who were heavily involved in the demerger process. Furthermore, the majority of the interviewees were also involved in the previous integration between FMC and VCC. During the first round of interviews (marked in bold in Table 2), the informants were asked to tell their story of the demerger process in relation to time, particularly memorable incidents, experiences, and feelings. During the second round of interviews, the focus was more on confronting our emerging conceptualization, such as the various phases, the interrelatedness of these phases, actions and reactions during the phases, and increasingly the comparability with phenomena occurring during the integration process; hence, the questions were more specific. All interviews were taped and transcribed (resulting in approximately 200 pages of transcription).

Throughout the process, we also collected secondary data from media articles covering the complete story from FMC's acquisition of VCC in 1999 to the subsequent demerger 10 years later, including the acquisition of VCC by the Zhejiang Geely Holding Group. We also had access to the firms' internal documents, including project documentation, action plans, and e-mail correspondence of the main parties involved in the demerger. The use of multiple interviews and secondary data about the same process reduced the risk of the post-rationalization of previous actions, thoughts, and decisions as well as problems related to memory (cf. Yin, 2003; Easton, 2010), which is important as this study is retrospective (taking place approximately two years after the demerger). Thus, multiple tactics were used to enhance the trustworthiness of the study, such as granting the informants anonymity, conducting multiple interviews with managers from both concerned firms, analyzing internal documentation, and carrying out multiple iterations of data analysis while moving between data and theory (Lincoln & Guba, 1985).

5. The case

Ford Motor Company's acquisition of Volvo Cars Corporation from Volvo AB in 1999 must be understood in the light of FMC's ambition to form the Premier Automotive Group (PAG). In addition to VCC, the brands Lincoln and Mercury (FMC's own brands), Aston Martin (acquired in 1987), Jaguar (acquired in 1989), and Land Rover (acquired in 2000) were part of PAG. The series of acquisitions (altogether worth 17 billion USD) and the creation of PAG were driven by the considerable drop (from almost 12% to just over 9%) in FMC's market share in Europe from 1994 to 1999 and by a perceived need to stop the hegemony of the German car producers in the European luxury car segment. The strategic ideas behind PAG were to separate the premium brands from the FMC products, create and capture synergies existing among the premium brands, and give the new brands access to FMC's massive purchasing as well as research and development (R&D) capabilities, without them being considered as Ford brands. FMC believed that PAG would sell a million vehicles within ten years and earn up to 80% of the firm's profit. However, not long after VCC's acquisition, FMC started to realize that the PAG strategy, the main reason for acquiring VCC, did not turn out as intended. Table 3 summarizes the demerger process, ending in Geely's acquisition of VCC.

6. Findings

Below we discuss a suggested processual model of a demerger process in six phases using the empirical findings from the FMC and VCC demerger as well as insights from the literature on demergers and divestitures, divorce, and M&A research. The time period referred to in the titles are from our case and aim to give a sense of the length of the various phases (which differ from phase to phase).

6.1. Disillusionment phase [1999–2002]

We argue that a demerger of a previously acquired unit, like a divorce between spouses, begins with a disillusionment phase where both partners or, in some instances, one partner starts to become aware of the existing differences but still has relatively vague feelings of discontent (Kessler, 1975; O'Connell Corcoran, 1997). These feelings might be due to failed objectives with the M&A as a consequence of external and/or internal aspects, such as a change in the industry context, environmental uncertainty (e.g., Chen & Merville, 1986; Dundas & Richardson, 1980; Hopkins, 1991), a lack of leveraged synergies, changes in strategy (Hoskisson & Johnson, 1992; Johnson, 1996; Ravenscraft & Scherer, 1991), and a change of management (Bergh, 1997; Denis & Kruse, 2000; Hamilton & Chow, 1993), that

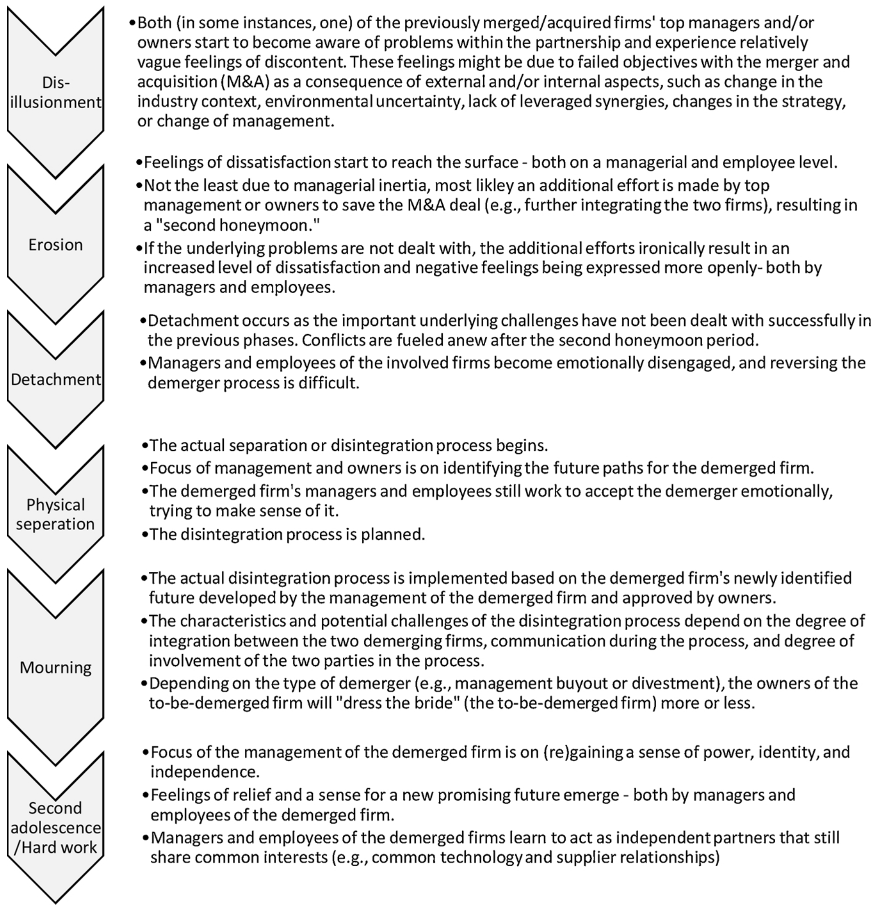

Fig. 1. Demerger process as a divorce.

render the previous M&A decision obsolete. Furthermore, poor implementation of the M&A resulting in, for example, cultural clashes (Buono & Bowditch, 2003) or an increasingly negative “we versus them” attitude (Marks & Mirvis, 2010) as well as unmet expected synergy realization (Haspeslagh & Jemison, 1991) and erroneous integration depth (Bauer & Matzler, 2014) can be reasons for such an emerging discontent.

As summarized in Table 2, in the case of FMC and VCC, almost directly after the acquisition of VCC it became evident that the PAG strategy—the main reason for FMC’s acquisition of VCC—was not successful and that it would not be possible to obtain the planned synergies (cf. Haspeslagh & Jemison, 1991). PAG consisted of essentially completely different car companies with their own unique markets and dealer networks, so there were few synergies that could be achieved by

Table 2
Interviews.

VCC	R&D Billing Controller	Involved in financial questions related to the separation of previous common R&D projects between FMC and VCC	2011-09-21
	Senior Project Manager Product Development // Program Manager Delta Project	Worked with common R&D projects between FMC and VCC and their dissolution, including development of continued cooperation	**2011-02-09** and 2011-09-01
	Senior IP Counsel	Involved in negotiation/development of contracts for future sharing of intellectual property rights and other legal challenges during the demerger	2011-10-13
	R&D Senior Liaison Manager	Involved in developing the cooperation between VCC and FMC R&D (principles and guidelines) and during the demerger in the dissolution of the cooperation/projects	2011-09-21
	Finance Director & Purchasing Controller	Involved in developing financial guidelines for cooperation post-demerger (e.g., related to tools used in production and potential changes made in products developed on common platforms)	2011-10-13
	Director R&D Liaison Office and Chief Engineer Platform Development	Involved in developing the cooperation between VCC and FMC R&D (principles and guidelines) and during the demerger in the dissolution of the cooperation/projects	**2011-03-17** and 2011-09-01
	Director Purchasing, Strategy & Process Leadership	Among others, responsible for separation of previously shared purchasing of FMC and VCC	2011-10-13
	Director Engine Strategy	Among others, involved in separation of previously shared engine development work/ platform	**2011-03-15**
	Senior manager product development	Involved in developing the cooperation between VCC and FMC’s product development and during the demerger in the dissolution of the cooperation/projects	**2011-03-24**
FMC	Director Product Development Business Associates	– Worked with common R&D projects between FMC and VCC and their dissolution or change of cooperation	2011-09-23
	Manager at Business Associations	– Involved in demerger project, with a focus on future relationship between FMC and VCC	2011-10-10
Consultant	External Consultant	Involved in the Delta Project (previously worked in VCC)	**2011-03-05**

Table 3
The FMC-VCC demerger.

Failure of the PAG Strategy [1999–2002]
* After the acquisition of VCC, FMC realizes that the PAG strategy does not leverage the expected synergies. The brands within PAG, with their own unique markets and dealer networks, were too different from each other. Managers—among other VCC managers—focused on their own brands and paid insufficient attention to what would be the best for PAG.
* In October 2001, Lincoln and Mercury are stripped out of PAG. The UK brands Jaguar, Land Rover, and Aston Martin are united under one operating committee.
* Discontent with the partnerships with VCC, FMC increases and the idea to demerge VCC begins to take hold. FMC still continues to search for synergies across the brands.
Revitalizing the PAG Strategy—Increased Integration [2002–2006]
* FMC starts to push the PAG brands to share parts (e.g., engines, components, floor pans) and engineering to cut costs.
* Integration of the parts and adherence to the FMC standard create difficulties for VCC, which had traditionally been a high-end brand. The reputation of VCC suffers, resulting in the loss of market share.
* FMC's discontent with the integration increases, spurred by concerns for the future of FMC itself.
One Ford Strategy [2007–2009]
* In January 2007, under a newly appointed CEO, FMC launches the One Ford strategy, replacing the previous PAG strategy with a focus on integrating FMC operations globally.
* Within the frame of this new strategic agenda, Aston Martin is sold to a Kuwaiti investment group in 2007, and Jaguar and Land Rover are sold to the Indian carmaker Tata in 2008.
* For VCC, the One Ford strategy is unexpected. VCC starts to disintegrate the previously integrated activities and (re)build its own product development competence.
* In early spring 2009, VCC is asked to evaluate its potential for survival in case of autonomy (Delta 1 project). After two months, VCC concludes that it would be impossible for VCC to survive without the synergies of being part of the FMC group.
The Demerger Decision [spring/early summer 2009]
* FMC makes the decision to demerge VCC public in the late spring of 2009.
* VCC management intensifies the work to develop a new corporate business strategy placing VCC in the premium segment by mapping the necessary technology development. FMC approves the new strategy on June 27, 2009.
* FMC and VCC realize that the disintegration process will take until 2017 as they need to share their commonly developed small platform for cars.
* Preparation for actual separation begins with a focus on splitting global sales, physical offices, intellectual property (IP) rights, design of components, and product development.
Disintegration [summer/autumn 2009]
* A governance structure for the demerger is created with representatives from VCC and FMC. Based on VCC's new strategic agenda, a concrete plan is developed for the technologies, systems, and components that VCC needed to access in the future to execute the strategy.
* The actual disintegration of the two companies begins in the autumn of 2009 (Delta 2 project). The point of departure is that VCC should be an independent company again.
* The project is divided into various subgroups or functional committees (e.g., manufacturing, purchasing, product development), which in turn consist of various task forces. Each functional committee establishes milestones that are followed up on rigorously to ensure the speed of the demerger process.
* Three types of disintegration agreements are signed between FMC and VCC: (1) delivery agreements of, for example, engines and component supplies; (2) transitional service agreements, such as information technology, treasury, and marketing as well as powertrain, platform, and research and development projects; and (3) cooperation agreements concerning, for example, IP rights and tooling. Furthermore, all contracts contain a clause describing what happens if one of the parties wants to end the contract prior to the expiry date.
* Transnational service agreements (TSAs) are developed, establishing rules on how the cooperation between the two firms is to be governed in the areas where VCC and FMC need to cooperate after the demerger.
Geely's Acquisition of VCC [March 2010]
* Geely places a bid to acquire VCC in October 2009, which is accepted by FMC and announced to the public in March 2010.
* Implementation of the new working procedures stated in the disintegration agreement and TSAs starts in January 2010 and is completely independent of the negotiation process with Geely.
* In August 2010, the deal between FMC and Geely is completed. Geely ends up paying 1.3 billion USD in cash for Volvo and issues a 200 million USD note payable to FMC to complete the acquisition.

combining them under one division. FMC pushed these brands to share parts and engineering in order to cut costs, which made the cars too similar to mass-marketed Fords. Differences among the brands in PAG became increasingly apparent and no real effort was put into bridging the dissimilarities (cf. Kessler, 1975), which further spurred the growing discontent and increased the distrust (cf. Graebner, 2009). A manager at VCC remembered: *"We were working parallel to each other in PAG, sometimes even competing instead of cooperating when it, for example, came to the development of common platforms for the cars.* […] *We had a Volvo perspective."* In the M&A literature, several potential reasons for the inability or lack of motivation to bridge the dissimilarities can be found, ranging from top managers who had made the acquisition decision having already moved on and having less interest in the actual integration (Haspeslagh & Jemison, 1991) to poor communication of the motives and expected outcomes of the M&A to the organization level, which eventually had to implement the integration (Zaheer et al., 2003). Furthermore, several topics in Steigenberger (2017) framework that have been seen to impact the integration outcome directly or indirectly might serve as additional explanations for the occurring feeling of disillusionment, such as the relatively low degree of relatedness between the PAC brands and the questionable degree of integration aspired, which resulted in potentially unrealistic expectations of those involved in the implementation of the integration. Cultural differences (cf. Buono & Bowditch, 2003) are also important to emphasize. As one VCC manager explained: *"We experienced cultural differences right away. It was a huge difference in our ways to treat people and develop competences* […] *Ford was more hierarchical. VCC was focusing on our customers—what cars do they want. In contrast, Ford designed a product and then tried to find a customer to whom the car could be sold."*

Furthermore, similar to what Bohannan (1973) observed in divorces, VCC withheld energy from the relationship and focused on its own situation—a reaction also observed in M&As (e.g., Schweizer, 2005). Drawing on insights from the divorce literature, it can be argued that FMC started to see separation as a way out of its unfortunate marriage (cf. O'Connell Corcoran, 1997), even though at this stage this was not openly communicated (a fact that first became known when the One Ford strategy was communicated; see below). The emerging recession in the automobile manufacturing industry also started to influence the relationship negatively (cf. Chen & Merville, 1986). Just like in an M&A (Zaheer et al., 2003) and a divorce (Lancer, 2020), both partners are not equally powerful and active during a demerger. Power and activity might also shift between partners during the process/over time. In this case, FMC was driving the process both during the disillusionment and the forthcoming erosion phase.

6.2. Erosion [2002–2006]

In the second phase, erosion (cf. Kessler, 1975), we suggest that feelings of dissatisfaction start to reach the surface. In the case studied, FMC began to express its discontent with VCC more openly, meaning FMC was still the driving partner. One manager at FMC questioned VCC's interest in common product development processes and asked straight out: *"Do you want to dance with us or do you just want to stand by the side and watch?"* However, a decision was made to give PAG, and thus the "marriage" with VCC, one last chance. Efforts were made to work out the problems as FMC started to push much more strongly for increased integration through the development and sharing of common parts across the remaining PAG brands, thereby increasing the degree of integration (cf. Pablo, 1994). As Shimizu and Hitt (2005) suggest, and as evident in the case studied, corporate management was subject to strong inertial forces working against a reversal of the initial decision as the acquisition of VCC involved a large financial and managerial commitment. As mentioned during the interviews, the creation of PAG was heavily promoted by then-chief executive officer (CEO) Jacques Nasser, and in 2004 FMC spent $17 billion building on acquisitions to form PAG. The M&A literature also highlight the top management team's self-interest and overconfidence (e.g., Jemison & Sitkin, 1986).

VCC initially believed in the idea of increased integration, and a period of cooperation followed; the divorce literature refers to this as a last attempt or second honeymoon (cf. Kessler, 1975). A manager at VCC explained: *"I was responsible for the integration project and later managed the product development project between Ford and Volvo and I, just as the others in the team, believed in it* [the idea of increased integration].*"* Hence, a certain degree of openness to working things out existed (cf. Kessler, 1975). However, in line with observations by Bohannan (1973) regarding a divorce, independent of the efforts put into this attempt, the discontent increased as the integration did not turn out as planned for several reasons, including the continuously growing recession in the industry. Increased integration efforts did not solve the underlying issue at the core of the "marital difficulties" (cf. Bohannan, 1973), which according to several interviewees was the lack of synergies due to PAG brands essentially being completely different car companies with their own unique markets and dealer networks. Dissatisfaction and negative feelings started to be expressed more openly (cf. Kessler, 1975), and it became evident that FMC was now focusing more on its own brand, as expressed by a manager at FMC: *"It* [PAG] *was starting to fall apart and, in order to drive the integration forward and to protect FMC, the FMC troops were gathered to protect the FMC car brands."* Furthermore, FMC's attempts to push VCC to share parts and engineering to cut costs made some VCC cars too similar to mass-marketed Fords. One VCC manager stated: *"VCC became the fifth wheel and, even if it was possible to understand the need for actions to be taken given the financial situation, it felt strange to lose influence."* VCC could not reach the level of integration set by FMC while simultaneously competing within the luxury brand segment. Thus, VCC's reputation suffered, resulting in the loss of market share. All this taken together led to a widening of the crack in the relationship between VCC and FMC. In this second phase, drawing on the M&A literature that has studied human reactions during an M&A, due to the hitherto badly managed integration (again, most likely stemming from the lack of strategic fit), employee resistance slowly increased (cf. Larsson & Finkelstein, 1999), negative feelings such stress and uncertainty were felt stronger (cf. Birkinshaw et al., 2000), and rumors were spreading (Buono & Bowditch, 2003).

6.3. Detachment [2007–2009]

In the third phase of our suggested process for describing a demerger of two previously merged/acquired firms, we propose that detachment occurs because the important underlying challenges have not been successfully dealt with in the previous phase (cf. Kessler, 1975). Drawing on the divorce literature, we argue that conflicts are fueled anew after the second honeymoon period. In the case studied, the disengagement became evident in January 2007 and, not surprisingly, detachment occurred under the wings of a newly appointed CEO who was not under the sway of inertia (cf. Shimizu & Hitt, 2005). At a global management meeting, FMC, under its newly appointed CEO, launched a new corporate business strategy, the One Ford strategy, with a focus on integrating FMC operations globally. This new strategic agenda was intended to replace the previous PAG strategy that was not capable of leveraging the desired synergies. A first consequence of this strategic shift was the sale of Aston Martin to a Kuwaiti investment group in 2007, followed by the sale of Jaguar and Land Rover to the Indian carmaker Tata in 2008. The official announcement of the One Ford strategy, marking the end of the PAG strategy, created emotional distance and a sense of distress among the managers at the other brands (cf. Kessler, 1975). According to one VCC manager, *"FMC was at this time close to bankruptcy and had to act. Forsaking the multi-brand strategy was seen as the solution; value could only be created by focusing on one brand, Ford. FMC was bleeding, and there was not enough time, patience, and money to make the multi-brand strategy work. VCC and the other brands in PAG had to be sacrificed."*

For VCC, the One Ford strategy came as a true surprise. A VCC manager remembers: *"We* [VCC managers responsible for the integration] *were all called to a meeting in Germany* […] *and there we heard about the One Ford strategy and about our future role. For our head of product development, this news came out of the blue. I remember that I first believed that he would run out of the meeting; he was really angry and upset. It was obvious that they* [FMC] *had worked behind our backs for quite some time."* Hence, VCC was not involved in the decision that eventually proved to be the first step toward the demerger, which the literature suggests is an important measure to implement a demerger successfully (Brauer, 2009; Moschieri, 2011). This lack of involvement of the "weaker" partner—often the acquired firm—in the decision-making process has also been observed in the M&A literature (e.g., Hambrick & Cannella, 1993. The new strategy was a complete departure from what the firms had been working to achieve during the previous years. Indeed, FMC Europe and VCC, both employing 4500 development engineers, had launched a product development integration program to share the development work equally between the two organizations. Under the One Ford strategy, the core engineering initiatives were to become global, and VCC's previous design areas were transferred to the United States US for FMC brands. One of the head representatives from VCC recalled: *"We were completely taken by surprise as we thought we had been in on this together. The leading developer from VCC became furious. We realized then that they had been planning for this behind our backs for a long time at the same time they had continued to push for increasing the integration of VCC and FMC."* VCC now had to start disintegrating the previously integrated activities and (re)build its own product development competence independent from FMC; at the same time, it had to negotiate with FMC to "purchase" R&D capacity based on strict commercial terms. Indeed, referring to research on divorces, the two firms became emotionally disengaged (cf. O'Connell Corcoran, 1997), and reversing the demerger process became difficult (cf. Kessler, 1975). A clear sign of this irreversibility was that, in early spring 2009, FMC assigned VCC to evaluate its potential of survival in the case of autonomy (i.e., a project called Delta 1 was launched). A VCC manager remembered the questions posed at that time: *"Is it possible to develop an independent company of VCC with a business plan that ensures sustainable profitability? Can the previous integration between FMC and VCC be reversed and, if so, how? What resources are required to create an independent company of VCC?"* The Delta 1 project team worked on the project for two months before concluding that it would be impossible for VCC to survive without the synergies available from being part of the FMC group, so the project was terminated. Regardless of the outcome of the Delta 1 project, it soon became evident that FMC, with the initiation of the One Ford strategy, had made up its mind to demerge all previously acquired brands, including VCC. VCC's top management was kept in the dark about the decision to demerge until late spring 2009, when the decision was made public in the media. One VCC manager said: *"We suspect that it had been FMC's hidden agenda all along, independent of the Delta 1 result, but we were at that time completely taken by surprise that they actually had decided to go ahead with the separation."*

Many of the feelings that spouses experience during the detachment phase (Kessler, 1975; O'Connell Corcoran, 1997) can also be identified in the case studied. Whereas this study did not specifically focus on the feelings experienced by employees, interviews with managers revealed that during the detachment phase the VCC and FMC employees experienced a mixture of feelings, such as guilt, anxiety, sadness, and impatience. This observation is consistent with Pickering's (2002) work, which shows that employees go through a range of emotions during a demerger depending on the perceived opportunities after the demerger, attachment to the parent firm, and personal circumstances. Furthermore, many interviewed managers reported a high degree of uncertainty among their personnel. As Pickering (2002) argues, a lack of or poor communication from corporate management results in uncertainty—a fact that has been repeatedly been mentioned in the M&A literature (e.g., Schweiger & Denisi, 1991).

Looking back, in the case studied, moving from the initial disillusionment phase to the demerger decision took seven years (from 2002 to 2009; cf. Table 2), which is longer than Böllhoff et al. (2007) suggests. According to Böllhoff, a demerger process is a rather lengthy, complicated, and gradual process taking up to two years to commence. Most likely, this discrepancy can be explained by the size and complexity of the studied demerger and by the fact that Böllhoff et al. (2007) does not include the disillusionment phase.

6.4. Physical separation [Spring/early summer 2009]

In our next suggested phase, again drawing on Kessler's (1975) insights, the actual separation occurs. During this period, many previous routines, processes, and structures must be adjusted to the new situation. Hence, with inspiration from the M&A literature (e.g., Shrivastava, 1986), this phase consists of the procedural and physical disintegration, which is accompanied by a myriad of often negative feelings (cf. Marks & Mirvis, 2010). As in a divorce, in our case studied, this was a phase that included feelings of sadness, anger, a sense of failure, and even relief (cf. Kessler, 1975). Indeed, relatively soon after the disappointing demerger decision, VCC management intensified the work to develop a new corporate business strategy targeting the premium segment—work that to some extent had already been initiated under the Delta 1 project. Several managers at VCC explained that, even if they previously had believed in the integration it was surprisingly easy to bring the VCC employees on board to start building a new strategy. A VCC manager remembered: *"There was a general sense of work joy and excitement. We were to develop a plan of how Volvo should be able to catch up with BMW."* Hence, whereas FMC as the initiating party had more time to prepare and come to turns with the demerger decision and, in this particular case, was also less affected by it (cf. Kessler, 1975; Ponzetti & Cate, 1987, 1988), VCC very quickly became emotionally separated from FMC (cf. O'Connell Corcoran, 1997). As argued by a VCC manager, *"We had to make sure to bring all our employees on board—to make sure that they would not focus on disliking Ford, but rather to see the positive challenge to make sure that VCC would be able to stand on its own. But, overall, I would say that this is not a difficult way to go. It would have been more difficult to give up something that we all had believed in completely."*

Eventually, VCC not only succeeded in developing a future product plan, but also mapped the necessary technology development required to become a premium brand. FMC's top management approved the new strategy on June 27, 2009. Thereafter, work commenced to split sales organizations, offices, and—most importantly—the intellectual property (IP) rights, design of components, and product development projects. At that point, both firms understood that a disintegration process would be a long, drawn-out process, not least because the two firms would need to share their commonly developed small platform for cars until 2017. This insight is in line with finding from researchers such as Hoare and Cartwright (1997), who claim that even if efforts have been made to create a freestanding independent firm the end result of a demerger is often a quasi-independent firm.

Although the demerger still was not openly communicated, it was implicitly understood and expected that VCC would eventually be sold to a third party rather than exist as a standalone independent firm. Hence, the Delta 1 project plan was, in retrospect, seen as an FMC attempt to find out how to "dress the bride" (i.e., make VCC as attractive as possible and, thus, more expensive for a future sale).

6.5. Mourning [Summer/autumn 2009]

In the mourning phase, similar to what is seen in a divorce (cf. Kessler, 1975), VCC had emotionally and physically accepted the divorce and fought to get the most out of the relationship to be able to become an independent firm. VCC tried to and succeeded in regaining a sense of power and control. An initial governance structure for the demerger was created with representatives from both VCC and FMC to create a plan for the future, build a new identity, and rebuild the necessary resources/talents. Based on VCC's new strategic agenda set in the summer of 2009, a concrete plan was developed for the technologies, systems, and components that VCC needed to access to execute the strategy. These requirements were thereafter used in negotiations with FMC when discussing and later signing contracts related to what common technologies VCC would be able to use in the future. As FMC had previously acquired VCC, all patents, IP rights, and technologies, even those developed before the acquisition, were legally owned by FMC. The actual disintegration of the two firms began in the autumn of 2009 under the name Delta 2. Again mirroring insights gleaned from the M&A literature, it seems that this phase could be compared to the various evaluation phases (e.g., financial and strategic evaluation) and negotiation phases discussed in the M&A literature (e.g., Haspeslagh & Jemison, 1991).

The point of departure was that all business functions for enabling the creation of an independent firm were to be formed or an outsourcing strategy was to be developed. Whereas on the operational level the Delta 2 project was initially led by one VCC and one FMC manager, over time, VCC took over the process. VCC employees soon started to see the demerger as a second chance—or, using Kessler's (1975) words, a second adolescence—and worked diligently toward the best possible solution for VCC. A former FMC manager pointed out: *"It was really easy to get the engineers at Volvo to commit to the process as they were the ones losing something from a Ford perspective, while it was really difficult at Ford as the engineers there just had been informed that the companies had separated. It was seen as it was over and done. Therefore, a lot of the initiatives were taken by the Volvo people."* A manager at VCC expressed a similar view: *"We had an agenda of our own during this time period in order to try to get the most out of the separation in order to make it on our own in the future."* Hence, certain ambivalence toward each other could be sensed due to the ongoing contact concerning joint assets (cf. Kessler, 1975), although it did not prevent VCC from directing its energy to dealing with the present.

To handle all aspects connected to the separation, the project was divided into various subgroups or functional committees (e.g., manufacturing, purchasing, product development) (cf. Pickering, 2002). These functional committees were further divided into various task forces with very strict mandates. Each functional committee was asked to establish milestones, which when approved were followed up on rigorously to make sure that the necessary speed of the demerger would be maintained. This led to the success of the Delta 2 project in mapping all shared operations between the two firms within one month. All the identified shared operations, how they should be disintegrated, and how the future cooperation between VCC and FMC should be managed under a new ownership were described in detail. The nitty-gritty work behind the mapping was highly resource consuming in terms of personnel hours. A VCC manager remembered: *"Both wanted to get out of the relationship as soon as possible, but without intentionally hurting the operations. Cut the ties completely, but every now and then the cut was a bit tough and edgy."* The Delta 2 project resulted in a 3,500-page document encompassing the disintegration agreements and the transnational service agreements (TSAs) that were to transform VCC into a standalone firm during the autumn of 2009. In sum, the proposed ambivalence and the risk that ongoing contact concerning joint assets or parenting issues might trigger the pain of the loss anew, as argued in the divorce literature (Kessler, 1975), were not observed in our case during this phase. Rather, there seemed to be an effort from both sides to direct the energy toward the future.

6.6. Second adolescence and hard work phases [from March 2010]

In our particular case of the demerger between VCC and FMC, it was difficult to make a clear distinction between the last two phases commonly discussed in the literature on divorce (i.e., the second adolescence and the hard work phases). One plausible explanation, also outlined in the case description, is that VCC entered into a new relationship basically at the same time that the one with FMC ended. Even so, one can conclude that these last phases share many similarities to how divorces are described in the literature (e.g., Bohannan, 1973; Kaslow, 1984; Kessler, 1975; Ponzetti & Cate, 1988). VCC tried to and succeeded in regaining a sense of power and control (cf. Kessler, 1975). The formation of the new business strategy taking VCC into the premium segment of cars was important for building a new firm identity with strong support in the organization. The implementation of new work procedures and the establishment of clear boundaries between FMC and VCC were also important, not only for VCC but also for FMC as both realized that they would be forced to keep collaborating for many years to come. Interestingly, employees on both sides eventually started to see both positive and negative aspects in their prior relationships as well and came to look on it in a more nuanced way than had been possible during the divorce process. A manager at VCC explained: *"Everything does not disappear because you separate. Over the years we built something and you gain something. It is there and you can start to remember something with joy and that you actually can look forward to meet each other again."* Another VCC manager added: *"It was a dramatic journey, but as a result of all the work put into the planning it has gone and turned out really well"* and *"On the whole, it has been a rather pleasant trip."* This positive attitude facilitated the demerger. Indeed, as mentioned in the literature on divorce (O'Connell Corcoran, 1997), when divorcing, understanding a marriage as a wholly unpleasant experience can hinder emotional healing, such as gaining acceptance, focusing on the future, taking responsibility for actions, and acting with integrity.

7. Conclusions

This paper sought to propose a process description of a demerger of previously merged or acquired firms by applying the metaphor of divorce, the demerger and divestiture literature, studies on M&As, and insights from a single case study. Our main purpose was not to show the correspondence between a divorce process and a demerger, but rather to employ the former as an encompassing framework. Then again, as shown in our discussion, at least when drawing on our case study, the similarities between the divorce process (e.g., Kessler, 1975) and a demerger are remarkable. The demerger process studied unfolds in certain phases, which to a great extent correspond to how the divorce process between spouses in a marriage is conceptualized in the divorce literature (e.g. Kessler, 1975). As with a couple, the separation between two firms is subversive and leads to dramatic changes. A new structure with new boundaries must be established in the trace of the legal, emotional, and physical separation, which takes place when the two parties slowly detach from each other and again become independent of one other. Fig. 1 summarizes our discussions with an illustration of the six phases identified and the main characteristics of the various phases.

Our proposed process description of a demerger of previously merged or acquired firms suggests that such a process starts with a disillusionment phase where both (in some instances, one) of the previously merged/acquired firms' top managers or owners start to experience still relatively vague feelings of discontent due to failed or unachieved objectives with the M&A. In the subsequent erosion phase, managers and employees' feelings of dissatisfaction start to reach the surface, but among others managerial inertia results in additional efforts made to save the M&A deal. A "second honeymoon" follows, which, however, results in an increased level of dissatisfaction and more openly expressed negative feelings by managers and employees if the underlying challenges are not dealt with properly. Hence, in the third phase – detachment – managers and employees of the involved firms become emotionally disengaged, and reversing the demerger process is difficult. In the next phase, focus is on identifying the future paths for the demerged firm and on planning the disintegration process. Managers and employees try to make sense of the demerger, not the least emotionally. The characteristics and potential challenges of the subsequent disintegration process depend on the degree of integration between the two demerging firms, communication during the process, and degree of involvement of the two parties in the process. In the last phase of our proposed process (second adolescence/hard work), managers of the demerged firm focuses on (re)gaining a sense of power, identity, and independence. Feelings of relief and a sense for a new promising future emerges among managers and employees. The demerged firms start to act as independent partners that still share common interests.

We believe that our proposed depiction of a demerger process of previously merged or acquired firms is an important contribution to the divestiture and M&A literature that hitherto surprisingly has shown only sporadic interest in the demerger, despite demergers often being described as the consequence of failed M&As (Brauer, 2006; Johnson, 1996; Xia & Li, 2013). We believe our study is an important first step towards disentangling a demerger process of previously merged or acquired firms. Furthermore, as could be seen, studying the demerger process of two previously merged or acquired firms has many points of contact with the M&A literature, which might not be that surprising as many M&As that fail end up in a demerger (e.g., Bergh, 1997; Shimizu, 2007). Hence, we argue that a demerger process should be seen as a possible additional phase in an overall M&A process. Our study also benefitted from insights from the already prevailing M&A literature. Among others, the reasons for a demerger noted in the demerger literature (e.g., Powell & Yawson, 2005) are congruent with the reasons for M&A failures, broadly summarized as a lack of strategic or cultural fit and poor implementation (e.g., Haspeslagh & Jemison, 1991). In our case, it was not only the lack of strategic fit, but also poor implementation that resulted in the demerger. Also, the inequality of power and initiative taking of the two demerging partners (due to the fact that FMC had acquired VCC) during the studied demerger was clearly observable—a disparity also mentioned in the M&A literature (e.g., Risberg, 1999). Furthermore, as common in the M&A literature, we also realized that it makes sense to study a demerger by considering the various organizational levels and their degree of involvement during the various phases. Due to our focus on understanding the overall process, we do not have the empirical evidence to propose detailed findings, but we could observe the impact of the (top) management level, which moved on once the demerger decision had been made, when we refer to inertia, hubris, and self-interest, among other features (cf. Jemison & Sitkin, 1986; Shimizu & Hitt, 2005). It was also evident in the case that the organizational level that had to implement the demerger was not involved in the decision-making process (cf. Schweizer, 2005). To give a final example of the resemblance between demergers and M&As that we identified, most of the employees' reactions during the disintegration process seemed to be similar to what has been discussed in the human-related post-M&A integration literature (e.g., Buono & Bowditch, 2003). Again, maybe this finding is not as surprising when considering the fact that both a demerger and an M&A are dramatic organizational change projects involving a high degree of uncertainty. Nonetheless, by linking the prevailing M&A literature with the demerger literature, we believe we contribute to both the demerger and M&A literature by arguing that a demerger and subsequent disintegration part – more often than not – can be seen as a final phase in the overall M&A process. Hence, when firms decide to engage in an M&A, it might be relevant to consider the challenges in a potential demerger when for example choosing partner or degree of integration.

Then again, our study also faces the common limitations of a case study approach (Yin, 2003); hence, the suggested six-phase process description must be seen as a first step toward getting a better understanding of a demerger process. We already highlighted in the introduction that, in any single case study, it is important to emphasize the idiosyncrasies of the case. We studied a demerger that was a reversal of a previous acquisition, where the pre-acquisition status was completely re-established and the demerged unit was sold. Like others, we believe that studying an acquisition had a considerable impact on the process (cf. Nixon et al., 2000; Bergh et al., 2008). It was evident that FMC, the acquirer, was clearly driving the demerger process. As has been discussed in the M&A literature comparing mergers (especially mergers of equals) and acquisitions (e.g., Risberg, 1999), the clear power distribution explains why VCC was not involved in the demerger decision-making process, resulting in increased uncertainty (cf. Brauer, 2009; Moschieri, 2011); in addition, the negotiation process with a clear ownership situation was straightforward. Hence, it would be interesting to study a demerger process between two previously merged firms to see potential differences in the demerger process among others due to a less clear power distribution.

Another important idiosyncrasy of our case is the fact that VCC was demerged with the goal of being sold. Hence, it can be argued that, despite being the "weaker" party in the divorce, VCC received a relatively high degree of freedom and power to (re)build its identity, not at least during the disintegration phase as FMC was eager to have an attractive firm to sell (cf. Boone & Mulherin, 2007). FMC faced a challenge of making sure that VCC would be an independent, not a quasi-independent, firm (cf. Hoare & Cartwright, 1997), which in turn put pressure on well-functioning knowledge transfer and recombination processes (cf. Capron et al., 1998). For future research it would be of interest to study a demerger process of previously acquired firms where the acquired and then demerged firm was not sold to a new owner after the demerger. We also see an interesting avenue for further research that can combine the literature on M&As and demergers. A consequence of the ever-increasing occurrences of M&As is that a firm that acquires another firm will most likely acquire a firm that had previously been acquired and was then demerged, as was the case for Geely acquiring VCC. We argue that this is especially true for firms from emerging markets that arrived late to the "global M&A game" (cf. Schweizer & Lagerström, 2014). Hence, we see an opportunity to link the demerger research to the M&A literature by not only highlighting the impact of the previous acquisition experience on the subsequent integration process (e.g., Teerikangas, 2012), but also incorporating the demerger experience.

Another characteristic of the case that we believe has an impact on our suggested process is the lack of strategic fit behind FMC's acquisition of VCC. This misfit resulted in not only disillusionment that occurred relatively immediately after the acquisition, but also difficulties finding the appropriate integration depth (cf. Bauer & Matzler, 2014). Whereas FMC—as we could see—eventually tried to increase the degree of integration just before the demerger decision, VCC was never really—at least not mentally—integrated into FMC. As mentioned by Pickering (2002), and as evident in our case, the degree of integration can be assumed to impact the nature of the disintegration during the demerger. Thus, in future research, it would be interesting to study a demerger between two highly integrated firms—a set-up that would invite drawing insights from the M&A literature on the correlation of firms' relatedness as well as motives for the M&A and the subsequent degree of integration (cf. Haspeslagh & Jemison, 1991). Indeed, we believe that the motives for the M&A that eventually results in a demerger play a major role in the identified phases. As we have shown, in the first phase, the emergence of disillusion is directly related to the failure to achieve the objective of the M&A. As the first phase in the process, disillusionment also affects all the subsequent phases. Furthermore, as the degree of integration of the merged firms also mirrors the intended objectives of the M&A, these also dramatically influence the detachment and the physical separation phases.

Our discussion thus far is somewhat notional as we did not specifically collect data on the employees' reactions and feelings experienced during the demerger process. Then again, our process description applying the divorce metaphor opens up another interesting path for future research. As Pickering (2002) mentions, employees go through a range of emotions during a demerger depending on the perceived opportunities after the demerger, attachment to the parent firm, and personal circumstances. A demerger can create a sense of opportunity to change and to compete on a stronger note (Pickering, 2002), yet it can also be seen as a non-event, especially if the unit in question has been bought and sold before. Then again, a demerger most commonly results in a sense of uncertainty among affected employees; the best means at hand for corporate management to deal with this situation is to communicate and share information in the organization as well as with external stakeholders, such as customers and suppliers (Pickering, 2002). In other words, a demerger of previously merged or acquired firms evokes many different emotions for the involved personnel (see also Cartwright & Cooper, 1993). Hence, by further employing the divorce literature, which emphasizes the emotional reaction of spouses, many expected emotional reactions can be deduced and then confronted with empirical evidence (in the form of questionnaires or additional case studies).

Finally, we believe that our study, by introducing a divorce metaphor and pioneering the study of demergers between previously merged/acquired firms, enables managers to handle such a process with a higher degree of awareness and, thereby, hopefully more effectively. Our study highlights the importance of good and timely communication and the creation of an atmosphere of involvement. The emergence of a "we versus them" feeling should be avoided; after all, as our case illustrates, the "spouses" need to get along even after a divorce.

Author statement

Both authors – Roger Schweizer and Katarina Lagerström – have equally contributed in all phases of the research project and all parts of this article with the title" Understanding a Demerger Process: The Divorce Metaphor".

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Appendix A. Supplementary data

Supplementary material related to this article can be found, in the online version, at https://doi.org/10.1016/j.scaman.2020.101095.

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