Taking Stock of Synergy

A Framework for Assessing Linkages Between Businesses

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This article provides a framework for companies that wish to conduct an audit of
how well their approach to synergy management is working. The framework, which
has been used successfully by several companies, provides a practical and
systematic way of pinpointing unrealized opportunities and creating an agenda of
initiatives for addressing them. A detailed illustrative example shows how the
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“Are we doing all we could to promote synergies across the
businesses we own?” Whether the synergies are between differ-
et local units within a multinational enterprise or different
businesses in a diversified group, this is a question that we
have found more and more chief executives and senior man-
gers are anxious to address.

After a decade during which many companies de-emphasised
synergy, in the belief that a clear focus on individual business
performance paid off better, the pressure to make two and two
add up to more than four is back. Management experts from
Michael Porter to Sumantra Ghoshal\(^1\) claim that corporate
strategies that do not stress synergy are out of date and hard to
justify. Investors press for the break-up of groups in which
there are no evident synergies between the constituent parts.\(^2\)
Business managers grumble if they feel that they are getting too
little help in achieving their targets from their sister units. As a
result, corporate managers are increasingly concerned about the
quality of synergy management in their companies.

But a vague sense that synergy opportunities are being

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missed is not actionable. And a generalised campaign to invest more time and effort in synergies is usually wasteful, counter-productive and frustrating. What is needed is a means of taking stock of how well the current approach to synergy is working, from which senior management can draw up an action agenda of specific initiatives that are worth considering. Based on ten years of research and consulting on synergy issues,\textsuperscript{3} we have devised a new framework for conducting such a review. The framework provides a systematic but practical and time-effective means of auditing synergy management, and has been used to good effect by several companies, including one which we describe in detail in this article.

A framework for a review

Our review framework is shown in Figure 1. The value of the framework is that it obliges companies to address some fundamental questions:

- What do we believe are the main synergy opportunities in our portfolio, and how fully are we grasping them?

- What is our current attitude to co-ordination between our business units, and how do we go about managing it?

- How well suited is our current approach, including structures, processes and staff support, to the opportunities we believe are on offer?

- What current synergy initiatives should we drop, what new opportunities should we go for, and what changes in processes and mechanisms should we consider?

Although the framework provides a systematic means of tackling these questions, it should not be treated as either a straitjacket or a panacea. The emphasis of a review should depend on the concerns that prompted it. Is it primarily a matter of fine-tuning the current mechanisms and processes to work more smoothly, or are we more concerned with the underlying philosophy or structure of the company? Did we get into the review to beat the bushes to create a wide agenda of all possible new opportunities, or was it really a means of legitimising a fresh look at one or two specific issues? With different motivations for the review, the weight given to different areas of analysis will vary, the order in which activities take place will be different, and the level of effort and speed of the review will change.

Synergy opportunities

The first step in the review involves developing a list of major synergy opportunities and judging how fully they are being re-
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