A healthy dose of skepticism can help executives distinguish real opportunities from mirages.

Desperately Seeking Synergy

BY MICHAEL GOOLD AND ANDREW CAMPBELL

THE PURSUIT OF SYNERGY pervades the management of most large companies. Meetings and retreats are held to brainstorm about ways to collaborate more effectively. Cross-business teams are set up to develop key account plans, coordinate product development, and disseminate best practices. Incentives for sharing knowledge, leads, and customers are built into complex compensation schemes. Processes and procedures are standardized. Organizational structures are reshuffled to accommodate new, cross-unit managerial positions.

What emerges from all this activity? In our years of research into corporate synergy, we have found that synergy initiatives often fall short of management's expectations. Some never get beyond a few perfunctory meetings. Others

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generate a quick burst of activity and then slowly peter out. Others become permanent corporate fixtures without ever fulfilling their original goals. If the only drawbacks to such efforts were frustration and embarrassment, they might be viewed benignly as "learning experiences." But the pursuit of synergy often represents a major opportunity cost as well. It distracts managers' attention from the nuts and bolts of their businesses, and it crowds out other initiatives that might generate real benefits. Sometimes, the synergy programs actually backfire, eroding customer relationships, damaging brands, or undermining employee morale. Simply put, many synergy efforts end up destroying value rather than creating it.

Avoiding such failures is possible, but it requires a whole new way of looking at and thinking about synergy. Rather than assuming that synergy exists, can be achieved, and will be beneficial, corporate executives need to take a more balanced, even skeptical view. They need to counter synergy's natural allure by subjecting their instincts to rigorous evaluation. Such an approach will help executives avoid wasting precious resources on synergy programs that are unlikely to succeed. Perhaps even more important, it will enable them to better understand where the true synergy opportunities lie in their organizations. (See the insert "What Is Synergy?")

The pursuit of synergy often distracts managers' attention from the nuts and bolts of their businesses.

We believe that synergy can provide a big boost to the bottom line of most large companies. The challenge is to separate the real opportunities from the illusions. With a more disciplined approach, executives can realize greater value from synergy – even while pursuing fewer initiatives.

Four Managerial Biases

When a synergy program founders, it is usually the business units that take the blame. Corporate executives chalk the failure up to line managers' recalcitrance or incompetence. We have found, however, that the blame is frequently misplaced. The true cause more often lies in the thinking of the corporate executives themselves.

Because executives view the achievement of synergy as central to their jobs, they are prone to four biases that distort their thinking. First comes the *synergy bias,* which leads them to overestimate the benefits and underestimate the costs of synergy. Then comes the *parenting bias,* a belief that synergy will only be captured by cajoling or compelling the business units to cooperate. The parenting bias is usually accompanied by the *skills bias* – the assumption that whatever know-how is required to achieve synergy will be available within the organization. Finally, executives fall victim to the *upside bias,* which causes them to concentrate so hard on the potential benefits of synergy that they overlook the downsides. In combination, these four biases make synergy seem more attractive and more easily achievable than it truly is.

Synergy Bias. Most corporate executives, whether or not they have any special insight into synergy opportunities or aptitude for nurturing collaboration, feel they *ought* to be creating synergy. The achievement of synergy among their businesses is inextricably linked to their sense of their work and their worth. In part, the synergy bias reflects executives' need to justify the existence of their corporation, particularly to investors. "If we can't find opportunities for synergy, there's no point to the group," one chief executive explained to us. In part, it reflects their desire to make the different businesses feel that they are part of a single family. "My job is to create a family – a group of managers who see themselves as members of one team," commented another CEO. Perhaps most fundamentally, it reflects executives' real fear that they would be left without a role if they were not able to promote coordination, standardization, and other links among the various businesses they control.

The synergy bias becomes an obsession for some executives. Desperately seeking synergy, they make unwise decisions and investments. In one international food company that we studied – we'll call it Worldwide Foods – a newly appointed chief executive fell victim to such an obsession. Seeing that the company's various national units operated autonomously, sharing few ideas across borders, he became convinced that the key to higher corporate profits – and a higher stock price – lay in greater interunit cooperation. The creation of synergy became his top priority, and he quickly appointed global category managers to coordinate each of Worldwide Foods' main product lines. Their brief was to promote collaboration and standardization across countries in order to "leverage the company's brands internationally."

What Is Synergy?

The word *synergy* is derived from the Greek word *synergos*, which means "working together." In business usage, synergy refers to the ability of two or more units or companies to generate greater value working together than they could working apart. We've found that most business synergies take one of six forms:

Shared Know-How

Units often benefit from sharing knowledge or skills. They may, for example, improve their results by pooling their insights into a particular process, function, or geographic area. The know-how they share may be written in manuals or in policy-and-procedure statements, but very often it exists tacitly, without formal documentation. Value can be created simply by exposing one set of people to another who have a different way of getting things done. The emphasis that many companies place on leveraging core competencies and sharing best practices reflects the importance attributed to shared know-how.

Coordinated Strategies

It sometimes works to a company's advantage to align the strategies of two or more of its businesses. Divvying up markets among units may, for instance, reduce interunit competition. And coordinating responses to shared competitors may be a powerful and effective way to counter competitive threats. Although coordinated strategies can in principle be an important source of synergy, they're tough to achieve. Striking the right balance between corporate intervention and business-unit autonomy is not easy.

Shared Tangible Resources

Units can sometimes save a lot of money by sharing physical assets or resources. By using a common manufacturing facility or research laboratory, for example, they may gain economies of scale and avoid duplicated effort. Companies often justify acquisitions of related businesses by pointing to the synergies to be gained from sharing resources.

Vertical Integration

Coordinating the flow of products or services from one unit to another can reduce inventory costs, speed product development, increase capacity utilization, and improve market access. In process industries such as petrochemicals and forest products, well-managed vertical integration can yield particularly large benefits.

Pooled Negotiating Power

By combining their purchases, different units can gain greater leverage over suppliers, reducing the cost or even improving the quality of the goods they buy. Companies can also gain similar benefits by negotiating jointly with other stakeholders, such as customers, governments, or universities. The gains from pooled negotiating power can be dramatic.

Combined Business Creation

The creation of new businesses can be facilitated by combining know-how from different units, by extracting discrete activities from various units and combining them in a new unit, or by establishing internal joint ventures or alliances. As a result of the business world's increased concern for corporate regeneration and growth, several companies have placed added emphasis on this type of synergy.

Pressured by the CEO, the category managers launched a succession of high-profile synergy initiatives. The results were dismal. A leading U.K. cookie brand was launched with considerable expense in the United States. It promptly flopped. A pasta promotion that had worked well in Germany was rolled out in Italy and Spain. It backfired, eroding both margins and market shares. An attempt was made to standardize ingredients across Europe for some confectionery products in order to achieve economies of scale in purchasing and manufacturing. Consumers balked at buying the reformulated products.

Rather than encouraging interunit cooperation, the initiatives ended up discouraging it. As the failures mounted, the management teams in each country became more convinced than ever that their local markets were unique, requiring different products and marketing programs. After a year of largely fruitless efforts, with few tangible benefits and a significant deterioration in the relationship between the corporate center and the units, the chief executive began to retreat, curtailing the synergy initiatives.

A similar problem arose in a professional services firm. Created through a series of acquisitions, this firm had three consulting practices – organization development, employee benefits, and corporate strategy – as well as an executive search business. The chief executive believed that in order to justify the acquisitions, he needed to impose a "one-firm" policy on the four units. The centerpiece of this policy was the adoption of a coordinated approach to key accounts. A client-service manager was assigned to each major client and given responsibility for managing the overall relationship and for cross-selling the firm's various services.

The approach proved disastrous. The chief executive's enthusiasm for the one-firm policy blinded him to the realities of the marketplace. Most of the big clients resented the imposition of a gatekeeper between themselves and the actual providers of the specialist services they were buying. Indeed, many of them began to turn to the firm's competitors. Far from creating value, the synergy effort damaged the firm's profitability, not to mention some of its most important client relationships. Faced with an uproar from the consulting staff, the CEO was forced to eliminate the client-manager positions.

For both these chief executives, synergy had become an emotional imperative rather than a rational one. Spurred by a desire to find and express the logic that held their portfolio of businesses together, they simply assumed that synergies did exist and could be achieved. Like wanderers in a desert who see oases where there is only sand, they became so entranced by the idea of synergy that they led their companies to pursue mirages.

Parenting Bias. Corporate managers afflicted with the synergy bias are prone to other biases as well. If they believe that opportunities for synergy exist, they feel compelled to get involved themselves. They assume that the unit managers, overly focused on their own businesses and overly protective of their own authority, disregard or undervalue opportunities to collaborate with one another. As one exasperated CEO told us, "There's the I'm-too-busy syndrome, the not-invented-here syndrome, and the don't-interfere-you-don't-understand-my-business syndrome. If I didn't continually bang their heads together, I believe they would never talk to one another."

If business-unit managers choose not to cooperate in a synergy initiative, they usually have good reasons.

Assuming that unit managers are naturally resistant to cooperation, executives conclude that synergy can be achieved only through the intervention of the parent. (The parent, in our terminology, can be a holding company, a corporate center, a division, or any other body that oversees more than one business unit.) In most cases, however, both the assumption and the conclusion are wrong. Business managers have every reason to forge links with other units when those links will make their own business more successful. After all, they regularly team up with outside organizations – suppliers, customers, or joint venture partners – and they'll even cooperate with direct competitors if it's in their interest. In the music industry, to take just one example, the four leading companies will often share the same CD-manufacturing plant in countries with insufficient sales to support four separate plants.

If business-unit managers choose not to cooperate, they usually have good reasons. Either they don't believe there are any benefits to be gained or they believe the costs, including the opportunity costs, outweigh the benefits. The fact that unit managers do not always share their bosses' enthusiasm for a proposed linkage is not evidence that they suffer from the not-invented-here syndrome or some other attitudinal ailment. It may simply be they've concluded that no real gains will come of the effort.

At Worldwide Foods, for example, one of the corporate category managers attempted to create an advertising campaign that could be used throughout Europe. The single campaign seemed logical: It would promote a unified brand and would be cheaper to produce than a series of country-specific campaigns. And, because the campaign would be funded at the corporate level, the category manager presumed it would be attractive to the local managers, who would not have to dip into their own budgets. But several local managers resoundingly rejected the corporate advertisements, in many cases choosing to produce their own ads with their own money. The category manager, regarding the rejection as evidence of local-manager intransigence, asked the chief executive to impose the corporate advertising as a matter of policy. "How parochial can you get?" he complained. "They're even willing to pay out good money for their own ads rather than go along with the ones produced by my department."

But discussions with the local managers revealed that their rejection of the corporate campaign was neither reactionary nor irrational. They believed that the corporate campaign ignored real differences in local markets, cultures, and customs. The pan-European advertising campaign would simply not have worked in countries such as Germany, Sweden, and Denmark. "I'd have been delighted to get my advertising for free from corporate," stated the German product manager. "But I'd have paid much more heavily in terms of lost market share if I'd used their campaign. We had to go our own way because the corporate campaign wasn't appropriate for our distribution channels or target customers."

Because the parenting bias encourages corporate executives to discount unit managers' objections, it often leads them to interfere excessively, doing more harm than good. If, for example, unit managers believe that the opportunity costs of a synergy program outweigh its benefits, forcing them to cooperate will make them even more skeptical of synergy. If two unit managers have a bad working relationship, pushing ahead with a coordination committee will simply waste everyone's time. Although headquarters sometimes needs to push units to cooperate – when, for instance, some units are unaware of promising technical or operational innovations in another unit – it should consider intervention a last resort, not a first priority.

Skills Bias. Corporate executives who believe they should intervene are also likely to assume that they have the skills to intervene effectively. All too often, however, they don't. The members of the management team may lack the operating knowledge, personal relationships, or facilitative skills required to achieve meaningful collaboration, or they may simply lack the patience and force of character needed to follow through. In combination with the parenting bias, the skills bias dooms many synergy programs.

Believing unit managers to be naturally resistant to cooperation, parent executives often feel compelled to intervene.

In one large retailing group, the chief executive was convinced, rightly, that there were big benefits to be had from improving and sharing logistics skills across the company. Knowing that competitors were gaining advantages from faster, cheaper distribution, he felt, again rightly, that his businesses were not giving this function sufficient attention. He therefore set up a cross-business team to develop, as he put it, "a core corporate competence in logistics." As there was no obvious corporate candidate to lead the team, the chief executive decided to appoint the supply chain manager from the company's biggest business unit, in the belief that he would grow into the role. As it turned out, the manager's lack of state-of-the-art logistics know-how, combined with his poor communication skills, undermined the team's efforts. The whole initiative quickly fell apart.

The skills bias is a natural corollary to the parenting bias. If you are convinced that you need to intervene to make synergies happen, you are likely to overlook skills gaps – or at least assume that they can be filled when necessary. Professional pride, moreover, can make it difficult for senior managers to recognize that they and their colleagues lack certain capabilities. But a lack of the right skills can fatally undermine the implementation of any synergy initiative, however big the opportunity. What's more, learning new skills is not easy, especially for senior managers with ingrained ways of doing things. If new and unfamiliar skills are called for, it's a serious error to underestimate the difficulty of building them. It may be better to pass the opportunity by than to embark on an intervention that can't be successfully implemented.

The downsides of synergy are every bit as real as the upsides; they are just not seen as clearly.

Upside Bias. Whether or not the intended benefits of a synergy initiative materialize, the initiative can have other, often unforeseen consequences – what we call *knock-on effects.* Knock-on effects can be either beneficial or harmful, and they can take many forms. A corporate-led synergy program may, for example, help or harm an effort to instill employees with greater personal accountability for business performance. It may reinforce or impede an organizational change. It may increase or reduce employee motivation and innovation. Or it may alter the way unit managers think about their businesses and their roles, for better or for worse.

In evaluating the potential for synergy, corporate executives tend to focus too much on positive knock-on effects while overlooking the downsides. In large part, this upside bias is a natural accompaniment to the synergy bias: if parent managers are inclined to think the best of synergy, they will look for evidence that backs up their position while avoiding evidence to the contrary. The upside bias is also reinforced by the general belief that cooperation, sharing, and teamwork are intrinsically good for organizations.

In fact, collaboration is not always good for organizations. Sometimes, it's downright bad. In one consulting company, for example, two business units decided to form a joint team to market and deliver a new service for a client. One of the business units did information technology consulting, the other did strategy consulting. One evening, when the team was working late, the strategy consultants suggested that they order in some pizza and charge it to the client. The IT consultants were surprised, since their terms of employment did not allow them to charge such items to client accounts. The conversation then turned to terms and conditions more generally, and soon the IT consultants discovered that the strategy consultants were being paid as much as 50% more and had better fringe benefits. Yet here they were working together doing similar kinds of tasks.

The discovery of the different billing and compensation practices – what became known in the firm as the "pizza problem" – caused dissatisfaction among the IT consultants and friction between the two businesses. An attempt to resolve the problem by moving some IT consultants into the strategy business only made matters worse. Few of the IT consultants achieved high ratings under the strategy unit's evaluation criteria; consequently, many of the firm's best IT consultants ended up quitting.

As the pizza problem shows, viewing cooperation as an unalloyed good often blinds corporate executives to the negative knock-on effects that may arise from synergy programs. They rush to promote cooperative efforts as examples to be emulated throughout the company. Rarely, though, do they kill an otherwise promising initiative for fear that it might erode a unit's morale or distort its culture. Synergy's downsides are every bit as real as its upsides; they're just not seen as clearly.

The best antidotes for these four biases, as for all biases, are awareness and discipline. Simply by acknowledging the tendency to overstate the benefits and feasibility of synergy, executives can better spot distortions in their thinking. They can then put their ideas to the test, posing hard questions to themselves and to their colleagues: What exactly are we trying to achieve, and how big is the benefit? Is there anything to be gained by intervening at the corporate level? What are the possible downsides? The answers to these questions tell them whether and how to act.

Sizing the Prize

The goals of synergy programs tend to be expressed in broad, vague terms: "sharing best practices," "coordinating customer relationships," "cross-fertilizing ideas." In addition to cutting off debate – who, after all, wants to argue against sharing? – such fuzzy language obscures rather than clarifies the real costs and benefits of the programs. It also tends to undermine implementation, leading to scattershot, unfocused efforts as different parties impose their own views about what needs to be done to reach the imprecisely stated goals.

Clarifying the real objectives and benefits of a potential synergy initiative – "sizing the prize," as we term it – is the first and most important discipline in making sound decisions on synergy. Executives should strive to be as precise as possible about both the type of synergy being sought and its ultimate payoff for the company. Overarching goals should be disaggregated into discrete, well-defined benefits, and then each benefit should be subjected to hard-nosed financial analysis.

At Worldwide Foods, for example, one of the newly appointed category managers found that her initial efforts were being frustrated by the imprecision of the CEO's goal. "Leveraging international brands" covered such a wide range of possible objectives, from standardizing brand positioning, to sharing marketing programs, to coordinating product rollouts, that she found it difficult to reach agreement about tasks and priorities with the various local managers.

During a visit to the company's Argentinean subsidiary, for example, she tried to persuade the local product manager to use a marketing campaign that had been successful in other countries. Dismissing the idea, he tried to shift the discussion. "That campaign wouldn't work in Argentina," he said. "What I would like is advice on new-product-development processes."

"I don't think you understand," the category manager countered. "I'm trying to create an international brand, and that means standardizing marketing across countries."

"No," said the local manager. "If we want to leverage our brands, we need to focus on product development."

Everywhere she went, the category manager found herself mired in similarly fruitless debates. All the local managers defined "leveraging international brands" to mean what they wanted it to mean. There was no common ground on which to build.

Finally, the category manager stepped back and tried to think more clearly about the synergy opportunities. She saw that the broad goal – leveraging international brands – could be broken down into three separate components: making the brand recognizable across borders, reducing duplicated effort, and increasing the flow of marketing knowhow. Each of these components could, in turn, be disaggregated further. Making the brand recognizable, for instance, might involve a number of different efforts affecting such areas as brand positioning, pricing, packaging, ingredients, and advertising. Each of these efforts could then be evaluated separately on its own merits. (See the exhibit "Disaggregating a Synergy Program.")

The exercise proved extremely useful. The category manager was able to go back to the local managers and systematically discuss each possible synergy effort, identifying in precise terms its ramifications for each local unit. In some cases, she found she had to take the disaggregation even further. In examining the possibility of standardizing one product's packaging, for example, she found there were local issues about the type and color of the cap; the material used for the bottle; the size, shape, and color of the bottle; and the size of the label. Each item required a separate evaluation of costs and benefits. The type of cap, for example, had a big impact on manufacturing costs – and thus was an attractive candidate for standardization – but some local managers argued that changes in cap design could hinder their marketing efforts. Customers in different countries preferred different cap mechanisms. By carefully balancing the cost savings from economies of scale in manufacturing

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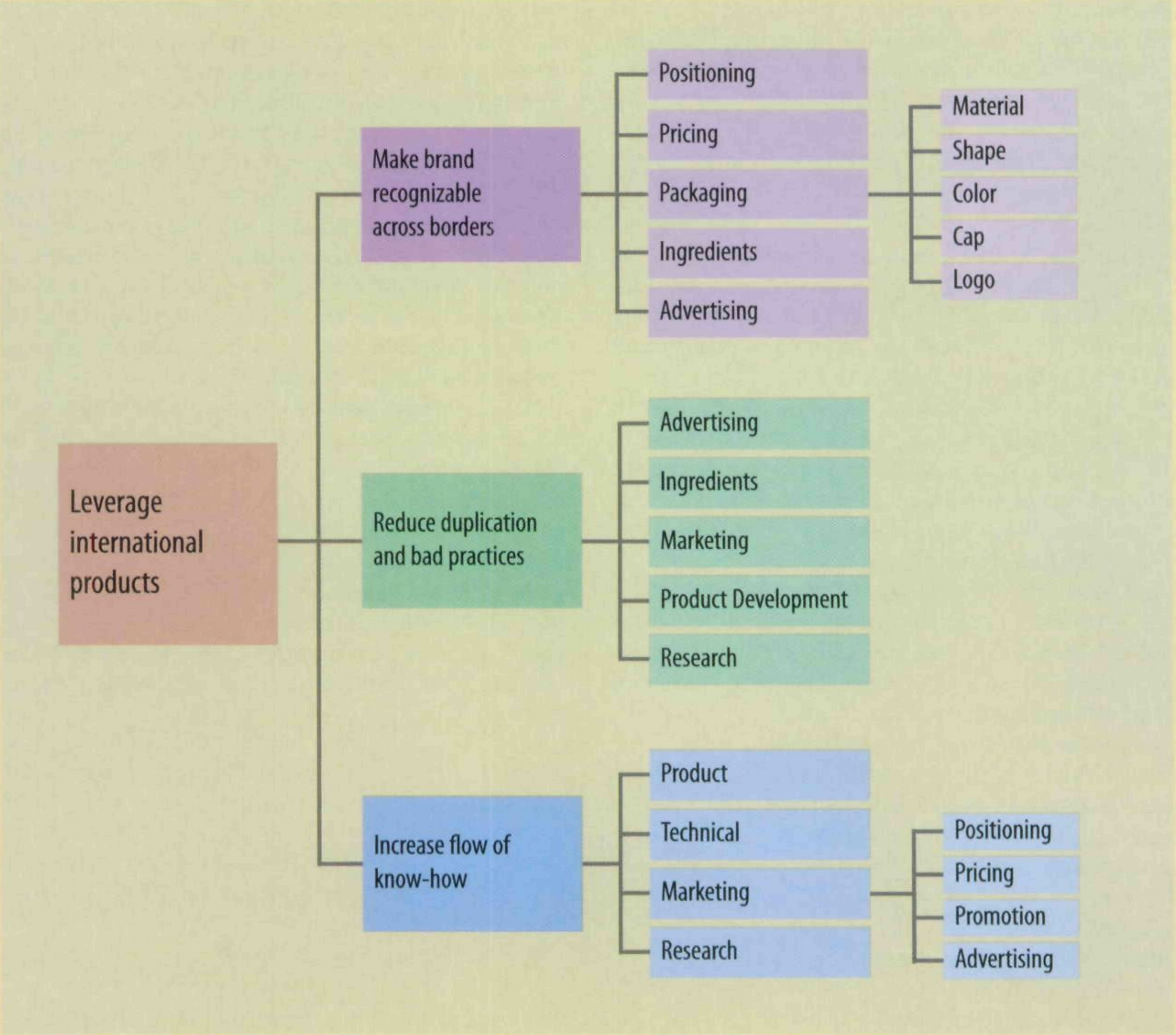
Disaggregating a Synergy Program

All too often, executives set overly broad goals for their synergy programs – goals that make good slogans but provide little guidance to managers in the field. By disaggregating a broad goal into more precisely defined objectives, managers will be better able to evaluate costs and benefits and, when appropriate, create concrete implementation plans. Here we see how one broad and ill-defined goal – "leveraging international brands" – was systematically broken down into meaningful components that could be addressed individually.



against the possible loss of sales, the category manager and the local managers were able to reach a consensus on how much to reduce cap variety.

By disaggregating the objectives, the category manager was also able to gain a better understanding of how each effort should be implemented. Standardizing bottle shapes across countries, for example, would require a corporate policy. Otherwise, many of the local managers would go their own way, and economies of scale would be lost. Increasing the flow of technical know-how, by contrast, would be best achieved simply by creating better lines of communication among the technicians in each country. More heavy-handed, top-down initiatives would risk making technical managers resentful and could end up dampening rather than promoting efforts to share expertise.

Once the overall synergy goal has been broken down into its main components, the next step should be to estimate the size of the net benefit in each area. Uncertainties about both the costs and the benefits, however, often lead executives to avoid this obvious task. But without some concrete sense of the payoff, the decision maker will be forced to act on instinct rather than reason. That does not mean that an exhaustive financial analysis has to be performed before anything gets done. In most cases, order-of-magnitude estimates will do. Is the program likely to deliver $1 million, $10 million, or $100 million in added profits? Is the impact on return on sales likely to be half a percentage point, or one percentage point, or five? This is back-of-the-envelope stuff, but we have found that even such rough estimates promote the kind of objective thinking that counters the biases.

The estimated financial benefits don't always tell the whole story, though. They rarely take into full account the opportunity costs of a synergy program, particularly the costs that result from not focusing management's time and effort elsewhere. The difficulty lies in knowing when the opportunity costs are likely to be greater than the benefits. At one consumer-products company, for example, the corporate center was spearheading an initiative to take a product that had been successful in one country and roll it out in a number of other countries. The local managers resisted the idea. They argued that the program would incur considerable opportunity costs, forcing them to divert marketing funds and management time from other local brands. The key to resolving the dispute lay in determining the strategic importance of the planned rollout.

If the rollout was strategically important, either to the units involved or to the overall corporation, then the benefits would likely outweigh the opportunity costs. But if some other more strategically important initiative was likely to be delayed in order to implement the rollout, then the opportunity costs would be greater. After some soul-searching by the units and by corporate marketing, it was agreed that the rollout had low strategic importance, except in three units. Headquarters scaled back the initiative. It would give advice and support to those units that wanted to go ahead with the product launch, but it would not impose a rollout on the other units.

Sizing the prize provides a counterweight to the synergy bias, forcing corporate managers to substantiate their assumptions that the synergy initiatives they propose will create big net benefits. It also helps counter the parenting bias, as the careful analysis of opportunity costs can help corporate managers better understand the source of any unit manager's resistance. And, by leading to the disaggregation of broad initiatives into discrete, well-defined programs, sizing the prize can set the stage for a focused, successful implementation.

Pinpointing the Parenting Opportunity

Even when a synergy prize is found to be sizable, corporate executives should not necessarily rush in. We would in general urge a cautious approach unless the need for corporate intervention is clear and compelling. Corporate executives should start with the assumption that when it makes good commercial sense, the business-unit managers will usually cooperate without the need for corporate involvement.

When is intervention by the corporate parent justified? Only when corporate executives can, first, point to a specific problem that is preventing the unit managers from working together; second, show why their involvement would solve the problem; and third, confirm that they have the skills required to get the job done. In those circumstances, there is what we call a *parenting opportunity.* We have found that genuine parenting opportunities tend to take four forms:

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Perception opportunities arise when businesses are unaware of the potential benefits of synergy. The oversight may be caused by a lack of interest, a lack of information, or a lack of personal contacts. The parent can help fill the perception gap by, for example, disseminating important information or by introducing aggressive performance targets that encourage units to look to other units for better ways to operate.

In general, the greater the number of business units in a company, the more likely it is that perception opportunities will arise. ABB, for example, has 5,000 profit centers organized into a number of business areas. In its power transformer area alone, there are more than 30 units. It is clearly impractical for every unit head to know what is going on in each of the other 29 units. The cost of scanning is too high. The area head, therefore, plays an important role in facilitating the information flow, passing on best-practice ideas and introducing managers to one another. In addition, the area head regularly publishes financial and operating information about each business, enabling cross-unit comparisons and helping each business identify units from which it can learn useful lessons.

Evaluation opportunities arise when the businesses fail to assess correctly the costs and benefits of a potential synergy. The businesses' judgments may be biased by previous experiences with similar initiatives, distorted by shortcomings in the processes or methods they use to assess cost-benefit trade-offs, or skewed by their own strategic priorities. In such cases, the parent should play a role in correcting the units' thinking.

The German subsidiary of one multinational company, for example, was fiercely protective of a new product it had developed. It was not only reluctant to help other units develop similar products, it even refused visits from unit and corporate-center technicians. The reason? The German managers did not trust their French and Italian colleagues to price the new product appropriately. They feared those units would not position it as a premium product and, as a result, would undermine price levels throughout Europe, reducing the exceptional profits being generated in the German market. The Germans' fear of the possible downsides clouded their view of the very real upsides. The standoff was resolved only when corporate executives walked the German managers through the cost-benefit calculations step by step and guaranteed that prices would be kept above a certain minimum in all countries.

Motivation opportunities, which derive from a simple lack of enthusiasm by one or more units, can stop collaboration dead in its tracks. Disincentives come in a number of forms. Unit managers may, for example, believe that the personal costs of cooperating are too high – that their personal empires or bonuses may be put at risk. Or transfer-pricing mechanisms may, in effect, penalize one unit for cooperating with another. Or two unit managers may simply dislike each other, preventing them from working together constructively. Identifying and removing motivational roadblocks, whether they reside in measurement and reward systems or in interpersonal relations, can be one of the toughest, but most valuable, roles for the corporate executive.

In one company, the CEO tried for five years to get the managers responsible for North American and European operations to cooperate. The North American business was run by a headstrong young woman with a strong belief in an open management style. Europe was run by a reserved, traditional Englishman who preferred to operate through formal, hierarchical structures. Both managers privately aspired to run the entire global business, but publicly they argued that there were few overlaps between their businesses that would merit collaboration. After a series of failed attempts to get the businesses to work together, each of which ended in bitter rows and recriminations, the CEO finally lost patience and fired both managers. In their places, he appointed more compatible managers who were able to work together with a great deal of success.

Any decision for parental intervention should also take account of the skills of the managers involved.

Implementation opportunities open up when unit managers understand and commit to a synergy program but, through a lack of skills, people, or other resources, can't make it happen. The business heads of a European chemical company, for example, agreed that it would be valuable to pool their resources when setting up an Asia-Pacific office in Singapore. Their aim was to improve the effectiveness of their sales efforts in markets that were unfamiliar to all of them. The initiative failed because none of the businesses had a suitable candidate to head the office; the individual appointed was not well connected in the region and lacked the skills needed to open new accounts. If the parent had intervened, by providing a suitable manager from its central staff or training and by coaching the man appointed, the chances of success would have increased greatly.

Thinking through the nature of the parenting opportunity, and hence the role that the parent needs to play, helps corporate executives pinpoint which type of intervention, if any, makes sense. But any decision to intervene should also take account of the skills of the managers involved. Appointing a purchasing specialist to advise the businesses on gaining leverage by pooling their purchases may be an excellent idea, but if the parent does not have the right person to do the job, the new appointment will end up irritating and alienating the businesses. A lack of the right skills can thwart even the best of intentions.

The discipline of pinpointing the parenting opportunity is probably the most valuable contribution that we have to offer to corporate executives in search of synergy. Thinking clearly about why parental intervention is needed can help managers avoid mirages and select suitable interventions. Unless a parenting opportunity can be pinpointed, our advice is not to intervene at all.

Bringing Downsides to Light

The synergy is attractive; the parenting opportunity is clear; the skills are in place. Is it time to act? Not necessarily. A final discipline is in order: looking carefully for any collateral damage that may occur from the synergy program. Because the pursuit of synergy affects the relationship among business units and the relationship between the units and the corporate center – two of the most sensitive relationships in any big company – it can have far-reaching consequences for a company's organization and strategy. If corporate executives overlook the negative knock-on effects, they risk great harm.

Some synergy efforts send the wrong signals to line managers and employees, clouding their understanding of corporate priorities and damaging the credibility of headquarters. When one company set up a coordination committee to seek marketing synergies among its businesses, the unit managers thought the CEO was abandoning his much-communicated goal of promoting stronger accountability at the individual unit level. They saw the corporate committee as a sign of a return to more centralized control. In fact, the shift of accountability to the units remained a core strategic thrust – the synergy initiative was simply a tactical effort intended to save money. In another company, an initiative to coordinate back-office functions distracted employees from the corporation's fundamental strategic goal of becoming more focused on the customer. They began looking inward rather than outward.

Top-down synergy efforts can also undermine employee motivation and innovation. One consumer-goods company, for example, launched an effort to coordinate research and development across its European units. Although the effort appeared to be highly attractive, offering substantial productivity gains, it backfired. A key source of innovation in the company had been the internal competition between the U.K. and the Continental businesses. By establishing a combined research unit, headquarters ended the competition – and the creativity. The effort succeeded in eliminating duplicated effort and achieving economies of scale, but these gains were overshadowed by the unanticipated downsides.

In other cases, cooperation can distort the way unit managers think about their business, leading to wrongheaded decisions. Consider the experience of a diversified retailing company that tried to encourage greater cooperation between its two appliance-retailing businesses. One of the businesses, which focused on selling top-quality appliances at premium prices, was highly profitable. The other, which pursued a pile-it-high, sell-it-cheap strategy, was barely breaking even. The group CEO recognized the differences between the businesses, but he felt certain that synergy could be achieved, particularly in purchasing. To encourage greater cooperation, he put the head of the profitable business in charge of both operations.

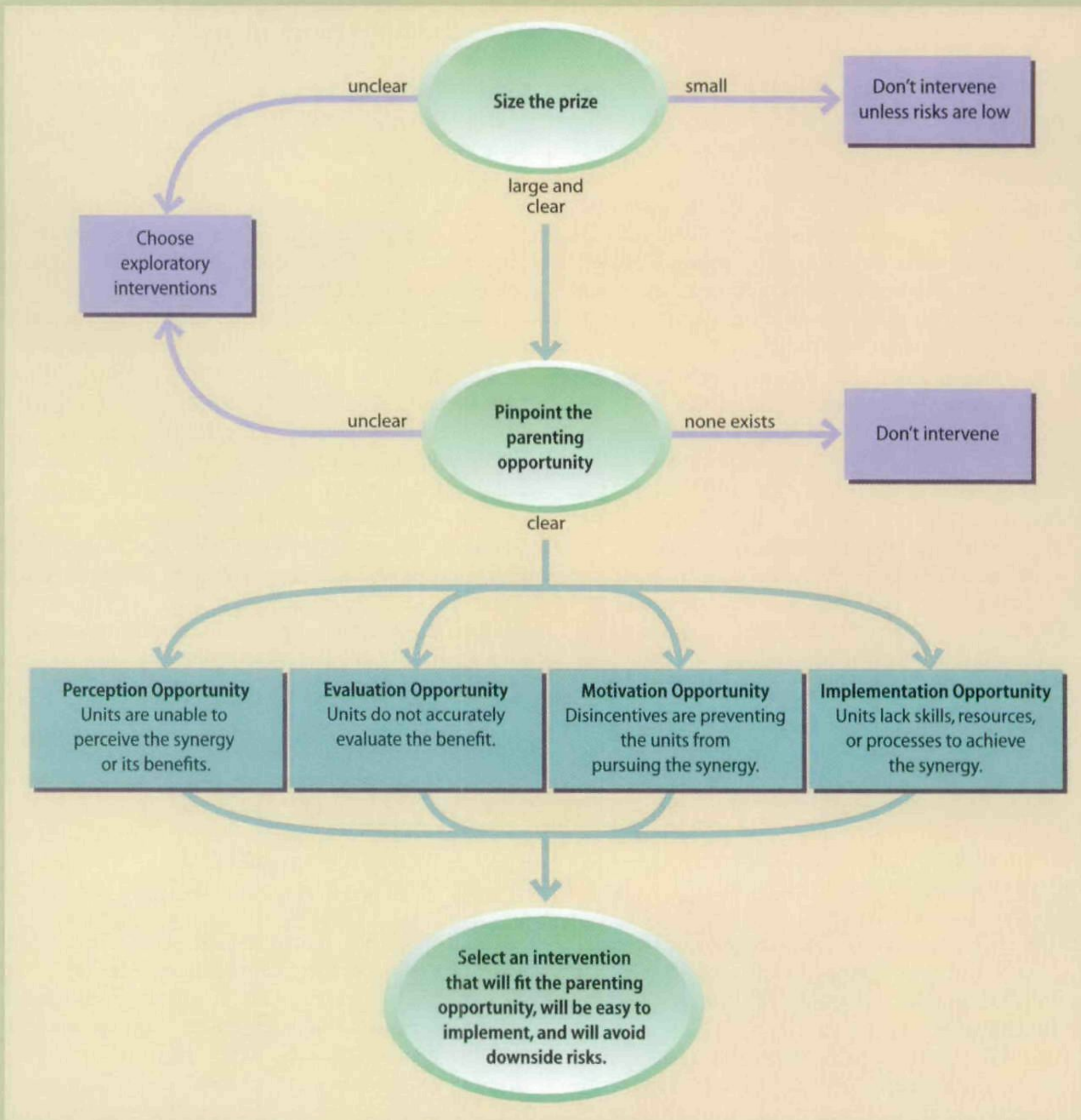
The new leader of the two business units initially looked for areas where purchases could be pooled to gain greater leverage over suppliers. But although some small cost reductions were quickly realized, the program soon ran into difficulty: the two businesses were buying different kinds of products, with different price points and different proportions of store-branded items. It was clear that big savings could only be achieved if the two businesses bought identical products. The managers of the struggling unit initially resisted this course, but as they learned more about the product and pricing strategies of their more successful partner, their thinking began to change. Entranced by the wide margins available from selling premium goods, they began shifting their strategy. They bought better-quality products, boosted service levels, and raised prices.

When executives manage synergy well, it can be a boon, creating additional value with existing resources.

The result was calamitous. The unit's traditional, price-conscious customers went elsewhere for their bargains, while upmarket purchasers stuck with their traditional suppliers. In emulating its sister company, the unit had undermined its business. It

A Disciplined Approach to Synergy

By taking a more disciplined approach to achieving synergy, an executive can gain its rewards while avoiding its frustrations. The first step is to evaluate the costs and benefits – to "size the prize." If the net benefit is unclear, more exploration is needed. If it appears to be small, the executive should not pursue the synergy unless the risks of corporate intervention are low. If it seems large, the executive should determine whether an intervention by the corporate parent makes sense. If the parenting opportunity is unclear, the intervention should be restricted to facilitating further exploration. If no parenting opportunity exists, the executive should resist any urge to intervene. If a clear parenting opportunity exists, the executive should tailor the intervention to fit the opportunity while minimizing any downside risks.



had tried to take its product mix upscale without taking account of its competitive positioning. The new strategy was soon reversed, but it took more than a year to remove the inappropriate products from the supply chain. The unit suffered big losses and major write-offs.

It is never possible to predict all the unintended consequences that can flow from a synergy initiative (or, for that matter, from any management action). But by simply being aware that business-unit collaboration can have big downsides, managers will be able to take a more objective, rigorous view of potential synergy efforts. In some cases, they will be able to structure the effort to avoid many of the potential downsides. In other cases, they will be able to kill proposals that would have created more problems than they solved.

First, Do No Harm

Managers have sometimes accused us of being too skeptical about synergy. They argue that the disciplined approach we recommend – clarifying the real benefits to be gained, examining the potential for parental involvement, taking into account the possible downsides – will mean that fewer initiatives will be launched. And they are right. We believe that corporate managers should be more selective in their synergy interventions. In all too many companies, synergy programs are considered no-brainers. Cooperation and sharing are viewed as ideals that are beyond debate. As we've seen, such assumptions often lead to failed initiatives that waste time and money and, sometimes, severely damage businesses. Real synergy opportunities exist in most large companies, but they are rarely as plentiful as executives assume. The challenge is to distinguish the valid opportunities from the mirages. (See the exhibit "A Disciplined Approach to Synergy.")

In some cases, the analysis of synergy opportunities will raise questions that will be hard to answer. The size of the prize may be uncertain: Will a joint Internet marketing group help or hinder our businesses as they move into electronic commerce? The parenting opportunity may be unclear: Is the German product manager resisting the corporate marketing campaign out of chauvinistic stubbornness, or is the German market really different? The needed skills may be unproven: Will our technical manager be able to lead a coordination committee on production planning? The risks may be hard to pin down: Will a cross-Asian product-development group undermine innovation?

When uncertainty is high, we recommend that corporate executives proceed cautiously. Rather than intervene decisively, they should encourage further exploration. The mechanisms for exploration may be similar to those for implementation – pilot projects, fact-finding visits, temporary assignments and task forces, forums for sharing ideas – but they are very different in intent. An exploratory mechanism is designed simply to collect facts. The end result is a better-informed decision maker. In implementation mode, by contrast, the intention is to change the way managers are working or thinking.

Sometimes, the best course will be to do nothing. The opportunity may be too small to justify the expenditure of management time, there may be no clear reason for the parent to intervene, or the risks may be too high. The thought of doing nothing will, of course, make many executives distinctly uncomfortable. After all, it goes against the grain of the most basic managerial instincts: to take action, to get things done, to create a whole greater than the sum of the parts. Yet executives who are not prepared to countenance a do-nothing outcome should ask themselves whether they are in the throes of biased thinking.

If convinced that the benefit is sizable and the parenting opportunity real, executives can then search for the best kind of corporate intervention. There are usually several possible choices, all with different advantages and drawbacks. Synergies from combined purchasing power, for example, might be achieved by centralizing purchasing, by setting up a purchasing coordination committee, by establishing a corporate advisory center, by creating a cross-unit database on purchases, or by setting corporate standards for terms and conditions. The decision on how to intervene should depend on the nature of the benefit and the parenting opportunity. But it should also take into account the available skills in the organization and the ease with which implementation is likely to take place. And it should seek to minimize the downside risks. Carefully selected interventions are the best way to release truly valuable synergy.

When synergy is well managed, it can be a boon, creating additional value with existing resources. But when it's poorly managed, it can undermine an organization's confidence and erode the trust among business units as well as between the units and the corporate center. Synergy's upsides are real, but so are its downsides. And the only way for managers to avoid the downsides is to rid themselves of the biases that cloud their thinking. When it comes to synergy, executives would be wise to heed the physicians' creed: First, do no harm.

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