# Synergies

Chapter 2

Beatrice Orlando

# What are synergies?

- Synergies are hard to describe and evaluate. Often, the word synergies is misused: it became a buzzword, indeed.
- Operational synergies: we observe a synergy when the value of business operated jointly increases than business operated separatedly.

# Value chain resources

- Synergies entail coordinated decisions at an operational business level, for each single business.
- The first step is to represent business specific value chain, adopting, as instance, Porter’s model (1985) – primary and secondary activities.
- For each value chain (and each single activity) the focus must be on owned resources.

# Value chain resources

- According to Barney (1991) resources are assets; capabilities; organizational processes; firm attributes; knowledge. Core resources allow to achieve superior performance than rivals.
- Looking after operational synergies means searching for valuable coordination decisions between the value chain of two businesses.

# What types of synergies?

- There are four types of synergies (Puranam, Vanneste, 2016)

| | INVOLVES SIMILAR RESOURCES | INVOLVES DISSIMILAR RESOURCES |
|---|---|---|
| HIGH MODIFICATION OF RESOURCES | Consolidation | Customization |
| LOW MODIFICATION OF RESOURCES | Combination | Connection |

# What types of synergies?

- Similarities among resources: similar resources lead to economies of scale; dissimilar resources produce economies of scope.
- To what extent a change in resources is needed for synergies? Structural similarities affect change.

# Consolidation

- It creates value by rationalization across similar resources. It is redundancies elimination and waste recovering.
- It regards the costs side and invested capital
- The gain depends on such inefficiency revision and it implies a substantial resources modification

# Combination

- The value is created through pooling similar resources.
- The effect impacts either on costs or revenues.
- There's a low degree of resources modification
- Such as in consolidation, initial value chains disappears after the merging.

# Customization

- It is the co-specialization of dissimilar resources (as between a software and a mobile company).
- It requires a high degree of investment idiosyncracy and intense resources modification.

# Connection

- It is based on the pooling of the output of dissimilar resources
- Moderate resources modification
- E.g. bundle of products bought together.
- Different teams must work together.
- The product development of a business is connected to distribution channels of another

# Readings


- Goold, M., & Campbell, A. (1998). Desperately seeking synergy. Harvard Business Review, 76(5), 131-143.
- Powell, W. W., Koput, K. W., & Smith-Doerr, L. (1996). Interorganizational collaboration and the locus of innovation: Networks of learning in biotechnology. Administrative science quarterly, 116-145.