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The Reverse Synergy: Another Way of Thinking

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Abstract. Synergy is deemed a good possibility to obtain competitive advantages and has already received a lot of attention in literature, but despite that fact, it is still a developing concept. Analyzing the traditional approaches to synergy attaining in business and the peculiarities of system nature the article develops specific prerequisites that can lead to synergy emergence. Based on the tendency of diminishing marginal product the paper recognizes another opportunity of increasing the economic efficiency. Understanding of the synergy emergence basic impacts may strengthen the managers' approach while trying to improve organization overall efficiency. Moreover, the reverse thinking can help to discover organization's intangible potentials. The article aims to extend the scopes of the synergy research and introduces a definition of the reverse synergy concept.

Key words: Business resources, Change, Positive result, Reduction, Synergy, System.
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1 Introduction

Synergy is defined as an additional profit which organizations receive upon realizing a business deal. Usually the raising of resources, e. g. merger and acquisition, is deemed a normal way to attain synergy. The combined return from resources, greater than a mere sum of their separate parts, can be expressed as 2 + 2 = 5 (Ansoff, 1988). Such an approach, however, does not reflect the whole range of possibilities which may lead to synergy attaining. Yet, the resources raise is not the only way for increasing profitability or strengthening a company's competitive position. Arithmetically such a point of view can be expressed as 4 - 2 = 3.

"Today's competitive environment may require firms to rethink the concept of synergy" (Ensign, 1998, p. 662) and "if managers keep on doing what they have been doing, they will keep on getting the same results, or worse" (Jonson and Breckon, 2007, p. 21). Synergy may no longer be viewed as acquisition of something suitable for a company's business, synergy is a phenomenon, which exceeds the limits of the traditional economic thinking and can not be interpreted simply as a possibility to obtain additional positive result. For attaining synergy, it is not enough to mobilize resources or develop an effective strategy, synergy requires something more – a manager's talent and discernment, his ability to perceive tangible and intangible reserves of his organization, non-traditional thinking and striving for discovery of economic development new paths.

2 Literature review

Synergy is defined as the interaction or cooperation of two or more organizations, substances, or other agents to produce a combined effect greater than the sum of their separate effects [1]. In the business sphere the main approach to synergy is based on the idea of two firms merger or acquisition (Haken, 1995, p. 187). It is deemed that such a merger or acquisition strengthens the two firms interaction and, consequently, increases the overall efficiency of the newly created company. Synergetic effect is the joint activities effect when the newly created corporate structure becomes able to use a chain of advantages (synergies). The emergence of such advantages is the result of resources and capital combining of the consolidation process participants (Tkachuk, 2009, p. 24).

"Synergy expectations… are usually described as intangible benefits such as access to new markets, skills or even culture" (Ficery et al.,

2007). In more conventional way the value of synergy can be identified as the net present value of the incremental cash that the synergy produces, minus the net present value of the costs of attaining those incremental cash flows (Pursche, 1988).

So far as any kind of business represents a complex system which consists of different combination of its functional spheres, the idea of the "joint" effect can be applied also within scopes of one organization. Synergy can emerge here from cooperation between departments, functional integration, deployment of resources within a firm. Jemison (1985, p. 174) notes that the "very nature of multibusiness firms creates substantial interdependencies among its business/divisions" and Porter (1985) discusses how the development of interrelationships between different business units can result in competitive advantage.

Such an approach to a firm's internal environment is called forth by the fact, that separate functions develop as independent systems to a certain extent, after which the available firm's potential is realized and further development becomes possible only through employment of a new management approach, which often lies in integration and/or cooperation of functions. Synergy, in this context, describes how – by sharing capabilities – each cooperating entity strengthens each of their competitive positions (Chakravarthy and Lorange, 1991). An important part of synergy investigation within an organization is also human behaviour and teamwork in particular. Synergy in teams provides specific advantages compared to employees working alone (Larson, 2009). "These expected advantages include benefits in information processing, such as greater creativity and multiple perspectives, higher accuracy in decision making, higher quality of problem solution, etc. (Hertel, 2011, p.176).

The above mentioned reveals two points that should be underlined:

1) while discussing synergy only a positive effect is considered, although combining of resources, processes or people can lead to an adverse result. In this case synergy is negative. The existence of such situations is proved by the investigation of brainstorming in "real" and "virtual" groups (Diehl and Stroebe, 1987). The real groups provide fewer and less creative ideas during brainstorming than when the same number of persons perform individually (virtual groups). Among the reasons for this robust process loss in groups are production blocking, social loafing, and evaluation apprehension (Diehl and Stroebe, 1991).

Another example of the negative synergy is the excessive integration of internal departments. The increased documentation flow and lots of coordinating meetings may hinder some departments to perform their functions effectively. Therefore Kahn and Mentzer (1996, p.12) propose that levels of integration should correspond to the needs of a particular situation, which is being settled by management in the moment;

2) since the combining of resources, processes or people can potentially lead to a negative effect, one can conclude, that synergy (namely a positive additional effect) can be attained not only through "merger", "joining" or "increasing" but also through "reduction" – the less resources we try to combine, the less obstacles they will create for each other. To support this notion Jackson (2009, p. 65) points out: "If you find yourself in a business where past growth initiatives have not followed the points above, then the best way to improve your organization's overall efficiency may be to *reduce* the scope of your activities. …Shrinking back… may enable you to focus on what your organization is really good at, and improve your overall efficiency and competitiveness".

The striking example of such activities scope reduction can be the strategy of the Finnish company "Nokia". By the 1990s, the company was diversified, manufacturing rubber boots, car tyres and even TVs. In 1991, new Nokia President and CEO Jorma Ollila makes a crucial strategic decision: to focus exclusively on manufacturing mobile phones and telecommunications systems. Nokia's rubber, cable and consumer electronics divisions are gradually sold off. The strategic decision to focus on telecommunications… has paid off. Between 1996 and 2001, Nokia's turnover

increases almost fivefold from EUR 6.5 billion to EUR 31 billion [3].
This demonstrates the new ways of attaining synergy in business and can be defined as the "reverse synergy". To perceive the essence of the phenomenon it is necessary to consider the linkage of two concepts – "synergy" and "system".

3 System approach

The management theory used to view the organization in business as a system – a set of interacting elements that acquires inputs from the environment, transforms them, and discharges outputs to the external environment (Daft, 2007, p.600). More general definition states that system is a complex which consists of subsystems, elements, components and their inherent characteristics, interacting with each other and the environment to create a qualitatively new integrative whole (Mocherny, 2002). In other words, the system wholeness becomes apparent due to its qualitative characteristics, different from characteristics of the elements, which form the system.
It is important to emphasize that system, as a complex whole, may be composed by a set of things working together as parts of a mechanism or an interconnecting network, or by a set of principles or procedures according to which something is done [2]. That is, the concept of system describes not only concrete physical objects, but also is applied to characterize organized schemes or methods. So far as business uses different types of inputs to provide its effective functioning, such understanding is crucial for determining the role of management.
The concept of system develops also a research method, called the system approach. Under such an approach any object is being investigated as a system with all its different types of components, their linkages and characteristics. Investigating of a system requires some "understanding of the underlying structure that we will be able to identify the most appropriate leverage points to effect change within the system" (Bellinger, 2004).
Closely related to concept of system is the *emergence* principle, called in literature "synergy" or "synergetic effect". The term derives from a Greek word "synergia" and means "joint work" (New Webster's Dictionary and Thesaurus of the English Language, 1993). The synergy represents new qualitative characteristics of the system, which did not exist until the moment, when its components began to interact.
The main determinants of synergy emergence are unbalanced states and self-organizing processes within a system. The existence of such determinants creates endless possibilities for system further development. Provided balanced state is a necessary condition for static functioning, the unbalanced one is the transition moment to a qualitatively new state, in which the system can attain a higher organizational level. Due to the fact, that system changes its qualitative parameters it becomes able to perform greater work, than its parts could do separately. Thereby an important corollary can be stated: the qualitative changes of system cause the rise of its functioning quantitative indices.
As it was mentioned above, any firm or company in business sphere can be viewed as a complex system to which all the functioning and development conditions can be applied. The consideration of economic prerequisites that cause an unbalanced state must be the next step in our research.

3 The unbalanced state emergence

Two notions serve as a start point for analysis:
- Synergies can only be realized after a deal is consummated (Ficery et al., 2007, p. 29);
- Profit gain is the most common denominator, to which all activities motivation in economic sphere can be reduced (Haken, 1995, p. 173).

The stated notions point out the fact that the profit maximization, but not synergy, is the driving force for any changes in economic activities. In other words, the synergy emergence is preceded by an action (or set of actions) which aims to improve organization

functioning to obtain higher profits. Hence, the reason for any action of an organization, that may cause an unbalanced state of a system, *lies within the scopes of the objective economic laws activity field*, and synergy in fact, can be defined as an additional positive result of that action.
Figure 1 illustrates the process when undertaking of some business actions creates an unbalanced state in a system. The system is in relatively balanced state and has for the moment its appropriate qualitative characteristics. Due to the impact of external or internal environment (or both) the management of an organization decides to undertake some actions aimed to increase profitability. There are two possible outcomes from this situation:

- a simple attaining of the sought goal. In this case the qualitative characteristics of the system remain the same and synergy is absent (fig. 1A);
- an attaining of the sought goal, which has led to the system's qualitative characteristics change and the synergy emergence (fig. 1B).

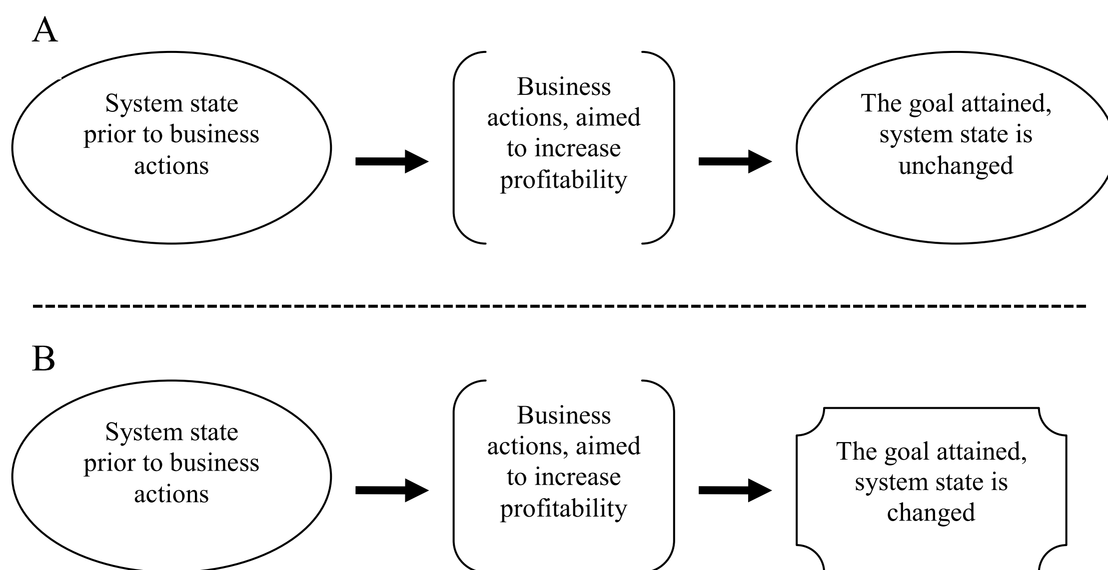

Figure 1. System state changes

Thus one can see, that the key element of synergy emergence is the "change", caused by the management effort to improve efficiency for profits maximization. Since the "change" can have different vectors, the improvement actions themselves must not necessarily lie in "combining", "increasing" etc., they can have a reverse direction. An unbalanced state of a system emerges due to a corporate strategy, formed in accordance with laws of market functioning, which do not at all, provide just one way for further economic development. The real impacts for attaining positive synergy are quite various and sometimes reveal such issues about synergy that are very subtle, and come out even in an intuitive or unconventional manner. Nonetheless some of them have theoretical background.

4 Theoretical background

The economic theory suggests lots of examples of reverse phenomena: inferior goods – the goods for which, other things equal, an *increase* in income leads to a *decrease* in demand; the Laffer's theory, which states that the *reduction* of high taxes may actually *raise* the tax revenue; or the theory of efficiency wages, explaining how *higher* wages may lead to the *reduction* of the overall production costs (Mankiv, 2007).
But the most vivid example that illustrates reverse way of attaining economic gains is the concept of marginal product and linked to it, the tendency of diminishing marginal product. The marginal product is the every successive

product (increase of production) that arises from use of a successive unit of some resource (factor of production), that is, the return from the last unit of the resource. In terms of value the marginal product is the additional revenue arisen from use of a successive unit of some resource (Gonchar, 2000).
According to the tendency of diminishing marginal product, a successive extra unit of any input to a productive process, while other inputs are held constant, yields smaller increase in output (Oxford Dictionary of Economics, 2009). That means that there is a certain point, after which the efficiency of additional investments begins to reduce gradually. Such a reduction may take place until the value of marginal product is equal to the input costs of a successive extra unit, by which it was produced. The input of one more extra unit will not give profit but losses.
The stated above clearly points out possibilities to realize the reverse way of attaining economic gains. This way lies in determination of the available resources optimal correspondence, consideration of opportunities to reduce some resources for better economic performance. The term “reduce” does not strictly mean the real quantitative shrinking of resources, but can be applied also to management strategy, which may seek to adjust internal and external integration levels, eliminate the excessive production diversification or some extra intermediate management levels etc.
It is necessary to highlight that the use of some kinds of inputs becomes more flexible in the long run. For example a company owns some premises which are currently not used in production process, but incurs sunk costs spent regularly on their maintenance. Naturally the firm’s management will look for opportunities to settle the situation, probably trying to sell or rent the extra premises. Although it does not mean that such opportunities will appear in the short run, therefore while analyzing possible ways of efficiency improvement, it is vital to take into account the timescale, so far as it influences possibilities of synergy emergence. “No matter how refined and how elaborate the analysis, if it rests solely on the short view it will still be… a structure built on a shifting sands” (The Fortune Encyclopedia of Economics, 1993).

5 The reverse synergy

The peculiar characteristics of system nature, discussed in this paper, as well as the economic prerequisites that create an unbalanced state of a system and possibilities of synergy emergence – allow to formulate clearly the reverse synergy concept. The formulation should consider the following issues:

1. Any changes in the system, that are caused by conventional economic reasons, may lead to synergy emergence.
2. Applied to business resources the changes aim either to increase or reduce them. (The increase of resources represents the traditional way of synergy attaining, so it is not relevant for the concept).
3. Timescale should be taken into account.

Hence, the reverse synergy can be defined as an additional positive result that emerges due to economically grounded management decisions concerning deployment or reduction of business resources in the short run or in the long run. Mathematically the concept can be displayed as $4 - 2 = 3$.
The term “business resources” in the definition applies not only to capital or human resources, but also includes a company organizational structure, management style, market strategy and other factors, whose changes can lead to profit maximization or a competitive advantages gain. To fully understand the concept it is important to take into consideration the fact that management decisions are influenced also by internal and external environment, namely the laws of society and market development, owners goals, power relationships in the organization etc.

6 Conclusions

The reverse synergy concept represents a non-traditional approach to a competitive advantages gain. In broad sense it affirms that any management decisions, aimed to increase efficiency, may lead to a positive synergy

emergence. This introduces new paths for business development.

The reverse synergy approach allows to reveal covert and intangible reserves, which are already available for the company. In this respect such an approach is more attractive way to gain competitive advantages, since the synergy attaining depends, to a greater extent, on internal potentials and creative management approach, rather than on external factors. Moreover, compared to tangible resources, intangible resources are more likely to contribute to a competitive advantage because they are socially complex and difficult for current and potential rivals to understand and imitate (Hitt et al., 2001).

An important element of the reverse synergy concept is also the fact that it considers short-run and long-run opportunities to attain synergy. Synergy capture plays sometimes a crucial role for business survival and therefore is of a great importance both for scientists and for practitioners. "Another way of thinking" does not mean at all, that synergy may be attained in more easy or simple way, but rather expands the scopes of research and points out the new ways for solving organization's problems.

Notes

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2. Oxford Dictionaries, "System", http://oxforddictionaries.com/definition/system?q=system, Accessed 10 January 2012.

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