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Last update: April 08, 2007 – 4:34 PM

Forum: Beware the call to synergize and consolidate

The Sirens of Synergy and Consolidation sound tempting, but they typically lead to ruin. Local, hands-on, real-life management is the most effective.

Robert W. Macdonald

The alluring calls of the Sirens of the Greek god Acheloides were hard to resist but, if heeded, led to bad result.

So it is for business leaders who continue to be mesmerized by the myth that following the call of the twin goddesses Synergy and Consolidation will lead to the business promised land. The nymphs of this promise -- business consultants -- scurry about like ants poked with a hot stick, filling the heads of the targeted business executives with visions of increased efficiency, reduced expenses and higher profits dancing across their business plan.

The theory is that increased efficiency and reduced expenses magically appear when widely diverse and dispersed organizations, joined together by only the string of common ownership, consolidate what appear to be everyday functions such as human resources, purchasing, legal, accounting and information technologies and concentrate them all in one location under one all-powerful and all-knowing "corporate center."

The logic seems simple enough. Surely it must be less expensive and more efficient to combine the common functions of divergent organizations into one be-all, do-all central function that can be easily monitored and controlled. The mythologists argue that this approach will leave the companies denuded of time-consuming "staff functions" and allow them to concentrate on "what they do best." Yet, for those who propose it, the unspoken attraction of this concept is the very real desire for the concentration of control and power. Ironically, those most enamored by the synergy theory are the weakest executives who seek to hide their deficiencies and insecurity by eliminating competitive thought and actions.

The problem is that the theory is a myth. It does not work in the real world because all too often the ugliness of reality intrudes on the beauty of theory. If theory ruled the world, there would be no wrongs to be righted, no weather forecasts to be changed, no laws to be enforced and no human nature to be questioned.

But theory does not rule the world -- reality does. Sure, reality is hard and messy. And that is the very reason why local, hands-on, real-life management is, in reality and ultimately, the most effective. You see, reality requires the power and ability to adjust, modify and respond to the uncertainty of failed theory with creativity and diversity. If anything suppresses creativity and

diversity, it is the commonality of synergy and consolidation, especially when applied from afar.

The business world is replete with examples of the failed theory of synergy and consolidation. (None of which stops others from pushing the theory.) The last great push for synergy and consolidation took place in the 1960s and 1970s under the code word "conglomerate." The theory was exemplified in companies such as ITT, LTV and other initialized companies that barely exist, if at all, today. In more recent times, the ill-fated combination of AOL and Time Warner in 2000 led eventually to the company's \$99 billion loss posted in 2002.

However, the largest real-life example of the futility of synergy is none other than the Soviet Union. Talk about synergy and consolidation taken to the nth degree. For more than 70 years, the "management" of the Soviet Union tried to synergize and consolidate all the common functions of the country. Farming, manufacturing, business, health care and lifestyles were all combined under one grand synergy of central control.

And what did the Soviet Union get for this effort? Well, certainly the "executives" garnered massive amounts of power and central control. But one of the world's largest and richest countries was unable to feed itself, manufacturing was (at best) inefficient, health care was primitive and the living standards of its people deplorable. Innovation and progress was defined by either stealing or copying from others. Waste and mismanagement of resources -- both human and natural -- were the order of the day. So much so was this theory of synergy and consolidation a failure that the entire country collapsed in upon itself.

Much the same fate awaits those business leaders who are naive enough to be lured into the belief that the theory of synergy is more than a myth. Rather, success comes from the real-life exploitation of the diversity and uncertainty of reality.

And that is no myth.

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