10 Diversification Strategies

10-2 Synergy

1 Effect of Combination among Businesses Owing to Diversification (Synthesis Effect)

1.1 Complement Effect

◆Complement effect

-It is not until plural categories of product-market field complement what each other lacks that they turn out good in their entirety.

-Joining two forces together to be full-fledged: 1+1=2

- →Ski resort hotels provide accommodations for those who play tennis and golf.

Constrained conditions or required conditions with respect to one resource come to be fulfilled with a sum total of two market fields.

There is no direct interaction.

1.1.1 Complement Effect Regarding Goods

(1)Lack in absolute scale: Regarding certain material resource, because a quantity which one product-market field requires is less than the quantity of that material resource in being, two or more product-market fields are combined so as to secure the rate of capacity utilization.

→Capacity utilization rate of factories

(2)Temporal unevenness in resource-utilization pattern: Because of unevenness in the resource-utilization patterns by season or time slot, one product-market field finishes up that resource or leaves it redundant. (Balance of patterns)

→Hotel, family restaurant

(3)Uncertainty of business: Due to an uncertain fluctuation in the sales of one product-market field, the necessity for resources fluctuates uncertainly. (Balance of risks)

→Domestic－overseas

1.1.2 Complement Effect Regarding Money

(1)Lack in absolute scale: With only one product-market field, the demand for fund dips from the total amount of fund in being, leaving a surplus.

(2) Temporal unevenness in resource-utilization pattern: Temporal unevenness in the money-run patterns; Seasonal fluctuation, long/short term, life cycle

(3)Uncertainty of business:

1.2 Synergy

◆Synergy effect

-Joint effect meaning that a greater outcome can be attained by a single firm running plural business activities than different firms separately conducting those activities

-Sharing a ride: 1+1=3

- → Ajinomoto: Leveraging the brand image of its seasoning in foods, the amino-acid technology of its seasoning in pharmaceuticals

-Classification of synergy

Sales synergy: Common use of sales channel and brand

Network of affiliated home-appliance marketing : Radio → Electric fan → TV

Technological synergy: Production facilities, R&D

radio, TV, VCR

Management synergy: Managerial know-how like personal management and financial control

-Characteristics

One utilizes the informational resource which the other ingenerates. (Reputation, technology)

There is a direct reciprocal influence.

◆Why is a ride-sharing possible?

-When goods and/or money are used for certain product, there is that much less leeway left to be used in other areas.

-Technology, brand and distribution channel are different. → Informational resource: One resource being “simultaneously” in “multiple usages”

◆Characteristics of information

-Utilizable by plural persons at the same time

-Unlikely to abate through usage

-During use, new kind of information may germinate through cohesion with other information.

◆When a firm attempts to enter into a new field by leveraging the synergy of its own informational resources, some competitive advantage can be efficiently generated.

◆Informational resource:

- (1) This resource cannot be purchased with money in many cases;

- (2) This resource requires much time to generate, thus is hardly imitable to competitors, and often brings about the competitive advantage that is sustainably effective.

1.3 Dynamic Combination Effect

1.3.1 Dynamic Compliment Effect

(1)Dynamic compliment effect of goods

Of material resources accumulated for the current strategies, how much are potential for diversion in the future?

(2)Dynamic compliment effect of money

For the current business portfolio on the whole, to have the well-balanced businesses with the different patterns of cash flow, and to make a strategic move so as to keep such a static balance for the future. → Product Portfolio Management

1.3.2 Dynamic Synergy

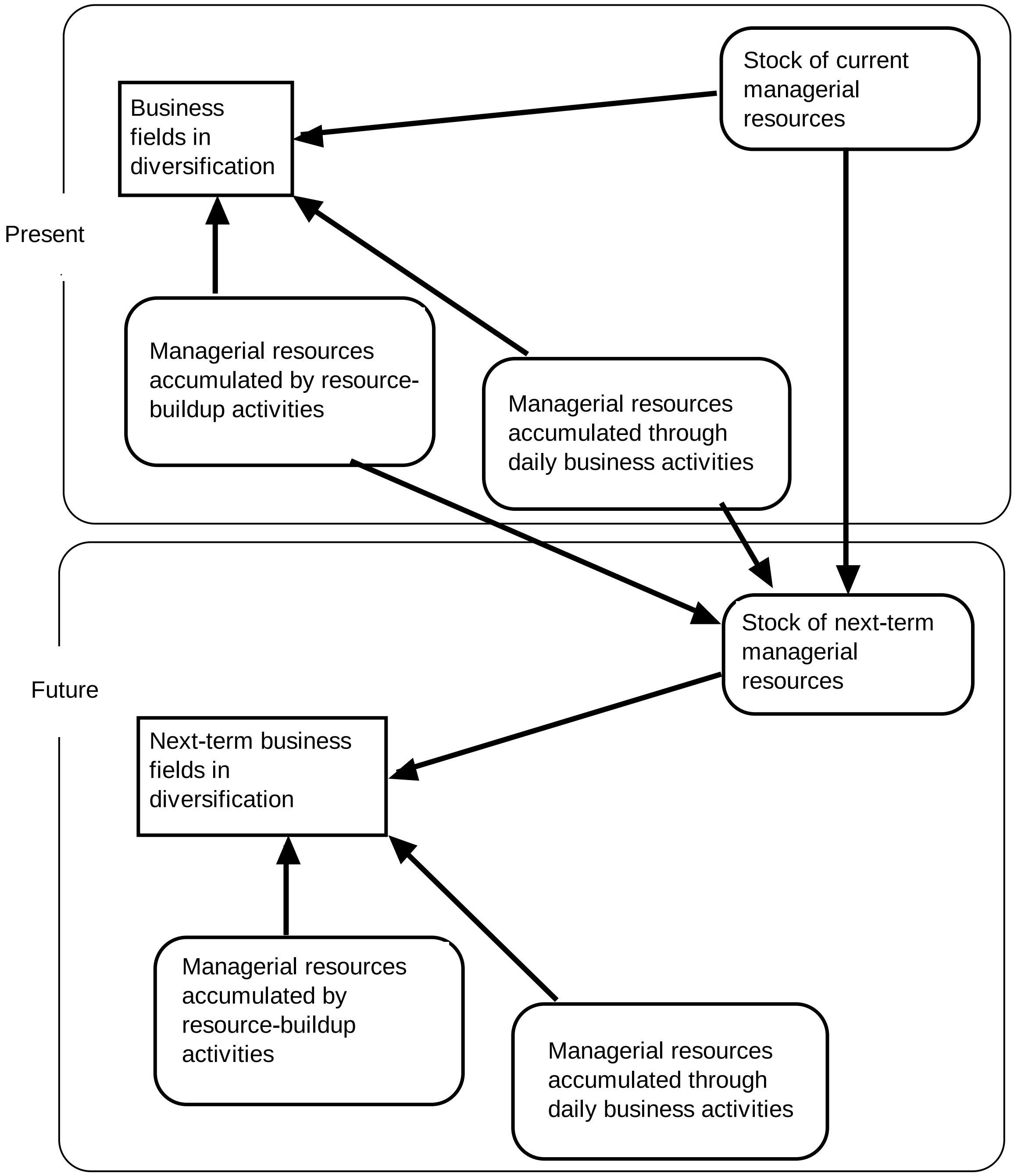
For the future strategy to utilize informational resources ingenerated from the current strategies.

Canon: Electronic technologies for electronic desktop calculators → Various OA devices

Casio: LSI design technologies for electronic desktop calculators → Watches, electronic musical instruments, OA devices

In order to catch a good cycle of dynamic synergy, only if focused on this point in time, it is often necessary to choose a strategy that is somewhat unsupported by static resources “taking notice that the choice is a little too ambitious”.

Dynamic Synergy of Managerial Resources



Yoshihara (1986), *Strategic Corporate Innovation*, Toyo Keizai Inc.

←訳注：この文献の出版社について、「日本経済新聞社」と和原稿にあるのは誤りで、正しくは「東洋経済新報」です。和原稿は要訂正です。（この講義資料の末尾では正しく表記されています）

1.3.3 Unbalanced Dynamism of Strategies and Resources

As goods and money are both absolutely imperative for implementing strategies, no way can they lack their resource corroboration. But as for informational resource, which is a resource to implement strategies “in an orderly fashion”, choosing a strategy that is somewhat unsupported by its resource does not incur problems.

Due to a lack of informational resource, one may be forced into a hard competition in the beginning, through which one gets trained by competitors and customers. And such resources that has run short during initial phase comes accumulated gradually.

There is the unbalanced dynamism in which statically contained between strategies and resources is a certain level of unbalance that resolves dynamically and comes to create a base for even a greater progress.

→ This can be observed in countries’ economic growth and industrial progress. (Japanese automobile industry)

1.4 Core Competence and Dominant Logic

Task of Top Management in Diversified Company

Directivity of top management	Source of strategic diversity		
	Structural change in core business	Foray into new business	
		Similar to existing business	Foreign to existing business
Single dominant logic	(A) To modify dominant logic	(B) No change necessary	(C) To accord plural dominant logics
Plural dominant logic	(D) To modify dominant logic applied to that business, or to restructure the same to other sector	(E) To allocate that business to an appropriate sector	(F) To enhance diversity of dominant logic

Origin: Prahalad and Bettis (1986), The dominant logic: A new linkage between diversity and performance, *Strategic Management Journal* , 7(6), pp.485-501

〈Bibliography for this Lecture Notes〉

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