Relinquishing the Hold of Elusive Synergy:
An Analysis of the Divestiture of Kirin Agribio in 2010

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Abstract: This paper is concerned with the relatively under-researched topic of the effect of divestiture on corporate synergy. It was found that, compared to the volume of literature, very little research that addresses synergy and divestiture in the same paper has been conducted so far. In this paper we connect the concepts of synergy and divestiture through a concept called the 'phantom limb'. Applied to business, this concept means that after divestiture a company may face negative effects because of the possibility to lose knowledge that has been accumulated in the divested business unit. A case study of Kirin Holdings divestiture of its flower breeding, production, and sales business is presented. Our observations suggest that both the real and imagined synergy of diversified companies may be a stumbling block to divestiture due to fear of a potential manifestation of the 'phantom limb' effect. Based on our case study, we propose a general mechanism to overcome a synergy trap.

Keywords: synergy trap, corporate divestiture, phantom limb, diversified companies

1. Introduction

There is a considerable amount of literature on both synergy (Ansoff, 1965; Ansoff, 1984; Sirower, 1997) and corporate divestiture (Vignola, 1974; Coyne and Wright, 1986; Ravenscraft, 1987), however, compared to the volume of the literature, very little research that explicitly addresses synergy and divestiture in the same paper has been conducted so far, with the notable exception of Ebata and Heller (2008).

The reason for the lack of research connecting synergy and divestiture is quite easy to understand. Any research on synergy will inevitably face huge problems related to its estimation and the results will be questionable (Davis and Thomas, 1990). At the same time, except for a boom period in the 1990s when Jack Welch’s "select and focus" approach at GE was in fashion (Slater 1998), divestiture has tended to be away from the main focus of most strategic management research. We attribute this trend to the fact that divestiture is a withdrawal from business, something that is generally assumed to have a negative influence on corporate image and therefore seemingly less worthy attention. Rather than divestitures, more attention tends to be paid to synergy’s relationship with mergers and acquisitions, indeed mainly from the financial perspective of the acquirer (e.g., Sirower, 1997).

However, von Krogh and Roos (1994) raise an interesting issue related to corporate divestiture, which seems to have important implications regarding synergy. They discuss divestiture from the perspective of the possible negative effect on knowledge transfer and corporate performance that divestiture may produce. von Krogh and Roos (1994) and von Krogh et al. (1996) apply the medical term 'phantom limb' to describe this possible effect of corporate divestitures.

"The phantom limb varies in strength and longevity depending on both the body part amputated and how the nerve system heals. Corporate divestiture can be seen as analogous to amputation of a 'corporate body' part or limb
because it means selling off one or several of a corporation's total portfolio of SBU's. (von Krogh et al., 1996, p. 148)

The proposed concept of the phantom limb has been linked by Ebata and Heller (2008) to the concept of synergy by posing the question of whether the synergy of diversified companies is often not just as much of a mirage as the proposed phantom limb effect. We need to stress, however, that although more than fifteen years have passed since the introduction of the 'phantom limb' effect into management literature, no empirical research could be found to verify whether this theory can actually be applied in practice. The present paper contributes to such verification by examining the effects of divestiture on a specific case of corporate synergy and divestiture, namely Kirin Holding's sell-off of its Agribio business in 2010.

Based on this case study, we suggest that the hold of elusive synergy, which may be viewed as a so-called "synergy trap", can explain why Japanese corporations are reluctant to sell off business units, as is argued in Ebata and Heller (2008). Indeed, it is difficult to find divestiture cases in Japan. A notable exception is Toshiba Corp., which withdrew from its silicon wafer business in 2006. Also, Elpida, the recently bankrupt sole manufacturer of DRAM in Japan, which was formed through the 1999 divestitures and subsequent merger of NEC Corp.'s and Hitachi Ltd.'s memory businesses. Fujitsu Ltd. abandoned the DRAM business that year, and Toshiba Corp. announced its withdrawal in 2001 to focus more on making NAND flash memory chips, which are used in tablet computers and smartphones.

2. Literature review

2.1. Definition of synergy

Synergy is an important part of resource-based thinking, and dates back to the seminal contribution of Penrose (1959), which although not using the actual word 'synergy', can be understood to be concerned with two forms of synergy: the possibility of sharing managerial resources across corporate divisions, the reason for which is the inability to divide resources, and the transfer of resources that are no longer necessary to other divisions that can usefully employ them.

A considerable contribution to research on synergy has been made by Ansoff who may be called "the father of synergy" in managerial circles. Synergy, according to Ansoff (1984), is a broader concept than economies of scale (Chandler, 1962; Thompson, 1967). In Ansoff (1965) the idea of synergy is based on the annual rate of return on investment, ROI. "In a majority of firms, advantages of scale exist" (p. 74), which suggests that for a 'fixed' investment, products could yield higher revenues and/or lower cost of production 'combined' rather than when made 'separately'.

Ansoff also explains the concept of negative synergy. According to Ansoff (1984) negative synergies occur when the strengths and/or weaknesses of the company cannot be put into practice in the neutralization of the threats and realization of the opportunities of the company.

Sirower (1997) analyzes synergy largely from a financial perspective. Discussing synergy in the context of mergers and acquisitions, Sirower gives the following operational definition of synergy: "Synergy is the increase in performance of the combined firm over what the two firms are already expected or required to accomplish as independent firms" (p. 20). Sirower goes on to point out that "in management terms, synergy means competing better than anyone ever expected. It means gains in competitive advantage over and above what firms already need to survive in their competitive markets" (p. 20).

Sirower (1997) found that eight out of ten companies that do insufficient planning before the acquisition fall into what is termed "a synergy trap" (an allusion to the difficulty of synergy estimation and also of gaining and maintaining synergy). Sirower (1997) goes on to explain that "even for the two out of ten that do plan (sufficiently), performance
improvements already required by the pre-acquisition price of the target firm and the certainty of competitor reactions will limit synergies” (p. 19). According to Sirower (1997), the synergy trap happens to those companies who fail to define synergy in terms of real, measurable improvement in competitive advantage, stating that “most purported synergies are like the colorful petals of the Venus flytrap – dangerous deceivers” (p. 5).

The negative consequence of failing to do appropriate evaluation is that such companies tend to pay an overly high premium when they acquire other companies. Because they overestimate synergy, they also overestimate the target company’s value. Such companies can easily get stuck in the constant pursuit of overestimated elusive synergy, which is the essence of the synergy trap. We can conclude that according to Sirower (1997), falling into a synergy trap, speaking broadly, means overestimating synergy.

The idea that synergy can lead to a trap is also suggested elsewhere where synergy is referred to as elusive in the academic literature (Schneider, 1998) and among practitioners (Teng, 2010). According to these authors, synergy is elusive because it can be difficult to find, define, or achieve. Teng, who is widely recognized as a turnaround CEO in Asia, explicitly states that in mergers and acquisitions “synergy is an elusive outcome” (Teng, 2010, p. 55).

2.2 Categorization of synergy

As to the categorization of synergy, Ansoff (1965) writes about four major types of synergy, (Ansoff, 1965, pp. 75–76):

(i) *Sales synergy*, which means using common distribution channels, sales administration, advertising and/or warehousing;

(ii) *Operating synergy*, which means large-lot purchasing, using facilities and personnel more efficiently or effectively, spreading overhead costs;

(iii) *Investment synergy*, which means using the same production plants, transfer of R&D from one product to another;

(iv) *Management synergy*, which is possible when a new business venture deals with strategic, organizational or operating problems which are similar to problems that the corporate management has dealt with in the past.

Management synergy is according to Ansoff (1965) a very important type of synergy for the total effect. Different types of industries have different needs of management skills. Some industries can complement each other and top management skills are useful, however in some other cases top-management skills cannot be transferred successfully, i.e. synergy would be negative.

Ansoff does not provide a general explanation of the reasons for these synergies, but Porter (1985, p. 328) says that synergies occur because “sharing has the potential to reduce cost if the cost of a value activity is driven by economies of scale, learning or the pattern of capacity utilization”.

We need to mention that the concept of synergy in Ansoff (1965), Sirower (1997), and Porter (1985), among others, is defined as such from the viewpoint of companies that acquire or merge. They do not discuss synergy from the perspective of divesting companies.

2.3 Estimation of synergy

The estimation of synergy has been discussed in the literature on strategic management. Ansoff (1984) provides a matrix and a step-by-step procedure for assessment of synergy. The horizontal axis of Ansoff’s matrix represents strategic business areas (SBA’s) that receive synergy while the vertical axis represents strategic business areas that contribute synergy.

Abell and Hammond (1979) provide an operational method of estimating synergy across businesses following
Ansoff’s (1964) classification of the four types of synergy. It includes six synergy-related questions:

a). Sales synergy - regarding sales to customers served by more than one business unit of the company, and regarding shared sales force.

b). Operating synergy - regarding purchases obtained from other business units of the company, and regarding sales to other business units of the company.

c). Investment synergy - regarding shared manufacturing facilities and personnel.

d). Management synergy - whether the managers of other business units that are significant suppliers or customers of a business unit report to the same immediate superior as the general manager of that business unit.

Sirower (1997) is primarily concerned with synergy and its estimation from the perspective of mergers and acquisitions and also argues that “synergy has remained a vague and even mysterious concept – with little financial or strategic meaning” due to the fact that the majority of prior research has failed to take into account competitive and organizational realities.

Davis and Thomas (1990) conducted a study on 43 pharmaceutical companies in the United States, examining the connection between relatedness and synergy, during the period 1960 to 1980. Relatedness, as they argue, is the most widely used marker of synergy in the literature on strategic management, i.e. “the presence of similar activities and shared resources at various points of the value chain” (p.17). Thus, as they point out, “two of the most basic practical lessons of the diversification literature are that relatedness equals synergy and that production similarities equal relatedness”.

However, the results of Davis and Thomas’s (1990) study show quite a different picture. Their conclusion, based on “capital market performance of the firm as a whole” (p. 18) for synergy estimation, is that “all types of relatedness are not synergistic at any given point of time. In fact, over time certain types of relatedness which were previously synergistic become synergy neutral or negative” (p. 21). The authors also state that industry life cycles appear to have an influence on the shifts in synergy.

2.4. Perspectives on divestitures

Divestiture or divestment, as the opposite of investment, is discussed in the literature on finance, economics and strategic management. DePamphilis (2008) discusses divestiture as part of the restructuring activities of companies for exiting businesses and provides the following definition for divestiture: “A divestiture is the sale of a portion of a firm’s assets to an outside party, generally resulting in a cash infusion to the parent. Such assets may include a product line, subsidiary, or division” (p. 580).

Describing the commonly stated motives for exiting businesses, DePamphilis (2008) hints that “insufficient benefits” from synergy may be a motive for divestiture. Also, there is a clear suggestion that negative synergy may often motivate divestment because of “overhead expenses” generated by incorporated business units. This is the only substantial reference to a connection between divestiture and synergy that can be found in DePamphilis (2008).

According to Coyne and Wright (1986), the effects of divestiture on performance have been examined in the relevant literature, although that research is limited to the United States. And, as the authors argue (p. 19), “the studies have focused on the effects on shareholder wealth, as an indicator of the change in performance of the firm, following divestment”. Thus it follows that the effect of divestiture on synergy was not a substantial target of the research conducted at least through the mid-1980s.

Ravenscraft (1987) presents a study on the economic efficiency of mergers and sell-offs and concludes that efficiencies that were not achieved under conglomerate control due to “delaying or distorting reactions to emerging problems, draining from the business resources needed for problem-solving, and (in a subset) sapping managerial moral”
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(Ravenscraft, 1987, p. 157), were realized when the sample businesses became independent units “or were integrated within a larger organization operating complementary activities” (Ravenscraft, 1987, p. 157), i.e. when they were sold off. This conclusion is a clear hint to negative managerial synergies that apparently existed before the divestitures. However, in some cases the problems became more difficult after the sell-off, to the degree that it was impossible for the divested business unit to continue to operate due to financial limitations and increased risk.

Ravenscraft’s (1987) study is entirely focused on the divested unit and no reference at all is made to the effect of divestiture on corporate synergy or the business operations of the parent companies that sold off incorporated business units.

The literature on divestiture focuses mainly on the effect of divestiture on shareholder losses and gains. As we noted earlier, few papers address synergy and divestiture together. Also, our literature review has revealed some practices that have been effective in estimating synergy. These practices show that relatedness and centralization of business activities are two markers of synergy that are frequently used in the academic literature. This seems to be in agreement with von Krogh and Roos (1994), whose phantom limb effect theory we use to connect the two concepts – synergy and divestiture (Ehata and Heller, 2008).

The phantom limb effect, according to von Krogh et al. (1996), “represents costs stemming from deprived competence configuration” (p. 150) due to a divestiture. In turn, this deprived competence configuration, which may be viewed as a loss of synergy, could hurt corporate performance after a divestiture. Fear of such a potential loss of synergy could make companies reluctant to divest. Yet, if such synergy is in reality rather elusive, then a company could find itself in a synergy trap.

The phantom limb theory is primarily concerned with knowledge transfer but it is also concerned with relatedness among corporate business units. As we already saw in the literature review, relatedness is one of the most often used markers of synergy. As von Krogh et al. (1996) point out, relatedness has typically been expressed as commonality in products, markets, assets, and industries. However, they provide no definition of these terms and argue that a high degree of relatedness among business units suggests that commonality exists in distinctive competencies, industry specific competencies, know-how, skills and knowledge.

von Krogh et al. (1996) also state that traditionally it is argued that the implementation of synergies in a related portfolio of businesses requires centralization. One example that is provided is the centralization of research. From that point of view, sharing of technological resources among different divisions or business units of a company, which potentially leads to the realization of synergy, can be achieved through centralization of research activities. Another example that the authors provided is the centralization of core resources. This potentially can lead to the identification and the ability to manage different kinds of interdependencies between business units. Another example is the centralization of production technology.

Following the line of thought represented thus far, it is reasonable to suggest that, if a corporation has fallen into a synergy trap (Sirower, 1997) where a company imagines there is more synergy than there really is, divesting is viewed as less desirable due to the fear of a potential manifestation of the phantom limb effect if the business unit is divested. Therefore we can pose the following research question: What is the mechanism to escape from such a synergy trap?

3. Methodology

Building on von Krogh et al. (1996), we initiated our empirical study to answer this research question by exploring the relationship between corporate divestiture and synergy. As mentioned earlier, we selected as a case study Kirin Holdings’ 2010 divestiture of its Agribio business. This case is one of few examples of a major business unit divestiture in Japan, and as is described in detail later, the pursuit of synergy played a role, albeit implicit, in Kirin beginning this
Our first step is to see what relatedness existed between the Agribio group and the other business units of Kirin Holdings, and the second step, to see to what degree centralization of business activities existed in Kirin Holdings’ portfolio of businesses. These steps will help us better understand what synergy existed between the Agribio group and the rest of the business units because as we saw from the literature review, relatedness and centralization of business activities are generally viewed as requirements for synergy. We also saw that companies can fall into a synergy trap. The possibility that a synergy trap existed at Kirin will also be explored.

The following section uses data collected from the Kirin case to determine if this case is consistent with the framework proposed in this section. The data used in this present paper comes from second- and third-hand public sources and the following first-hand sources. We visited Kirin Holdings Headquarters in Tokyo on July 9, 2010 and conducted an interview (90 min) with a deputy manager from the corporate planning division (source A). A second interview (60 min) was held on December 20, 2010 in Yokohama with a retired employee from Kirin’s corporate planning division (source B). Email correspondence was also conducted with an employee (source C) from the PR department of Kirin Holdings, on December 6, 2010. The author also attended and asked two questions to Kazuyasu Kato, chairman of Kirin Holdings, at a semi-public lecture held at Yokohama National University on October 23, 2010.

4. Case study - Kirin’s horticultural breeding business sell-off

4.1 Background of the Agribio group

Kirin sells beers that have gained much popularity among the Japanese beer consumers, including Kirin Lager, which is Japan’s oldest beer brand. Kirin Tanrei is also the top-selling beer in the category of happoshu (low-malt beer). Kirin also operates the domestic distribution of several foreign brands, among them Heineken and Budweiser.

Over time, the research and development activities of Kirin became too large and significant to fit into their original facilities. As a result, in order to be able to coordinate long-term projects and to perform centralized scientific research, in 1967 the company established a new scientific facility in Takasaki, called the General Research Laboratory, which together with the other facilities placed Kirin in an important and leading position in the technology of brewing.

In the beginning of the 1970s the management of Kirin took a decision to diversify into new business sectors. Kirin launched dairy products and fruit juices, increasing the variety of its product line. Also, in 1977 Kirin established a new subsidiary in the United States, KW Inc., which operated the bottling and selling of Coca Cola in New England.

In addition to these diversifying activities, leaning on its knowledge and expertise accumulated during the many years of developing fermentation technology, Kirin made available new drugs in the field of health care.

In the 1980s, Kirin’s management took a decision to start major changes in the research and development structure of the company. The laboratory of the company was reorganized and divided into three main fields of research: brewing science, pharmaceuticals and plant bioengineering. For the coordination of fund raising activities for research projects, new departments at the administrative level were added by the management.

The number of subsidiaries of Kirin was increased by the addition of Flower Gate Inc. (established in 1986), a company which produced African violets using a new tissue culture process. The main business of Flower Gate was retailing and mail ordering of ornamentals and sales of seedlings. It was also engaged in flower schooling and amenity business. Also, Kirin combined efforts and resources with Plant Genetics Inc., a company operating in the field of agricultural biotechnology, in order to create synthetic seeds for a number of agricultural products.

It might be difficult to understand exactly what business hides behind the word “Agribio” because there is no clear definition of that word. Moreover, there is no such word in English. “Agribio” has been used by Kirin to refer to one of its corporate businesses, and apparently it is an attempt to combine the words “agriculture” and “biology”, or probably
“biotechnology”. However even if that was the case, it would be difficult to imagine from the word “agribio” that the main business of this group of companies is in fact the breeding, production and sale of flowers. In Japanese, the katakana rendering of the term agribio can be found in use to a limited degree, such as the name of a laboratory at the University of Tokyo.

The two principal subsidiaries that Kirin agreed to sell to a Dutch investment company (H2 Equity Partners B.V.) were Kirin Agribio Limited and Kirin Agribio EC B.V. The agreement is dated February 17, 2010, and the transactions were made in March 2010.

Kirin Agribio Co. Ltd. was established in November 2001 as Kirin Green and Flower Limited (renamed Kirin Agribio Co. Ltd. in October 2006); however, it can trace its origin back to October 1983 when Kirin’s Research Center for Materials was established in Shizuoka, Japan. This Center served as the domestic headquarters of the whole Agribio group and was also involved in the wholesale and import of seedlings. As of 2009, the Center was a wholly owned subsidiary of Kirin, with around 70 employees and 2.1 billion yen sales.

Kirin Agribio EC B.V. served as the European headquarters of the Agribio group, based in De Lier, in the Netherlands. It was established in November 1993 as a wholly owned subsidiary and was responsible for the corporate control of 23 companies in Europe (in 2009). The whole European group of companies had around 2000 employees and 13.3 billion yen (around 103 million euro) consolidated sales (in 2009).

The Agribio business started in the 1980s and for about a quarter of a century it grew to 35 companies in Japan, China, Europe and the United States (in 2006). The central component of the Agribio business was the plant laboratory. By using that facility, Kirin was seeking to find ways to use biotechnology to research and develop new plant varieties that can be used for mass propagation. According to the strategy of Kirin’s Agribio group (U.S.-Japan Technology Linkages, 1992), strong emphasis was put on the following areas:

i Use of cell fusion and artificial seed technology for breeding and propagation;
ii Development and production of seedlings rather than seeds;
iii Use of the established and strong brand consciousness of Kirin products;
iv Formation of a global network of subsidiaries and joint ventures;

A globalized business would allow Kirin to take advantage and exploit market opportunities in the Agribio business faster than its competitors. And, joint ventures with companies possessing complementary technologies were particularly attractive for Kirin because they would make it possible to maximize the return on technology developed internally.

4.2 Reasons for the establishment of the Agribio group

Source B pointed out that one reason for Kirin’s start of the Agribio business was that, like many other Japanese corporations in the 1980s, it had much cash ready to invest in the expansion of the current business or in other businesses. However, at that time it had already become clear that the beer market in Japan would not grow any further, which pushed Kirin to seek other business areas where it could invest its large cash. The Agribio business was, among others as we already saw, one of these opportunities.

Source B also pointed out that another reason for Kirin’s start of the Agribio business was that it wanted to develop artificial seeds that could be used for mass propagation in the same manner as, for example, wheat can be sowed by just spreading the seeds on the ground. Other plants, such as rice, have to be transplanted which greatly complicates their cultivation, making it labor-intensive.

Creating artificial seeds inevitably involves their genetic modification. Source B stated that Kirin had long experience in breeding hops and barley for beer production and experimenting in the sphere of genetic engineering, and
that it is one of its core technologies. However, there was a dispute over the relative advantages and disadvantages of the genetic modification of food. According to source B, fearing that genetically modified seeds used for food production might damage the reputation of its brand, Kirin canceled the whole program. Having the image of a technology-orientated company and already possessing an advanced technology to breed plants, Kirin decided to diversify into areas where the controversy surrounding genetically modified food could be avoided. These areas were pharmaceuticals and flowers.

Again according to source B, Kirin was not concerned with synergy between its businesses or divisions at that time. Actually, it is difficult to find any reference in the academic and practitioner literatures to Kirin and synergy in the 1980s and 1990s. The domestic market and the goal to become a company that contributes to life and health were the primary concerns when Kirin took steps to diversify into the above-mentioned two businesses. Nevertheless, while not an explicit goal, Kirin’s diversification into flowers breeding can be viewed as an attempt to exploit one of its core competences, namely plant-breeding know-how, in another business. Thus, following the Ansoff’s (1965) categorization, Kirin’s action can be classified as an attempt to pursue investment synergy.

4.3. The road to divestiture

As source B indicates, although Kirin did possess an advanced technology and a know-how for the breeding of barley and hops, it did not have enough knowledge about the breeding of flowers and the development of pharmaceuticals, and virtually no channels for their distribution. Thus steps were taken to make joint ventures with established companies in that field or to acquire such companies.

Source B also stated that although the flower market in Japan was growing rapidly, the demand for flowers still could not be compared to the demand for flowers outside of Japan, especially in Europe. That is why Kirin acquired shares in many European companies (as we already saw, 23 companies by 2009). However, as source B pointed out, later it became clear that Kirin did not possess another know-how – how to control such a large number of European companies.

According to source C, a turning point in the history of Kirin and a point at which synergy first appears as a topic in the corporate planning is the year 2001. This is the year when Asahi Super Dry (launched in 1987) overtook Kirin in the Japanese beer market. A business plan, called Kirin Vision 2015, was drawn, according to which the corporation would try to expand into other Asian countries and especially the region of Oceania by actively buying local food and beer companies. In part to facilitate this process, Kirin was reorganized into a holding company in July 2007. In the 2001 plan, a strong emphasis was put on the pursuit of synergy between the corporate divisions of Kirin.

Source A indicates that in the late 2000s the management of Kirin also decided to carry out a restructuring of the corporation based on criteria like financial value of the business unit, perspectives for growth, and profitability. According to source A, although the management of Kirin wanted to include synergy as a criterion for the corporate restructuring, it was decided not to do so because synergy is difficult to measure. However, it was considered whether the subsidiary, affiliated company or the whole business could contribute to Kirin’s brand and whether that contribution could be useful in the business areas of Kirin (alcoholic beverages, non-alcoholic beverages, pharmaceuticals, and agribio).

As the chairman of Kirin Holdings, Kazuyasu Kato, explained in a lecture in 2010, it was decided that the Agribio business could not meet the above-mentioned criteria and had to be sold.

4.4. Synergy before the divestiture

It is difficult to estimate precisely whether there was any synergy between the Agribio business and the other
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Businesses of Kirin. It is quite possible that there might have been significant synergy in the technological area, at least in the beginning. There was a clear plan to apply breeding technology in hops and barley to the flower business. Although flowers were used in advertisement and for the company’s web page design and thus possibly produced synergy in this area. It cannot be said, however, that synergy was pursued in public relations because the goal of that use, according to source C, was to gain recognition that the Agribio business was new and promising, and belonging to a stable company.

According to source C, in the 1980s, when beer sales occupied more than 90 percent of the total sales of Kirin, the Agribio business was considered to be a symbol of Kirin’s “diversified” business. In contrast to the mature (and profitable) beer business, the Agribio and pharmaceutical businesses were expected to reveal to the public the entrepreneurial spirit and R&D power of Kirin. However, because there are no definite figures, it cannot be said with certainty how much the Agribio business actually contributed to the corporate or brand image of Kirin. Yet, according to the people in charge of public relations in the 1990s, Kirin received much media attention through its news releases related to the flower business.

4.5 Impact of the divestiture

Source A indicates that after the divestiture no negative or positive effects were observed and Kirin’s remaining businesses continued as usual. Source C pointed out that in comparison with the soft drinks and the pharmaceutical business, the Agribio business was small in terms of sales; however, at the same time it was an important business with roots that went back more than 30 years in the Kirin group. It is for this reason Kirin’s PR department feared that the divestiture might have a negative influence on the image of the Kirin group.

However, after the divestiture was announced, there were no negative reports in the media or negative reaction in society. “After all”, as source C states, “the impact was small because in society, there was not enough connection between Kirin’s brand and flowers (the Agribio business), although inside the company, for sentimental reasons, we thought that the Agribio business was important.”

Given the above statements of our sources, it can be concluded that the divestiture did not have a significant impact on Kirin as a whole or on the business of its subsidiaries. However it must also be said that our analytical framework does not allow us to make a quantitative analysis that could reveal the exact dimensions of any potential impact. In fact, this is a significant limitation of our study that needs further investigation in order to avoid any distortion of the effect of this divestiture on synergy in the Kirin group.

5. Discussion

Although it is difficult to estimate fully the degree to which the Agribio business of Kirin was related to the other businesses of the corporation, there is some room for speculation. It can be argued that when a business unit belongs to a corporation, it is always related to the other business units of that corporation even if it does not share the same market, product, asset or industry with any of the other business units. That is so because business units are related by means of the common brand of the corporation and, generally, movement of personnel between units.

It is true that in many cases, including the Agribio case, different business units and even different companies belonging to the same business unit, have different brands. In these cases it might seem that any brand connection is practically non-existent. However, different brands can be associated with a particular corporation by means of brand awareness. If customers perceive different brands as belonging to one corporation then it can be said that the connection is still intact and the business units or companies are still related. However, determining if such customer awareness exists, as can be seen in the Agribio case, can be a difficult task.
Although the degree of relatedness cannot be precisely estimated, given the facts described in the case presentation, it is safe enough to say that the Agribio group of companies was at least somewhat related to the other businesses of Kirin. Regardless of the degree of relatedness, the necessary condition (relatedness) that facilitates synergy is present at least at a minimum level.

The central component of the Agribio business was the plant laboratory. We do not have enough data to estimate the degree research activities were centralized in that facility. However, judging by the information found on the web site of Japan Agribio Co., Ltd., it can be said that the research and development activities conducted at that facility were primarily related to flower breeding and flower seedlings.

Research and development activities related to fermentation technology were and are still conducted at a different facility belonging to Kirin Brewery Co., Ltd., and research and development activities related to pharmaceuticals are conducted at a separate facility belonging to Kyowa Hakko Kirin Co., Ltd.

In addition, each major European company belonging to the Agribio group independently conducted research and development related to their own field of expertise. Another company in Japan belonging to the same Agribio group, Japan Potato Co., Ltd., conducted its own research and development of seed potatoes, although it is necessary to mention that according to information found on the web site of that company, the experience of breeding of barley and hops did contribute to the breeding of seed potatoes.

Although Kirin’s scientific facility in Takasaki was established in 1967 in order to coordinate and centralize scientific research, the decision from the 1980s to reorganize and divide the laboratories of the company into three main fields of research, namely brewing science, pharmaceuticals and plant bioengineering, implies that there is no significant synergy among these three fields.

Although the degree of centralization cannot be precisely estimated, it is safe to say that research and development activities at Kirin cannot be characterized as highly concentrated or centralized and that characteristic applies even to a larger degree to the Agribio group. Although a lack of centralization does not necessarily affect the effectiveness of research and development, it definitely does not promote synergy.

It is difficult to imagine how fermentation technology can be applied to flower breeding. There is no doubt that Kirin’s fermentation technology constitutes one of its core competencies. However, Kirin also possesses advanced knowledge in the sphere of barley and hops breeding. Although we can not definitively say that the breeding of barley and hops and the breeding of flowers utilize the same technology, it is certain that the two technologies are related (both of them refer to plant breeding and plant biotechnology) and therefore theoretically have the high potential to produce synergy.

Research and development is probably the only field where there was significant synergy between the Agribio group and the other business units of Kirin. In Ansoff’s categorization of synergy, this corresponds to investment synergy. We could not get access to relevant data that could enable us to discuss definitively operating synergy. Nevertheless, our impression received from the interviews with current and former employees of Kirin, is that there was little room for operating synergy between Agribio and Kirin’s other business. Given the different distribution channels, the same applies to sales synergy, except for the use of flowers in Kirin’s corporate and beer advertising. Basically, none of our sources commented on another kind of synergy except synergy in the research and development field.

As for management synergy, there are serious reasons to suspect that in fact, in the later stages of the Agribio group’s growth, there was negative synergy. First, in the 1980s Kirin ventured into a business (flowers) which is only distantly related to its main beer business. This fact, according to Ansoff’s definition of management synergy, is contrary to what a company should do in order to gain management synergy and potentially can offset other synergy (R&D) that might have been gained at that stage. Second, as the Agribio group grew, exercising control of the many overseas affiliated
companies became difficult, which found numerical expression in excessive management costs.

We saw that synergy was not explicitly pursued when Kirin started to diversify its business. We are also not able to say that Kirin overestimated synergy when the company entered the flower and seedling business, and consequently we cannot say that at that time Kirin had fallen into a synergy trap, as defined by Sirower (1997). However, there is a clear indication that in the late 2000s when the management of Kirin decided to restructure the corporation, Kirin may have already found itself in a synergy trap regarding the Agribio group. Although synergy was later not used as a formal criteron for its decision making regarding restructuring in the late 2000s, consideration was given to whether the subsidiary, affiliated company or the whole business could contribute to Kirin’s brand and whether that contribution could be useful in the business areas of Kirin. This contribution can be interpreted as another way to say “synergy”.

Kirin was aware that the synergy between the Agribio group and the rest of its business units was not enough (did not meet the “contribution” requirement). In other words, as far as the Agribio group is concerned, synergy had been overestimated (it was less than expected). Therefore Kirin appears to have found itself in a synergy trap in the 2000s, which for sentimental reasons it remained stuck.

6. Conclusions and limitations

Having discussed the case and reviewed the available information, in this concluding section we revisit the question posed in section 3: What is the mechanism to escape from a synergy trap?

While care must be taken when drawing conclusions based on only one case, our conclusion is that the mechanism used by Kirin to overcome the synergy trap in which the company found itself, was to (1) re-organize the corporation to facilitate streamlined management of its business units, (2) conduct a cost-benefit analysis of each business unit, and (3) gather and analyze data on any potential impact on synergy of a divestiture. The development and use of this mechanism appears to have been largely influenced by a leadership factor, the fact that Kazuyasu Kato was the president and CEO of Kirin Holdings from March 2007 (before the re-organization into a holding company) to March 2010 (after the Agribio group’s divestiture).

Ideally, following the general model, Kirin would have gathered more systematic data on the potential impact on synergy before the divestiture, for example by doing a customer survey to see if anyone associated Kirin and flowers. In fact, in the particular case of Kirin, it may have been the actual presence of a direct competitor, Suntory, with a similar, but much more famous, business unit (which developed the first blue rose), that might have contributed to Kirin’s motivation to sell off its Agribio group in the first place. In other words, as long as Kirin kept this unit they were likely going to look second-best to the more well known (in the flower business) brand, Suntory. So, the mechanism to overcome emotional hard-to-quantify elusive synergy should perhaps also include a step where competitors are considered.

In the Agribio case, the control of many relatively small companies belonging to one business unit presented Kirin with management difficulties, thus obstructing the generation of significant synergy. We cannot definitively say why these obstacles appeared. It is possible, as one of our sources indicated, that Kirin did not posses the "know-how" to control a large number of European companies. It is possible that there might have been other obstacles as well.

It is necessary to point out that Kirin was aware of the elusive nature of the synergy between the Agribio group and the rest of its business units. Yet, at the same time, Kirin was concerned that it might experience adverse symptoms associated with the phantom limb effect as defined by von Krogh and Roos (1994). Such potential side-effects included both internal and external side-effects. Internally there was concern that problems might occur due to the breaking of the emotional attachment of Kirin employees to Agribio. Externally there was worry that Kirin’s brand image would be
hurt by the company’s disassociating itself with the flower business. This experience of Kirin in overcoming the hold of these elusive synergies potentially could be applied to other companies facing similar synergy traps.

With regards to the limitations of this research, it is true that the Agribio group was a relatively small business unit (15.4 billion yen consolidated sales in 2009) in Kirin’s portfolio of businesses. It is also true that there was apparently little synergy between the Agribio group and the other business units of Kirin. These facts may influence the generalizability of our findings about the mechanism to overcome a synergy trap, as expounded in this paper.

Moreover, our research is based on what interviewees told us, not on objective data, for example movement of personnel or data on consumer awareness before and after the divestiture. Additional verification of our findings using such data would be desirable. In addition, cases of divestitures by other corporations must be reviewed in order to fully understand the effect of divestiture on synergy. Other industries can provide interesting cases too, like the management buy-out of Toshiba Ceramics Co., Ltd. in 2006.

Finally, given the single-case methodology employed in this case, we were not able to explore in this paper if there were any country-specific aspects to our findings. While “select and focus” (sentaku to shuchu) management remains a popular buzzword in Japan in the 2010s, there does not seem to be many cases of divestiture in Japan. Examining this issue is an important future line of inquiry.

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