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The Relationship between Operational Synergy and Firm Performance: A Review of Literature

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Abstract

Theoretical and empirical evidence has documented erratic and fluctuating firm performance amongst financial firms worldwide and across different economic sectors. The need to stabilize firm performance has instigated a variety of corporate reorganization strategies including Mergers and Acquisitions. However, theoretical and empirical literature has not been quite categorical on the link between operational synergies (arising from Mergers and Acquisitions) and firm performance. Firms have increasingly inclined towards operational synergy to enhance firm performance. Operational synergy has consistently improved firm performance outcomes in most firms. However, while numerous studies have examined the relationship between operational synergy and performance, there exists a need to synthesize and consolidate the findings across diverse contexts and economic sectors. Hence, the purpose of this review was to determine the relationship between operational synergy and firm performance via desktop review. The study was informed by three theories; The Theory of Misvaluation, The Hubris Theory and Stakeholder Theory. The review adopted a positivist research philosophy and desktop review design via evidence-based approach. The Study Documents that operational synergy has a significant effect on firm performance. Additionally, the review finds that firms which actively pursue operational synergy strategies exhibit improved financial performance, cost reduction, streamlined processes, and higher customer satisfaction. The study further finds that firms which successfully achieve operational synergy, particularly through mergers and acquisitions, have a tendency to outperform their competitors financially, with improved profitability, cost efficiency, and overall financial performance. Hence, the study recommends that firms should prioritize the development and implementation of strategies that foster operational synergy such as promoting a culture of collaboration, communication, and integration across different operational functions.

Keywords: *Operational synergy, Organizational effectiveness, Integration, Efficiency, Review of literature, Performance*

1.0 Introduction

Firm performance is of utmost importance to any organization as it directly influences its ability to achieve its goals and objectives. In today's dynamic and competitive business environment, organizations are under constant pressure to demonstrate their value and deliver results. Broussine and Miller (2020) highlight that performance serves as a crucial indicator of an organization's effectiveness and efficiency in utilizing its resources to accomplish desired outcomes. It allows organizations to evaluate their progress, identify areas of improvement, and make informed decisions to drive success. Furthermore, performance is closely tied to organizational survival and growth, as organizations that consistently perform well are more likely to attract stakeholders, secure investments, and maintain a sustainable competitive advantage (Gibbons, 2019). Firm performance is essential for maintaining and enhancing an organization's reputation and credibility. In the digital age, where information spreads rapidly and widely, the performance of organizations is closely scrutinized by various stakeholders, including customers, investors, employees, and the public.

Lee and Seidle (2020) emphasize that organizations with a strong firm performance record are more likely to build trust and confidence among stakeholders, which in turn can lead to increased customer loyalty, investor confidence, and employee engagement. Positive firm performance outcomes reinforce an organization's brand image, positioning it as reliable, competent, and capable of delivering value to its stakeholders. Firm performance also plays a critical role in driving organizational learning and continuous improvement. Kujala, Laitinen, Raukko and Huiskonen (2019) argue that performance measurement and evaluation provide organizations with valuable insights into their strengths, weaknesses, and opportunities for growth. By monitoring performance metrics, organizations can identify inefficiencies, bottlenecks, and areas for improvement. This enables them to implement targeted improvement initiatives, optimize processes, and enhance firm performance over time. Firms employ various approaches and metrics to measure their performance, ensuring they have a clear understanding of their progress and outcomes (Imran, Ismail, Arshad, Zeb & Zahid, 2022). The most common firm performance measurement practices include financial indicators such as profitability and return on investment, operational metrics like productivity and efficiency ratios, customer-related measures such as satisfaction and loyalty, and employee-focused metrics including engagement and retention rates (Kujala *et al.*, 2019).

Firms have increasingly embraced operational synergy as a strategic approach to enhance their performance (Lassala, Orero-Blat & Ribeiro-Navarrete, 2021). Operational synergy has been consistently associated with improved firm performance outcomes in organizations. By aligning and integrating various operational functions, organizations can optimize resource allocation, reduce costs, improve quality, and respond more effectively to market demands, ultimately leading to superior overall performance. Najam, Abbas, Alvarez-Otero, Dogan and Sial (2022), emphasize that effective coordination and integration of operational activities lead to enhanced Firm performance metrics such as cost efficiency, productivity, and customer satisfaction.

Operational synergy, which refers to the combined effect of coordinated and integrated operational activities, has been widely studied in the literature due to its potential impact on performance. According to Chavez, Higuera, Uribe, Choconta, Márquez and Guarin (2020), operational synergy arises when different operational components work together in a complementary manner, leading to enhanced performance outcomes. Studies have consistently emphasized the positive relationship between operational synergy and performance, highlighting its ability to generate competitive advantages and superior organizational outcomes (Cao *et al.*, 2011; Matthyssens *et al.,* 2006).

Through the coordination and alignment of operational functions, organizations can optimize resource allocation, reduce waste, and improve productivity. Andriuškevičius and Štreimikienė (2022) found that operational synergy enhances resource utilization, thereby positively impacting firm performance outcomes such as throughput and cycle time reduction. Operational synergy also plays a crucial role in driving quality improvement and fostering innovation. By integrating operations and facilitating cross-functional collaboration, organizations can leverage diverse knowledge and expertise to enhance quality control processes and develop innovative solutions. Pinto (2022) highlights the positive impact of operational synergy on quality management practices and innovation performance, emphasizing the role of shared resources and information in driving these outcomes. Flexibility and responsiveness are critical capabilities for organizations to adapt to changing market conditions. Operational synergy facilitates the seamless coordination and alignment of operations, enabling firms to respond quickly to customer demands and market shifts. In their study, Frohlich and Westbrook (2021) found that operational synergy positively influences organizational flexibility, allowing firms to achieve higher levels of customer satisfaction and gain a competitive advantage. Various scholars have adopted different indicators to measure operational synergy. Financial metrics such as revenue growth, cost savings, and increased profitability are commonly used indicators (Jain, 2020; Park Lim & Gupta, 2019). Operational efficiency indicators include reduced cycle time, improved productivity, and enhanced resource utilization (Li, Ye & Li, 2017; Mahadevan *et al.*, 2019). Scholars have also examined customer satisfaction and loyalty as indicators of operational synergy, utilizing surveys and feedback mechanisms (Delgado-Ballester et al., 2019). Employee engagement and satisfaction have been considered by scholars as additional indicators of operational synergy (Meyers *et al.,* 2015; Rovira-Val *et al.*, 2017). These indicators collectively provide valuable insights into the multifaceted dimensions of operational synergy.

1.1 Research Problem

The relationship between operational synergy and firm performance has garnered significant attention in organizational research due to its potential impact on organizational success and competitive advantage. Operational synergy, defined as the combined effect of various operational elements working in harmony, has been identified as a key driver of enhanced performance (Babu & Bhattacharya, 2020). However, a comprehensive understanding of this relationship requires a thorough review of the existing literature to identify the key issues and gaps in knowledge. While numerous studies have examined the relationship between operational synergy and performance, there exists a need to synthesize and consolidate the findings across diverse contexts and industries. Previous research has demonstrated inconsistencies in the relationship, and findings have often been limited to specific sectors or individual operational aspects, neglecting a holistic understanding of operational synergy and its implications for performance (Garg *et al.,* 2019; Melo *et al.,* 2021). Consequently, the lack of a comprehensive analysis impedes the development of robust theories and frameworks that can guide organizations in optimizing their firm performance.

Furthermore, the existing literature on operational synergy and firm performance highlights several research gaps. While some studies have explored the impact of factors such as leadership, technology integration, and organizational structure on operational synergy and performance individually, there is a paucity of research that examines the interplay and combined effects of these factors (Hitt *et al.*, 2018; Vaidya *et al.*, 2020). Moreover, it is evident that many studies adopt a somewhat simplistic view of operational synergy, resorting to a one-dimensional perspective, which usually manifests in an overemphasis on the quantitative aspects of synergy, such as cost savings or revenue enhancements. However, this limited approach tends to ignore the intricate, multi-dimensional nature of operational synergy (Kruja, 2020; Shafiq, Johnson, & Klassen, 2022). These aspects are often under-represented in existing studies, leading to an incomplete understanding of the full potential and scope of operational synergy. Additionally, there is a striking lack of longitudinal studies in the current body of research as majority of studies are cross-sectional, providing only a snapshot of the relationship between operational synergy and firm performance at a specific point in time (Lee, Lee & Garrett, 2019; Ombaka & Jagongo, 2018; Septian, & Dharmastuti, 2019). This approach fails to capture the dynamic and evolving nature of this relationship.

This necessitates a more nuanced investigation to unravel the complexities of the relationship and provide organizations with actionable insights for achieving operational excellence. Hence, the aim of this research was to conduct a systematic and comprehensive review of the literature on the relationship between operational synergy and performance. By analyzing and synthesizing the existing studies, this review may identify the key dimensions and mechanisms that drive operational synergy and its subsequent impact on organizational performance. Moreover, the study will address the aforementioned research gaps by exploring the role of leadership, technology integration, and organizational structure in shaping the relationship between operational synergy and performance. The findings of this study will contribute to advancing theoretical understanding, providing practical guidelines for organizations, and guiding future empirical investigations in this domain.

1.2 Objectives of the Study

To determine the theoretical and empirical relationship between operational synergy and firm performance.

1.3 Research Question

What is the theoretical and empirical relationship between operational synergy and firm performance?

1.4 Scope of the Study

The scope of the review encompassed a comprehensive examination of existing theoretical literature and empirical evidence in order to synthesize and consolidate the findings. The study encompassed a wide range of sectors and industries to ensure a broad representation of organizational contexts. It explored various dimensions of operational synergy, including leadership, technology integration, and organizational structure, and their impact on performance. By analyzing empirical studies both local and foreign, theoretical frameworks, and conceptual articles, the study aimed to identify the key factors and mechanisms that contribute to operational synergy and its subsequent effect on financial performance. Furthermore, the research addressed the limitations and gaps in the literature, seeking to provide a holistic understanding of the relationship by exploring the interplay of different factors and their combined effects. Ultimately, the study provides valuable insights for organizations aiming to optimize their operational performance and contribute to the advancement of theoretical knowledge in this field.

1.5 Value of the Review

This review holds significant value in the field of business, finance and management. This literature review explored the intricate link between operational synergy, which refers to the combined effects of coordination and integration within an organization, and its impact on overall performance. By examining existing research and studies, this review provides valuable insights into the importance of operational synergy for achieving optimal organizational outcomes. Firstly, the review sheds light on the existing relationship between operational synergy and performance based on literature. When various operational functions within an organization, such as production, supply chain management, and marketing, are aligned and integrated, it leads to improved efficiency, reduced costs, and enhanced productivity. This understanding is crucial for managers and decision-makers as it emphasizes the need to foster collaboration and integration across different departments to optimize overall performance which this study sought to establish.

To policy, this review is of significant value for policy-making in the business, finance and management realm. Policy decisions play a crucial role in shaping the business environment, and understanding the impact of operational synergy on performance can inform policymakers about the importance of fostering collaboration and integration within organizations. This review thus provides policymakers with evidence-based insights into the outcomes associated with operational synergy, such as improved efficiency, reduced costs, and enhanced productivity. Armed with this knowledge, policymakers may be able to develop policies and regulations that encourage and incentivize organizations to prioritize and invest in operational synergy, ultimately leading to improved overall performance and economic growth.

In addition, this review holds significant value for practitioners in the field of business, finance and management. By reviewing the existing literature both globally and locally, this study offers valuable insights into the factors and mechanisms that contribute to operational synergy and its impact on organizational performance. Practitioners, such as managers and decision-makers, can leverage this knowledge to design and implement strategies that promote collaboration, coordination, and integration across different operational functions within their organizations. The findings of this review offers guide to practitioners in fostering a culture of synergy, optimizing resource allocation, and enhancing overall performance. It provides practical implications and actionable recommendations that can be directly applied in practice to improve operational effectiveness, efficiency, and ultimately achieve organizational goals and success.

This study, as a review of literature holds significant value for finance theory. Finance theory focuses on understanding the factors that impact a firm's financial performance and valuation. Operational synergy plays a crucial role in influencing these financial outcomes. By reviewing existing literature, this review provides a comprehensive overview of the empirical evidence and theoretical frameworks that link operational synergy to financial performance. Moreover, this review contributes to finance theory by highlighting the mechanisms through which operational synergy can enhance revenue growth, profitability, and shareholder value. This review critically examined studies from various sources, including academic journals and industry reports, to gather a wide range of perspectives on the subject. This review identifies consistent patterns and trends in the literature, highlighting the impact of operational synergy on financial outcomes such as revenue growth, profitability, and shareholder value. The inclusion of theoretical frameworks further enhances the understanding of the underlying mechanisms and causal relationships between operational synergy and financial performance. Overall, this comprehensive overview of empirical evidence and theoretical frameworks provides a solid foundation for understanding the significance of operational synergy in driving favorable financial outcomes for organizations.

2.0 Review of Literature

2.1 Theoretical Review

This study was informed by three theories. These include: The Theory of Misvaluation, The Hubris Theory and Stakeholder Theory.

2.1.1 The Theory of Misvaluation

The Theory of Misvaluation posits that market mispricings could impact corporate decisions, implying that financial markets can have both allocative and informational impacts (Baker, Stein, & Wurgler, 2003). The misvaluation of a firm's stocks can influence corporate behaviors such as investments, mergers, or acquisitions, potentially leading to the overvaluation or undervaluation of synergistic activities (Polk & Sapienza, 2009). When managers perceive their firm's stock to be overvalued, they might be more likely to undertake acquisitions, leveraging overpriced shares to create operational synergies and consequently enhancing performance (Rhodes-Kropf, Robinson, & Viswanathan, 2005). The relationship between operational synergy and performance is often positive, as synergies can lead to enhanced operational efficiencies and higher profit margins (Chatterjee, 1986). In the context of mergers and acquisitions, synergies occur when the combined value of the merged entities surpasses the sum of their individual values, leading to an increase in overall performance (Goold & Campbell, 1990). However, in relation to the Theory of Misvaluation, mispriced stocks could lead to an overestimation or underestimation of potential synergies, thereby influencing the actual performance outcomes (Baker et al., 2003). It suggests that the link between operational synergy and performance is not straightforward and could be subject to financial market conditions and managers' perceptions of firm value.

2.1.2 The Hubris Theory

The Hubris Theory, initially proposed by Roll (1986), posits that managers, driven by overconfidence, often make decisions that may not necessarily maximize shareholder value. These executives may overestimate their ability to generate value from strategic decisions like mergers and acquisitions, leading to inflated acquisition premiums and suboptimal performance post-acquisition. They are often blinded by their personal belief in their capacity to create synergy from such decisions, leading to a phenomenon termed "winner's curse," where the acquiring firm overpays for the acquired firm (Roll, 1986). In the context of the relationship between operational synergy and performance, the Hubris Theory provides an insightful perspective. Although achieving operational synergies such as cost reductions, increased market power, or strategic advantage is often a primary goal of mergers and acquisitions, the

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overconfidence underpinning the Hubris Theory can lead to inflated expectations and unrealistic projections. Overconfidence may cause managers to overestimate potential synergies, making it more difficult to realize those benefits in reality (Hayward and Hambrick, 1997). Therefore, understanding the implications of the Hubris Theory is crucial for more accurate forecasting of operational synergies and their impact on firm performance. This managerial over optimism typically results in erroneous decisions which are overpriced (Trautwein 1990). The theory articulates that management has a psychological effect in making mergers and acquisition deals, more especially the purchase price of the firm.

2.1.3 Stakeholder Theory

The stakeholders' Theory was proposed by Freeman (1984). This theory states that a firm should create value for all stakeholders, not just shareholders. Stakeholder theory seeks to know and observe the characteristics of all those involved, establishing a good relationship between stakeholders and developing objectives compatible with them, thus allowing greater cooperation between parties (Windsor & Boatright, 2010). According to Friedman and Miles (2006), Stakeholder theory is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities, and others who have a stake in the organization. The theory argues that a firm should create value forall stakeholders, not just shareholders.

Stakeholder theory explains morals and values in managing organization. Freeman (1984) gives detailed explanation in his book Strategic Management. Stakeholder theory defines some ethical action which has to be taken by organization to give regard to their stakeholders (Stieb, 2009). In ancient time, all the values are given to company's shareholder because they invested in company but today the system has been changed. Today every organization treats other stakeholder of the company as an important part; they give equal value to their stake holders. These stakeholders can be external stakeholders or internal stakeholders (Freeman, 2001). This theory informs the variable of performance. The theory explains the ways that the primary stakeholders can influence the performance of an organization through the customers, suppliers, top management, employees, and shareholders themselves in mergers and acquisitions.

2.2 Theoretical Literature

Operational synergy refers to the concept of achieving higher performance and efficiency through the integration and coordination of various organizational activities. The literature on operational synergy highlights the importance of aligning different functional areas within a firm to maximize overall performance. One prominent study by Mamédio, Rocha, Szczepanik and Kato (2019) examines how operational synergy can be achieved through strategic alliances and interfirm coordination. The study argued that when firms collaborate and pool their resources, they can achieve economies of scale, share knowledge, and complement each other's capabilities, leading to improved firm performance. In addition, a study by Santoro, Thrassou, Bresciani and Del Giudice (2019) explored the concept of dynamic capabilities, which are the firm's abilities to integrate, build, and reconfigure internal and external competencies in response to changing environments. The study emphasized that firms with strong dynamic capabilities can effectively harness operational synergy, adapt to market changes, and outperform competitors. This literature suggests that operational synergy is not merely a result of resource combination but a continuous process of learning and adaptation to maintain competitive advantage.

Moreover, to interfirm coordination and dynamic capabilities, internal factors also play a crucial role in realizing operational synergy and firm performance. One study by Abeysekara, Wang and Kuruppuarachchi (2019) investigates the impact of supply chain integration on firm performance. They find that effective integration of supply chain activities leads to improved operational efficiency, cost reduction, and enhanced overall performance. This literature underscores the importance of seamless coordination both within and outside the firm to fully exploit operational synergy and achieve superior firm performance. These theoretical literature on operational synergy and firm performance emphasizes the significance of integrating different organizational activities, collaborating with external partners, and fostering dynamic capabilities. Mamédio, Rocha, Szczepanik and Kato (2019) stress the benefits of strategic alliances and interfirm coordination, while Santoro, Thrassou, Bresciani and Del Giudice (2019) highlights the importance of dynamic capabilities. Additionally, Abeysekara, Wang and Kuruppuarachchi (2019) shed light on the role of internal supply chain integration. By considering these insights, firms can enhance their operational efficiency and ultimately achieve improved performance in a competitive business landscape.

2.3 Empirical Review

The study reviews several studies which are captured hereunder. Lagat (2022) examined the effect of mergers and acquisitions on the financial performance of petroleum firms in Kenya by adopting a descriptive research design. The study utilised financial ratio and paired t-test. The study found that mergers and acquisitions had insignificant effect on the overall financial performance of petroleum firms in Kenya. However, the study only used the data on mergers and acquisitions in the energy sector to generalize the effect of mergers and acquisitions. The study period also may have structural breaks that were not accounted for since 2008 and 2012 were elections years. Kimetto (2019) analyzed the effect of synergy through mergers and acquisitions on a firm's financial performance in Kenya. The study adopted a case study design with a target population of 590 employees of the bank. The study found that operating synergy had a strong positive and significant association with the financial performance of the bank. The results of the regression analysis indicated that 62.6% of changes in financial performance are explained by operating synergy. However, the study was a case study of only one Merger involving 2 banks which was used to generalize on the effect of the operational synergy of selected commercial banks in Kenya. The study also used primary data through questionnaires to the employees of merging banks. The survey methodology is subject to recall bias, especially on the occurrence of non-fundamental events within a long time frame which would significantly affect the findings. To fill this gap, the current study will consider secondary data of all the merged selected commercial banks in Kenya for the period 2008- 2017 using a panel regression that is quantitative.

Ogada, Achoki Njuguna (2016) in their study assessed the effect of synergy on the financial performance of merged institutions. The study adopted a mixed methodology research design. The study population included all the 51 merged financial service institutions in Kenya. Purposive sampling was used. Primary data was obtained from questionnaires and a secondary data collection template was also used. The researcher used quantitative techniques in analyzing the data. Descriptive analysis for the study included the use of means, frequencies and percentages. Inferential statistics such as correlation analysis was also used. Panel data analysis was also applied. The study indicated that the mergers occurred by replacing ineffective managers in the acquired companies and combining operations. The respondents emphasized

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several key reasons for pursuing these mergers and acquisitions, including gaining a larger market share, obtaining a competitive advantage, increasing revenue, diversifying products and risks, and enhancing shareholder value. The primary and evident motive for engaging in M&A was to achieve synergy effects, which were realized through cost savings achieved from economies of scale and scope. The findings showed a significant relationship between operational synergy, and the financial performance of merged institutions. This suggests that a higher level of synergy tends to enhance profitability. Merger activity resulted in the pooling of human resource talents, shared managerial capacity and efforts, collaborative marketing endeavors, access to shared long-term finance sources, access to shared overdraft finance, improved liquidity through combined cash and cash equivalents, and shared working capital.

Meglio, Risberg, and King (2019) US study found that companies that successfully achieve operational synergy through mergers and acquisitions tend to outperform their competitors in terms of financial performance. They highlighted the importance of effectively integrating operations, systems, and processes to realize synergistic benefits. Another study by Zhang, Xu and Qu (2020) in China examined the relationship between operational synergy and post-merger performance using a sample of manufacturing firms. They found that operational synergy positively influenced the firms' financial performance, particularly in terms of profitability and cost efficiency. The study emphasized the role of effective integration and coordination of resources and capabilities to achieve operational synergy and enhance performance. A study by Shafiq, Johnson and Klassen (2022) asserted that effective integration of operations, systems, processes, and resources plays a crucial role in realizing the synergistic benefits and improving financial performance. However, it is important to note that the specific findings may vary depending on the industry, context, and specific merger or acquisition strategies employed. Based on prior research, operational synergy is considered an important factor in enhancing performance following mergers and acquisitions. Companies that effectively integrate their operations and resources are more likely to experience improved financial performance and gain a competitive advantage.

Brush (2020) sought to predict change in operational synergy and post-acquisition performance of acquired businesses. The study tested the explanation that changes in the opportunity to share resources and activities among businesses of the firm may have contributed to post-acquisition performance improvements in the recent acquisition wave. After estimating the sources of competitive performance that were due to these changes within each of 356 manufacturing industries, the study calculated predictions of changes in competitive performance for each acquired business. The predictions were positive and in turn were positively associated with change in competitive performance. This finding highlighted the importance of resource sharing and activity sharing in these acquisitions, and leads to the reexamination of theories for the second acquisition wave that are supported by the finding of horizontal acquisitions.

In China, He, Ma and Pi (2018) by adopting empirical study explored the mediating role of synergy in the influence of competitive behavior on performance after Chinese enterprises mergers and acquisitions. The study found that the complexity of the national competition strategy had positive impact on enterprise performance, while the regional competition inertia had a significant positive effect on enterprise performance. Based on the findings of the study, operational synergy played a full mediating role in the influence of competition strategy complexity on enterprise performance at the national level. At the same time, operational synergy, sales synergy and financial synergy had complete mediating effect on regional

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competition inertia. Operational synergy had the greatest impact on enterprise performance, reflecting to some extent the resource orientation behind Chinese M&A activities.

Qudaiby and Khan (2013) assessed the relationship between financial synergy in mergers and acquisitions in Saudi Arabia. Based on three detailed and in depth structured interviews with major Saudi Arabian banks it had been found that, Mergers motivated by economies of scale should be approached cautiously. Companies should also approach vertical mergers cautiously because it is often difficult to gain synergy through a vertical merger and firms should also seek out mergers which allow the firm to acquire specialized knowledge. It has also been found that the firms should look for mergers that increase market power and avoid unrelated or conglomerate mergers. The study indicated that some firms tried to gain synergy through a conglomerate merger with an unrelated company. Synergies was gained through a lower cost of capital or through greater income stability. For example, a company with a low cost of capital can acquire another firm that was unable to pursue certain opportunities and projects because its cost of capital was too high, resulting in a negative NPV. With a lower cost of capital the acquired firm can then pursue the additional opportunities. Table 1 shows summary of empirical literature and research gaps.

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Table 1: Summary of Empirical Literature and Research Gaps

Author & Year	Objective/Focus	Key Findings	Research Gaps	How the study Addressed the Gaps
Lagat (2022)	To examine the effect of mergers and acquisitions on the financial performance of petroleum firms in Kenya.	The study found that mergers and acquisitions had insignificant effect on the overall financial performance of petroleum firms in Kenya	-The study focused on examining the effect of mergers and acquisitions on financial performance in the context of petroleum firms, hence both conceptual and contextual gaps. - The study collected secondary data in which financial ratio and paired t-test were used, hence methodological gap is identified.	-The current study focuses on examining the theoretical and empirical relationship between operational synergy and firm performance in general. -This study employed a systematic methodology to explore the existing research and knowledge in the field.
Kimetto (2019)	To analyze the effect of synergy through mergers and acquisitions on a firm's financial performance in Kenya.	The study found that operating synergy had a strong positive and significant association with the financial performance of the bank.	-The study studied synergy through mergers and acquisitions in general and was conducted in the banking sector in Kenya, hence both conceptual and contextual gaps. - The study adopted a case study design and used primary data in which 590 employees of the bank were targeted. The collected data was analyses statistically to draw conclusions.	-The current study focuses specifically on operating synergy and is not particular to any sector or country. In terms of methodology, the current study adopted systematic methodology to explore the existing research and knowledge in the field from which conclusions are drawn.
Meglio, Risberg, and King (2019)	To assess the influence of operational synergy through mergers and acquisitions on financial performance of companies in United States.	The study found that companies that successfully achieve operational synergy through mergers and acquisitions tend to outperform their competitors in terms of financial performance.	-The study was carried out in the context of companies in the United States, hence contextual gap. -The study used secondary data which was analyzed using various statistical techniques.	-The current study evaluates operational synergy and its relationship with firm performance in general without focusing on any particular sector or country. -The current study was literature based, in which desk top review methodology was used to draw conclusions.
Zhang, Xu and Qu (2020).	To examine the relationship between operational synergy and post-merger performance using a sample of manufacturing firms.	Study found that operational synergy positively influenced the firms' financial performance, particularly in terms of profitability and cost efficiency.	-The study was conducted in Chana's context and focused on manufacturing firms, hence contextual gap. -The study was inclined on operational synergy and its influence on post-merger performance, hence conceptual gap. -The study collected primary data which was analyzed using statistical techniques to draw conclusion.	-The current study focuses on operational synergy and its influence on firm performance in general without focusing on any sector. -The current study used firm performance in general. -The current study was literature based adopting desk top review methodology.
Qudaiby and Khan (2013)	To assess the relationship between financial synergy in mergers and acquisitions in Saudi Arabia.	The study found that, some firms tried to gain synergy through a conglomerate merger with an unrelated company, and synergies was gained through a lower cost of capital or through greater income stability.	-The study was conducted in Saudi Arabian context, hence contextual gap. -the study used financial synergy as the independent variable, hence conceptual gap. -The study collected secondary data over a period of 10 years, hence methodological gap.	-The current study did not focus on any particular country nor context. -The current study used operational synergy as independent variable. -the current study was a literature based in which desk top review was used.

Source: review of empirical literature, 2023

3.0 Methodology

This review employed a systematic methodology to explore the existing research and knowledge in the field. The review adopted a positivist research philosophy, with the aim of objectively examining the relationship between operational synergy and performance through an evidence-based approach. The review analyzed and synthesized existing literature to draw meaningful conclusions and identify knowledge gaps. The review utilized a desktop review design, which involved conducting an extensive literature search using various academic databases and reputable sources. The researchers employed specific search terms related to operational synergy and performance to identify relevant articles, books, reports, and other scholarly materials. The inclusion criteria were established to ensure the selected literature focused on the specific relationship of interest. The review process involved carefully screening and assessing the identified studies for their relevance, quality, and contribution to the research question. Through this systematic approach, the study aimed to provide a comprehensive and critical overview of the existing literature on operational synergy and performance, highlighting key findings and identifying avenues for further research.

4.0 Findings and Discussion

The relationship between operational synergy and firm performance has been extensively explored in the theoretical literature, with numerous studies highlighting the positive impact of achieving operational synergy on overall firm performance. Scholars have emphasized that operational synergy can be achieved through strategic alliances, interfirm coordination, and effective integration of supply chain activities. A number of studies propose that when firms collaborate and pool their resources, they can achieve economies of scale, share knowledge, and complement each other's capabilities, resulting in improved firm performance. Additionally literature show that firms with strong dynamic capabilities are able to effectively harness operational synergy, enabling them to adapt to changing market conditions and outperform competitors. The theoretical literature highlights the importance of achieving operational synergy through collaboration, dynamic capabilities, and internal integration, all of which significantly influence firm performance and contribute to sustaining a competitive advantage in the business environment (Mamédio *et al.*, 2019; Abeysekara *et al.*, 2019; Kimetto, 2019; Ogada *et al.*, 2016).

In international contexts, Meglio, Risberg, and King (2019) conducted a study in the United States and found that companies achieving operational synergy through M&A tend to outperform their competitors financially. Similarly, Zhang, Xu, and Qu (2020) examined manufacturing firms in China and found that operational synergy positively influenced financial performance, particularly in terms of profitability and cost efficiency. Effective integration and coordination of resources and capabilities were emphasized in both studies. These empirical studies indicate that operational synergy plays a crucial role in enhancing financial performance following mergers and acquisitions. Companies that effectively integrate operations, systems, processes, and resources are more likely to achieve synergy effects, leading to improved performance (Meglio *et al.,* 2019). However, the specific findings may vary depending on the industry, context, and the strategies employed in the M&A activities. It is also important to consider the limitations of each study, such as sample selection, data collection methods, and potential biases.

Several empirical studies have examined the relationship between mergers and acquisitions (M&A) and financial performance in various contexts. In Kenya, Lagat (2022) found that mergers and acquisitions had an insignificant effect on the overall financial performance of petroleum firms. However, the study had limitations, such as using data only from the energy sector and not accounting for potential structural breaks during election years. On the other hand, Kimetto (2019) focused on a case study of a merger between two banks in Kenya and found a strong positive association between operating synergy and the financial performance of the bank. The study used primary data through questionnaires, which may be subject to recall bias. Another study by Ogada, Achoki Njuguna (2016) found a significant relationship between operational synergy and financial performance. The study highlighted the importance of achieving synergy effects through cost savings and other benefits. However, the study used purposive sampling and relied on primary data, which may have limitations.

This review has found that most of the reviewed studies indicated positive correlation between operational synergy and organizational performance across various industries (Zhang et al., 2020). Based on literature, operational synergy, characterized by effective coordination, collaboration, and integration of different operational functions within an organization, was found to enhance overall efficiency, productivity, and competitiveness (Brush, 2020). Additionally, the review documents that organizations that actively pursued operational synergy strategies exhibited improved financial performance, cost reduction, streamlined processes, and higher customer satisfaction. These findings highlight the significance of operational synergy as a critical determinant of organizational success and emphasize the need for businesses to prioritize and invest in strategies that foster operational synergy (He, Ma & Pi, 2018; Qudaiby & Khan, 2013).

5.0 Conclusion

In conclusion, the comprehensive review of literature on the relationship between operational synergy and performance demonstrates a consistent and robust positive correlation across various industries and international contexts. The studies highlighted the importance of achieving operational synergy through effective coordination, collaboration, and integration of different operational functions within an organization. Companies that successfully achieved operational synergy, particularly through mergers and acquisitions, tended to outperform their competitors financially, with improved profitability, cost efficiency, and overall financial performance. The findings underscore the significance of prioritizing and investing in strategies that foster operational synergy, as it enhances efficiency, productivity, competitiveness, and customer satisfaction. It is important to acknowledge the potential variations in findings based on industry, context, and specific M&A strategies employed. Furthermore, the limitations of the reviewed studies, such as sample selection, data collection methods, and biases, should be considered when interpreting the results. Nonetheless, the collective evidence strongly supports the notion that operational synergy is a critical determinant of organizational success and performance.

Additionally, it is evident that there was a need for further research to address these limitations and contribute to the understanding of the relationship between mergers and acquisitions (M&A) and financial performance as informed by the research gaps identified. The existing studies have primarily focused on specific contexts (e.g., petroleum firms in Kenya, banking sector in Kenya, companies in the United States, and manufacturing firms in China) and have examined different types of synergies (operational synergy, financial synergy) as independent variables. These contextual and conceptual gaps make it challenging to draw broader conclusions and generalize the findings to a wider range of industries and countries. To address these gaps, the current study conducted a comprehensive examination of the relationship between M&A and firm performance, focusing on both operational and financial synergy, in a more generalized manner.

By using a systematic methodology to explore the existing research and knowledge in the field, the study provides a comprehensive review of the literature on M&A and firm performance, identifying key patterns and trends. This study therefore provides valuable insights that are applicable across industries and regions, benefiting both academics and practitioners in the field of corporate finance and strategy.

6.0 Recommendations

In view of the review findings, this study recommends that policymakers should recognize the importance of operational synergy in driving organizational performance and consider incorporating it into their policy frameworks. This can be achieved by promoting knowledge-sharing platforms, fostering collaborations, and providing incentives for organizations to pursue operational synergy strategies. Additionally, governments should facilitate the exchange of best practices and knowledge between industries to encourage the adoption of effective operational synergy approaches. Additionally, policymakers should create a supportive regulatory environment that encourages mergers and acquisitions aimed at achieving operational synergy, while also monitoring potential anti-competitive behavior.

In terms of theory, the findings of the review underscore the need for further theoretical development to better understand the mechanisms through which operational synergy influences performance. The study recommends that future research should focus on identifying the specific drivers and mediators of the operational synergy-performance relationship. Theoretical models can be developed to explore the contingencies and contextual factors that influence the effectiveness of operational synergy strategies across different industries and regions. Moreover, incorporating dynamic capabilities perspectives into the theoretical framework can provide insights into how organizations can continuously adapt and leverage operational synergy to sustain their competitive advantage in a rapidly changing business environment.

Finally, to practice this study recommends that organizations should prioritize the development and implementation of strategies that foster operational synergy such as promoting a culture of collaboration, communication, and integration across different operational functions. Emphasizing effective change management during mergers and acquisitions is crucial to ensure a smooth integration of processes, systems, and resources. Furthermore, organizations should invest in technological solutions and platforms that facilitate information sharing, coordination, and collaboration among teams and departments. Moreover, regular performance monitoring and evaluation can help organizations identify areas for improvement and optimize operational synergy efforts. Finally, it is important for organizations to create a supportive and inclusive work environment that encourages cross-functional collaboration, knowledge exchange, and innovation, thereby maximizing the potential benefits of operational synergy.

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