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Original Abstract

In November 1987, the Ashridge Strategic Management Centre was established, with the mission of carrying out research focused on corporate-level strategy and the management of multi-business companies. In November 1997, we ran a major conference to review what we had learned during the last decade. Since Brief Case has reported piecemeal on a variety of the research initiatives that we have carried out during this time, we felt that it would be appropriate to publish the background paper that we prepared for the conference, which gives a brief overview of the main propositions that we believe we have established. We would very much welcome comments on these propositions: Which do you agree or disagree with? Which are most or least important? What areas merit further research and investigation?

This article was written initially as input to a conference on Corporate Level Strategy held at Ashridge Business School in 1997 to celebrate the first 10 years of work by the Ashridge Strategic Management Centre. The objective of the article was to summarize what had been learnt about Corporate Level Strategy over the previous 10 years. It was in 1987 that the Ashridge Strategic Management Centre was founded, and it was also in 1987 that the book “Strategies and Styles” was published (Goold and Campbell, 1987a, 1987b).

Strategies and Styles and related articles in the Strategic Management Journal, Long Range Planning and Harvard Business Review explored the management of multi-business companies (Goold and Campbell, 1987a, 1987b, 1988a, 1988b; Goold et al., 1993a, 1993b; Goold and Quinn, 1990). The main contribution was to identify three different styles of “strategic management” used by these multi-business companies — Strategic Planning (close involvement in developing business-level strategies), Strategic Control (controlling businesses with both strategic and financial objectives) and Financial Control (driving businesses to deliver financial performance).

Each style appeared to be successful but with respect to different kinds of businesses. Businesses that involved big decisions that would not pay off for many years, like oil, appeared to be best “parented” with a Strategic Planning style. Businesses, like rubber beltng, where pay-offs were short term and where the behavior of managers had more influence on performance than technology investments, appeared to be best “parented” with a Financial Control style. In other words, the best multi-business companies seemed to have a fit between the nature of their businesses and the “style” with which they were run. The fit was important because it enabled the parent organization to have a positive influence on business decisions.

This idea of fit between parenting approach and type of business was somewhat at odds with the prevailing thinking based around the ideas of portfolio management (Goold and Luchs, 1993). Portfolio management and its talisman the BCG Matrix encouraged companies to invest in a range of businesses so as to have good profitability, good cash flows and good investment
opportunities. Portfolio management thinkers recognized that different businesses needed to be “parented” in different ways (“cash cows” should be milked and “question marks” should be nurtured), but there was no suggestion that it might be necessary to have different parent companies for these different kinds of businesses. However, the idea of fit between parenting approach and type of business was not entirely new. CK Prahalad and Richard Bettis had proposed the concept of “Dominant Logic” to explain the differences between companies that they observed in their research (Prahalad and Bettis, 1986).

Michael Goold, Andrew Campbell and Marcus Alexander, all directors of the Ashridge Strategic Management Centre, decided therefore to launch a major global project to identify successful multi-business companies and assess whether and how they were adding value to their portfolios of businesses. This work was published in 1995 as a book “Corporate Level Strategy” and as a number of articles (Goold et al., 1995; Goold, 1996a, 1996b; Campbell, 1992; Campbell et al., 1995a, 1995b; Campbell, 1994, 1995, 1996).

The conference celebrating 10 years of studying multi-business companies was held two years later and provided an opportunity to reflect on the main learnings.

The nine propositions

The article was written in the form of nine propositions. Reading it twenty years later it is clear that the propositions were not brilliantly expressed. But the ideas that lie behind them are as relevant today as they were in 1997.

The first two propositions were about added value. “To justify its existence, the corporate parent must influence the businesses collectively to perform better than they would as stand-alone entities” and “The objective of corporate strategy should be to add more value to the businesses in the portfolio than other parent organizations would”.

These two thoughts were significant additions to and confirmations of the evolving thinking about multi-business companies. The parent organization was becoming recognized as being a middleman in an economic system. As a middleman it needed to justify its existence. In the previous 10 years, some large companies had chosen to break-up because managers thought that the center was no longer adding value. Others sold divisions because they recognized that rivals could do more with these divisions than they could. So there was evidence that added value was important. But the strength of these propositions comes from the fact that, like the concept of Competitive Advantage, they are built on a tautology: you can only outperform others if you have an advantage! The insight was that parent organizations are competing with each other for the right to own businesses. To win the competition they need to have “Parenting Advantage” (Goold and Campbell, 1991; Campbell et al., 1995a, 1995b).

While the latest ideas on corporate strategy have blended parenting added value and portfolio management ideas (Campbell et al., 2014). These first two propositions still hold center stage in the theory and teaching of corporate level strategy.

The third proposition — “All multi-business companies have inherent and pervasive tendencies to destroy value” — is a remarkably strong statement. It derives from the original “Strategies and Styles” research where decisions were typically significantly better or significantly worse as a result of the influence of the “parent”, even in situations where the parent was trying to be neutral. It also derives from the extensive fieldwork by the authors, where they were frequently confronted by situations where the net added value of the parent company was negative.

The importance of this proposition is its insistence that subtracted value be given equal billing with added value when thinking about corporate portfolio decisions and corporate organization design. It is as important to avoid doing harm as to add value.

This proposition has not been tested, although research carried out by the consultants BCG reinforces its relevance (Kruehler et al., 2012). Moreover, the true importance of this proposition is still to be mined out. In theory and in teaching it probably still has too little prominence. And, although managers recognize the problem, they typically do not put in place many defenses (Campbell and Szulanski, 2015).

The fourth proposition — “The importance of lateral synergies in creating value in multi-business companies has been systematically overrated” — is also a strong statement. It was positioned in this form because much of the received wisdom in management, academia and consulting positioned “synergy” as the logic for the multi-business company.

This proposition alerted people to the fact that most of the value in diversified companies like GE or Hanson Trust came from influence by the parent onto the business divisions and did not depend on synergies. With the benefit of hindsight, this statement now appears to be too strong. Since the early 1990s most multi-business companies have become more focused rather than more diverse. This focus has enabled companies to drive more synergies. Oil companies have been buying oil companies, and pharma companies have been buying pharma companies. The integration synergies have been huge. A more nuanced version of this proposition could be “Lateral synergies rarely provide a justification for diversification”.

The fifth proposition is about how companies can best add value to the businesses they own. “Corporate parents should focus their efforts on building special competences that fit the particular opportunities (to add value) they are targeting.” It links to the next proposition “Corporate centers, functions and processes designed to achieve general best practice lack sufficient focus to achieve outstanding results”. Like the fourth proposition, this attack on best practice was positioned in contrast to the received wisdom in management and consulting that companies should be chasing best practice. The article pointed out that the objective should be different: something like “appropriate” practice or “unique” practice. The job of being a good corporate parent is not about copying what the best do. This will never make it possible to outbid rivals for an acquisition and still come
out ahead. The objective should be to find some unique opportunity to add value and focus on that both in the design of the parent organization and in the selection of the business portfolio. In other words, you cannot create a Parenting Advantage by aping best practice.

Recent work on corporate functions by St Gallen and Ashridge has reinforced the importance of focus and the dangers of searching for best practice. This work also explored the evolution of corporate parents from an early stage where focus is crucial through a maturing stage where the search for best practice can distract managers in the parent from the specific needs of the business and start a process of institutionalizing the parent organization (Kunisch et al., 2014).

The seventh proposition also links to the fifth and sixth: "To avoid excessive diversity, corporate parents should build their portfolios around businesses with similarities in terms of parenting needs and opportunities." If the parent organization is to focus on some "particular opportunities" to add value, it better build a portfolio of businesses that will benefit from the special medicine it is offering. Previous theory encouraged managers to build portfolios around synergies. But, as the fourth proposition points out, a focus on synergies makes diversification hard. This proposition makes diversification possible, so long as the new businesses will benefit from the same medicine as the existing ones. A focused portfolio is, under this proposition, not businesses with similar SIC codes or businesses selling to the same customers or businesses using the same technology, but businesses that need the same kind of help from their shared parent organization.

While there has been little further research around this seventh proposition, it has been fully vindicated by management practice. The rise of the private equity and the venture capital industries are both examples of parent organizations focusing on businesses “with similarities in terms of parenting needs”. In the traditional corporate form, companies like Danaher, Apple, P&G and 3M have demonstrated the power of this approach. In contrast, companies that have pursued a different theory of diversification, like Intel, Microsoft and Google, have had few, if any successes, despite huge investments. And GE, the last bastion of old fashioned diversification, has gradually focused its portfolio onto a subset of businesses that Immelt, GE’s CEO describes as the "GE Store" because they share customers and other "parenting needs" (Carey and Krauskopf, 2015; Immelt, 2015).

The last two propositions are about organization — “Many corporate parents are over ambitious about the speed with which they can build new skills....” and “Business unit boundaries and corporate reporting structures have a profound impact .....” In the intervening years, a great deal of research has been done on organization, largely confirming both of these propositions (Goold and Campbell, 2002; Galbraith, 2000, 2002, 2009). But more work is needed, particularly on the topic of how established companies can build the new skills needed at the corporate-level to enable them to successfully enter new businesses.

Overall reflections

It has been interesting to revisit these propositions. They are not well written as academic statements that can be tested with research. They are not elegantly phrased, probably reflecting the job that they were designed to do — stimulate debate at a major conference. But they have stood the test of time: the topics selected and the opinions shared are just as relevant and appropriate twenty years on.

What does this tell us? That the work done between 1987 and 1997 made a significant contribution to the theory and practice of corporate-level strategy .... and that progress in the last twenty years has been slow. The current interest in the topic, demonstrated by the Strategic Management Society’s special conference in St Gallen, will hopefully accelerate interest and new ideas.

One place where new ideas may come from is International Strategy. The challenges of a multi-country strategy are a little different in concept from those of a multi-business strategy. There is more potential for synergy in a multi-country strategy. But many of the other issues are identical. If, in the next ten years, the ideas from these two fields are brought together, it is likely that both will benefit and new advances will be made (Collis, 2014; Campbell et al., 2014).

References