Dimensions of Corporate Strategy: Framing the real issues

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Abstract:
The aim of this paper is to provide support for strategists when they conceptualize on corporate strategy. This issue-based paper introduces a categorization of corporate strategy issues such as diversification, relatedness, responsibilities, responsiveness and synergy. This is enlightened by incorporating relevant academic literature, as well as by illustrations from practice. The corporate strategy issues as defined are then reconsidered through the lenses of the portfolio school and the synergy school.

Introduction

Corporate strategy continuously appears high on the boardroom agenda. Virgin is a well-known example of the conglomerate dealing with diversification. The corporation's notorious expansion drive has earned the company the self-chosen label 'venture-capital business with a brand name'. Richard Branson has always been condemned – his 'balloon' has been predicted to burst. The Philips Corporation appears to deal with a different corporate strategy issue constantly, where minds are changing 180 degrees every time a new CEO surfaces. In the early nineties, Cor Boonstra, called Philips a 'plate of spaghetti' when he started out as CEO, and suggested to align Philips according to a 'plate of asparagus', separating and divesting divisions. His successor Gerard Kleisterlee, announced the 'Towards One Philips' program, now linking businesses again. And the Ford Corporation recently threw overboard its platform standardization efforts. Ford's Jaguar sales plunged when European customers found out that their Jag X's were actually American Ford Mondeo's with just a different body and engine. The matters that Virgin, Philips and Ford are handling are examples of corporate strategy issues that every strategist will have to deal with some time or another. What are the issues in corporate strategy, and how can the strategist deal with them?

Viewing the literature on corporate strategy will make him wiser but sadder. Wiser, because he will find answers to this question. Sadder, because it will take a lot to get them. First, he will be confronted with a tremendous amount of literature, where he will have to look for those authors that address the issue he is dealing with - the field of corporate strategy has been just as diversified as the companies it studies. Now let's say the manager figures out that the concerns in his corporation have to deal with the control of the business units. Then he will realize that this cannot be separated from, for instance, the responsibilities that these units are supposed to take on, the relatedness between the industries they operate in, and the synergies desired. But to learn about these parallel issues, the strategist will find out that few authors appear to adopt a 'multi-issue' approach. Publications that review corporate strategy generally start from theory, and if they are based on issues they only handle a couple of them, but never all (e.g. Ramanujam and Varadarajan 1989; Campbell and Faulkner 2003, Grant 2002, Markides 2002, Whittington 2002, De Wit and Meyer 2004). Most publications are 'tools-based', instead of 'problem-based' (De Wit and Meyer, 2004).

Advancing further in his quest for answers, the strategist discovers that the tensions in his corporation have to do with the functional differences, but also with the international differences between businesses. He will find out that the field of international strategy has developed largely independent of corporate strategy, even though international operations can be analyzed with the same framework as corporate level strategies (Campbell and Faulkner, 2003). Furthermore, thinking has been based on two schools of thought that have followed

one another in history: portfolio thinking and synergy thinking. As both these premises seem viable, the strategist will find himself even more lost between the stacks of books and papers he has gathered in the process. Ergo, after 30 years of abundant research, the field of corporate strategy is not mature yet (Caldart and Ricart, 2004).

Keats (1990), on diversification, emphasizes a ‘quest for a rich conceptualization that can incorporate consideration of managerial issues and treatment of various forms as potential solutions to a multivariate set of problems’. This paper is an attempt to help the strategist to deal with corporate strategy issues, by providing a framework that categorizes these issues, filling it in with the relevant literature and aligning the two divergent perspectives with these dimensions. First, the issues are categorized with a short case on Nestlé. Then these are explained through an assessment of both the corporate and international strategy literature, as this would give a ‘boost to the topic’ (Campbell and Faulkner, 2003). This will be enlightened by various examples from practice. The handling of each issue will generally follow the same format: after the concept is defined, the historical development will be handled, concluded with the means or characteristics for dealing with the issue. If an adoptable characterization exists, it will be given. Otherwise, a categorization is made based on the literature. An assessment is then made on how the two corporate strategy perspectives will address all issues.

NESTLÉ: SKIMMING THE MILK

Imagine coming home from the gym, chewing an energizing protein PowerBar while you open the fridge to have a large gulp of Perrier mineral water. You catch your youngest with a mouthful of a chunky KitKat, making you remember you have not fed the cat the entire day. While you open up a can of Friskies Ocean Whitefish, you wonder what to make for dinner tonight. An hour later, when you have served a Maggi tomato soup, followed by fresh Buitoni ravioli, your eldest daughter nags on and on about her glasses and how much she wants to switch to Alcon contacts. Thinking of the pressure of household life, you revive yourself with a cup of strong Nescafe. Congratulations: you are probably Nestlé’s dream customer, throwing a large part of the Swiss company’s prime brands in your supermarket-shopping cart.

The Nestlé Corporation is one of the largest fast moving consumer goods companies in the world, employing 230,000 people in 85 countries. Starting out as a baby-milk producer in the late 19th century, it grew steadily around the globe as a food company. It branched out into cosmetics by taking a stake in L’Oreal and added eye-care company Alcon to the portfolio in the seventies. The company then made a short diversion into the hotel and restaurant industry, but these businesses have since been divested.

Nestlé sells an impressive 8,000 brands of consumer goods, headed by a corporate office that is situated around a medieval castle in the mountain village of Vevey. Traditionally,

the village has been a bastion of tranquility – a place for managers to unwind at the end of their career. Yet, lately, the castle halls have been buzzing with activity. Nestlé was confronted with disappointing results and a new board of directors, led by the relative young CEO, Peter Brabeck, put a large part of the blame on the company's corporate strategy. There was no corporate glue holding the conglomerate's parts together. As stated by CFO Wolfgang Reichenberger: "People had become kings in their kingdom".

Decentralization has always been one of the pillars of Nestlé's way of doing business. When Brabeck took over as CEO from Herman Mauer in the late nineties, the two managers put together a manifesto outlining two sacrosanct corporate values: do not become ruled by information technology and disperse tasks throughout the entire corporation to focus on people, products and brands. As Brabeck told *Harvard Business Review*: "A good candy bar in Brazil is not the same as a good candy bar in China. Decision making needs to be pushed down as low as possible in the organization, out close to the markets". Consistently, it was obvious to decentralize management in such an extensive conglomerate, with a substantial range of products sold in a large variety of markets. So, every unit was given a free hand in everything from purchasing to human resource management, from IT systems to pricing and from distribution to accounting. Executives at corporate headquarters were only allowed to allocate financial resources and to think about new acquisitions. Yet, as a Business Week journalist observed, "from an efficiency standpoint, it was a disaster".

Recently, however, Brabeck has changed his mind. In his words, "decentralization has its limits". Indeed so – employees asked why there are 50 different codes for one bag of sugar and why the company is paying 20 different prices for vanilla to one U.S. supplier. One Swiss bank analyst commented that Nestlé "was basically a holding company, with hundreds of companies reporting in". Lagging behind all of its main competitors in operating margin, the company had to be streamlined and restructured. Nestlé refocused around its six core brands (Nestlé, Nescafe, Nestea, Maggi, Buitoni and Friskies), which together contribute about 70% of the group's sales. Several businesses, such as roast coffee, cheese and frozen potatoes, were divested and there are rumors that Alcon is to be sold. Nestlé is now more integrated around 'food, nutrition, health and wellness', leveraging the same message of Swiss reliability around the world.

Behind the scenes, restructuring has taken place throughout the entire corporate structure. Headquarters has stepped in and has taken control. The old anti-IT mantra has been thrown overboard by installing a group-wide resource planning system on one single platform, 'Globe'. Administration standards, through Project FitNes, have been set across all business units. For instance, sugar now has one code throughout Nestlé and vanilla buyers pay a single price. Sharing of resources is encouraged by top management. For example, R&D has been grouped into several key centers. The head office has also taken up some functions itself. Quality and safety control is in the hands of 30 people in Vevey, who watch over all 511 factories. Coffee and cocoa purchasing is pooled into five corporate-led regional

centers. As Brabeck summarized, "everything that can be centralized, will be centralized…the company is getting fitter and fitter everyday ".

Yet, Peter Brabeck and his board have not stepped off the acquisition path at all. Quite the contrary, "when you stop growing, you start dying", he told the *Economist* recently. Close to the consumer, in product pricing, branding and adaptation, decentralization is still the guiding principle. Even though the six main brands are tremendously important, Nestlé still has 8,000 local gems. Brabeck believes that sales growth across a wide variety of markets can go hand in hand with efficiency in resource usage and improving performance. "We want to try out a new paradigm", according to Brabeck. And it seems to be working: Nestlé is again outperforming its competitors. But a new paradigm? Many autonomous units and still a high level of efficient cooperation – that sounds just as much like the cantons in Switzerland, as it does like Nestlé.

Sources: 'The Business Case Against Revolution, An Interview with Nestlé's Peter Brabeck', *Harvard Business Review,* February 2001, *Business Week,* October 27th 2003, *The Economist*, August 5th 2004, Nestlé Annual Report 2003

Issues of Corporate Strategy

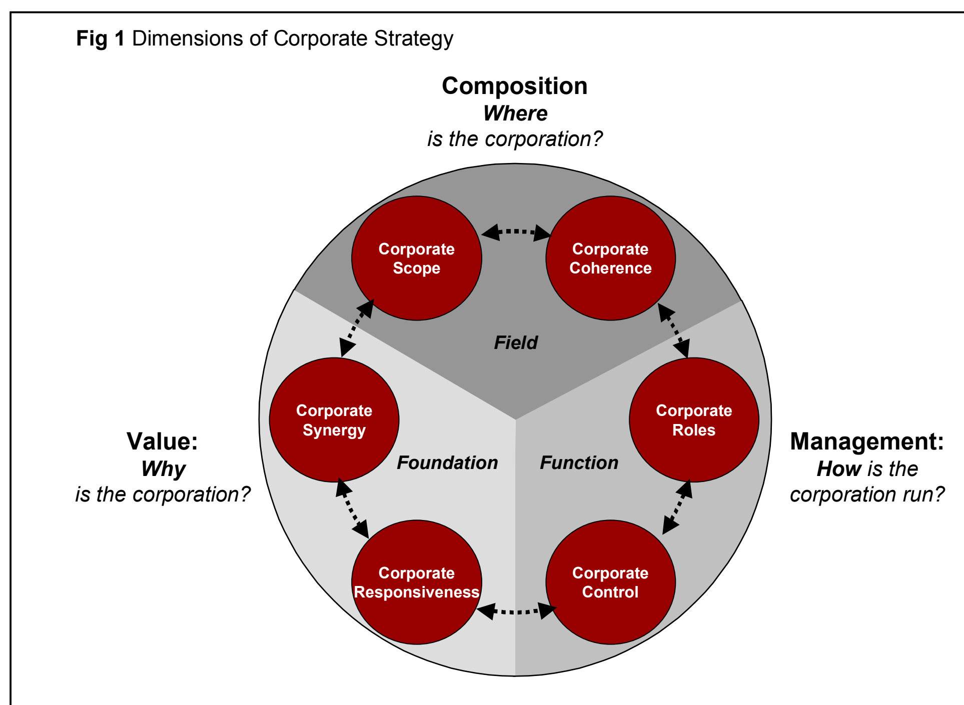
In this paper, it is argued that the corporate strategy issues that managers have to deal with can be clustered around three dimensions: composition, management and value. These dimensions and the issues that constitute them are outlined in figure 1. Dealing with a corporate strategy issue means dealing with all of these elements:

- ***Corporate Composition***. Corporate composition deals with the range of businesses the corporation is active in. Within this dimension, questions that will be posed in the boardroom could include "how many functional and product areas is our corporation active in?" and "should we diversify into related or unrelated industries?". Nestlé's answers to these are reflected in its growth and acquisition path, around 'food, nutrition, health and wellness'. The first question reflects the issue of *corporate scope*: the level of diversification of businesses. The second question handles the issue of *corporate coherence*: the level of relatedness between businesses. In this paper, composition is also referred to as the 'Field' of the corporation. In other words, *where* is the corporation?
- ***Corporate Management.*** Corporate management deals with the division of labor throughout the corporation and the mechanisms that are employed to carry out corporate strategy. Questions that managers will ask themselves in this respect could be "what are the roles of the headquarter?" or, of the corporation, "what tasks do the business units have?". This comes forward in the issue of *corporate responsibilities,* or the level of headquarters authority. Taking these responsibilities into account, the corporate strategist

will also want to know the answer on "what are the mechanisms that we can employ to align business goals with the corporate goal?". The latter is central in the issue of *corporate practice.* Nestlé's corporate center has restructured its organization recently, increasing its authority with the business units, also emphasizing own initiative, while it has also increased HQ control. In this paper, this dimension is also referred to as the 'Functions' in the corporation. In other words, *how* is the corporation run?

- ***Corporate Value***. Corporate value deals with the 'Foundation' of corporate strategy. Is the corporation's strategy based on having as much flexibility and market focus for each business unit? Or is it based on achieving as many synergies as possible throughout the organization? The first question deals with the issue of *corporate responsiveness*, or the level of effectiveness, while the second question deals with the issue of *corporate synergy*, or the level of linkage. Nestlé has gone though a change in these perspectives as well – at first, it emphasized responsiveness of its business units to a large extent. Now, it seems to move more towards establishing linkages between divisions. The overall question to answer in this dimension is obvious, *why* is the corporation?

Fig 1 Dimensions of Corporate Strategy



Composition: The Field of the Corporation

According to Grant (2002), issues relating to 'domain selection', that is 'where does the firm compete', affect all decisions that define the firm's corporate strategy. In research, Balabanis (2001) argues that diversification is in fact one of the most dominant concepts in the entire strategic management literature, while Ramanujam and Varadarajan (1989) name it a

‘mainstay of strategic management research’. In this dimension of corporate strategy, management thinking is gathered around tow key areas: *corporate scope*, or the level of diversification, and *corporate coherence*, or the level of relatedness between business units. In these issues, Nestlé did not only diversify into other markets in the food industry, but also into the eye-care, cosmetics and hotel and restaurant industry. The latter was clearly not related to the others, resulting in the sale of these businesses.

Corporate Scope

Even though diversification appears to be one of the key concepts in the strategic management literature, a single established description is not at hand. There is a multitude of definitions of diversification, developed by both academics and practitioners (Balabanis, 2001). Initially, it was referred to as the development of a firm in markets or industries beyond the boundaries of where it originally belongs (Gort, 1962; Berry, 1975; Barabanis, 2001). After a review of definitions, Ramanujam and Varadarajan (1989) portray the concept as ‘the entry of a firm or business unit into new lines of activity, either by process of internal business development or acquisition, which entails changes on its administrative structure, systems, and other management processes’. What all conceptualizations have in common is that diversification at the least entails entering new lines of businesses. It can be executed by internal development or by acquisition. Richard Branson, founder and CEO of Virgin, is well-known for his opportunistic strategic decision making in his move into new markets: after he started in the record sales industry, over the years he branched out into music production, found various flight companies, opened up bridal shops, started a mobile phone network, bought radio stations, produced soda drinks, launched car dealerships and diversified into many other businesses as well.

The large diversified corporation has risen as the dominant actor in post-war US and European industry (Rumelt, 1974; Whittington and Mayer, 1999). Large American conglomerates such as ITT and Textron in the US and Hanson in the UK (Grant, 2002) emerged at the forefront of a growing economy during the 1950s and 1960s. This movement involved extensive scope across a wide variety of industries (Goold and Luchs, 2002), capitalizing and extending developed know-how (Andrews, 1951) while maintaining a steady cash flow along businesses (Williams et al., 1988) and increasing market power through economies of scope (Williamson, 1970). Around four-fifth of US firms and two-third of European firms were active in multiple divisions during those years (Rumelt, 1974; Whittington and Mayer, 1999). Fuelling the engine of diversification were the strategy consultants and authors, developing portfolio models to help the conglomerates allocate this cash flow: the well-known BCG matrix, the McKinsey / GE business screen and the ADL life-cycle approach. However, the highly diversified firms encountered a vast decline in

earnings towards the 70s, in what the General Electric corporation later called 'profitless growth' (Goold and Luchs, 2002). Hence, in the next decade, firm boards started to rethink their gluttonous diversification strategies. The main task of the corporate strategist became the rational identification of businesses in which their firm would compete (Andrews, 1980).

The real turn of the tide came in the early 1980s, when corporate break-ups, divisional sell-offs and leveraged buy-outs were common across multi-divisional firms (Jensen, 1989; Goold and Luchs, 2002). Reducing diversified scope, labeled 'downscoping' by Hoskisson and Hitt (1994), became widespread throughout the decade (Horowitz and Halliday, 1984; Williams et al., 1988). For instance, corporate idol Jack Welch restructured GE very seriously between 1981 and 1989, rigorously divesting businesses in his famous 'crash and burn' style. He was not alone in his focus: the downscoping trend continued almost until the end of the century, with corporations reducing product scope as well as vertical scope through outsourcing (Grant, 2002). Yet, conglomerates still accounted for one-fifth of large American firms in the 1980s (Markides, 1996) and a quarter of large European firms in the 1990s (Whittington and Mayer, 2000, 2002): diversification is still high on the corporate agenda.

The corporate strategist may choose to enhance the scope of his company for general environment reasons (the milieu in which the firm operates), industry environment reasons (market structure), firm specific reasons (internal company motives, such as the dissemination of management skills) and corporate performance reasons, although research on most motives for diversification is scarce (Miles, 1982; Ramanujam and Varadarajan, 1989). The relation between diversification and performance, however, is a central theme of research (Miller, 2004), yet results have been mainly inconclusive and contradictive (Markides, 2002): for instance, Asian conglomerates continuously grew in a profitable way through diversification (Lee, 1999). When managers decide to enhance the scope of his company, diversification can have one or more of the following characteristics, where breadth of scope along one dimension tends to be associated with narrow scope along most other dimensions, while some companies, such as General Electric and Samsung, have successfully combined them (Stopford and Wells, 1972; Grant, 2002).

- ***Product diversification***. This concerns an expansion of the range of products that a firm supplies (Grant, 2002), yet can happen without moving to another industry. Nestlé extended his product scope in the bottled water industry by adding Perrier and San Pellegrino to its Vittel brand. Where Nestlé carries over 8,000 brands, one of its main competitors, Unilever, is choosing to decrease its number of consumer brands from 1600 to 400.
- ***Functional diversification***. This concerns an expansion of the range of activities that a firm encompasses. When these activities are linked up and down the business system,

either backwards towards suppliers or forwards towards the customer, this is usually referred to as *vertical integration* (Kay, 1997; De Wit and Meyer, 2004). Nestlé opening up stands to directly sell their ice cream would illustrate this. In the computer industry, Dell serves as a stand-alone computer parts assembler, while IBM produces the components, puts them together, adds software, sells them and provides services for using their computers (Grant, 2002).

- ***Industrial diversification***. This concerns an expansion of the range of industries that a firm is active in, expanding outside of its current business system (De Wit and Meyer, 2004). This is also referred to as *horizontal diversification.* Nestlé's move into the cosmetics, eye-care and pet-food industry is a good example here, also illustrating a national bias: most diversification activities of developed country firms are shown to lean towards manufacturing and services, while developing country firms usually diversify within the commodities sector (Nachum, 1999).
- ***Geographic diversification***. Viewed as part of corporate strategy, international strategy is about diversification into other countries in order to create additional value (Campbell and Faulkner, 2003; Nachum, 2004). Firms start establishing value added activities outside their home countries are often labeled 'multinationals'. Nestlé acquired Dreyer's and expanded the geographic scope of its ice cream unit into the US, whereas Unilever recently launched its current Dutch product Knorr in Arabia, Axe in Colombia and Sunsilk in Argentina.

This description of corporate scope does not take into account whether the business units are related, which appears to be an important issue in practice and in theory. This is translated into the issue of *corporate coherence.*

Corporate Coherence

In the former section, the 'conglomerate' is used similarly to the 'highly diversified firm'. According to Williams et al. (1988), the literature does not always draw a clear distinction between these two. Yet, a review of this literature does provide this distinction: a conglomerate is a highly diversified firm, but the latter is not necessarily the first. The difference is relatedness: in a 'conglomerate', divisions are per definition unrelated to one another (Kay, 1997, 2002; Whittington and Mayer, 2000, 2002). The level of relatedness between business units is labelled here as *corporate coherence*. Rumelt (1974) classified relatedness into similarities in products, markets and technologies, which was adopted by nearly all studies into the concept afterwards (Keats, 1990; Stimpert and Duhaime, 2003). Others have added an emphasis on resources and conceptualizations of top managers to this (Prahalad and Bettis, 1986; Stimpert and Duhaime, 1997; Collis and Montgomery, 1998). Nestlé's businesses are presently grouped around its concept of 'food, nutrition, health and

wellness'. It does not seem far-fetched to relate them to one another in terms of Rumelt's definition. In contrast, the corporation's hotel and restaurant business were not very similar in products, markets or technologies. This would explain the divestment of the business.

Nestlé corporate development in this issue appears to be largely in line with the progression of other firms and the literature accompanying these events. Whereas the corporate boardroom credo in the 1950s, 60s and 70s seemed to be 'diversify unless', largely ignoring the question whether their corporate portfolio's held businesses that resembled each other in any way, in the latter decades relatedness became a focal point of corporate strategy. It became a main rational behind diversification, and particularly behind the divesture of businesses. At the start of the 80s, corporations were perceived as 'over-diversified', lacking sufficient focus (Hoskisson and Hitt, 1994). The conglomerates were now viewed as 'hopeful monsters', 'evolutionary freaks doomed to early failure' (Dosi et al., 1992, Whittington and Mayer, 2000). Companies were advised to 'stick very close to their knitting' (Peters and Waterman, 1982) and focus on their 'core competences' (Prahalad & Hamel, 1990) to reconsider their corporate portfolio.

So, reduced scope seemed to go hand in hand with a cutback of unrelated businesses in the corporation (Rumelt, 1974; Markides, 1995; Whittington and Mayer, 2000). Williams et al. (1988) do indeed show increased coherence within corporations from 1975-1984, yet other evidence for the fall of the conglomerate is ambiguous. In his research into Fortune 500 firms in the 80s, Markides (1995) showed only a small decline of the total share of conglomerates (from 21% to 19%), leading him to the conclusion that there was 'no massive refocusing trend in American industry'. Whittington and Mayer (2000) draw an equal deduction from their research in Europe: 'Conglomerates represent a vigorous and substantial proportion of European diversification', even though related diversifiers are even less inclined to extinction. Virgin illustrates the persistent conglomerate: the Virgin brand alone is not enough to perceive any relatedness in the range of businesses.

The issues of corporate scope and corporate coherence cannot be perceived inseparably. Combining diversification and relatedness, corporate managers can find their firms along the following categorization (Rumelt, 1974; Kay, 2002; Whittington and Mayer, 2002):

- ***Single business firms*** derive 95% of their revenue from one business, such as the pharmaceutical company Glaxo (Whittington and Mayer, 2000). These are also referred to as 'specialized' firms (Kay, 1997).
- ***Dominant business firms*** derive 70-95% of their revenue from one business, while a small portion is gained from other businesses. An example here is Shell / Royal Dutch Petroleum, that obtained $9 bln from its $12,5 bln earnings from its 'exploration and production' business in 2003.

- ***Related-constrained diversified firms*** receive less than 70% of revenues from one single business. Furthermore, the majority of businesses are related to 'virtually all other businesses taken one at a time' (Rumelt, 1994). So, when expanding the firm's scope, the board makes sure the new business has similarities with all other businesses. Nestlé seems to have such a corporate model. Related-constrained firms seem to be most profitable (Rumelt, 1974; Montgomery, 1982), yet research into this is inconsistent (Whittington and Mayer, 2000; Grant, 2002).
- ***Related-linked diversified firms*** also receive less than 70% of turnover from one single business, yet businesses are only similar to one other business in the corporation. Whittington and Mayer (2000) perceive Siemens, which is active in automation, communication, power and rail, as such a company.
- ***Unrelated diversified firms*** derive less than 70% of turnover from one single business as well, yet businesses are not similar to one another in terms of the 'Rumeltarian' definition. These corporations are sometimes referred to as 'holding' companies, and are the conglomerates as mentioned above. Nowadays, besides Virgin, the corporations Honeywell, Bernard Arnault's LVMH and Warren Buffet's Berkshire Hathaway are examples of persistent conglomerates.

In order to achieve the corporation's goals, the corporate headquarters has to work together somehow with the business units. This comes forward in the dimension of Corporate Management, which will be dealt with next.

Management: The Functions in the Corporation

As firms diversify, management alters accordingly. When the composition of companies changed as from the 50s, their structural arrangements into functional departments (e.g. sales, production, finance, purchase) did not comply with the complexity of increased scope and reduced coherence. Consequently, the 'F-form' was replaced by the 'M-form': instead of organizing the corporation into functions, it was organized according to its businesses in what became known as the 'multi-divisional' form (Chandler, 1962; Williamson, 1970; Kogut and Parkinson, 1998; Whittington, 2003). Simplified, organizations are led by a headquarter unit, where top management makes strategy, while operational decisions are taken by operating divisions, also called 'strategic business units'. Even though novel organizational forms are proposed, such as the N-form (Hedlund, 1994), the individualized corporation (Ghoshall and Bartlett, 1999), the entrepreneurial M-form (Eisenmann and Bower, 2000) or the structured network matrix (Goold and Campbell, 2003), the multi-divisional form is still adopted among virtually all American and European corporations (Kogut and Parkinson, 1998; Whittington and Mayer, 2000).

The Chandlerian description of the controlling position of the headquarter unit fits the early view on the multi-divisional form. Yet, even though the M-form is not dying at all, it is changing (Whittington and Mayer, 2000). A major change is the designation of responsibilities across the organization. Whereas the roles that the center and the business units should play used to be clearly defined, boundaries seem to be blurring (Goold and Campbell, 2003). What exactly these roles are or could be comes forward in the issue of *corporate responsibilities,* or the level of corporate authority. Nestlé's headquarter in Vevey used to only meddle in the financials of the subsidiaries, but is now responsible for a larger range of functions, such as quality control and purchasing. The business units have been given less autonomy, and have been given more influence to work more in line with the overall corporate strategy.

Whereas the latter deals with the physical positioning of roles, *the management*, corporate strategy also comes with the verbal sense of the concept: *managing.* Given the roles of the headquarters, in order to organize the systems, processes and people across businesses, the manager has a variety of corporate mechanisms available. On the other hand, given the roles of the business unit, there is also a range of subsidiary means to achieve the company's long-term objectives, a consideration that is embraced not long in the M-form paradigm. Thus, in the dimension of Corporate Management, management thinking is also gathered around the issue of *corporate practice*, assessed in the level of HQ control. In practice, Nestlé has increased control over the business units, restructuring the corporation through mechanisms such as the standardization of purchasing codes, centralization of IT-systems and coordination of resource sharing, for instance in R&D.

Corporate Responsibilities

According to Markides (2002), the role of the center lies at the heart of what academics call corporate strategy. In the business environment, corporate centre re-design is frequently high on the executive agenda (Goold et al., 2001). When contemplating the responsibilities of the corporate center, the strategist has a whole range of academic literature with dedication to the subject at his disposal. Authors in this area generally take headquarters as point of departure to assess responsibilities throughout the corporation (e.g. Goold and Campbell, 1987; Raynor and Bower, 2001; Markides, 2002). Yet, when the strategist wants to judge which roles the business units can play, a contemporary rich stream on the subsidiary perspective is also available. This angle, where authors take the SBU as starting point, has only recently found its way into the corporate strategy literature. For instance, Birkinshaw and Hood (1998) perceive the recognition that subsidiaries can have different roles as 'an important step forward', while Goold and Campbell (2003) view clarity about the responsibilities of each

unit as an important prerequisite in corporate management. Hence, the role of the business units lies at the heart of corporate strategy just the same.

In corporate strategy, emphasis is put on strategic responsibilities throughout the organization: those roles that both the corporate center and the subsidiaries can take to achieve the corporation's long-term goals. Following Chandler (1994), the focus is on matters internal to the firm, and not on the additional function of handling corporate relations with contextual bodies. Authors agree that the allocation of responsibilities depends on what the firm is trying to achieve (Hill, 1990; Raynor and Bower, 2001; Markides, 2002). A company like Unilever has a staff of several thousands at the headquarters in Rotterdam, that takes care of large corporate functions in R&D, human resource management and IT (Goold et al, 2001). Virgin, in contrast, has a much leaner center: the London office houses a mere 50 people, with just a small business development group, a press office, and some key advisors in the area of strategy and finance (Dick et al, 2000). In other words, one corporate strategist may choose to give the corporate office less control over the organization, while another will give more power to the divisions.

Based on a review of the literature, the following categorization of the roles that the corporate center can take on can be drawn:

- ***Architectural role***. Here, the corporate center is responsible for the strategy, corporate value creation and accumulation of assets for the corporation. Functions dealing with strategy are about matters such as scope decisions (Markides, 2002), defining growth paths and goals for the corporation as a whole (Chandler, 1994) and the configuration of the company (De Wit and Meyer, 2004). Corporate value creation includes capitalizing on opportunities (Collis and Montgomery, 1998), exploiting synergies (Markides, 2002) and assessing parenting fit (Campbell et al., 1995). The accumulation of assets can be done externally on the open market or internally from the business units (Markides and Williamson, 1996; Prahalad and Hamel, 1990).
- ***Allocating role***. In this role, the corporate center is responsible for assigning and maintaining resources throughout the corporation. Assigning financial resources is carried out on the internal capital market (Williamson, 1975) or by using portfolio techniques (Haspeslagh, 1982; Hill, 1988). Allocating other resources means making sure further tangible resources such as materials and people (Raynor and Bower, 2001), but also intangible resources such as knowledge, skills and relationships, are on site where they can create the most value (Prahalad and Hamel, 1990). The maintenance of resources emphasizes management training (Goold and Campbell, 2003), knowledge conservation (Foss, 1997) and redefining product lines to continue the efficient use of capabilities (Chandler, 1994).

- ***Administrating role***. In this role, the corporate center is responsible for regulating, monitoring and controlling the corporation. Regulating the corporation is about establishing codes and rules for activities such as financial reporting, purchasing and legislation (Chandler, 1994; Goold and Campbell, 2003). It also entails the minimal legal tasks such as preparing annual reports and submitting tax returns for the corporation as a whole (Goold et al., 2001). Monitoring the corporation involves checking up on the performance and achievement of objectives of the business units (Goold and Campbell, 1987). Controlling the corporation entails responsibilities such as due diligence, quality control and rewarding (Bartlett and Ghoshal, 1989; Collis and Montgomery, 1998; Goold and Campbell, 2003).
- ***Assisting role***. In this role, the corporate center is responsible for facilitating, informing and arbitrating for the corporation. Facilitating the corporation is about helping out the business units with support activities that thrive from headquarter intervention, such as IT, handling of warranties or complaints and R&D (Porter, 1985). Informing the corporation involves making sure that the managers of the business units have sufficient knowledge about the activities of other business units, while arbitrating means intervening when units cannot reach agreement or certain specialist cultures need to be protected (Raynor and Bower, 2001; Goold and Campbell, 2003).

However, the responsibilities of the headquarter unit are just on one side of the corporate medal. A corporate role for the business unit is equally important (e.g. Birkinshaw and Hood, 1998; Paterson and Brock, 2002; Goold and Campbell, 2003). According to Hakanson (1990), the subsidiary is now involved in a much higher degree not only in implementation, but also in the formulation of corporate strategy. Surprisingly, subsidiary-focused research has only become an important strand of research in the last two decades (Birkinshaw and Hood, 1998). Within this, research into the role of the subsidiary has also gained increasing attention. Following Birkinshaw and Morrison (1995), business unit roles can both be imposed as well as defined by the units themselves. The question that the corporate strategist will ask himself is: "How can the business units help in achieving the goals of the corporation as a whole?" This asks for a discussion of the potential relationship of a subsidiary to the parent. When dealing with corporate strategy, the strategist can pick from the following business unit roles:

- ***Solitary role***. In this role, the business unit is highly autonomous from the headquarters and the other subsidiaries. Usually, a large portion of the value chain (Porter, 1985) and the market is located within the boundaries of the business, of which the unit has a high level of specialized information (O'Donnell, 2000). These boundaries are dependent on the characteristics of diversification. For instance, in geographic subsidiaries these boundaries will be country borders (White and Poynter, 1984; Jarillo and Martinez, 1990; Birkinshaw and Morrison, 1995, Taggart, 1997). In the Swedish gas-corporation AGA, each business

unit serves its own market, and delivers none of its gas production internally (Anderson and Pahlberg, 1997). This role comes close to what Bartlett and Ghoshal (1986) labelled as the 'implementer'.

- ***Supplier role***. In this role, the business unit acts as a dealer for headquarters or other businesses. It can deliver a large portion of its output in the form of end-products internally, but it can also act as a source of ideas, skills, capabilities and knowledge (Bartlett, 1986), or supply technology to the other actors in the corporation (Andersson and Pahlberg, 1997). In vertical integrated firms, business units will take on these roles to a great extent. For instance, Sony's businesses use each other's products and technologies continuously, resulting in consumer products such as the Clié PDA, that makes use of software provided by another subsidiary to play EverQuest, an online Playstation-based game developed by Sony's game console division.
- ***Service role***. In this role, the business unit takes over the work of other units. It can take care of support activities for the others such as R&D (Bartlett and Ghoshal, 1989), information technology services or even the entire production (Jarillo and Martinez, 1990). If it serves as a unit that gains its sole existence from servicing other units, it is labelled as 'shared service center', which generally attends to activities such as HRM, IT and legal affairs for the entire corporation (Goold and Campbell, 2003). In the financial sector this is a trend, with ING and ABN AMRO banks both pooling various support services into one unit. Both the supplier and service role are combined in what Bartlett and Ghoshal (1986) called the 'contributor'.
- ***Star role***. In this role, the business unit is actively engaged with the corporation's strategy. It takes initiative to work together with businesses, and is active in establishing relationships for other businesses to serve the corporation as a whole. In this way it influences strategic behaviour in the corporate center (Andersson and Pahlberg, 1997), sometimes doing so without HQ's formal consent (Birkinshaw et al., 2002). As an example, Disney's business managers actively pursue opportunities to join forces, using different patterns of relationships with different products every time (Eisenhardt and Galunic, 2000). This role resembles Bartlett and Ghoshal's (1986) 'leader'.

The role of the subsidiary is a negotiated position that is to some degree understood jointly between HQ and business managers (Birkinshaw et al., 2000). The role of the headquarters seems more imposed. However, no matter what the division of responsibilities throughout the corporation, it has to be managed in order to achieve the corporate goals. This comes forward in the issue of *corporate practice.*

Corporate Practice

Managing the corporation has to deal with aligning the goals of the headquarters and the business units. Jensen and Meckling (1976) use an Agency Theory perspective to explain the issues that arise: 'the problem of inducing an "agent" (i.e. the division or business manager) to behave as if he were maximizing the welfare of the "principal" (i.e. the corporation) is quite general – it exists at every level" (O'Donnell, 2000). The corporate strategist can align joint interests by *control*, using formal power to enforce enactment, or through emphasizing *cooperation*, without the use of top-down authority (De Wit and Meyer, 2004). Following Birkinshaw and Morrison (1995), these two means evolve from respectively a 'hierarchy' model and a 'heterarchy' model. Campbell and Goold (1987) express the need for tight control, to establish powerful incentives, yet there is a tension with the need to remain flexible. Nestlé's style mostly reflects an authority-based style, where there is still some room for a strategy based on the own initiatives of the businesses.

The hierarchical style lies at the roots of the Chandlerian M-Form. As organizations became larger and more and more complex, top-down management was perceived as inevitable. Based on administrative controls, headquarters pushed down profit objectives and accounting standards towards middle and lower management in the business units (Chandler, 1994), whereas no spontaneous strategic contributions were expected from these managers. However, according to O'Donnell (2000), 'there has been a shift away from a dyadic, hierarchical view…toward a perspective in which the multinational organization is viewed as a web of diverse, differentiated relationships'. In other words, nowadays some degree of bottom-up cooperation from the business unit is expected. Still, there will be a large portion of control regulations by the corporate center.

When searching to align the business and personal goals of subsidiary managers with corporate goals, the corporate strategist can apply the following methods:

- ***Centralization.*** Resources or activities are physically brought together in one organizational unit. This unit can be situated at the corporate center, but can also be placed within one of the business units or at a separate location (De Wit and Meyer, 2004). The latter would be the case with a shared service center. Nestlé, for instance, centralized activities such as R&D, quality control, IT and purchasing. Also decision making can be centralized, in such a way that a decision needs to be approved on some corporate level, usually at headquarters, before it can be implemented (Gates and Egelhoff, 1986).
- ***Standardization.*** Emphasis is on making resources (e.g. technologies, knowledge) similar, aligning activities (e.g. accounting, HRM) according to equal specification or composing product features (e.g. operating systems, high-tech positioning) commonly (De Wit and Meyer, 2004). Taking management skills as a key resource, career development evolves

across businesses (Raynor and Bower, 2001). Nestlé uses standardization in IT norms, administrative standards for purchasing and in its branding. Standardization of the marketing mix has been subject of a large deal of studies, of which Theodosiou and Leonidou (2003) give an integrative assessment.

- ***Coordination.*** Work is 'orchestrated' across business unit boundaries (De Wit and Meyer, 2004). Personal goals of business managers are aligned to the corporation by using compensation structures (Hoskisson and Hitt, 1994; Raynor and Bower, 2001) or personal supervision (Eisenhardt, 1985). Business goals can be managed through means such as monitoring mechanisms to obtain information (O'Donnell, 2000), budget constraints or by transferring resources (Collis and Montgomery, 1998). Also the coordination of intra-firm business meetings is an example, as happens within Disney, where Michael Eisner forces his business managers to spend eight days together in a 'boot camp' ambience at company headquarters, Disney's ABC network and Disney World (Wetlaufer, 2000).
- ***Collaboration.*** Business managers can also align their goals with those of the corporation by themselves, without specific interference by headquarters. Collaboration will occur if unit managers all believe that it makes sense for their respective businesses (Eisenhardt and Galunic, 2001). Strategic decision-making is based on shared interests (Birkinshaw et al, 2000), whereas units engage in self-managed networking (Goold and Campbell, 2003). These 'web of collaborations' can frequently shift when opportunities arise (Eisenhardt and Galunic, 2001). Key for the corporate center is to foster such an atmosphere of self-organization. Goold and Campbell (2003) bring forward Citicorp's corporate banking group, whose business units 'work together extensively and voluntarily in serving the end customer'.

In these four 'alignment means' the balance between control and cooperation varies. Which of the four the strategist wants to use, depends on concerns such as differentiation characteristics, relatedness between business units and the assumed responsibilities of both the corporate center and the subsidiaries. These all stem from the corporate strategy issues facing the manager. Yet underlying these is the issue of *corporate value*. Aligning business goals with corporate goals sounds sensible, but what are these goals and what is the rationale behind them? In other words, which values underlie corporate strategy issues?

Value: The Foundation of the Corporation

Managers dealing with corporate strategy base their policy decisions on the added value of having more than one business in their firm. The discussion on values is separated in two sub-issues. On one hand, there's the value of *corporate responsiveness*, or the level of corporate effectiveness: to be able to respond to the competitive demands of a specific business area in a timely and adequate manner. On the other hand, there is the value of *corporate synergy*, or

the level of corporate linkage: creating more added value than the extra costs of managing a diversified organization (De Wit and Meyer, 2004).

Taking Nestlé as an illustration again, during the first decades of its existence its corporate strategy was based more on staying responsive through decentralization and putting 'people, products and services' in the market at the center of attention. However, there has been a shift towards efficiency and reaping the benefits of related business units in the last decades through corporate restructuring. Whereas these issues exist in practice, both these values are also subject to extensive discussion in the literature, as will become clear in the following sections. The issue of corporate responsiveness was prone to academic research mostly during the 60s and 70s, but its value is still emphasized. The issue of corporate synergy emerged in management literature more during the latter decades. Following this historical development, corporate effectiveness will be discussed first.

Corporate Responsiveness

The rationale behind the diversification wave in the sixties, resulting in having mutual businesses in one firm, was the application of general management tools, skills and principles and the advantages. These tools were mainly rooted in portfolio planning techniques, by allocating cash effectively to improve the relative competitive position of each business unit (Hedley, 1977). According to Katz (1974), general management skills included technical (e.g. procedures and techniques), human (attitude and team-work) and conceptual (framing and analyzing) skills. General management principles were straightforward: increase revenue to grow profits. Katz (1974) stated that 'professional managers, the prototypes of our modern executive world, shift with great ease and with no apparent loss in effectiveness, from one industry to another'. During these decades, the fundamental determinant of strategy success was perceived as the relative competitive position (Hedley, 1977), which was the most important goal for each business. Focus was one generating as many sales as possible, no matter what the industry. This is how effectiveness is meant here: increasing revenue in a timely and adequate manner across businesses.

The governance characteristics of the corporations (Williamson, 1975; Hill et al., 1992) allowed the business units to respond to competitive demands of a specific business area quickly. The diversified firm was able to reap the benefits of 'governance economies', being better able to allocate resources than, for instance, the stock market (Hill et al., 1992) in case market demands changed. These market changes include customer preferences, competitor moves, supplier actions, new technologies and changes by economic (tax authorities, unions), regulatory (lobbyists, industry bodies) and socio-cultural (media, opinion leaders) actors. This was the rationale in product, functional and industrial diversification, but becomes even more eminent when firms diversify across national boundaries. The need for

local responsiveness (Prahalad and Doz, 1987), staying attuned to specific demands of each national market (De Wit and Meyer, 2004), evolves from the 'inherent complexity in international markets, and the formulation of an effective strategy to penetrate these markets' (Douglas and Wind, 1987). Even though various features transcend borders, developments and systems in each nation arise, causing international divergence (Dosi and Kogut, 1993). This explains Nestlé hanging on to 8000 local gems it its product portfolio throughout the world.

The transcendence of organizational characteristics lies at the heart of diversification. Besides being able to allocate resources better than the stock market and even though responsiveness to market demands should be taken into account, corporations will also want to justify their diversification efforts with an efficient, value creating organization. Thus, there is another rationale for having more than one business in the firm, which comes forward in the issue of *corporate synergy*, or the *level of linkage*.

Corporate Synergy

Whereas governance economies might account for the existence of diversified firms, the other rationale is the ability of such firms to exploit 'economies of scope' (Baumol et al., 1982; Porter, 1987). Hill et al. (1992) state that 'this simply means that for two outputs, the value created by their joint production is greater than the value created if they are produced separately'. This is called *synergy* in fashionable terms, derived from the Greek word 'synergos', meaning 'working together' (Goold and Campbell, 1998). From the perspective of the business unit, it should be better off being situated within a corporation than alone (Porter, 1987). Looking at the corporation as a whole, it should be more than the sum of it parts (Collis and Montgomery, 1998), popularly translated as 'the 1+1=3 arithmetic' (Eisenhardt and Galunic, 2000).

The 'stick-to-the-knitting' trend in the 1980s was the foundation for the rise of synergy-based corporate strategies. Prahalad and Hamel (1990) argue that 'the primacy of the SBU - an organizational dogma for a generation - is clearly an anachronism'. Building on core competences, 'the collective learning in the organization' (Prahalad and Hamel, 1990), theoretically stems from the re-emergence of the resource-based view (Wernerfelt, 1984). Here, the firm is regarded as a collection of firm resources where excessive capacity drives diversification (Penrose, 1959; Grant, 2002). This enables firms to reduce overall operating costs in one or more of its divisions (Porter, 1987), as well as driving profit by corporate value creation. When pursuing synergy, the corporate strategist can look for the following sources (De Wit and Meyer, 2004):

- ***Leveraging resources.*** Here, the corporations 'stock of assets' is shared across business units. These can be tangible, such as people or machines, but also intangible, such as

knowledge or capabilities. Prahalad and Hamel (1990) state that the corporation should be build around core competences, which provide potential access to a wide variety of markets, make a significant contribution to the perceived customer benefits of the end product and are difficult for competitors to imitate. For instance, Nestlé apparently sees potential synergies in putting together cross-divisional R&D knowledge and capabilities in joint centers.

- ***Integrating activities.*** Here, the corporations 'value chain' is united by sharing similar activities or linking up sequential activities. According to Goold and Campbell (2000) businesses with value chains that overlap are obvious candidates for linkage opportunities. Nestlé tries to build a more efficient corporation by integrating various activities in its Globe and Project FitNes projects.
- ***Aligning positions.*** Here, the corporations 'value propositions' are lined up. Aligning product-market combinations can improve the company's bargaining position by offering customers a set of related products or services. It can also improve its competitive position by raising entry barriers and taking away intra-firm competition (Hill et al., 1992). Nestlé leverages its Swiss hallmark throughout its four pillar divisions in six core brands.

Responsiveness and synergy are conflicting demands, influencing the level of diversification, relatedness, corporate authority and corporate control. They underlie the manager's 'dominant logic' – the way managers conceptualize the business (Prahalad and Bettis, 1986). These perspectives on corporate strategy are brought together in the next, closing section of this paper. How can managers perceive corporate strategy issues?

Perspectives on Corporate Strategy

At the fundament of the study of corporate strategy are two contradictory paradigms, underlying the 'portfolio school' and the 'synergy school' (Campbell and Faulkner, 2003). The assumptions that these schools are based upon will also underlie the perspectives on corporate strategy that managers have. Corporate strategy perspectives are the beliefs a manager has about the issue as well as the way he acts upon it (Walsh, 1995; Van der Veen, 2003). De Wit and Meyer (2004) call these the 'portfolio organization perspective' and the 'integrated organization perspective'. To align these terms more with the subject of study, they are labeled here as the *portfolio corporation perspective* and the *integrated corporation* perspective. These two perspectives on corporate strategy issues are outlined in figure 2.

Strategists that adopt the first perspective, base their corporate strategy on the premises of the portfolio school. The level of diversification will generally be high, while relatedness of the businesses in their corporation will not be a very important issue. Following this train of thought, in order to retain a high level of responsiveness for the business units, the level of headquarter authority in the corporation will be relatively low. The roles that the

headquarter will adopt will mainly just emphasize scope decisions in the architectural role, while in the allocating role most attention will only go to financial resources. In the administrating role, the corporate center will set out and monitor financial objectives, whereas the need for an assisting role will probably not be perceived. The business units will operate autonomously, obtaining a largely solitary role in the corporation. It will not act as a supplier or service-provider for the rest of the corporation, let alone meddle with the corporation's strategy. The main management mechanisms that the corporation will use will be coordination, mainly by budget constraints.

When the strategist starts from the integrated corporation perspective, the corporate strategy will look entirely different. The focus will not be 'diversify unless', but the scope of the organization will probably be lower. In order to capture as many synergies as possible, diversification will be more related. The responsibilities of both the headquarters and the subsidiaries will emphasize establishing, maintaining and cultivating necessary links between center and businesses, as well as between businesses. Besides adopting the minimum roles from the portfolio corporation perspective, the corporate center will probably take up any of the four roles as defined above, where value creation, allocation of both tangible and intangible resources and assisting business units in exploring linkages. To do so, it will manage its divisions by the mechanisms available: centralization, standardization and coordination. It will also fuel collaboration of the business units, which may act as suppliers and service providers for each other. Ideally, one or more of them will adopt a 'star role'-taking initiatives to establish corporate linkages themselves.

Fig 2 Perspectives on Corporate Strategy

Dimensions	*Issues*	*Portfolio Corporation Perspective*	*Integrated Corporation Perspective*
Composition *Where is the corporation?*	**Corporate Scope**: Level of diversification	High	Low
	Corporate Coherence: Level of relatedness	Low	High
Management *How is the corporation run?*	**Corporate Responsibility**: Level of HQ authority	Low	High
	Corporate Practice: Level of HQ control	Low	High
Value *Why is the corporation?*	**Corporate Responsiveness**: Level of effectiveness	High	Low
	Corporate Synergy: Level of linkage	Low	High

Recently, the two divergent schools of thought behind both perspectives seem to come together. Looking at corporate strategy, according to Faulkner and Campbell (2003) 'the merging of the synergy and portfolio schools came in the early 1990s'. De Wit and Meyer (2004) emphasize the logic of a synthesis between both perspectives: achieving a 'best of both worlds' by using both positive assumptions. In international strategy, authors such as Prahalad and Doz (1987) and Evans, Doz and Laurent (1989) break a lance for multinationals pursuing integration and responsiveness simultaneously. Practically, both the strategies of the conglomerate (the portfolio corporation *pur sang*) and the related diversifier (leaning towards the integrated corporation) seem to pay quite well (Whittington and Mayer, 2000).

Nestlé seems to have found a combination between both the portfolio corporation perspective and the integrated corporation perspective. While focusing on related industries, its back-office becomes more and more integrated to capture potential synergies. Through its restructuring projects it is able to reduce operating costs and create additional value by coordinating the linkages between these business units. At the same time, it is able to ensure corporate responsiveness at the front-end through its local brands and by decentralization of product positioning. It does reap the fruits of synergy through its six core brands, which have become critical resources in themselves. The corporate center has stepped in and taken control where it seems viable, yet management is reluctant to get too much authority. At the top, growth is still tremendously important, yet the underlying corporate strategy appears to have grown more realistic as well.

Conclusion

So, what are the issues in corporate strategy, and how can the strategist deal with them? It is argued here that there are six corporate strategy issues. Issue I is corporate scope: the level of diversification. Characteristics are product-based, functional, industrial and geographic diversification. Issue II is corporate coherence: the level of relatedness. Firms can be categorized as single business, dominant business, related-constrained, related-linked and unrelated diversified firms. Issue III is corporate responsibilities: the level of headquarters authority. The strategic roles that the corporate center can take on are the architectural, allocating, administrating and assisting role. The strategic roles that the business units can adopt are the solitary, supplier, service and star role. Issue IV is corporate practice: the level of HQ control. Management means that the strategist can use are centralization, standardization, coordination and collaboration. Underlying these four issues are issue V, corporate responsiveness (the level of corporate effectiveness) and issue VI, corporate synergy (the level of corporate linkage). The sources of synergy that the corporation can capture are leveraging resources, integrating activities and aligning positions.

These six issues can be perceived from two divergent perspectives: the portfolio corporation perspective and the integrated corporation perspective. With each perspective adopted, the strategist will deal with corporate strategy issues in entirely different ways. These perspectives also lie at the heart of the historical development of the corporate strategy and international strategy field. However, the boundaries between these two perspectives appear to be blurring: several voices have been raised about the alignment of the two. The strategist can choose from both perspectives, using elements from each one to dealing with the corporate strategy issues he is confronted with.

This paper has contributed to the study of corporate strategy by providing an issue-based, apparently exhaustive categorization of strategy issues. It has integrated the relevant corporate strategy literature into a concise and pragmatic whole. However, further empirical research is to be done to investigate whether these are all the corporate strategy issues confronting the boardroom. Furthermore, a study of corporate strategy perspectives throughout a diverse population of corporate executives would illuminate the concept. Finally, this paper is meant as an aid for corporate strategists in their quest for information to deal with corporate strategy issues. It is not a standard recipe with ingredients to solve any problem. On the contrary, it serves as a cookbook, where the strategist can pick his own recipe when he has found out what he is hungry for.

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