Matthias Krühler

Managing Business Portfolios Effectively

On the Explanatory Power of the Parenting Advantage Concept

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Foreword by Prof. Dr. Michael Nippa

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Foreword

Strategic Management has been dominated by a business or competitive strategy perspective for decades. Analyses and concepts addressing strategic choices regarding how to compete have been in vogue while those that focus on where to compete and how to manage multi-business firms have tended to be sidelined. I devoutly believe that the pendulum will swing back and that we will see a renaissance of corporate strategy in the near future. What makes me so certain of that is based on recent research in the field of portfolio management of which Matthias Krühler's dissertation is an impressive part.

Despite many theoretically and partly empirically backed up calls to disintegrate diversified corporations, multi-business firms are rather the norm than the exception. Research reveals that diversification is not per se inferior to focused single-business firms and portfolio management is still highly relevant for managing global companies. With this evidence in mind, Matthias Krühler's dissertation is a cornerstone in advancing our knowledge about how corporate management, i.e. the parenting firm, adds or destroys value, how they shape their parenting strategies, and how to manage diversified business portfolios effectively.

Rather than adding another more or less valid proof of either the value-destroying or the value-adding impact of corporate diversification, Matthias Krühler systematically analyzes the role of the corporate headquarters, i.e. measures and mechanism provided by the parent organization aiming at adding value to the single businesses and the firm at large. Based upon a systematic literature review on the scholarly appreciation of the parenting advantage concept, collaborative surveys among more than 300 large global companies and private equity firms, the introduction of a theory-based framework to investigate alternative parenting strategies, and broad empirical data analyses, Matthias Krühler derives four important conclusions: (1) the concept of parenting advantage is highly relevant for corporate strategy and portfolio management; (2) a more effective application in practice mainly suffers from a lack of sufficient operationalization; (3) by using various cluster analysis methods, a statistically significant typology of parenting strategies in corporate practice can be developed; and (4) the alternative parenting strategies differ significantly in their average performance. To conclude, his typology of parenting approaches – observed in corporate practice – provide a robust explanation for valuation differences of multi-business companies that goes beyond the degree of diversification.

The research Matthias Krühler conducted since 2009 is characterized by rigor and relevance. Findings and results embraced in this book are an important contribution in the field of corporate strategy at large as well as in further developing our conceptual understanding of the explanatory power of the parenting advantage concept for effectively managing multi-business firms. The fact that most of his studies have been already published (or are in the process) in reputed peer-reviewed international management journals is another proof of the research quality.

Therefore, I highly recommend this book for both, management scholars and practitioners interested in questions on how to successfully constitute and manage business portfolios in an ongoing world of high uncertainty and incomplete markets. Without doubt, this book deserves broad attention and will be a 'must read' for corporate managers and scholars.

Prof. Dr. Michael Nippa

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Matthias Krühler

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1 Introduction

1.1 Motivation and Objective

Research on corporate strategy includes four primary fields (Grant, 2010; Johnson, Scholes, and Whittington, 2008; Mueller-Stewens and Brauer, 2009): (1) diversification strategies (scope and relatedness of goods and markets, economic value of diversification), (2) internationalization strategies (market-entry strategies, international alliances), (3) strategies of composing and managing different businesses under one corporation (corporate portfolio management), and (4) strategies of how to maximize the value of the corporate headquarters (the role of the center, functions, responsibilities).

Diversification Strategies: Ansoff's *Model for Diversification* (1958) defines and distinguishes corporate diversification as a key motive to grow business operations. Further rationales for a diversified business portfolio such as advantageous costs of capital (Stein, 1997), optimal transaction costs (Williamson, 1979), and a lowered risk profile (i.e., minor volatility in returns: Chiu, 2007) have been developed and added by strategy research over the years. Financial theory, however, provides a complementary lens with which to examine the link of diversification and financial performance of multi-business companies. Although current common wisdom assumes markets (i.e., external coordination) to be superior over corporate diversification (i.e., internal coordination), empirical results are far from unequivocal (e.g., Palich, Cardinal, and Miller, 2000). While some studies support a negative diversification–performance link (Berger and Ofek, 1995; Lang and Schulz, 1994; Servaes, 1996; Rajan, Servaes, and Zingales, 2000), other have found a

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positive correlation (Schoar, 2002; Mathur, Singh, and Gleason, 2004). More recently, research seems to agree upon the relevance of important moderators that constitute an inverse U-shape of the diversification–performance link (Palich et al., 2000; Villalonga, 2004). Even though academia disagrees upon the question of how a diversified portfolio is or should be valued at capital markets (discount vs. premium: Wernerfelt and Montgomery, 1988), the large and diverse body of research indicates a significant awareness for this field of corporate strategy.

Internationalization Strategies: Managing multi-business firms and assessing diversification strategies have been addressed with a geographical and increasingly global dimension since the 1980s. The field of corporate strategy within an international context has sparked particular interest in recent years because of the remarkable growth of multinational companies and the increasing number of international strategic alliances, especially international joint ventures (e.g., Contractor, 2007). In essence, the international business and strategy literature argues that cross-border operations enable companies to reap tax benefits, to profit from common purchasing, to avoid high transaction costs, to gain from economies of scale, or to exploit low-cost sources of labor (Hennart, 1988). Recent research, however, has largely focused on the strategic management of multinational companies (i.e., configuration of value chain, cultural management, resource transfer: Bartlett and Ghoshal, 1995; Buckley and Casson, 1998), configuration of international strategic alliances (e.g., go-to-market, governance, and success factors of international joint ventures: Child and Tse, 2001; Meschi and Cheng, 2002; Nippa, Beechler, and Klossek, 2007), international market-entry strategies (i.e., partner selection, timing, legal forms: Brouthers and Hennart, 2007), strategy definition and strategic control in multinational companies (Gupta and Govindarajan, 1991; Prahalad and Doz, 1981;

Wunder, 2005), and human resource management (Athanassiou and Nigh, 1999). To conclude, the growing relevance of internationalized business operations is largely reflected in recent academic attempts in the field of strategy and management research.

Portfolio Management: The rise of strategic management as a research field and as a corporate activity was strongly driven by the emergence of corporate portfolio concepts in the early 1970s (e.g., Henderson, 1970; Wind, 1974; Wright, 1978). The concepts were particularly supposed to enable management to achieve several corporate objectives: namely, gain a transparent overview of the portfolio of businesses (Haspeslagh, 1982), allocate capital and managerial resources (Bettis and Hall, 1981), and formulate alternative development options for individual businesses (Wind and Mahajan, 1981). The subsequent research focused predominantly on evaluating and criticizing the initial concepts. Researchers in this field, for example, deny the validity of portfolio concepts at large (Ansoff, Kirsch, and Roventa, 1982; Seeger, 1984), question underlying assumptions (Hax and Majaluf, 1983; Wensley, 1981, 1982), or criticize the inadequate application of these instruments (Day, 1977; Morrison and Wensley, 1991). Extensive criticism did not, however, lead to new ideas that conceptually enhance the current thinking or instruments. In addition, portfolio management approaches were never substantially discussed in conjunction with alternative roles or value-added strategies of headquarters. To conclude, academic research in this field of strategy is largely outdated, has not kept up with the requirements of practice, and does not recognize the practical salience attributed to the role of the corporate center.

Role of the Center: Chandler's *Strategy and Structure* (1962) designates the rise of multi-business companies, characterized by a headquarters and relatively autonomous units, as the most significant organizational phenomenon of the last century (Collis, Young, and Goold, 2007). A key observation in his seminal study was the unique set of distinct activities a corporate center has to undertake (Chandler, 1962). Despite the prominent position of the corporate center, recent research largely neglects to theoretically develop or empirically specify its role and value-adding strategies. This becomes more important when contrasting this deficit to the volume of related research on, for example, the composition of business portfolios (Montgomery and Wernerfelt, 1988; Rumelt, 1974) or the organizational design of multi-business companies (Galbraith, 1995; Goold and Campbell, 2002a). Valuable exceptions are found in the research contributed by Bowman and Helfat (2001), Foss (1997), Markides (2002), or Roquebert, Phillips, and Westfall, (1996), who theoretically certify and empirically confirm corporate effects, that is, value creation by the corporate center. To conclude, this field of corporate strategy research currently suffers from a lack of empirical evidence and insufficient conceptual contributions on how to shape and configure a consistent and value-adding corporate strategy (i.e., how to manage business portfolios most effectively: Rumelt, Schendel, and Teece, 1994). This is particularly interesting as in the mid-1990s researchers from the Ashridge Strategic Management Centre have contributed a comprehensive concept that explicitly addresses the question of how headquarters add value to the units in a portfolio: the concept of parenting advantage.

The concept of parenting advantage introduced by Goold, Campbell, and Alexander offers a managerial guide and normative direction on the development of corporate-level strategies and value creation in multi-business companies (Goold et al., 1994, 1996, 1998). The concept is rooted in the basic principles of competitive strategy (Porter, 1985, 1987) and corporate organization (Chandler, 1962, 1991), and is particularly based on insights from a broad study of diversified companies in Great Britain in the late 1980s. The authors fundamentally criticize the dominant attempts to build up portfolios around core (technical) competencies (Prahalad and Hamel, 1990), develop structures and processes to expand them, and simultaneously neglect the development of an overall corporate strategy. The concept of parenting advantage, however, approaches these articulated deficits by placing the role of the corporate parent in center stage of the strategic management debate and primarily focusing on the capabilities and resources of the corporate headquarters (Adner and Helfat, 2003).

According to Goold et al. (1994), the main goal of corporate strategy should be to clarify how and where corporate parents' characteristics most beneficially fit with the specific needs of individual business units. Moreover, they postulate that corporate parents should not only formulate an effective strategy and make sure that they have a positive net value added to the business units in their portfolio, but they should also strive to be the best possible owner of them, i.e., to have substantial parenting advantage and add superior value (Campbell, Goold, and Alexander, 1995). In this way, parenting advantage should determine the nature of the businesses in the portfolio, the organization and structure of the corporate headquarters, its activities and relationships, and the ongoing portfolio management (Goold et al., 1994).

Even though this concept has quickly become an integral element of the curriculum at most international business schools, its practical application and scholarly acceptance has not lived up to expectations; therefore, it has never been fundamentally challenged or criticized by academic researchers. Most importantly, it has not been substantially developed since its introduction, resulting in the following <u>five</u> major deficits:

- *Limited insights on the theoretical importance*: A systematic review and analysis of the existing literature on the parenting advantage concept has not been undertaken since its first publication. Insights on academic reverberation, criticism, and contrasts with established theories are missing (Kivikko and Leppanen, 1995).

- *Lacking test of practical relevance and actual application*: There is only little, mainly qualitative research published in scholarly journals that analyzes how parenting advantage is actually applied with regard to defining and shaping corporate strategies (e.g., Bowman and Ambrosini, 2003; Owen and Harrison, 1995; Moore and Birtwistle, 2005). The impact of different market economies or structural factors, such as the relatedness of the business units in the portfolio, has also been little examined.

- *Insufficient operationalization*: There is no substantial research attempt to enhance the initial concept towards an effective framework that will precisely identify and specify the parenting advantage of a multi-business company. In particular, the concept has not been sufficiently concretized and operationalized to the level of specific value-added activities in multi-business companies.

- *Missing typology of parenting strategies*: The concept has never been used to fundamentally develop a robust typology of consistent and effective parenting strategies in corporate practice. Existing research rarely follows an explorative path and does not build on a solid empirical foundation (e.g., Collis et al., 2007; Goold and Campbell, 1987c; Hill, 1988; Markides, 2002; Porter, 1987; van Oijen and Douma, 2000). A performance assessment of alternative parenting strategies has accordingly been neglected.

- *Only partial transfer and adaption*: There are currently only limited and largely qualitative attempts to transfer the key premises of the parenting advantage concepts to business models, other than in the classical multi-business company (e.g., business groups of emerging markets: Mishra and Akbar, 2007). Only a few academic studies have been made to empirically analyze the impact of parenting activities on, for example, the performance of a private equity firm (e.g., Baker, 1992; Easterwood et al., 1989).

1.2 Outline of the Study

Based on these theoretical, conceptual, and empirical deficits, there is considerable interest from academics as well as practitioners in approaching the fundamental research objective of this study: "Managing business portfolios effectively – on the explanatory power of the parenting advantage concept". In order to approach this key objective, the research contribution presented in this study can be broken down into five single papers, each addressing one of the formulated deficits.

The first paper, *Exploring Parenting Advantage*, is a methodical and comparative literature review of the parenting advantage concept. More explicitly, it examines the reverberation of the concept by performing a systematic analysis of the existing literature, including a classification of the relevant publications, and a detailed discussion of the key contributions in noted strategic management journals. The analysis reveals that the concept has been well received and broadly applied to corporate functions, tasks, and markets. In contrast, there are no studies that (a) substantially look for empirical evidence for the premises of the concept, actual involvement in corporate-level decision-making, or the impact of company-specific characteristics; (b) describe how to precisely operationalize and measure parenting advantage; or (c) develop a sound typology of parenting strategies of corporate headquarters based on empirical data and analyses.

In order to close the (a) first gap as explored by the literature review the second paper, *Analyzing Parenting Advantage*, empirically analyses the effective role of parenting advantage for corporate-level decision making. It applies the data gathered through the broad management survey and substantially extends the analysis on the concept's significance for corporate strategy. In particular, the empirical investigation examines the practical relevance of the key value levers provided by the parenting advantage concept, identifies a set of broad approaches a corporate parent can choose to add value, intensifies the investigation on how parenting advantage is currently applied in portfolio management as a criterion, and investigates the major reason for its limited application: an insufficient operationalization.

Paper three, *Operationalizing Parenting Advantage*, picks up the second gap (b) as provided by the literature review: a missing academic contribution on how to precisely operationalize and specify parenting advantage. This request is also clearly mirrored in practitioners' needs: namely, the widespread use is hampered by a lack of adequate metrics and instruments to measure parenting advantage. Subsequent research therefore addresses this apparent gap by developing a theory-based framework derived from existing, well-established literature of strategic management and value creation in multi-business companies. The framework is to be understood as an enhanced concretization of the initial parenting advantage concept. It can be used to analyze the relevance of different value-adding activities, to investigate alternative parenting strategies of corporate parents, and finally to specify the parenting advantage of a given company. All the aspects mentioned are key components which, when addressed, form the fundamental research objective of this study. The developed framework is the theoretical foundation for these investigations.

In order to close the (c) third gap as explored by the literature review the fourth paper, *Identifying and Evaluating Parenting Strategies,* elaborates a sound typology of parenting strategies. It represents the empirical application of the previously developed framework. Based on a unique, hand-collected data sample from 150 global companies, a distinct set of value-adding and value-destroying drivers is first empirically ascertained. Multivariate analysis methods enable the development of a statistically robust typology of consistent and effective parenting strategies and substantiate broader parenting categories as explored in the second paper and other, mainly qualitative published studies. Finally, the evaluation of how these strategies are associated with overall company performance is conducted.

Do Parenting Strategies Pay Off for Private Equity Firms? (the fifth paper) develops an adapted, comprehensive parenting advantage framework for private equity (PE) firms and substantially examines the applicability to a business model other than in the classical multi-business company. Empirical data confirm a good adaption, which means that the concept of parenting advantage is a suitable framework to describe value creation in the PE context. Moreover, the paper elaborates how PE firms shape their roles as parent organizations and analyzes the extent and type of applied parenting activities. It provides empirical evidence that strategy and business development, along with changes to organization and management systems, and a set of distinct capabilities and managerial skills, have a significant impact on PE firm performance.

2 Exploring Parenting Advantage

2.1 Abstract

The concept of parenting advantage offers a clear framework and guiding principle for corporate-level decision-making, including corporate portfolio management and corporate organization. After its introduction in the mid-1990s, the concept was quickly adopted by many standard textbooks on strategic management and became an integral element of the curriculum at most business schools. In this paper, we examine the reverberation of the parenting advantage concept by performing a systematic analysis of the existing literature, including a classification of the relevant publications and a detailed discussion of the key contributions in noted strategic management journals. Our analysis reveals that the concept was well received and was broadly applied to corporate functions, corporate tasks, specific industries, and business environments in qualitative studies. In contrast, we have not found any studies that empirically analyze the impact of the parenting advantage concept on corporate-level decision-making or any conceptual publications which transfer the concept into an instrument for managing the corporate portfolio. We conclude by drafting a future research agenda for the advancement of parenting advantage as an effective concept for corporate-level strategy.

2.2 Introduction

In the mid-1990s, Goold, Campbell, and Alexander introduced the concept of parenting advantage as a guiding principle for corporate strategy decisions, including corporate portfolio management and corporate or-

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ganization (Campbell, Goold, and Alexander, 1995; Goold, Campbell, and Alexander, 1994, 1998). They postulated that corporations should strive to gain parenting advantage, i.e., to be the best possible owner for the businesses in their corporate portfolio, or sell businesses at favorable terms to better owners. According to the authors, the link between parenting advantage and corporate strategy closely parallels the link between competitive advantage and business strategy (Goold and Campbell, 1991; Goold et al., 1994, 1998).

The fundamental principle and key premises of the parenting advantage concept are broadly accepted in corporate strategy research. Our systematic review of the existing literature of parenting advantage identifies more than 30 publications in noted strategic management journals since its introduction. In particular, a number of publications have further refined the concept by applying it to specific corporate functions (e.g., portfolio analysis: Sadtler, 1999; planning processes: Campbell, 1999), corporate tasks (e.g., synergy management: Goold and Campbell, 1998; organizational design: Goold and Campbell, 2002a), industries (e.g., construction industry: Junnonen, 1998; luxury goods: Moore and Birtwistle, 2005) or specific business environments (e.g., demerger cases: Owen and Harrison, 1995; emerging markets: Mishra and Akbar, 2007). In addition, the parenting advantage concept was quickly adopted by many standard textbooks on strategic management (Grant, 2010; Johnson, Scholes, and Whittington, 2008; Pettigrew, Scholes, and Whittington, 2006) and became part of the curriculum at many international business schools. At the same time, our review of the relevant literature reveals that strategic management scholars made no attempts to fundamentally criticize parenting advantage or to explore the concept in a broad, state-of-the-art analysis. Furthermore, we found no study that substantially examines empirical data in order to disclose the actual relevance for corporate-level strategy (empirical evidence), or that significantly transfers the concept into an instrument for managing the corporate portfolio (conceptual enhancement).

The present paper will shed light on the apparent gap between general acceptance of the parenting advantage concept and its integration into the repertoire of strategic management on one hand, and the academic neglect and missing advancement on the other hand. In particular, our objectives are to systematically review, classify, and evaluate the existing literature on parenting advantage, to soundly expose current research shortcomings, and finally to derive future research directions. The paper is structured as follows: overview of the parenting advantage concept and its key premises; systematic literature review and in-depth discussion of the key contributions in noted journals; agenda for further research initiatives.

2.3 The Concept of Parenting Advantage

Goold, Campbell, and Alexander introduced the parenting advantage concept in their seminal book "Corporate-Level Strategy" (Goold et al., 1994). The following overview of the concept and its key premises is based mainly on this source. Further academic publications are partly added to support selected elements of the concept. Origins, academic reverberation and application will be discussed in detail in the next chapters.

Parenting advantage is meant to be a guideline for the two primary questions of corporate strategy: (1) In what businesses should the company invest its resources? (2) How should the corporate parent influence and relate to the businesses under its control? Based on in-depth analyses of parenting approaches and corporate strategies of 15 successful multi-business companies over several years, Goold, Campbell, and Alexander developed a general theory of parenting advantage and a corresponding framework for assessing and developing corporate strategy. The concept combines established theories of corporate strategy (e.g., Ansoff, 1965; Porter, 1987) with theories of the role of the corporate headquarter (Chandler, 1991) and theories of different management styles in diversified multi-business companies (Goold and Campbell, 1987a, 1987b, 1988).

The parenting advantage concept places the role of the corporate parent in center stage of the strategic management debate. In this way, it is clearly distinct from the core-competence theory that focuses on technical or operating competencies that are common to all businesses (Kivikko and Leppanen, 1995; Prahalad and Hamel, 1990). The corporate parent is defined as the corporate hierarchy of line managers, functions, and staffs outside the businesses of a multi-business company. The corporate parent is responsible for making corporate-level decisions, e.g., defining the organizational structure of the corporation, establishing rules for budgeting and investment processes, deciding on acquisitions and divestitures, and setting the tone for corporate values and attitudes.

2.3.1 Value Creation by the Corporate Parent

The first key premise of the parenting advantage concept is that corporate parents must focus on how they can create value: Why will a group of potentially independent businesses benefit from being owned by a common corporate parent? There are four basic sources of corporate value creation:

- *Stand-alone influence*: The corporate parent directly influences the strategies and performance of the individual business units by appointing business unit general managers, by exerting budgetary control, by proving strategy reviews and functional specialist skills, and by making capital investment decisions.

- *Linkage influence*: The corporate parent seeks to create value by enhancing and fostering the realization of operative synergies between the business units by aligning several elements of organization design, including decision-making processes and structures, policies and guidelines, and transfer pricing mechanisms.

- *Central functions and services*: The corporate parent facilitates cost-efficient services and functional leadership by providing the central resources or central capabilities that are required by the business units, by establishing bundled group-wide services, or by offering beneficial access to capital and labor markets.

- *Corporate development*: The corporate parent creates value by altering the composition and configuration of the corporate portfolio by spotting opportunities to buy new businesses cheaply, by creating new ventures that provide profitable future growth opportunities, by redefining business units in ways that make them more competitive, or by selling businesses at favorable terms to new owners.

The stand-alone influence effect is of essential importance for many companies, and the range of value levers is wide and varied. Corporate parents can provide their businesses with an overall strategic direction or specific expertise on management topics (e.g., strategic planning: Chandler, 1991). They can create internal capital markets and allocate resources more efficiently than external markets (e.g., Chatterjee and Wernerfelt, 1991; Lewellen, 1971; Stein, 1997; Williamson, 1975). Furthermore, corporate parents can add value to their businesses by prohibiting value-destroying behavior through strict performance monitoring (Liebeskind, 2000), or directly control and improve performance by interfering in operational activities (e.g., manager replacement, management rotation, assistance in turnaround activities: Bowman and Helfat, 2001).

The linkage influence effect is achieved by the corporate parent actively fostering operational synergies and knowledge-sharing within the corporate portfolio (Goold and Luchs, 1993; Goold and Campbell, 1998; Martin and Eisenhardt, 2001). A major source of cost savings can be the realization of economies of scope due to cooperative actions within an integrated value chain (Markides and Williamson, 1996; Teece, 1982). This may lead to lower transfer prices compared to procurement at arm's-length conditions. In addition, costs may be saved through combined purchasing power on supplier markets.

The corporate parent can establish central functions and provide central resources, central assets (e.g., umbrella brands), and central capabilities that are required by the businesses (e.g., risk management: Markides and Williamson, 1996). Furthermore, the businesses can benefit from cost advantages through economies of scale exploited by using centrally bundled functions and resources (e.g., IT, accounting services).

Finally, the corporate parent can create value through corporate development activities by spotting opportunities to buy new businesses cheaply, creating new ventures that provide profitable future growth opportunities, redefining businesses in ways that make them more competitive, or selling businesses at favorable terms to new owners.

2.3.2 Value Destruction by the Corporate Parent

However, research on corporate diversification and conglomerate discounts has demonstrated that the majority of corporate parents fail to create value for their businesses (Berger and Ofek, 1995; Lang and Stulz, 1994; Servaes, 1996; Wernerfelt and Montgomery, 1988). This leads to the second key premise of the concept: Corporate parents must ensure that their parenting approach does not lead to value destruction exceeding any value that has been created. In other words, the net parent value added must be positive.

There are many ways how a corporate parent can destroy value for the businesses in its portfolio (Grant, 1991; Mahajan and Wind, 1988; Spender, 1994). Corporate-level managers tend to be overly optimistic about their own skills (Hitt, Harrison, and Ireland, 2001). In many cases, they fail to adequately take into account initial investments in new markets or products. There are also risks inherent in over-investments in marketing activities, in over-designing of new products, or in mismanagement of the supplier base. These negative influences can frequently be traced back to insufficient skills and expertise with regard to the strategic success factors of the businesses (Hitt et al., 2001). In addition, weak businesses are shielded from healthy capital market pressure and may receive internal financial funding for too long (Lange, Boivie, and Henderson, 2009; Rajan, Servaes, and Zingales, 2000; Scharfstein and Stein, 2000).

Furthermore, managers and shareholders may have different objectives, which can lead to principal-agent problems. For example, corporate-level managers tend to invest in familiar businesses (Prahalad and Bettis, 1986) or pursue their own goals at the expense of shareholder wealth (favoring corporate risk diversification or growth over value in order to minimize their own job risk or build empires at corporate level: Shin and Stulz, 1998). Moreover, corporate parents might use the firm's internal cash flows to finance pet projects or keep projects alive only to justify past decisions (Williamson, 1975).

2.3.3 The Question of Best Ownership

While net positive value added by the corporate parent is a necessary requirement, the third key premise of the parenting advantage concept proposes a more ambitious aspiration: Parenting advantage is defined as the corporation being the best possible owner for its businesses. In aggregate, the businesses in the corporate portfolio should perform not only better than they would as stand-alone entities, but also better than they would under the control of any other corporate parent (Collis and Montgomery, 1998). Otherwise, more value could be created by selling some of the businesses to a better owner.

To summarize, the parenting advantage concept offers a clear framework for corporate strategy: Parenting advantage should be the guiding principle for all corporate-level decisions; it should determine the nature of the business units in the portfolio, the structure and organization of the corporate parent, its activities and relationships. The main goal of corporate strategy should be to clarify how and where the company can achieve parenting advantage. In order to create value, the characteristics of the corporate parent must be compatible with the success factors of the units and their specific parenting opportunities.

2.4 Systematic Literature Review and Analysis

In accordance with the first objective of the present paper—reviewing and classifying the academic adoption of the parenting advantage concept since its introduction—we perform a systematic analysis of the existing literature dealing with the concept of parenting advantage. The literature analysis is structured as follows. First, we describe the (1) methodology, the research approach, and the (2) classification of the literature in order to prepare the comprehensive review of relevant publications, and to expose current research gaps. Then, we discuss in detail papers dealing with the (3) origins of the concept, (4) applications to corporate functions and tasks, (5) applications to industries and business environments, and (6) empirical evidence for the key premises of the parenting advantage concept.

2.4.1 Methodology and Research Approach

In order to achieve a comprehensive yet distinct sample of literature dealing exclusively with the concept introduced by Goold, Campbell, and Alexander, the relevant research object (items) is limited to "parenting advantage" combined with common terms from strategic management literature. The following terms were defined as research items and used for our systematic analysis: "parenting advantage"; "parenting" AND "corporate-level strategy"; "parenting" AND "corporate center"; "parenting" AND "value creation". The EBSCO database offers an advanced research mode of noted journals on strategic management, corporate strategy, corporate organization, corporate finance, etc.

While covering a time frame from 1990 to 2010, all defined items were applied to the whole set of incorporated journals on the EBSCO database in April 2010. In order to reach maximum coverage, we used a full-text research procedure, examining all passages within the targeted publications (i.e., abstracts, full text, references, etc.), and identified a total sample of 104 hits associated with one or more of the predefined research items. In order to separate the relevant publications from the broad outcome of our full-text research, we analyzed the total sample of hits (104), subtracted those with lower relevance (73), and kept a final set of 31 relevant publications to be researched and examined in detail.

First, we subtracted full articles covering a different scientific field and having nothing to do with the focused concept of parenting advantage (17). For example product development processes, or corporate communication in emerging markets, or even more different, sociological publications dealing with child education or parent-child relationships. Then, we subtracted hits that were not full articles (indices, references, summaries). These hits are referring to the issue of parenting advantage, but cannot be classified as academic contributions for further research (11). Some of the commentaries and references deliver valuable input to the research debate, but are not sufficiently substantiated or detailed enough.

Moreover, we cut the total sample down by subtracting articles that only mention the concept of parenting advantage, but do not work with it in detail. They typically focus on different business topics, rather than elaborating specific facets and aspects of the concept introduced by Goold, Campbell, and Alexander (34). In a nutshell, they refer to it as a school of thought, a source of input, or a theoretical contribution to build on. In order to reduce double counting, we finally subtracted single chapters from the book "Corporate-Level Strategy" (Goold et al., 1994), which is naturally included as the prime and assembled source of the present paper (11).

As a result, by using a top-down research procedure, 31 hits were identified and evaluated as relevant sources for further review, classification, and evaluation.

Table 1. Top-down Literature Analysis Procedure

Procedure steps	*Absolute hits (#)*	*Relative frequency*
Total sample from EBSCO database	104	100%
1. Subtract: Different scientific field	-17	-16%
2. Subtract: No full journal article	-11	-11%
Index or Glossary	-2	-2%
References or Commentary	-4	-4%
Summary	-5	-5%
3. Subtract: Concept mentioned, not elaborated	-34	-33%
Diversification	-3	-3%
Corporate strategy	-13	-13%
Corporate resources and capabilities	-3	-3%
Other topics (e.g., CSR)	-6	-6%
4. Subtract: Book chapters (i.e., already included)	-11	-11%
Relevant sample	31	30%

2.4.2 Classification of Relevant Literature

Taking preparatory work towards the concept of parenting advantage into account, the relevant sample of literature can be classified into four major groups: (1) origins of the concept, (2) qualitative applications, (3) empirical evidence; and (4) conceptual enhancement.

Table 2. Classification of Relevant Literature

Origin	Qualitative application		Empirical evidence		Enhancement
Initial concept	*Functions & tasks*	*Markets & industries*	*Key premises*	*Practical relevance*	*Transfer into instrument*
Goold / Camp. (1987a)	Baiman et al. (1995)	Owen / Harrison (1995)	Goold et al. (2001)		
Goold / Camp. (1987b)	Alexander et al. (1995)	Junnonen (1998)	Goold / Young (2005)		
Goold / Camp. (1987c)	Goold / Camp. (1998)	Collis / Montg. (1998)	Collis et al. (2007)		
Goold / Camp. (1988)	Campbell (1999)	Dess et al. (1998)			
Goold / Camp. (1991)	Sadtler (1999)	Boxall / Purcell (1998)			
Sadtler (1993)	Goold / Camp. (2002a)	Goold / Camp. (2002b)			
Goold / Luchs (1993)	Bowman / Ambr. (2003)	Moore / Birt. (2005)			
Goold et al. (1993)	Cramer et al. (2004)	Mishra / Akbar (2007)			
Goold et al. (1994)					
Campbell et al. (1995)					
Goold et al. (1996)					
Goold et al. (1998)					
12	8	8	3	0	0

Almost two thirds of the relevant literature are dealing with initial conceptual work or apply parenting advantage qualitatively to specific business environments (e.g., corporate functions or specific markets). While the concept is intellectually very convincing and was published in well-known journals on strategic management (e.g., Strategic Management Journal, Long Range Planning, Harvard Business Review, Planning Review), we were surprised to discover, that it has not been fundamentally challenged or criticized by researchers since its full introduction in the mid-1990s.

Further authors enriched the discussion fundamentally, but none of them explored the concept in a systematic review. Beyond that, the classification of the relevant literature yielded no empirical study that broadly investigates the impact of parenting advantage on corporate-level decision-making. Furthermore, there was no significant attempt to transfer the concept into an instrument for management practice, i.e., a conceptual enhancement towards a vital management application (Table 2).

2.4.3 Origins of the Concept

In the late 1980s, Goold and Campbell researched decision-making at the corporate level in diversified British companies by analyzing distinct corporate management styles and specific requirements of different businesses (Goold and Campbell, 1987a). They put forward three alternative philosophies for building and managing a diverse portfolio without running the organization into unmanageable complexity. All three approaches are meant to help corporate management address particular needs of the businesses with specific corporate skills rather than managing the whole portfolio with a dominant style (Goold and Campbell, 1987a).

The idea of multiple ways to successfully run a corporate portfolio was further detailed by Goold and Campbell in 1987 (Goold and Campbell, 1987b). According to the authors, managing diversified corporations is in essence managing the relationship between central executives and business unit management. Hence, the best way to handle this interface depends fundamentally on the nature and specific needs of the different businesses, on the styles of corporate management, and on the underlying corporate strategy and goals (Goold and Campbell, 1987b, 1988).

Finally, in their basic thoughts on corporate-level strategies (Goold, Campbell, and Luchs, 1993) and the question of best ownership (Goold and Campbell, 1991; Sadtler, 1993), Goold et al. primarily focus on connecting established theories of corporate strategy (Porter, 1987) with Chandler's thoughts on value creation through corporate activities, resources, and effective administration (Chandler, 1991).

All mentioned publications can be understood as preparatory work (origins) covering different aspects of the later framework called "parenting advantage," which was comprehensively introduced in 1994.

2.4.4 Application to Corporate Functions and Tasks

A number of publications have further refined the parenting advantage concept by applying it to specific corporate functions and tasks, including corporate planning, corporate portfolio analysis, synergy management, organizational design, and corporate social responsibility. We will highlight the major findings of these publications in the following.

Campbell (1999) applies the parenting advantage concept to the corporate planning area (Campbell, 1999). He claims that planning processes should be unique and company-specific and based on the characteristics, strengths, and resources of the corporate parent in order to create parenting advantage. Procedures should be tailored to match the specific needs of the businesses, rather than being built upon best-practice examples. If the planning processes have the wrong outline, there is the risk of the corporate parent wasting time and money (e.g., inefficient communication, feedback loops: Alexander, Campbell, and Goold, 1995), sending wrong signals (e.g., inadequate target-setting), or providing poor advice (e.g., lack of business-specific knowledge).

Sadtler (1999) uses the parenting advantage concept to complement more traditional approaches to corporate portfolio analysis (Sadtler, 1999). He claims that the two questions of most established portfolio frameworks—(1) Is this an attractive industry? and (2) Are we competitively strong?—are not sufficient to understand whether a business can be expected to perform well. Sadtler (1999) suggests that the corporate context must also be considered by incorporating a third question: Do we have the right parent? The different combinations of answers to these three questions lead to different implications and roles for the businesses in the corporate portfolio.

Goold and Campbell (1998) further operationalize the linkage influence lever for corporate value creation and relate it to the broader synergy management research (Goold and Campbell, 1998). They identify four biases explaining why synergy initiatives often fall short of management's expectations: (1) synergy bias, (2) parenting bias, (3) skill bias, and (4) upside bias. They find that management generally sets the synergy target too high, interferes too much with operational realization, overestimates its own abilities, and fails to reflect key risks. From parenting advantage theory, Goold and Campbell derive recommendations on where the corporate parent should get involved (or not) as well as how to avoid mistakes, quantify synergies, and develop capabilities to support the businesses in exploiting synergies.

Goold and Campbell (2002a) also apply the parenting advantage concept as a guideline for organizational design (Goold and Campbell, 2002a). They assert that in most companies, organizational design is less the outcome of systematic planning than of evolution over time and individual influences. Organizational structures are set more by politics than by policies. Based on a toolkit of nine tests, the authors provide precise guidance on how a company's organizational structure can be analyzed and reviewed for quality. One of the key tests is the parenting advantage test: Does the organizational design help the corporate parent add value to the organization?

Earlier research of Baiman, Larcker, and Rajan (1995) finds empirical evidence for the relevance of parenting advantage for organizational structure decisions: The corporate parent's task expertise relative to that of the businesses is a major determinant for task allocation and organizational design (Baiman, Larcker, and Rajan, 1995). Bowman and Ambrosini (2003) also apply the resource-based view and parenting advantage concept to the question of corporate organization: Using the dynamic capability perspective (Teece, Pisano, and Shuen, 1997), they derive six distinct modes of corporate resource creation and identify the organizational configurations best suited to deliver the respective resource creation mode (Bowman and Ambrosini, 2003).

Finally, the parenting advantage concept has also been applied to more specialized corporate tasks. Cramer, Kim, and Erik (2004) use parenting advantage to analyze corporate value creation from corporate social responsibility programs at a sample of Dutch companies (Cramer, Kim, and Erik, 2004). They find evidence that corporate social responsibility activities can be a source of parenting advantage and that all four levers of corporate value creation can serve as mechanisms for businesses to benefit from such initiatives.

The review shows that several attempts were made to link parenting advantage with various corporate areas. However, none of them discusses how the key premises can be substantially anchored in corporate processes, roles, and activities.

2.4.5 Application to Industries and Business Environments

Another stream of research tries to further enrich the parenting advantage concept by applying it to specific industries (e.g., construction industry, luxury goods in fashion) or business environments (e.g., demerger cases, emerging markets, and multi-level management structures). Again, we will highlight the major findings of these publications in the following.

Owen and Harrison (1995) discuss circumstances and implications of a historically grown mismatch between corporate parent characteristics and critical requirements of single businesses. By outlining the unavoidable demerger of a large, diversified corporation, they analyze in detail how different sets of businesses need unique parenting approaches to run operations effectively, gain competitive advantage, and maximize corporate value. They conclude that parenting skills developed in one phase of an industry's evolution may in the next phase become less relevant for the affected businesses. Hence, corporate managers should react in time and initiate appropriate activities to build up new parenting skills and policies, focus on core businesses, or change the structure of the corporate portfolio (Owen and Harrison, 1995).

Junnonen (1998) looks at strategy development in construction firms and calls for a high priority of the parenting advantage concept as a guideline for both the selection of businesses to be included in a corporate portfolio and the organizational design of the corporate parent (Junnonen, 1998). Clear structures and the unequivocal allocation of tasks and responsibilities between the company units (corporate parent and business units) based on a good understanding of parenting advantage are of particular importance in this industry.

Dess, Picken, and Janney (1998) include the question of best ownership into their checklist of questions and guidelines for making diversified organizations work (strategic inventory). By using the example of an international acquisition, they demonstrate how the acquirer applies a distinctive parenting approach in order to help its new business units raise their manufacturing performance, improve their cost base, and synchronize the accounting, planning, budgeting, and human resource systems (Boxall and Purcell, 2000), i.e., to leverage its parenting advantage towards the acquired company (Dess, Picken, and Janney, 1998).

Moore and Birtwistle (2005) examine the application and nature of parenting advantage in luxury fashion retailing (Moore and Birtwistle, 2005). Based on a ten-year longitudinal study of the Gucci Group's brand management strategy, resource investments, and business development activities, they find that (1) the transfer of branding skills and (2) the fostering of intra-group synergies are the principal dimensions of parenting advantage in the Gucci Group. Both are identified as the major drivers for its transformation from a company on the verge of bankruptcy to one of the world's largest luxury groups.

Mishra and Akbar (2007) extend the parenting advantage concept to the context of emerging markets and business group structures (Mishra and Akbar, 2007). They find that all four basic sources of corporate value creation are also available to the companies in a business group as compared to stand-alone companies. Of particular relevance in an emerging-market context are benefits of reputation and sociopolitical clout, economies of scale from centralization of certain functions, synergies from resource coordination opportunities, and corporate development activities (portfolio management).

Another application of the parenting advantage concept involves its transfer from dual-level management structures (corporate parent and single units) to multi-level management structures (Goold and Campbell, 2002b). The more complex the underlying organizational structure is, the more complicated and specific the allocation of tasks and responsibility becomes. As a result, the traditional match of parenting characteristics and business needs of the concept is blurred and the focus on the role and value creation of the corporate parent is less obviously relevant. There are some particular changes in the nature of the corporate parent involvement: (1) the corporate parent has to share more responsibilities with the businesses; (2) a stronger focus on linkage advantages for the corporate parent may be required; (3) control processes are more complicated and complex; and (4) the organizational setup requires ongoing fine-tuning. The clear-cut distinction between the two major organizational elements is eliminated, and parenting activities are methodologically established on more than just one organizational level. Despite the modifications due to complex corporate structures, the principles of the parenting advantage concept remain intact. Hence, the question of best ownership is still important, each management level should still have distinctive, complementary responsibilities, and the role of the corporate parent is still vital in designing and managing effective interdependent organizational structures.

To conclude, the set of qualitative applications of the parenting advantage concept to industries and business environments is broad and versatile. Yet, all publications are unified by one fact: they claim practical relevance for the concept, but do not empirically test it.

2.4.6 Empirical Evidence for the Key Premises

We have found only few publications that look for empirical evidence of the premises of the parenting advantage concept. The most significant one is by a major international research collaboration that investigates the size and structure of corporate headquarter staffs of more than 600 headquarters in Europe, the US, Japan, and Chile (Collis, Young, and Goold, 2007; Goold et al., 2001). The study confirms that the size and structure of the corporate headquarter is strongly influenced by the company-specific approach to parenting advantage: Besides company size, the three key factors that account for many of the differences between headquarters are the amount of functional influence exerted by the headquarters, the level of linkages between businesses in the corporate portfolio, and the corporate policy on shared services (Goold et al., 2001). Analysis of corporate performance data provides no support for the view that "lean and mean" headquarters lead to better performance (Young and Goold, 2001).

To conclude, there is only limited empirical evidence, but the results of the most significant study rather support the assertion of the parenting advantage concept that headquarters should be designed to fit the corporate strategy.

2.5 Research Agenda

To summarize, the systematic review and analysis of the academic reverberation of the parenting advantage concept shows that the concept is broadly accepted in the academic world, was quickly adopted by many standard textbooks on strategic management (e.g., Grant, 2010; Johnson et al., 2008; Pettigrew et al., 2006), but was never fundamentally challenged or criticized by researchers, nor has it been explored in a broad, systematic analysis. In a number of studies, the concept has been qualitatively applied to specific corporate functions and tasks as well as to different industries, markets and specific business environments.

At the same time, we found no study that empirically investigates the practical relevance and application in corporate strategy, nor any substantial attempt to transfer the concept into an instrument for management practice. Both articulated gaps disclose the need for further research efforts and frame the starting point for the following agenda of future research directions.

2.5.1 Relevance and Application

Our review of the existing literature made clear that there is a deficit of studies that look for empirical evidence for the premises of the parenting advantage concept. Thus, future efforts should focus on analyzing the perceived relevance of the concept, current usage in management practice, actual involvement in portfolio and strategy decision-making, tool implementation, the link to company performance, and the impact of company-specific characteristics (e.g., size, market economy, and portfolio structure).

For example, such an investigation could be operated in a broad survey among corporate executives and cover the following research questions:

- *Relevance*: How relevant are the principle and levers of parenting advantage from the perspective of corporate managers?
- *Consideration*: To what extent is the parenting advantage concept actually used for managing the corporate portfolio?
- *Application*: How do corporate managers measure their specific parenting advantage (qualitative versus quantitative evaluation)?
- *Effectiveness*: What are key barriers for a broader and more effective application of the parenting advantage concept?

2.5.2 Identification of Parenting Strategies

Following the analyses on the relevance and application of the concept, further research should identify, unique approaches of parenting advantage in corporate strategy (clusters), classify and analyze their individual value added approach, examine the underlying causes for the different approaches (portfolio structure), and discuss managerial implications and further research options. In particular, the typology should account for the following dimensions:

- *Value creation focus*: Alternative levers of value added (set of value sources from the parenting advantage concept)

- *Portfolio structure*: Relatedness of business units, degree of business autonomy, and overall steering philosophy

- *Company-specific factors*: Market economy, industry affiliation, geographical focus, company size, and ownership structure

- *Performance*: The total net value creation for a given business unit of being part of a corporate portfolio

Such a typology of parenting approaches could improve the current understanding of applied corporate value creation strategies, structural differences between distinctive approaches, and best practices of competing governance models.

2.5.3 Operationalization of the Concept

Finally, there is no research published in noted strategic management journals that describes what an appropriate framework to identify the specific parenting advantage of a company should look like, i.e., how parenting advantage should be operationalized.

This gap should be closed by translating parenting advantage into a strategic diagnostics instrument for further academic research. In particular, the concept should be embedded in a comprehensive, theory-based framework that systematizes relevant drivers of corporate value added and corporate value destroyed.

It is meant to advance existing techniques of corporate portfolio management based on a better understanding of corporate value creation strategies, relevance of competing sources of corporate value added and corporate value destroyed, a typology of different parenting approaches and governance policies in corporate strategy, and the foundation of a robust performance assessment of different parenting approaches.

The diagnostics instrument should incorporate the following features:

- *Theory foundation*: Since the concept of parenting advantage should be embedded into a general framework on corporate value creation, the instrument must build on a broad theoretical foundation. This means that next to the parenting advantage theory also other schools of thought have to be integrated into the framework.

- *Multi-perspective*: Both, the corporate and the business perspective on value creation should be covered by the instrument (corporate resources and capabilities and horizontal synergies).

- *Value balance*: Finally, the diagnostics instruments should incorporate value-adding and value-destroying aspects (e.g., strategic guidance and support as well as cost and inefficient processes induced by the corporate parent).

Our systematic review, classification, and evaluation of the existing literature on parenting advantage were essential first steps to soundly expose current research gaps. The drafted research agenda should lay the ground for future research attempts in this field and give a first outlook on what is required to further advance parenting advantage as an effective concept for corporate-level decision-making.

3 Analyzing Parenting Advantage

3.1 Abstract

We empirically analyze the parenting advantage concept's relevance for corporate strategy, identify different types of parenting approaches, and investigate the actual application of parenting advantage in corporate portfolio management. We find that parenting advantage is considered highly relevant for corporate strategy and portfolio management; that there are distinct types of parenting approaches in corporate practice; that portfolio structure and cultural differences strongly affect a company's choice of parenting approach; and that the main deterrent to more effectively applying the parenting advantage concept for corporate-level management is a lack of operationalization that specifies sources of parenting advantage, and which evaluates the effectiveness of different parenting approaches.

3.2 Introduction

Managers at the corporate level make critical decisions on four primary aspects of strategy: the product-market mix, i.e., the level of diversification (Ansoff, 1965); the international scope, i.e., the geographic footprint of operations; the techniques of ongoing portfolio management, i.e., the processes, organization, and toolbox of instruments for analyzing and managing the portfolio (Johnson, Scholes, and Whittington, 2008); and the parenting role, defined as the responsibilities and functions of the corporate parent for managing the corporate portfolio (Chandler, 1991).

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The concept of parenting advantage offers a comprehensive framework to support decision-making on these primary aspects of corporate strategy (Goold, Campbell, and Alexander, 1994, 1998). The concept places the corporate parent's headquarters at the center of the strategic management debate, and it offers a guiding principle for corporate-level decisions, including parenting approaches and portfolio management practices. Companies should strive to gain a parenting advantage, i.e., either to be the best possible owner for the business units in their portfolio, or to sell them at favorable terms to better owners (Campbell, Goold, and Alexander, 1995). Hence, the quest for parenting advantage should determine the nature of the business units in the corporate portfolio, the structure and organization of the corporate parent, and its economic activities and relationships (Goold et al., 1994).

The parenting advantage concept was introduced in 1994. Our systematic review of the relevant literature reveals that only few academic efforts have been made to empirically investigate the practical relevance of the concept and its application in corporate strategy and portfolio management. (For a detailed review see chapter 2). Our goal in this paper is to close this gap by presenting exploratory findings on parenting approaches in corporate strategy, analyzing the impact of portfolio structure and culture, and discussing the results and implications for both strategic management research and corporate decision-making. Our analyses are based on data from a 2009 global survey among senior executives.

Our primary research objectives are to investigate the perceived relevance of parenting advantage for corporate strategy; to identify different types of parenting approaches in corporate practice; to examine the impact of portfolio structure and culture on the choice of parenting approach; and to analyze the actual application of the concept for managing the corporate portfolio.

The chapter is structured as follows. In Section 3.3 we review the concept of parenting advantage and develop our key research questions. In Section 3.4 we describe the survey instrument, the empirical data, and the measures we use. In Section 3.5 we present the results of the empirical analyses and discuss them in detail. We conclude in 3.6 by outlining fruitful avenues for further research.

3.3 Parenting Literature Review and Research Questions

3.3.1 Theoretical Foundation

In the 1990s, the concept of parenting advantage was introduced as a guideline for strategic decision-making at the corporate level (Campbell et al., 1995; Goold et al., 1994). The concept addresses two primary questions in corporate strategy: "In which businesses should the company invest its financial and managerial resources?" and "How should the corporate parent influence and relate to the businesses under its control?" The concept is rooted in the principles of competitive strategy (Ansoff, 1965; Porter, 1985, 1987) and corporate organization (Chandler, 1991). It is based primarily on insights from a broad study of diversified companies in the United Kingdom (UK) in the late 1980s (Goold et al., 1994). Here, the authors observe that many companies act according to the core competence theory (Peters and Waterman, 1993; Prahalad and Hamel, 1990), i.e., they try to build up their portfolios around technical competencies, and they develop structures and processes to expand and improve those competencies. Goold et al. (1994) criticize this theory, saying that many companies do not have an overall strategy due to the exaggerated focus on core competencies, and that the existence of successful conglomerates having unrelated diversified portfolios cannot be explained by the core competence theory.

Accordingly, the concept of parenting advantage addresses these deficits and places the role of the corporate parent in focal point of the strategic management debate (Rumelt, Schendel, and Teece, 1994). The authors postulate that corporate parents should not only formulate an effective overall strategy and make sure that they have a positive net value added to the business units in their corporate portfolio, but that they should also strive to be the best possible owner of their business units (Goold et al., 1994). The parenting advantage concept identifies four potential sources of value creation by the corporate parent:

- *Stand-alone influence*: The corporate parent influences the strategies and performance of the business units through distinctive capabilities and resources.

- *Linkage influence*: The corporate parent seeks to create value by enhancing and fostering linkages among the business units in its portfolio (synergies).

- *Central functions and services*: The corporate parent establishes central functions and creates value by providing functional leadership and cost-efficient services.

- *Corporate development*: The corporate parent creates value by altering the composition of the corporate portfolio.

According to the parenting advantage concept, the main goal of corporate strategy should be to clarify where and how the corporate parent's characteristics will fit best with the specific needs of individual business units, i.e., where the company can achieve and maintain a parenting advantage compared to other potential owners (Goold et al., 1994). In this way, parenting advantage should determine the nature of the business units in the portfolio, the structure and organization of the corporate parent, and its activities and relationships.

3.3.2 Practical Relevance

By systematically reviewing relevant journals on strategic management and corporate strategy for empirical contributions (for a detailed review see chapter 2), we have identified only a few studies that have explicitly addressed the practical relevance of the parenting advantage concept since its introduction in 1994. Collis, Young, and Goold (2007) conducted a survey of more than 400 top executives at European, American, Japanese, and Chilean companies in various sectors, based on the Ashridge Strategic Management Centre's 1993 survey of UK headquarters (Young and Goold, 1993; Goold, Pettifer, and Young, 2001) and a pilot survey in the UK in 1996 (Young et al., 2000). Collis, Young, and Goold found that the size and structure of the corporate center was strongly influenced by the company-specific parenting approach and the corporate strategy design (a core hypothesis of the parenting advantage concept), but they did not specifically investigate the concept's importance for strategic management and its prevalence in corporate practice.

Another stream of research qualitatively investigates the relevance of the parenting advantage concept by applying it to specific industries and markets (e.g., construction industry, Junnonen, 1998; luxury goods in fashion, Moore and Birtwistle, 2005) or specific business environments (e.g., demerger cases, Owen and Harrison, 1995; multi-level organizations, Goold and Campbell, 2002b). These studies conclude that the parenting advantage concept can be applied to a broad set of questions in strategic management and should play an important role in corporate practice, but none of them empirically investigates its actual relevance. This leads to our first research question:

(1) How relevant is the parenting advantage concept for corporate practice, and how do the four distinct sources of value added differ in terms of perceived relevance?

Little is known about how the individual sources of value added, as defined by the parenting advantage concept (Goold et al., 1994), can be combined into consistent and effective parenting approaches. The research on parenting approaches rarely follows an explorative path and does not build on a solid empirical foundation (e.g., Collis et al., 2007; Goold and Campbell, 1987c; Hill, 1988; Markides, 2002; Porter, 1987; van Oijen and Douma, 2000). A robust typology of parenting approaches that is derived from empirical data is needed as a basis for understanding what drives the specific parenting approach of a given company, and how different parenting approaches are related to company performance. This leads to our second research question:

(2) Which distinct types of parenting approaches can we observe in corporate practice?

3.3.3 Portfolio Structure and Culture

Our review of the strategic management literature on underlying drivers that may explain a company's choice of its specific parenting approach leads us to two potential influencing factors: portfolio structure and culture.

Portfolio structure: The relatedness between the business units in the corporate portfolio may influence the choice of parenting approach. Following Rumelt's strategic categories (Rumelt, 1974), we distinguish three fundamental portfolio structures: focused portfolios, related-diversified portfolios, and unrelated-diversified portfolios. We can speculate that companies with related-diversified portfolios should focus more strongly on identifying potential synergies and leveraging economies of scope (Goold and Campbell, 1998). Exclusive managerial capabilities may be the major source of value added to business units that are operationally distinct, but require similar parenting skills (Dess, Picken, and Janney, 1998). However, synergies and stand-alone influence may be less important in a focused portfolio because of the dominant operations in one segment and the naturally decentralized managerial power (Goold and Luchs, 1993). So, although there are some contributions that hypothesize on the impact of portfolio structure on a company's parenting approach, we have found no study that empirically investigates this relationship. This leads us to our third research question:

(3) To what extent does the structure of a corporate portfolio influence the choice of a company's parenting approach?

Culture: There is a stream of research that investigates the impact of cultural factors on organizational attitudes and management approaches. Several of these studies show that national culture is an important external influence on organizational culture (Sagiv and Schwartz, 2007; Dickson, Aditya, and Chokar, 2000; Hofstede and Peterson, 2000; Sagiv and Schwartz, 2000; Trice and Beyer, 1993). Differences in national and organizational culture can be strongly correlated with variances in managerial attitudes (Haire, Ghiselli, and Porter, 1966; Griffeth, Hom, DeNisi, and Kirchner, 1980). Contingency theory predicts that different dimensions of culture can either foster or hamper the successful implementation of managerial approaches (Lawrence and Lorsch, 1967; Thompson, 1967). For instance, Detert, Schroeder, and Mauriel (2000) use the example of Total Quality Management (TQM) initiatives to illustrate how organizational culture can be linked to different management approaches.

The same reasoning can be applied to the relationship between national culture and a company's choice of its parenting approach. We identified only one study that specifically addresses the cultural dimension in combination with parenting advantage. Mishra and Akbar (2007) qualitatively apply the concept to the emerging market and business group context. They find that all four basic sources of corporate value added are also available to the companies in a business group as compared to stand-alone companies. Particularly relevant to an emerging-market context are the benefits of reputation and socio-political clout, economies of scale from centralization of certain functions, synergies from resource coordination opportunities, and corporate development activities (e.g., portfolio management). Their case-study approach encourages further research in the cultural direction, but is lacking sufficient empirical support. This leads to our next research question:

(4) To what extent does national culture influence a company's choice of its parenting approach?

3.3.4 Application in Portfolio Management

Several publications have further developed and refined the parenting advantage concept by applying it to specific corporate functions and tasks (e.g., synergy management, Goold and Campbell, 1998; portfolio analysis, Sadtler, 1999; planning processes, Campbell, 1999; organizational design, Goold and Campbell, 2002a; corporate social responsibility, Cramer, Kim, and Erik, 2003). However, none of these publications discusses how the key premises of the concept can be substantially anchored in corporate processes, roles, and activities.

Since the goal of the parenting advantage concept is to provide guidance for strategic decisions at the corporate level (Campbell et al., 1995), its application to corporate portfolio management is particularly important. Deciding on the composition and scope of the portfolio of business units is the first and foremost task of corporate strategy (Ansoff, 1965). Recent studies show that most companies are not satisfied with their current approach to corporate portfolio management (Pidun, Rubner, Kruehler, Untiedt, and Nippa, 2011). We have found no study that empirically investigates how parenting advantage is actually applied in the analysis and management of the corporate portfolio, or that operationalizes the concept by transferring it into a robust method for identifying the specific parenting advantage of a multi-business company. This leads to our final research question:

(5) How relevant is parenting advantage as a criterion for portfolio analysis, and to what extent is the concept operationalized for this purpose?

3.4 Methodology

3.4.1 Data, Sample, and Bias Tests

To address the research questions we outline above, we need detailed data on parenting approaches in corporate strategy. As no public data set offers such information, we use key-informant techniques to develop detailed data on parenting approaches. Thus, we conducted an online survey among corporate executives in multi-business firms. The major advantage of this technique is the exclusive quality of data that can be obtained in a relatively short period of time. Even though there might be some structural disadvantages (e.g., individual opinions may not reflect the overall view, or might indicate biased information due to informant selection procedure, or might elicit politically acceptable answers), alternatives to the applied technique can be prohibitively time-consuming and expensive (Lincoln and Guba, 1985). To construct a homogeneous data set and reduce potential biases, we conducted the survey exclusively among companies in Europe, the United States, and the United Kingdom between July and September 2009. Following comparable survey studies (Collis et al., 2007), we focused on specific geographic areas. Doing so made it possible for us to cover established governance systems (Anglo-American and Continental Europe; see Albert, 1993), with similar corporate law conditions, intensity of competition, property rights structures, and company sizes as measured in total revenues. The size of the companies is important for our research, since smaller companies tend to have a narrower focus in their business operations, and questions of portfolio management and parenting advantage are less relevant (Collis et al., 2007).

We chose a top-down sample selection procedure, thus avoiding any sort of selection bias, and we gathered an original sample of 1,042 of the largest private and public companies from different sources: 843 publicly listed companies ranked by total revenues in 2008 (source: Bloomberg) and 199 privately owned companies ranked by total revenues in 2008 (sources: Forbes, Financial Times). To reach as bona fide a set of participants as possible, we researched our sample of companies and performed a cleansing procedure to shape our data quality. We deleted from our sample 32 companies that could not be allocated to a specific industry segment (e.g., they had no SIC codes) and thus could not be used for further data analysis. Then, we removed 97 companies that provided no contact data at all in the publicly available sources such as websites or databases. Finally, we reduced the original sample by deleting 133 companies for which we could not identify the appropriate contact persons to participate in our study. This cleansing procedure resulted in a final sample of 780 companies.

We used a form letter to approach only one contact person per target company. Questionnaires were mailed to CEOs, CFOs, executive managers of business units, or to heads of corporate strategy, corporate development, and corporate finance departments. After two rounds of follow-up reminders by mail, we obtained valid responses from 151 companies (19.4%) with higher response rates among larger companies. This hit ratio is comparable to that of other studies directed at top management (Dennis, 2003).

We used a two-tailed ANOVA to test for non-response bias by comparing the responses of those participants who returned the first mailing of a questionnaire (n_1 is 63) with those who returned the third mailing (n_3 is 41). We did not find a single survey item with significant mean differences at the p<0.1-level, which suggests that a non-response bias should not be a concern. According to our empirical data set, the survey participants are characterized by a consistently high management level and a functional background.

Although more than 61% of the participants are current members of the executive board or heads of central functions, only 10% of the survey respondents rank more than two levels below the executive board. Moreover, about 70% of the survey participants are educated in corporate development or corporate strategy topics, and about 15% classify themselves as general managers. Ten percent have a background in mergers and acquisitions. Only very few respondents have a different background, such as information technology, so we are confident that the right personnel are represented in the final sample of participating companies. Finally, more than 80% of the participants are based in the corporate headquarters. Only a minority of respondents is affiliated with business units or divisions. The homogeneous affiliation of participants guarantees a largely corporate view on our research topics, ensures data equality, prevents a key-informant bias in our data sample, and thus allows straight comparisons of data sets.

3.4.2 Survey Measures

To ensure the quality of the survey data, we established a common definition of the technical terms corporate center, business unit, corporate portfolio, and parenting advantage. For the purposes of our investigation, we define the corporate center as "the central organizational entity that supports the executive board in managing the company's affiliated businesses and activities"; and a business unit as "a centrally defined entity of business and operating activities that is used for the purpose of steering, monitoring, and managing at corporate level"; and the corporate portfolio as "the aggregation of all individual business units or operational activities that are managed and administered at corporate level". Finally, we follow Goold, Campbell, and Alexander (1994) by defining the parenting advantage as "the company being the best possible owner for its businesses".

Relevance and Parenting Approaches

To investigate the perceived relevance of the parenting advantage concept for corporate strategy and to identify specific value creation strategies, we asked the participants about the relevance of the four basic sources of corporate value added of the parenting advantage concept. We received 140 responses from the 151 participants. To ensure a common understanding and to reach a sufficient data quality, we framed explanatory statements and asked our participants to express their agreement on a 5-point Likert scale (1 means fully agree; 5 means fully disagree).

We framed our survey questions as follows: "To what extent do you agree to the following statement? Our corporate parent adds value to the business units primarily by (a) providing specific expertise to the business units (e.g., in the strategy development, planning, or budgeting process), (b) fostering synergies between the business units; (c) realizing cost and quality advantages through the centralization of functions and services (e.g., IT services), and (d) actively developing the portfolio of business units (M&A, divestiture, consolidation)."

Portfolio Structure

To examine the impact of portfolio structure on a company's parenting approach, we asked the survey participants about the relatedness between the business units in their corporate portfolio. With reference to Rumelt's (1974) strategic categories, we defined as follows: 1 equals focused portfolio: "More than 70% of the revenues are generated by one business"; 2 equals related-diversified portfolio: "No single business contributes more than 70% to the total revenues and most business units are related to each other, e.g., through resources, markets, success factors"; 3 equals unrelated-diversified portfolio: "No single business contributes more than 70% to the total revenues and there is no major relation between the business units, e.g., through resources, markets, success factors". Of the 151 participants, 140 responded to that question.

Culture

Sagiv and Schwartz (2007) identify national culture as a major influence on organizational culture. To investigate the impact of culture on a company's parenting approach, we group the participating companies into national clusters based on the location of their headquarters. We follow the clustering approach suggested by Ronen and Shenkar (1985), based on a review of eight empirical studies using attitudinal data to cluster countries.

These authors found strong support for the Anglo, Germanic, Latin European, and Nordic clusters. Accordingly, we group our participating companies into the Anglo-American cluster, comprising the United States, United Kingdom, and Canada; the Germanic cluster, comprising Germany, Austria, and Switzerland; the Latin European cluster, comprising France, Belgium, Italy, Spain, and Portugal; and the Nordic cluster, comprising Sweden, Denmark, Norway, and Finland. We were able to identify 140 of the 151 headquarters locations.

Application in Portfolio Management

To investigate the role of the parenting advantage concept in corporate portfolio management, we asked our participants about the criteria they use for analyzing their portfolio of businesses. The first instruments for corporate portfolio management focused primarily on market attractiveness and competitive position as portfolio evaluation criteria (Haspeslagh, 1982). Later, other authors suggested using financial value creation and risk of the business units as additional criteria (Cardozo and Smith, 1983; Cardozo and Wind, 1985; Devinney and Stewart, 1988).

We compared these four criteria to parenting advantage and framed our survey question as follows: "How relevant are the following criteria for the evaluation of business units: (a) market attractiveness, (b) competitive position, (c) risk, (d) value creation, (e) parenting advantage?" The relevance was assessed on a 5-point Likert scale (1 means very relevant; 5 means not relevant). Of the 151 participants, 120 responded to that question.

We also investigated the actual operationalization of parenting advantage in portfolio management by asking the survey participants about their current way of measuring it, using a 3-point Likert scale (1 is quantitative; 2 is mainly qualitative; and 3 is no measurement). Of the 151 participants, 118 responded to that question.

Finally, to examine the reasons for the current status of operationalization, we asked the survey participants about limitations of current portfolio management techniques and potential barriers for a broader and more effective usage. We queried managers to evaluate whether the application of parenting advantage in current tools is a limiting factor for managing the corporate portfolio on a 5-point Likert scale (1 means fully agree; 5 means fully disagree). Of the 151 participants, 118 responded to that question. Table 3 summarizes all variables.

Table 3. Survey Measures

Major variables	*Definition*
Sources of parenting advantage	
- Stand-alone influence	Our corporate center adds value to the businesses primarily by providing specific expertise to the strategic business units. *Scale (1-5): 1 = fully agree; 5 = fully disagree*
- Linkage influence	Our corporate center adds value to the businesses primarily by fostering synergies between the strategic business units. *Scale (1-5): 1 = fully agree; 5 = fully disagree*
- Central functions and services	Our corporate center adds value to the businesses primarily by realizing cost and quality advantages through central functions. *Scale (1-5): 1 = fully agree; 5 = fully disagree*
- Corporate development	Our corporate center adds value to the businesses primarily by actively developing the portfolio of strategic business units. *Scale (1-5): 1 = fully agree; 5 = fully disagree*
Culture and portfolio structure	
- Portfolio structure	Which of the following statements best describes the relationship of the different businesses in your company? 1 = focused; 2 = related-diversified; 3 = unrelated-diversified
- Culture	In which culture does the corporate parent operate? (a) Anglo-American area; (a) Germanic area; (c) Latin European area; (d) Nordic area
Application in portfolio management	
- Evaluation criteria	How relevant are the following criteria for the evaluation of business units: (a) market attractiveness, (b) competitive position, (c) risk, (d) value creation, (e) parenting advantage? *Scale (1-5): 1 = very relevant; 5 = not relevant*
- Type of measurem	To what extent is the question of best ownership actually operationalized by managing the portfolio? *Scale (1-3): 1 = quantitative; 2 = mainly qualitative; and 3 = no measurement*

3.5 Results and Discussion

3.5.1 Relevance for Corporate Strategy

About 90% of our survey respondents agree that at least one of the four basic sources of corporate value added is a relevant value lever for their company and has significant importance for corporate-level strategy formulation. More than 80% of the participants see at least two of the sources as important, and about 50% consider three out of four to be relevant sources for corporate value creation. In fact, 22% state that all four basic sources of corporate value added are relevant for their company.

The means of all values are <3.0 (on a scale from 1 means fully agree that this source is a significant lever to add value to the business units; 5 means fully disagree), indicating a wide knowledge, and significant acceptance and perceived relevance of the concept. Although prior studies support the assertion that headquarters should be designed to fit the corporate strategy (Collis et al., 2007), our empirical data now indicate that parenting advantage is an important element in corporate strategy development. Respondents name active development of the portfolio (mean is 1.77, s.d. is 0.92) and stand-alone influence based on specific expertise and resources (mean is 1.85, s.d. is 1.02) as the most important sources of corporate value added. More than 80% of the respondents consider these sources very relevant or relevant for corporate strategy. Over half of the sample considers linkage influence (mean is 2.53, s.d. is 1.14) to be very relevant or relevant, but 23.6% of participants disagree with the statement that synergies are a significant value source. Finally, 50% of the survey participants consider value added through central functions and services to be relevant (mean is 2.51, s.d. is 1.07). For our first research question we conclude that

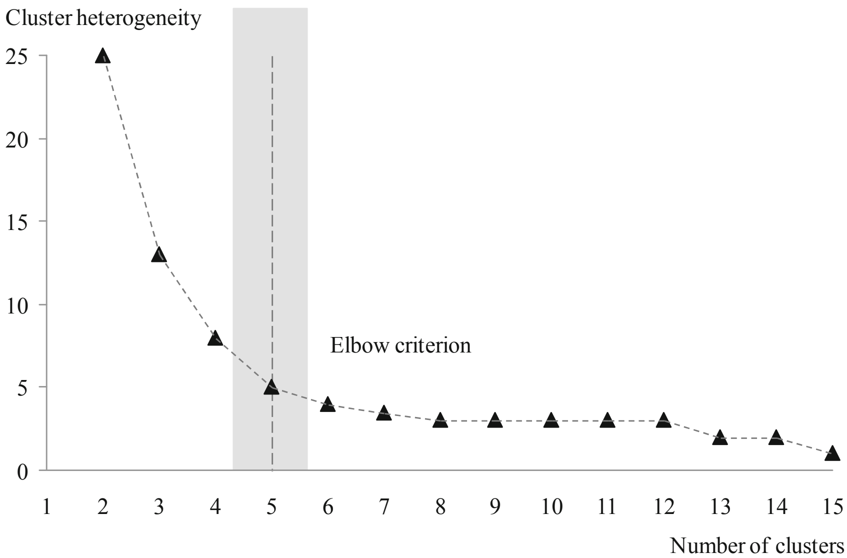
(1) The concept of parenting advantage is considered relevant for strategy formulation at the corporate level. The four distinct sources of corporate value added have different relevance in corporate practice. Stand-alone influence and corporate development are considered the most important value levers.

In fact, stand-alone influence and corporate development are the sources that also entail the biggest risks, because they have the greatest potential to negatively impact business operations. For example, ill-considered targets or strategic directions (Goold et al., 1994), the misallocation of investments (Berger and Ofek, 1995), or the delegation of tasks to inappropriate managers can cause considerable damage. Actively shaping the corporate portfolio by acquiring businesses, creating new ventures, or redefining strategic business units are also high-risk activities. Decisions may be based on insufficient corporate expertise in the strategic success factors of the business units (Hitt, Harrison, and Ireland, 2001); too much may be paid for acquisitions (Haunschild, 1994); or weak business units may be divested too late (Rajan, Servaes, and Zingales, 2000).

3.5.2 Observable Parenting Approaches

To identify and explore general and discriminatory types of parenting approaches in corporate strategy, which we define as a consistent combination and application of the four sources of corporate value added, we use multivariate methods to further analyze the empirical data (Backhaus et al., 2010).

Figure 1. Cluster Analysis: Ward Classification



We perform a single-linkage hierarchy cluster analysis to eliminate outliers that are numerically distant from the rest of the sample (three participants). We then use a Ward (1963) linkage cluster method to identify the most appropriate number of clusters. Finally, we execute a k-means cluster analysis to refine the statistical solution and to lay the ground for result interpretation.

Figure 1 illustrates the Ward cluster identification procedure. The sharp decrease of cluster heterogeneity after the extraction of five clusters (elbow criterion) indicates the most effective number of clusters (five) and indicates that the procedure should stop here. In addition, Mojena's stopping rule shows a strong relative increase of heterogeneity between five- and six-cluster solutions (21.3%). Increase between a six- and a seven-cluster solution is only 10.3%, indicating support for a five-cluster solution.

Table 4. Parenting Approaches in Corporate Strategy

Parenting approaches	Stand-alone influence	Linkage influence	Functions & Services	Corporate develop.
1 Parental Developer				
- Mean	**1.26**	3.48	3.78	**1.35**
- N	23	23	23	23
2 Synergy Manager				
- Mean	2.75	**1.63**	2.63	**1.42**
- N	24	24	24	24
3 Central Services Provider				
- Mean	1.97	3.23	**1.90**	2.77
- N	31	31	31	31
4 Holistic Portfolio Manager				
- Mean	**1.09**	**1.64**	**2.02**	**1.32**
- N	47	47	47	47
5 Hands-off Portfolio Manager				
- Mean	3.47	3.87	3.20	2.33
- N	15	15	15	15
Total				
- Mean	1.85	2.53	2.51	1.77
- N	140	140	140	140
F-Value	62.21***	65.73***	24.28***	26.92***

* significant at p<0.1; ** significant at p<0.05; *** significant at p<0.01.

Table 4 shows ANOVA statistics for the five extracted clusters (independent variable, nominal-scaled) and the four basic sources of corporate value added (dependent variables, metric-scaled).

The clusters are characterized by clear-cut patterns of parenting approaches that are underpinned by mean variations. F-Values are significant at $p<0.01$, which implies that the observed parenting approaches statistically differ from each other and provide a clear answer to our second research question:

(2) We observe five distinct types of parenting approaches in practice: parental developer, synergy manager, central services provider, holistic portfolio manager, and hands-off portfolio manager.

Parental Developer

The focus of the first cluster of companies is on two sources of corporate value added: stand-alone influence through distinct corporate capabilities and resources (mean is 1.26), and corporate development activities (mean is 1.35). Both value levers are clearly more important than for the average company in the sample. In contrast, value creation through linkage influence (synergies) or through central functions and services is significantly less relevant than for the average firm (means are 3.48 and 3.78, respectively).Thus, this cluster of companies constitutes a common prototype of a parenting approach: the parental developer (Johnson et al., 2008). Parental developers use their competences as parents to add value to the business units. They base their selection of businesses on the fit between their own capabilities and the specific needs and opportunities of the business units. Moreover, parental developers try to transfer unique capabilities downwards, thus building up parenting skills that meet specific requirements of the strategic business units.

Synergy Manager

For the companies in the second cluster creating value by enhancing and fostering linkages between the business units is more important than for the average firm or for any other cluster (mean is 1.63). As with the first cluster, corporate development activities accompany the major value-added source of the corporate parent (mean is 1.42). In contrast, stand-alone influence exerted through corporate capabilities or resources, and central functions or services do not play an important role for adding value to the business units (means are 2.75 and 2.63, respectively). Again, this cluster represents a characteristic prototype of a parenting approach: the synergy manager (Johnson et al., 2008). Synergy managers focus on two major aspects: facilitating operational cooperation between the strategic business units (e.g., shared R&D, joint production, or bundled marketing activities), and actively encouraging the sharing of knowledge, experiences, and talent to fully leverage the existing human resources and experiences.

Central Services Provider

The third cluster strongly focuses on value creation through cost-efficient services and functional leadership (mean is 1.90). All other sources of corporate value creation (stand-alone influence, linkage influence, or corporate development activities) are less important than in the overall sample (means are 1.97, 3.23, and 2.77, respectively). Companies in this cluster can be characterized as pure central services providers.

Their primary function is to strengthen business units' profitability by providing cost-advantageous services and centrally bundled functions (Markides and Williamson, 1996). Corporate development activities or distinct corporate capabilities are less important. Central services providers may add value to the business units through shared assets (e.g., umbrella brands, patents); cost advantages from using bundled functions (procurement, IT, and accounting); tax optimization; and lower cost of capital (Shin and Stulz, 1998).

Holistic Portfolio Manager

Companies in the biggest observable cluster (n equals 47) use all four distinct sources of corporate value added at the same time. They try to capture synergies (mean is 1.64), leverage corporate resources and capabilities (mean is 1.09), establish central functions and services (mean is 2.02), and alter the composition of the corporate portfolio (mean is 1.32), that is, they take a holistic portfolio management approach. All means are significantly lower than for the total sample. Holistic portfolio managers simultaneously leverage their own capabilities and skills, and foster operational synergies and knowledge sharing between the strategic business units. Thus, central management must be equipped with distinct skill sets, critical capabilities, and a deep span of control over the strategic business units. In addition, operational managers must ensure that knowledge is transferred, operational synergies are realized, and marketing activities are bundled (e.g., cross-selling of products, joint usage of sales channels, and shared brand activities). The holistic portfolio manager completes the approach by creating value through cost-efficient services and overall corporate development activities.

Hands-off Portfolio Manager

The hands-off portfolio manager, which comprises the smallest cluster (n is 15), displays a reserved management style. All four sources of corporate value added are considered less relevant than they are in the total sample (all means are above the total average), which indicates a more or less hands-off portfolio management approach. Hands-off portfolio managers avoid operational or strategic guidance. They also avoid in-depth interactions with the business units in the corporate portfolio. By occupying the top management positions, they set high-level targets, allocate financial resources, and manage the business units as financial assets. The effective exercise of that parenting approach has three fundamental requirements: the corporate parent must have a particular investment logic that allows it to be a better portfolio manager than are the financial markets; the costs of the corporate parent must be low; and the business units should not be so strongly related that a synergy manager approach would be advantageous (Johnson et al., 2008).

We note that we did not find any cluster that focuses on corporate development as its sole key value-added source. This result is despite the fact that corporate development has been identified as the single most relevant source of corporate value added. However, corporate development seems to be an accompanying lever that is only used to exploit a specific parenting approach (e.g., as a parental developer or synergy manager), but is not sufficient to constitute an independent value-adding strategy.

3.5.3 Portfolio Structure and Culture

We used statistical contingency analysis to examine the influence of portfolio structure on a company's parenting approach, because both the independent variable and the cluster solution are nominal-scaled. Empirical data support the proposition that portfolio structure is a relevant driver for the different types of parenting approaches. Chi-square values are significant at $p<0.05$ (F-Value: 22.54) demonstrating sufficient variance. We conclude that

(3) The structure of the corporate portfolio has a significant impact on the choice of a company's parenting approach.

Table 5 shows contingency analysis statistics for the five parenting approaches (dependent variable, nominal-scaled) and the different portfolio structures (independent variables, nominal-scaled).

We observe that corporate parents that pursue the parental developer approach predominantly manage an unrelated-diversified portfolio (9.0 counts compared to 4.0 expected counts). Such parents create value primarily through specific corporate capabilities and resources and corporate development activities; inter-business relationships are of less importance. Hence, for this approach, empirical data supports the academic propositions that the portfolio structure and the selected parenting approach of the corporate parent should be strongly aligned (Goold et al., 1994).

Similarly, corporate parents acting as synergy managers primarily direct a related-diversified portfolio (17.0 counts compared to 12.5 expected counts). These parents focus strongly on operational linkages between the strategic business units, bundled market activities, or leveraged knowledge sharing. Here too, academic theory is largely confirmed by our empirical observations (Chandler, 1991; van Oijen and Douma, 2000).

Table 5. Portfolio Structure and Parenting Approaches

Parenting approaches	Related-diversified portfolio	Focused portfolio	Unrelated-diversified portfolio
1 Parental Developer			
- Count	7.0	3.0	**9.0**
- Expected count	11.8	3.2	**4.0**
2 Synergy Manager			
- Count	**17.0**	3.0	0.0
- Expected count	**12.5**	3.3	4.2
3 Central Services Provider			
- Count	15.0	**6.0**	4.0
- Expected count	15.6	**4.2**	5.3
4 Holistic Portfolio Manager			
- Count	22.0	5.0	8.0
- Expected count	21.8	5.8	7.4
5 Hands-off Portfolio Manager			
- Count	10.0	2.0	3.0
- Expected count	9.3	2.5	3.2
Total			
- Count	71.0	19.0	24.0
- Expected count	71.0	19.0	24.0

n = 114

Finally, corporate parents that provide central functions and services as the major source of value added to the strategic business units (central services providers) more frequently manage a focused portfolio than does the total average or any other type of parenting approach (6.0

counts compared to 4.2 expected counts). Again, the current portfolio structure is in line with the pursued parenting approach, as suggested by prior research (e.g., van Oijen and Douma, 2000; Markides and Williamson, 1996). Both the holistic and the hands-off portfolio management approaches are not specifically dominated by a certain portfolio structure.

Statistical contingency analysis also supports the proposition that companies in different national cultural clusters have different preferred parenting approaches. Chi-square values are significant at $p<0.1$ (F-Value: 19.54) and indicate sufficient variance. We conclude that

(4) The national culture has a significant impact on a company's choice of its parenting approach.

Table 6 shows contingency analysis statistics for the five parenting approaches (dependent variable, nominal-scaled) and the different national cultural clusters (independent variables, nominal-scaled).

We interpret the differences in the prevalence of the five parenting approaches in the four national clusters based on the Hofstede, Hofstede, and Minkov (2010) dimensions of culture. Hofstede et al. develop indexes for power distance, individualism and uncertainty avoidance and derive scores for individual countries. The countries in the national clusters that we have defined for our analysis have similar Hofstede et al. scores, so we can use these dimensions of culture to interpret our findings.

Anglo-American corporate parents prefer the hands-off management approach significantly more often than statistically expected (9.0 counts compared to 5.8 expected counts). This finding is consistent with a strong focus on individualism in the Anglo-American culture, which leaves much freedom to the individual business units. Companies in the Anglo-American cluster are strongly under-represented in the group of holistic portfolio managers (12.0 counts compared to 18.1 expected counts).

Table 6. Culture and Parenting Approaches

Parenting approaches	Anglo-American area	Germanic area	Latin European area	Nordic area
1 Parental Developer				
- Count	**12.0**	6.0	2.0	3.0
- Expected count	**8.9**	8.9	3.3	2.0
2 Synergy Manager				
- Count	10.0	9.0	1.0	**4.0**
- Expected count	9.3	9.3	3.4	**2.1**
3 Central Services Provider				
- Count	11.0	**16.0**	3.0	1.0
- Expected count	12.0	**12.0**	4.4	2.7
4 Holistic Portfolio Manager				
- Count	**12.0**	19.0	**12.0**	4.0
- Expected count	**18.1**	18.1	**6.7**	4.0
5 Hands-off Portfolio Manager				
- Count	**9.0**	4.0	2.0	0.0
- Expected count	**5.8**	5.8	2.1	1.3
Total				
- Count	54.0	54.0	20.0	12.0
- Expected count	54.0	54.0	20.0	12.0

n = 140

Corporate parents from the Germanic cluster have a relatively strong preference for the central services provider approach (16.0 counts compared to 12.0 expected counts). This is a low-risk parenting approach that focuses on bundling key strategic assets in the corporate center and on providing cost-efficient shared services for the business units. It resonates well with the high uncertainty avoidance index for countries in the Germanic cluster.

Countries in the Latin European cluster are characterized by a culture of high uncertainty avoidance and high power distance. This characteristic is reflected in a strong preference for the holistic portfolio manager approach (12.0 counts compared to 6.7 expected counts) in which corporate parents use a wide-range of value-adding activities to exert influence over the businesses in their portfolio.

Nordic corporate parents show a relative preference for the synergy manager approach (4.0 counts compared to 2.1 expected counts). This approach is characterized by lean corporate headquarters and a decentralized value-added strategy that focuses primarily on fostering operational linkages and sharing knowledge among the sovereign business units. This approach is consistent with a culture of low power distance and low uncertainty avoidance that is typical of countries in this national cluster.

3.5.4 Application in Portfolio Management

The parenting advantage concept is also considered relevant for corporate portfolio management. More than 90% of survey respondents regard parenting advantage as either a very relevant or relevant criterion for the evaluation of the business units in the portfolio. The mean value is 1.57 (on a scale where 1 means very relevant and 5 means not relevant; s.d. is

0.86), which makes parenting advantage the second highest ranked criterion for portfolio analysis in corporate practice. The competitive position of a business unit is considered relevant by 85% of the sample (mean is 1.65, s.d. is 0.85), value creation by 87% (mean is 1.62, s.d. is 0.76), and the specific risk profile by 64% (mean is 2.19, s.d. is 0.99). Only market attractiveness exceeds parenting advantage in terms of relevance for portfolio evaluation practices (92%, mean is 1.49, s.d. is 0.77).

The perceived relevance of parenting advantage as a portfolio criterion is particularly remarkable because traditional, established portfolio management instruments such as the BCG Growth-Share Matrix (Henderson, 1970) or the Business Assessment Array (GE/McKinsey Matrix, Wind, 1974) do not apply parenting considerations at all. On the contrary, these frameworks focus strongly on assessing the attractiveness of markets (e.g., market growth rate) and the current positioning of the business units in their competitive environment (e.g., market share) or in the product life cycle. These instruments are supposed to enable corporate managers to achieve several strategic objectives: to gain a transparent overview of the corporate portfolio (Haspeslagh, 1982), to allocate managerial and financial resources (Bettis and Hall, 1981), and to formulate development options for the single business units (Wind and Mahajan, 1981). However, the question of who is the best owner for a business unit is not in scope of these traditional concepts (Sadtler, 1999).

Many large companies established these traditional concepts of portfolio management early on, but especially in the 1970s and the early 1980s (Bettis and Hall, 1981; Haspeslagh, 1982). A study among 345 senior executives indicated that by 1980, almost every second company of the Fortune 500 index used a portfolio management instrument, primarily to allocate resources efficiently or to respond to performance issues effectively (Haspeslagh, 1982). Since the 1980s, value management criteria such as the current return of a business unit and its planned value creation have been added to the toolbox of corporate portfolio management instruments (Johnson et al., 2008). Our findings indicate a further shift in evaluation priorities towards parenting advantage, which is assigned an important role in practical portfolio management thinking.

To answer the question on the extent to which parenting advantage has already been operationalized as a criterion for portfolio management, about 60% of our survey respondents say that either they measure parenting advantage only in qualitative terms or else they do not use any measurement method at all. Even though the concept is considered highly relevant for portfolio management, quantitative measurement is rare, especially when compared with the other evaluation criteria. More than 65% of survey respondents use quantitative metrics to assess the market attractiveness and competitive position of a business unit. Value creation is even quantified in more than 75% of the companies. In contrast, only 41% of our participants quantitatively measure parenting advantage as a criterion for managing the portfolio.

Thus, we observe a major discrepancy (difference of 51%p) between the perceived relevance of parenting advantage as a portfolio criterion (92% consideration as a very relevant or relevant criterion) and a sound quantification (41%). This discrepancy is the highest among all portfolio evaluation criteria (differences of 25%p for market attractiveness, 20%p for competitive position, 46%p for the risk profile, and 11%p for value creation). We can conclude that

(5) Parenting advantage is considered an important criterion for portfolio management. It has roughly the same relevance as the market at-

tractiveness, competitive position, and value creation of the businesses. However, it suffers from the largest discrepancy between perceived relevance and quantitative operationalization among all portfolio evaluation criteria.

This result is further confirmed by asking our survey participants about the current limitations of existing portfolio management instruments. Forty-six percent of the participants named the insufficient or impractical operationalization of parenting advantage as one of the major shortcomings of the established tools. Only the consideration of risk (48%) and the adjustment of portfolio management instruments to dynamic and turbulent business environments (56%) receive higher marks as relevant shortcomings. Only 17% of the sample is consistently satisfied with the current operationalization of parenting advantage. This is by far the lowest value of all potential limitations of current portfolio management techniques.

3.6 Conclusion

These analyses provide strong support for the parenting advantage concept as an effective instrument for strategic management practice, and as a subject for further academic research.

Our empirical analyses, which are based on a global survey study, indicate that the concept of parenting advantage is generally perceived as very relevant for corporate strategy. The concept identifies four potential sources of corporate value added, but little is known about their relative importance. We find evidence that among these four sources, stand-alone influence and corporate development activities are most important, more than 80% of our surveyed executives consider these sources to be relevant. Linkage influence and value creation through central functions and services are less important, with only 50% of our survey participants considering these sources to be relevant.

By using various cluster analysis methods we derive five statistically significant types of parenting approaches: the parental developer, synergy manager, central services provider, holistic portfolio manager, and the hands-off portfolio manager. Interestingly, while corporate development is considered the single most important value-adding activity of the center, it does not constitute an independent parenting approach. Instead, it only occurs as part of a synergy manager, parental developer, or holistic portfolio manager approach. These empirically derived parenting clusters complement theoretical and heuristic research on parenting approaches (e.g., Collis et al., 2007; Goold and Campbell, 1987c; Hill, 1988; Markides, 2002; Porter, 1987; van Oijen and Douma, 2000). They can also be the basis for analyzing what drives the specific parenting approach of a given company, and how different parenting approaches are related to company performance.

Our empirical analyses support the proposition that a company's portfolio structure affects its choice of parenting approach. Corporate parents that pursue the parental developer approach tend to manage an unrelated-diversified portfolio, synergy managers are overrepresented among the companies with related-diversified portfolios, and central services providers more frequently manage a focused portfolio. These findings suggest that companies align their parenting approach and corporate value-added strategy to their current portfolio structure.

Our paper also contributes to the stream of research that correlates variances in managerial attitudes to differences in national and organizational culture (e.g., Detert et al., 2000; Griffeth et al., 1980; Haire et al., 1966). We find empirical support for the proposition that companies in different national cultural clusters prefer different parenting approaches. Moreover, we can interpret the differences we observe in the prevalence of the five parenting approaches in the national clusters based on Hofstede et al.'s (2010) dimensions of culture. For example, the strong focus on individualism in the Anglo-American culture is consistent with an above-average share of hands-off portfolio managers, while high uncertainty avoidance and high power distance in the Latin European culture is reflected in a disproportionate share of holistic portfolio managers. These findings can be the starting point for studies that link parenting approaches to a broader array of organizational cultures that go beyond national differences.

Our survey study shows that the concept of parenting advantage is considered highly relevant for corporate portfolio management. At the same time, its actual application in portfolio analysis is mainly qualitative, especially when compared to other portfolio evaluation criteria such as market attractiveness, competitive position, and value creation. Thus, the main deterrent to a broader and more effective application of the parenting advantage concept is neither a lack of awareness nor of perceived relevance, but of an appropriate operationalization.

Our findings suggest the following agenda for fostering the parenting advantage concept in strategic management research: research should substantiate and further evaluate the observed types of parenting approaches, develop a framework for identifying the specific parenting advantage of a multi-business company, and investigate the link between company characteristics (including organizational culture), parenting approach, and company performance.

4 Operationalizing Parenting Advantage

4.1 Abstract

After its introduction in the mid-1990s, the concept of parenting advantage was quickly adopted by many standard textbooks on strategic management. Empirical studies revealed that the concept is considered highly relevant for strategy formulation and portfolio management at corporate level; however, its broader application has not lived up to expectations. This paper assumes that this is due to two major limitations of the original concept: firstly, it neglects the indirect compositional effects of the portfolio that are not due to active involvement of the corporate parent, and secondly, the concept has not been sufficiently operationalized to the level of specific value-added activities. In order to address this apparent research gap, the major attempt of this paper is the development of a theoretical framework that can be used to investigate actual parenting approaches of corporate headquarters and to analyze the relevance of different value added activities in corporate practice, as well as their potential combinations in distinct parenting strategies. To this end, we have developed a three-dimensional framework that accounts for (1) corporate-to-business as well as business-to-business interactions, (2) value-added as well as value-destroyed activities, and (3) strategic as well as operational levers. We operationalized this framework by assigning a broad set of individual activities to these levers, derived from the existing literature of value creation in multi-business companies.

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4.2 Introduction

There is a considerable stream of academic research that claims that multi-business companies are at a valuation disadvantage compared to their focused peers (for investigations of market performance differences, valuation discounts, and inferior cash flow of diversified multi-business companies compared with focused competitors, see Berger and Ofek, 1995; Lamont, 1997; Lang and Stulz, 1994; Rajan, Servaes, and Zingales, 2000; Scharfstein and Stein, 2000; Shin and Stulz, 1998). Empirical studies show, however, that valuation discounts of diversified firms vary strongly by region, over time, and especially by company sample. Thus, it is not only the degree of diversity that determines the value of a multi-business firm; it is also how a company applies its specific parenting advantage to manage the diversity of its portfolio. The concept of parenting advantage as introduced by Goold, Campbell and Alexander provides a theoretical foundation for this strategic challenge (Goold, Campbell, and Alexander, 1994, 1996, 1998). It places the role of the corporate parent (i.e., corporate headquarters) in center stage of the strategic management debate. Companies should strive to be the best possible owner for the businesses in their corporate portfolio, or sell businesses at favorable terms to better owners. In order to achieve this parenting advantage, the characteristics of the corporate parent must be compatible with the critical success factors of the businesses and their specific needs and parenting opportunities. In this way, parenting advantage should determine in which operational activities the company invests its financial and managerial resources and how the corporate parent influences the business units under its control (Goold et al., 1994). The concept can serve as a guideline for executive decision-making, the role of the corporate parent (van Oijen and Douma, 2000), different value creation strategies (Goold et al., 1994), and corporate portfolio management practices (Sadtler, 1999).

After its introduction in the mid-1990s, the concept of parenting advantage was quickly adopted by many standard textbooks on strategic management and corporate strategy (e.g., Grant, 2010; Johnson, Scholes, and Whittington, 2008; Pettigrew, Scholes, and Whittington, 2006), and became a major component in MBA curriculums at most business schools. Moreover, empirical studies revealed that parenting advantage is considered highly relevant for strategy formulation and portfolio management at corporate level; however, its broader application has not lived up to expectations (Kruehler and Pidun, 2011). Only a few studies so far have investigated the actual parenting approach of corporate headquarters, and we still know little about the relative importance and impact of different possible value-added activities.

We assume that the narrow application of the parenting advantage concept in corporate practice is due to two major limitations of the original concept: firstly, it neglects the indirect compositional effects of the portfolio that are not due to active involvement of the corporate parent (the horizontal business-to-business perspective), and secondly, the concept has not been sufficiently operationalized to the level of specific value-added activities. Fostering cooperation between business units and corporate development activities are integral components of the original parenting advantage concept, but we mean an indirect, solely compositional influence and precisely not a direct corporate influence. In order to address this apparent gap, the primary aims of the present paper are (1) to extend the scope of the parenting advantage concept by including horizontal business-to-business effects, (2) to concretize and operationalize it by identifying specific activities behind the different levers of value added and value destroyed, and finally (3) to summarize and systemize all activities in a comprehensive framework for assessing the net benefits for a given unit of being part of a corporate portfolio.

Our framework provides a conceptual basis for defining the specific parenting advantage of individual multi-business companies and for identifying and evaluating consistent and effective parenting strategies in corporate practice. We define a parenting strategy as the consistent and effective combination of value activities, resulting either from direct corporate parent influence (corporate-to-business effects) or from indirect compositional influence without direct interference of the corporate parent (business-to-business effects). The framework can also be used to analyze the correlation between the parenting strategy of a multi-business firm and its capital market valuation (conglomerate premium or discount).

This chapter is structured as follows. We first briefly examine the concept of parenting advantage and point out major empirical and methodological deficits. We then draft the framework for assessing parenting strategies and outline the basic requirements and the conceptual model for an effective operationalization of parenting advantage. After that we operationalize the framework by specifying a broad set of single activities of value added and value destroyed that are derived from literature. We finally discuss the key contributions for corporate strategy, future academic research, and practice.

4.3 A Brief Examination of the Concept

4.3.1 Theoretical Foundation

In the 1990s, Goold, Campbell and Alexander introduced the parenting advantage concept as a guideline for strategic decisions at corporate level (Goold et al., 1994). As the authors see it, the purpose of the concept is to serve as an aid in selecting and managing strategic business units. The main criteria are the competencies and capabilities offered by the corporate parent; the needs of the business units; and the value created for the business units by the activities of the corporate parent. The concept is rooted in the teachings of competitive strategy (Ansoff, 1965; Porter, 1985, 1987) and theoretical considerations of the role of the center (Chandler, 1991), and at its core, can be traced back to the insights of an extensive study of selected British multi-business companies (Goold et al., 1994). In their considerations, the authors particularly note the effect of the widely known core competence theory, especially strategic deficits due to sole focus on technical or operative core competencies (Peters and Waterman, 1993; Prahalad and Hamel, 1990). In particular, they criticize (1) the core competence theory's failure to deliver practical guidelines for the formulation of an overall company strategy, and (2) its inability to explain the existence of successful, clearly diversified multi-business companies.

The concept of parenting advantage picks up the thread at this articulated deficit and demands that the corporate parent not only formulates a successful overall strategy, but also provides evidence that it is the best possible owner of each individual business in the corporate portfolio. Consequently, corporate parents should not only endow the business units with value; they must also guarantee that the value they contribute is greater than the costs they cause, and that this net value is the highest among all potential owners. Otherwise, the corporate strategy is suboptimal and destroys shareholder value. According to the concept of parenting advantage, corporate parents have four direct ways to create value for business units: (1) stand-alone influence, (2) linkage influence, (3) central functions and services, and (4) corporate development activities (see Goold et al., 1994 for a detailed description). The central prerequisite for the realization of value contributions by the corporate parent is the fit between its characteristics and the needs of the businesses. Since the individual units within a corporate portfolio are generally distinguished by different success factors, development potential, and challenges, the corporate headquarters must parent them individually, focusing on their particular needs.

4.3.2 Empirical and Methodological Deficits

There are few studies that investigate the actual relevance of the parenting advantage concept for corporate-level decision-making in general, or for corporate strategy formulation and portfolio management in particular (see chapter 2). Collis, Young, and Goold (2007) conducted a survey of more than 400 top executives at European, American, Japanese, and Chilean companies in various sectors, based on the Ashridge Strategic Management Centre's 1993 survey of United Kingdom (U.K.) headquarters (Young and Goold, 1993; Goold, Pettifer, and Young, 2001) and a pilot survey in the U.K. in 1996 (Young et al., 2000). They found that the size and structure of the corporate parent is strongly influenced by the company-specific parenting approach and the corporate strategy design, but they did not specifically investigate the concept's importance for strategic management, its current application in corporate practice, the actual use in portfolio analysis, the degree of tool implementation, or the impact of other company-specific characteristics.

In a more recent survey, Kruehler and Pidun empirically analyze the concept's perceived relevance for corporate-level decision-making (Kruehler and Pidun, 2011). In particular, they conclude that parenting advantage is considered highly relevant for strategy formulation at corporate-level—almost 90 percent of survey respondents judged at least one of the four basic ways of parent value creation as important for corporate strategy. Moreover, they found that parenting advantage is considered a very important criterion for corporate portfolio management (even more than a strategic business unit's competitive position, financial value creation, or risk profile). At the same time, more than 50 percent of survey participants make no attempt to measure and quantify their parenting advantage. The authors conclude that the main obstacle to the concept's broader and more effective application in corporate-level management is the lack of robust methods and instruments to operationalize the corporation's parenting advantage or a specific parenting strategy. More precisely, about 47 percent of survey participants consider missing or insufficient operationalization of the parenting advantage concept to be a critical limitation of the existing tools for corporate portfolio management, and only 17 percent of the same sample is satisfied with the current state of measurement (Kruehler and Pidun, 2011).

In summary, there is no published research in the strategic management literature that describes what an appropriate framework for specifying a corporation's parenting advantage could look like and what may be consistent and effective parenting strategies.

4.4 Framework

4.4.1 Basic Requirements

We understand a parenting strategy as the consistent and effective combination of value activities resulting either from direct corporate parent activities (direct corporate influence) or from the composition of the portfolio alone, with no concrete actions by the corporate parent (indirect compositional influence). Consequently, a major prerequisite for an effective framework for assessing parenting strategies is to capture both *origins* of value-creating influences: the direct, vertical one between the corporate parent and the business units (corporate-to-business) as well as the compositional, horizontal one among the various units (business-to-business). Only the explicit and balanced consideration of both aspects of value creation allows a comprehensive and holistic picture of value added and destroyed in a multi-business company to be drawn. The first requirement of an effective framework for the operationalization of parenting advantage is as follows:

- *Requirement 1*: The framework should incorporate both the corporate-to-business and the business-to-business perspective on value creation (direct corporate influence as well as indirect compositional influence).

In the concept of parenting advantage, the value-destroying aspects of the corporate parent's activities are positioned alongside the value-creating ones (Goold et al., 1994). A key premise is that corporate parents have to make sure that their value-adding activities do not lead to value destruction exceeding any value that has been created (positive net value added). The consideration of value destruction also applies to the interaction between individual strategic business units, which is not covered by the original concept. Here, too, synergy potential from joint activities and shared resources stands against value-destroying aspects of business-to-business interactions, such as competition for scarce resources or rising complexity from coordination between business units. The consideration of both perspectives (value creation and value destruction) determines the total *impact* and net value added for individual business units from being part of the corporate portfolio. Therefore, the second requirement of the framework to be constructed is as follows:

- *Requirement 2*: The framework should incorporate value-adding as well as value-destroying activities on the respective organizational level (corporate-to-business and business-to business).

The third prerequisite of an effective framework is to consider strategic as well as operational types of value-adding and value-destroying activities by the corporate parent and by the business units among themselves *(activity type)*. A corporate parent, for example, can ensure a clear strategic focus or an effective planning process for the business units (strategic activities), but can also realize cost advantages through bundled and centralized purchasing or group-wide IT services (operative activities). The same applies to business-to-business interactions that can be operational (e.g., joint manufacturing) or strategic (e.g., experience sharing, joint asset development). This leads to the third and final requirement of an effective framework for the operationalization of parenting advantage:

- *Requirement 3*: The framework should incorporate strategic and operational aspects of value-adding and value-destroying activities.

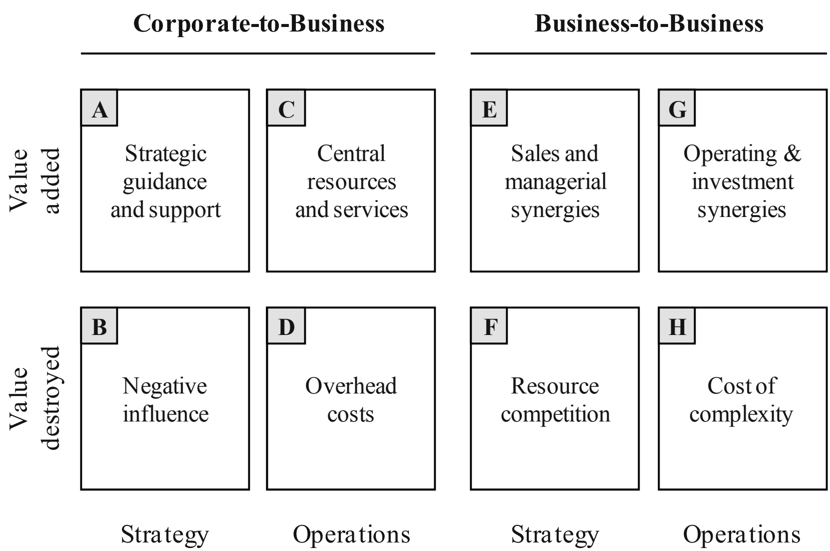
4.4.2 Conceptual Model

The three requirements formulated above will serve as cornerstones for our further elaborations. Below, we apply them, set up a three-dimensional value added analysis for a multi-business company, and finally, specify each individual dimension in detail. We have built on the concept of parenting advantage, but complemented it with selected, enhancing aspects from different schools of thought in strategic management research. In this sense, we not only theoretically concretize and operationalize the concept of parenting advantage by providing a comprehensive set of actual activities; we also extend the scope of the parenting advantage concept by including the indirect compositional influence perspective (horizontal business-to-business effects) as described above.

The three requirements translate into a three-dimensional framework for assessing parenting strategies in corporate practice. The framework distinguishes the origin of the activities (corporate-to-business vs. business-to-business), their impact (value-adding vs. value-destroying), and the activity type (strategic vs. operational), resulting in eight fundamental levers of vertical or horizontal activity in a multi-business company (Figure 2).

All eight levers are specified in detail in the following section. We first discuss the value-adding levers and subsequently their individual disadvantages and risks. Our considerations of value creation by the corporate parent are based primarily on the four underlying value-added categories of the parenting advantage concept as presented above. Three of the four categories (stand-alone influence, linkage influence, and corporate development) are subsumed in the first of the eight levers, 'Strategic guidance and support', while the fourth category from the parenting advantage concept (central functions and services [analogous to Goold et al., 1994]) is reflected in the lever, 'Central resources and services'. Both are organizationally situated with the corporate parent and create value, but have a strategic character on the one hand and an operative character on the other. Their respective value-destroying counterparts of corporate engagement are 'Negative influence' and 'Overhead cost'.

Figure 2. Three-dimensional Framework



From the perspective of business-to-business interactions, the four categories function according to the same principle, but are exclusively classified as indirect compositional levers. These value-adding activities are not covered by the parenting advantage concept. However, management research offers suitable synergy typologies, which we utilize and integrate into our framework (Ansoff, 1965; Barney, 2007; Goold and

Campbell, 1998; Markides and Williamson, 1994; Martin and Eisenhardt, 2001). Value added may come from 'Sales and managerial synergies'. Here, in particular, the joint marketing of goods, but also informal exchanges on management skills or experience is covered. 'Operating and investment synergies' cover the operational aspect of value added on the business unit level. This is basically the realization of cost advantages with concrete activities; for example, joint use of production facilities.

Links between business units may not only add value to the involved units, however; they can also have a negative influence (e.g., Kanter, 1989; Porter, 1985; Stein, 1997). In particular, value destroyed results from business units competing for the same scarce managerial or financial resources provided by the corporate parent: 'Resource competition'. Moreover, the business units may suffer from additional costs due to intensive interaction, complex processes, or coordination efforts: 'Cost of complexity'.

4.5 Operationalization

4.5.1 Strategic Guidance and Support

Corporate parents may add value to the business units in their portfolio by fostering better strategic decisions than business units as stand-alone entities individually exposed to capital markets (Adner and Helfat, 2003; Bowman and Helfat, 2001). Choosing the right degree and intensity of strategic guidance and support is essential for business unit and company performance, because a poor choice can, for instance, lead to detrimental strategic guidelines, or undermine entrepreneurship in the units (Goold et al., 1994). There are eight basic activities for a corporate parent to add strategic value to the business units in the corporate portfolio (A.1.-A.8.).

A.1. Strategic direction: Corporate parents may add value to strategic business units by providing them with a superior overall strategic direction. They can create a specific business vision, formulate top-down objectives, and design a superior development roadmap to gain competitive advantage and improve market position, income and value creation potential (Donaldson and Lorsch, 1983; Goold, Campbell, and Luchs, 1993; Prahalad and Doz, 1981).

A.2. Strategic expertise: Strategic business units may be supported by the corporate parent with specific strategic expertise. This activity involves three major aspects: (a) Transfer of strategic and methodical competences, for example, regarding the strategic planning process, scenario planning techniques, or capital expenditure reviews (Chandler, 1991; Noda and Bower, 1996). (b) Sharing of industry-specific expertise, for example, regarding market trends or strategic success factors. (c) Support with experience in specific strategic situations and challenges, for example, the internationalization of businesses or the introduction of new product innovation processes (Goold et al., 1994).

A.3. Business development and growth: Corporate parents may add strategic value to business units by providing support on business development and the management of growth (Goold et al., 1994). They may leverage their managerial capabilities in order to actively promote merger and acquisition (M&A) projects, develop new organic growth options, or help their business units to divest non-core or low-performing assets with active involvement in due diligences, deal processes, and implementation (Owen and Harrison, 1995).

A.4. Resource allocation: Corporate parents can create efficient internal capital markets and may add value by distributing available capital more effectively among their business units than the external capital market (the "smarter-money" effect: Alchian, 1969; Donaldson, 1984; Gertner, Scharfstein, and Stein, 1994; Lewellen, 1971; Stein, 1997; Weston, 1970; Williamson, 1975). There are two mechanisms that can explain this effect: First, the corporate parent can insist on looking into the activities of the business units, which allows a more accurate estimate of future returns than external investors can achieve (Lewellen, 1971; Williamson, 1975). Second, the corporate parent has the ability to use its knowledge of future anticipated profit levels in order to take capital from poorly performing units and to devote it to the better performers ("winner-picking": Donaldson, 1984; Stein, 1997). The positive effects of internal capital markets are particularly strong if the business unit strategies depend on a stable flow of financing, and critical information on the business units cannot be shared with external providers of capital (Liebeskind, 2000).

A.5. Protection from capital markets: Strategic business units being part of the corporate portfolio may benefit from more protection from external capital market pressure than their stand-alone competitors. This protection can enable businesses to take a longer-term perspective when making investment decisions and running business operations (Salter and Weinhold, 1979).

A.6. Performance monitoring: Corporate parents may add value to the strategic business units by closely monitoring their performance with a diligence and at a level of detail that are not attainable by external investors. This performance monitoring can involve regular and detailed reporting meetings, the regular update of planning forecasts, and comprehensive risk driver analyses (Hill, Hitt, and Hoskisson, 1992; Rappaport, 1990).

A.7. Operational improvement: Corporate parenting may add value to business units by helping to significantly improve the operational performance through interference in ongoing business activities (Pettifer and Campbell, 2005). The corporate parent can use formal authority to replace weak-performing business unit managers (cleansing the top management team: Barker, Patterson, and Mueller, 2001), guide single business units through turn-around processes (Bowman and Helfat, 2001), improve internal processes to optimize and synchronize total supply chain (Ward, Bowman, and Kakabadse, 2005), and utilize initiatives and objectives to align overall performance (Goold et al., 1994).

A.8. Synergy fostering: Finally, corporate parents may add value by actively fostering cooperation between the strategic business units, trying to support the realization of business-to-business synergies (Goold et al., 1994). They may promote joint operations, marketing and sales activities, or research and development efforts (Martin and Eisenhardt, 2001), but also encourage the informal sharing of internal knowledge, business-related experiences, and personnel talent through more efficient interactions within and across the strategic business units (e.g., initiate corporate initiatives: Goold and Campbell, 1998; Vera and Crossan, 2004). The major goal of the corporate parent is to passively constitute a joint seeking of incremental improvements among the business units in current operations.

4.5.2 Negative Influence

In their effort to provide strategic guidance and support, corporate parents can also harm the strategic business units in the corporate portfolio, resulting in worse or more expensive overall strategic decisions than those made by business units as stand-alone entities. There are six basic activities and mechanisms by which corporate parents can destroy strategic value to the businesses in the corporate portfolio (B.1.-B.6.).

B.1. Insufficient expertise and skills: Corporate-level managers may tend to be overly confident of their own skills and expertise and underestimate industry-specific knowledge and managerial talent at the business level. This is probably attributable to a lack of sufficient skills and expertise at corporate level with regard to the strategic success factors and the specific market rhythms of the business units (Hitt, Harrison, and Ireland, 2001). As a consequence, group-wide synergy initiatives, for instance, fall short of corporate management’s expectations, target savings fail, and maximum value creation is not reached (Goold and Campbell, 1998; Goold and Luchs, 1993).

B.2. Managerial entrenchment: Corporate parents may destroy value for business units by using the company’s internal cash flows to keep unfavorable projects alive (Scharfstein and Stein, 2000), to justify past investment decisions, or to spend financial resources in industries they are familiar with rather than in those with the highest value creation potential (Shleifer and Vishny, 1989). The consequence of such managerial entrenchment can be that central decision-making processes are driven by political rather than economic considerations. Corporate executives make themselves indispensable as the company's demand for their particular skills increases, and frequently the result are large, mostly inflexible diversified corporate portfolios (Chatterjee, Harrison, and Bergh, 2002; Westphal, 1999).

B.3. Empire-building: Strategic business units may suffer from corporate managers focusing primarily on growth for the erection of corporate empires rather than aiming for future competitive positioning and maximum value creation (Jensen, 1986). Corporate executives may be less interested in the future success of the company, but pursue growth and expansion (in particular through mergers and acquisitions) in order to increase their own influence and prestige within the company and in public (Mueller, 1969; Shin and Stulz, 1998).

B.4. Risk aversion: Corporate parents may destroy value by favoring corporate risk diversification over value creation and shareholder wealth. In this case, the fundamental motivation of corporate executives is to reduce their own employment risk by diversifying the corporate portfolio in order to make operational cash flows less volatile and dependent on one single industry or market segment (Amihud and Lev, 1981; Lane, Cannella, and Lubatkin, 1998; Montgomery 1994; Morck, Shleifer, and Vishny, 1990).

B.5. Lack of performance pressure: The downside of the protection from capital markets (A.5.) is that weak business units that are part of a corporate portfolio are also kept away from the more healthy aspects of capital market pressure. In this way, they may receive too much internal funding for too long, rather than being restructured (Lange, Boivie, and Henderson, 2009; Rajan et al., 2000; Scharfstein and Stein, 2000).

B.6. Lack of motivation: Strategic business unit managers may suffer from a lack of motivation and wrong incentives due to constant interference by corporate executives (e.g., central overruling practices and generally low decision-making authority at business level: Gupta and Govindarajan, 1986). Performance incentives for business unit managers in a multi-business company can be weaker than for managers in comparable stand-alone companies, for example (Gertner et al., 1994). Reduced motivation and misguided incentives are especially common for business units with a weak profit forecast (Brusco and Panuzzi, 2005). More generally, business units in a corporate portfolio have a lower incentive to generate unique and business-relevant information than stand-alone competitors (Stein, 2002).

4.5.3 Central Resources and Services

In addition to strategic guidance and support, the corporate parent can provide central resources, establish bundled group-wide services, or offer the business units beneficial access to capital and labor markets. The main focus here is not the improvement of strategic decision-making, but the realization of cost advantages. There are eight basic activities and mechanisms by which a corporate parent can add operational value to the businesses in the corporate portfolio (C.1.-C.8.).

C.1. Corporate assets: Strategic business units in the corporate portfolio may benefit from central assets provided by the corporate parent, such as brands or technology; for example, common branding across various business units based on a well-known corporate brand or reputation (umbrella branding) may increase the growth potential of the individual business units, provide orientation for employees and customers, and improve overall market penetration (Pettifer and Campbell, 2005). Also, a specific patent or technology can be the particular rent-yielding resource for the business units in the corporate portfolio (Barney, 2007; Spender, 1994).

C.2. Management capabilities: Corporate parents may provide superior management capabilities to strategic business units that help to reduce costs, identify and manage risk drivers, streamline the organization, and achieve general administrative excellence. In this way, superior management capabilities complement industry-specific knowledge, business-related skills, and excellence in managing the supply chain (Chatterjee and Wernerfelt, 1991; Grant, 1991; Wernerfelt, 1984). The ability to transfer and leverage these capabilities from corporate to business level is a key success factor of a multi-business firm in general and significantly determines the competitive advantage, sustainable profits, and the value creation potential of the strategic business units in particular (Barney, 1991; Peteraf, 1993).

C.3. Central functions: Strategic business units may benefit from cost advantages by using centrally bundled functions and services, such as group-wide IT and accounting services, central procurement, legal services, or human resource management (Yavitz and Newman, 1982). The fundamental assumption is that central staff can provide better functional guidance, or better value-for-money services, than are available from business units' own staff or from outside suppliers (Goold et al., 1994). For example, bundling of accounting services can be beneficial if the business units involved have similar requirements regarding planning intervals and reporting frequency (Sanchez, 1995).

C.4. External funding: Multi-business companies are ideally positioned to more easily acquire external capital at lower interest terms than comparable stand-alone competitors (the "more money" effect: Alchian, 1969; Gertner, Powers, and Scharfstein, 2002; Gertner et al., 1994; Lamont, 1997; Lewellen, 1971; Myers and Majluf, 1984). This effect stems from the relatively low correlation among the cash flows of strategic business units which results in a lower overall variance in the company's income and a lower risk of bankruptcy compared with more focused companies. Capital markets reward reduced bankruptcy risk and greater financial bargaining volume with easier and cheaper access to external capital ("debt coinsurance" feature of multi-business companies: Lewellen, 1971).

C.5. Short-term bridge financing: Strategic business units may benefit from cash flows from internal operations which can be used as valuable sources of short-term bridge financing and may prevent the business unit from raising expensive external debt (Chatterjee, 1986; Shin and Stulz, 1998).

C.6. Tax optimization: Corporate parents may add value to strategic business units by optimizing the overall tax burden of the corporate portfolio by netting losses of one unit with profits from another and thereby reducing total tax costs (Barney, 2007; Scott, 1977).

C.7. External reporting requirements: Strategic business units benefit from a reduced effort to meet external reporting requirements due to consolidated disclosures (Alamazan, Suarez, and Titman, 2002; Taggart, 1987). Stand-alone competitors listed on the stock markets have to fulfill the complete requirements of corporate accounting at their own expenses (e.g., specialized staff, cost of external auditing and legal advice). Being part of the corporate portfolio, strategic business units may pass these reporting tasks and their cost on to the corporate level.

C.8. Labor market advantages: Strategic business units may also have advantages on labor and recruiting markets when it comes to hiring and retaining management talent (e.g., employer brand, job rotation, career opportunities: Ward et al., 2005). Here, the benefit is that business units do not have to incur the cost of developing their own recruiting channels, but can leverage the existing reputation of the corporate brand and make use of established hiring procedures. Moreover, they may benefit from a broader pool of management talent and can save on the cost of people search and market screening efforts.

4.5.4 Overhead Costs

Central resources and services come at a cost in the form of direct expenses for central departments and additional personnel expenses at business level, but also as indirect agency costs due to slow and inefficient processes or a too high level of attention on internal administrative work. There are five major operational aspects of value-destroying activities by the corporate parent that reduce the overall benefit of direct corporate influence for business units (D.1.-D.5.).

D.1. Oversized scope: Additional costs arise when corporate parents offer central services and functions that are not required by the business units to run operations effectively. The major reason for this value destroying activity typically lies in misallocated managerial competencies resulting in an oversized scope of corporate-level engagement, which is finally paid by the business units (Campbell, Goold, and Alexander, 1995; Goold et al., 1994).

D.2. Costly charges: Corporate parents may destroy value of strategic business units when overhead charges are too high for the scope and quality of the services provided. Cost may be lower if the required services are performed at business-level or are provided by external contractors. Value destruction for the business units may be expressed in price differences or inferior service levels (van Oijen and Douma, 2000).

D.3. Additional resources: Strategic business units may suffer from additional personnel expenses for their own staff who are exclusively involved in meeting and fulfilling redundant requirements of the corporate parent (e.g., inefficient reporting obligations, extensive planning procedures). As a consequence, business units' cost base may increase and profitability may decline (Goold and Campbell, 2002b).

D.4. Inward focus: Corporate requirements do not only cause additional personnel costs at business level, but may also prevent the heads of strategic business units from running their businesses with the necessary attention on operational topics. Consequently, management time and effort is used for centrally caused administrative work rather than for focusing on the market, competitive environment, and profit maximization (Goold et al., 1994).

D.5. Complex processes: Complex planning, budgeting, and controlling structures established by the corporate parent may reduce the flexibility, quality, and speed of decision-making within the company. Business units' operational effectiveness may be constrained, the cost base may be rise, and the value potential may not be fully realized (Chandler, 1991; Goold and Campbell, 2002b).

4.5.5 Sales and Managerial Synergies

The first type of business-to-business value added activities to emerge from our review of the relevant literature can be summarized as sales and managerial synergies. Ansoff (1965) defines sales synergies as an increased sales volume due to joint or bundled use of common distribution channels, sales administration, or warehousing of different products and services. Moreover, he defines managerial synergies as the possibility of leveraging existing capabilities, experiences, and knowledge by solving strategic, organizational, or operating problems which are similar to challenges another unit has dealt with in the past (Ansoff, 1965). There are four basic activities that add strategic business-to-business value (E.1.-E.4.).

E.1. Bundling and cross selling: Bundling of products and services refers to the practice of selling two or more goods from different business units together in one package at a price which is below the sum of the independent prices (Barney, 2007; Goold and Luchs, 1993; Porter, 1985). The synergetic effect results not from the short-term artificially low product price compared to stand-alone goods, but from the long-term benefits of slowly rising prices, increasing total sales volumes, and especially growing market shares (Ansoff, 1965). In addition, revenue synergies can come from cross-selling products and services to the same customer base (sale of complementary goods: Varian, 1989) or from increasing the effectiveness of customer acquisition and loyalty programs (Mahajan and Wind, 1988).

E.2. Sharing of capabilities and experiences: Strategic business units may benefit from sharing internal capabilities and market-related knowledge among each other. Superior business skills can be transferred from successful business units to the rest of the corporate portfolio in order to maximize operational excellence and value creation (Kanter, 1989). Mechanisms to achieve this may involve the leveraging of market experiences, internal benchmarking, or best-practices sharing through knowledge management (Tanriverdi and Venkatraman, 2005).

E.3. Joint development of strategic assets: Simply exploiting existing strategic assets is not a long-term value creating strategy. Business units which are able to jointly develop new strategic assets faster and more cheaply than their stand-alone competitors will earn superior returns over time (Markides and Williamson, 1994). Access to valuable, rare, and costly-to-imitate strategic assets may provide a short-term competitive advantage, but this advantage will eventually decay as a result of asset erosion and imitation. In the long-run, therefore, only accumulated, bundled business-to-business competencies enable strategic business units to build new strategic assets more quickly and efficiently than their competitors – which will finally lead to sustainable supernormal profits (Markides and Williamson, 1996; Martin and Eisenhardt, 2001).

E.4. Market power: Business units may benefit from competing simultaneously with the same set of competitors in multiple markets if they employ strategies of mutual forbearance (Golden and Ma, 2003). This means that under certain circumstances, the most value adding strategy for a single unit may be to release a specific product, service or market segment without a struggle to another competitor and receive an economical equivalent in return. This disciplinary behavior may occur when two or more multi-business companies have comparably deep pockets and thus pose a credible threat to each other. In order to counteract the mutual harm, a cautious and cooperative strategy is beneficial (Golden and Ma, 2003). This effect can not only be found in the sales or pricing behavior of multi-business companies, but also in M&A markets (Gimeno and Woo, 1999).

4.5.6 Resource Competition

Horizontal linkages may not only add value to the involved units—they can also have negative influences on profitability and value creation. There are three basic activities and mechanisms that destroy strategic value from business-to-business interactions in the portfolio (F.1.-F.3.).

F.1. Insufficient corporate attention: Strategic business units may suffer from insufficient attention by corporate level management. In this case, they are deprived of two important and scarce strategic resources: time and concern (Stein, 1997). This may, for instance, result in a low priority on the agenda of corporate board meetings or in undue delays of important strategic decisions regarding the business unit.

F.2. Cross-subsidization: Strategic business units may also suffer from cross-subsidization of other business units in the allocation of investment budgets. Generally, it is not unusual for certain investment alternatives to be optimal from a corporate perspective but suboptimal from the perspective of a single business unit. In this case, it may be of advantage for the corporate parent to provide financial incentives for the specific unit in order to generate the optimal allocation of resources. The financial incentives may be financed from operational cash flows of the other business units, which stretches their profitability, and establishes the intended cross-subsidization, but leads to value destruction for high-performing units (Rajan et al., 2000).

F.3. Portfolio role: Finally, business units can suffer from being assigned to a specific role within the corporate portfolio. As a result of that role, they may be forced to generate and deliver operating cash flows to finance growth options for other business units, or they may only pursue activities with a low risk profile in order to help balance the overall corporate risk. In this way, their specific roles may prevent business units from realizing the value potential that they would have as stand-alone entities (Scharfstein and Stein, 2000).

4.5.7 Operating and Investment Synergies

The second type of business-to-business value-adding activities that emerged from our review of the relevant literature can be summarized as operating and investment synergies. There are five basic activities that add operational business-to-business value (G.1.-G.5.).

G.1. Economies of scope: Strategic business units may benefit from economies of scope due to cooperative operations within an integrated value chain (Baumol, Panzer, and Willig, 1982). Value creation arises when the joint exploitation of existing strategic assets is more cost-efficient than two independent applications (e.g., when the costs of a shared distribution system and advertising channels for two products are lower than the sum of the costs for two separated sales and advertising channels: Markides and Williamson, 1994; Nayyar, 1993; Rumelt, 1982; Teece, 1980, 1982).

G.2. Economies of scale: Strategic business units may benefit from the realization of economies of scale within the corporate portfolio. The synergetic effects for the involved business units may result from the ability to spread fixed costs in, for example, overhead, production and research and development activities over larger production volumes and better functional specialization compared to stand-alone competitors (Brush, 1996; Porter, 1980).

G.3. Facility utilization: Business units may profit from a more efficient utilization of their facilities if they are part of a corporate portfolio. Value creation for single units may be realized through the ability to plan and manage production capacity more effectively across different business units and thereby avoid the high cost of underutilized assets (Ansoff, 1965; Chatterjee, 1986). Moreover, cost advantages may be reached through joint inventories or flexible work force deployment (Collis and Montgomery, 2005; Mahajan and Wind, 1988).

G.4. Purchasing power: Strategic business units may have cost advantages through combined purchasing power on supplier markets. The synergetic effects for the involved business units may be achieved by setting up a purchasing coordination committee, by establishing a corporate advisory center, by creating a group-wide database on procurement activities, or by setting corporate standards for terms and conditions (e.g., volume discounts, privileged contracts, superior terms of payment, exclusive partnerships: Goold and Campbell, 1998; Tanriverdi, 2006).

G.5. Transfer pricing: Finally, business units within an integrated value chain may benefit from lower internal transfer pricing compared with arm's length conditions on external markets. Value creation for the business units may be expressed in favorable transaction prices or superior service levels for a comparably priced product (Markides and Williamson, 1994).

Figure 3. Operationalization of the Framework

Value added	Value destroyed
Corporate-to-business	**Corporate-to-business**
A Strategic guidance and support	Negative influence B
A.1 Strategic direction	Insufficient expertise and skills B.1
A.2 Strategic expertise	Managerial entrenchment B.2
A.3 Business development and growth	Empire-building B.3
A.4 Resource allocation	Risk aversion B.4
A.5 Protection from capital markets	Lack of performance pressure B.5
A.6 Performance monitoring	Lack of motivation B.6
A.7 Operational improvement	
A.8 Synergy fostering	
C Central resources and services	Overhead costs D
C.1 Corporate assets	Oversized scope D.1
C.2 Management capabilities	Costly charges D.2
C.3 Central functions	Additional resources D.3
C.4 External funding	Inward focus D.4
C.5 Short-term bridge financing	Complex processes D.5
C.6 Tax optimization	
C.7 External reporting requirements	
C.8 Labor market advantages	
Business-to-business	**Business-to-business**
E Sales and managerial synergies	Resource competition F
E.1 Bundling and cross selling	Insufficient corporate attention F.1
E.2 Sharing of capabilities and experiences	Cross-subsidization F.2
E.3 Joint development of strategic assets	Portfolio role F.3
E.4 Mutual forbearance	
G Operating and investment synergies	Cost of complexity H
G.1 Economies of scope	Additional internal coordination H.1
G.2 Economies of scale	Tactical maneuvers H.2
G.3 Facility utilization	Internal power struggles H.3
G.4 Purchasing power	
G.5 Transfer pricing	

4.5.8 Cost of Complexity

Intensive business unit interactions can also cause value destruction through a significant increase in complexity. This refers not only to the rising variety of products and product-related services, but in particular to internal coordination processes and the resultant administrative costs (Goold et al., 1994; Porter, 1985; Williamson, 1975). The increased complexity requires much more intensive planning, management, and controlling of the operational activities and imposes a value drain on almost all organizational levels of the company, especially at the business units. There are three basic activities and mechanisms that destroy operational value from business-to-business interactions within a corporate portfolio (H.1.-H.3.).

H.1. Additional internal coordination: Strategic business units within a corporate portfolio may suffer from additional efforts to coordinate internal, horizontal processes. Value destruction for a single business unit may be expressed, for example, in wasted time and managerial resources on internal business-to-business administrative work (Jones and Hill, 1988). This internal coordination can also lead to slower decision-making processes compared with stand-alone competitors (John and Harrison, 1999).

H.2. Tactical maneuvers: Strategic business units may waste resources and time on tactical maneuvers for influencing central decision-making. The costs arising from the time, effort, and creativity spent by business units' management on attracting the attention of the corporate parent in such a way that they can gain a personal advantage, but lower overall profit maximum are called influence costs (Milgrom and Roberts, 1988, 1990, 1992, 1999). If a corporate parent takes organizational measures to avert tactical maneuvers and to control the influencing costs of the business units, this may also lead to additional costs (Milgrom and Roberts, 1999).

H.3. Internal power struggles: Business units may also suffer as a result of wasting time and resources on internal power struggles with other units in the corporate portfolio (Rajan et al. 2000). In addition to the resultant direct costs, these internal power struggles may lead to wrong corporate decisions for individual business units due to the previous influencing activities of their peers (Meyer, Milgrom, and Roberts, 1992). Similar to the inward focus caused by the corporate parent (D.4.), struggles among business units can prevent them from focusing their attention on the market, competition and value creation (Gupta and Seshadri, 1994).

Table 7. Literature Analysis for the Framework

Authors	Year	A Strategic guidance and support	B Negative influence	C Central resources and services	D Overhead costs	E Sales & managerial synergies	F Resource competition	G Operating and investment synergie	H Cost of complexity
Adner / Helfat	2003	X							
Alamazan et al.	2002			X					
Alchian	1969	X		X					
Amihud / Lev	1981		X						
Ansoff	1965					X		X	
Barker et al.	2001	X							
Barney	1991			X					
Barney	2007			X		X			
Baumol et al.	1982							X	
Bowmann / Helfat	2001	X							

Authors	Year	A	B	C	D	E	F	G	H
Brusco / Panuzzi	2005		X						
Brush	1996							X	
Campbell et al.	1995	X	X	X	X				
Chandler	1991	X			X				
Chatterjee	1986			X				X	
Chatterjee / Wernerfelt	1991			X					
Chatterjee et al.	2002		X						
Collis / Montgomery	2005							X	
Donaldson	1984	X							
Donaldson / Lorsch	1983	X							
Gertner et al.	1994	X	X	X					
Gertner et al.	2002			X					
Gimeno / Woo	1999					X			
Golden / Ma	2003					X			
Goold / Campbell	1998	X	X					X	
Goold / Campbell	2002				X			X	
Goold / Luchs	1993		X			X			
Goold et al.	1993	X							
Goold et al.	1994	X	X	X	X		X		X
Goold et al.	1996	X	X		X				
Goold et al.	1998	X	X		X				
Grant	1991			X					
Gupta / Govindarajan	1986		X						
Gupta / Seshadri	1994								X
Hill et al.	1992	X							
Hitt et al.	2001		X						
Jensen	1986		X						
John / Harrison	1999								X
Jones / Hill	1988								X
Kanter	1989					X			
Lamont	1997			X					
Lane et al.	1998		X						
Lange et al.	2009		X						
Lewellen	1971	X		X					
Liebeskind	2000	X							
Mahajan / Wind	1988					X		X	
Markides / Williamson	1994					X		X	

Authors	Year	A	B	C	D	E	F	G	H
Markides / Williamson	1996					X			
Martin / Eisenhardt	2001	X				X			
Meyer et al.	1992								X
Milgrom / Roberts	1988								X
Milgrom / Roberts	1990								X
Milgrom / Roberts	1992								X
Milgrom / Roberts	1999								X
Montgomery	1994		X						
Morck et al.	1990		X						
Mueller	1969		X						
Myers / Majluf	1984			X					
Nayyar	1993							X	
Noda / Bower	1996	X							
Owen / Harrison	1995	X							
Peteraf	1993			X					
Pettifer / Campbell	2005	X		X					
Porter	1980							X	
Porter	1985					X		X	X
Prahalad / Doz	1981	X							
Rajan et al.	2000		X				X		
Rappaport	1990	X							
Rumelt	1982							X	
Salter / Weinhold	1979	X							
Sanchez	1995			X					
Scharfstein / Stein	2000		X				X		
Scott	1977			X					
Shin / Stulz	1998		X	X					
Shleifer / Vishny	1989		X						
Spender	1994			X					
Stein	1997	X					X		
Stein	2002		X						
Taggart	1987			X					
Tanriverdi	2006							X	
Tanriverdi / Venkatraman	2005					X			
Teece	1980							X	
Van Oijen / Douma	2000				X				
Varian	1989					X			

Authors	Year	A	B	C	D	E	F	G	H
Vera / Crossan	2004	X							
Ward et al.	2005	X		X					
Wernerfelt	1984			X					
Weston	1970	X							
Westphal	1999		X						
Williamson	1975	X							X
Yavitz / Newman	1982			X					

4.6 Contributions

The major attempt of this paper is the development of a theoretical framework that can be used to investigate actual parenting approaches of corporate headquarters and to analyze the relevance and current usage of different value added activities in corporate practice, as well as their potential combinations in distinct parenting strategies. To this end, we have developed a three-dimensional framework that accounts for corporate-to-business and business-to-business interactions, value-added and value-destroyed activities, and strategic and operational levers. We operationalized this framework by assigning a broad set of individual activities to these levers. The contributions of our paper are manifold and lead to a number of applications.

- *Theory development*: The potential of the parenting advantage concept is further exploited and theory development is fostered through the theoretical concretization of the four basic sources of value added provided by the original concept, and also through the extension of scope by including the business-to-business perspective as an indirect, compositional lever of corporate value added.

- *Operationalization:* By applying the outlined requirements of an effective operationalization, our paper delivers a robust, systematic, and operational framework to assess the net benefits to a given business of being part of a corporate portfolio, and to identify and evaluate effective parenting strategies in corporate practice. While previous studies mainly focused on broad parenting approaches with low granularity (e.g., Collis et al., 2007; Goold and Campbell, 1987c; Hill, 1988; Markides, 2002; Porter, 1987; van Oijen and Douma, 2000), our framework now allows us to substantiate earlier observations, draw finer distinctions between the applied strategies, and investigate the core of superior value added approaches.

- *Capital market valuation:* The outlined framework will facilitate the investigation of structural, strategic, and organizational roots of superior parenting strategies in corporate practice. In particular, it can be used to analyze the origin and underlying drivers of conglomerate discounts and premia and thus enhance our understanding of capital market valuation of multi-business companies.

- *Practical application:* The framework will also be of practical use because it can be easily translated into a diagnostic instrument for assessing the parenting strategy of a given multi-business firm. In this way, it can support practitioners in portfolio management – which was also the explicit motivation for the development of the original parenting advantage concept.

5 Identifying and Evaluating Parenting Strategies

5.1 Abstract

Most conceptual and empirical research on corporate diversification has largely focused on analyzing the influence of the degree of diversification and business unit relatedness (structure) on performance. Attempts to specify the link between the applied parenting approaches of corporate headquarters (strategy) and performance have been rare. Building on the concept of parenting advantage and a unique, hand-collected data sample of 150 global multi-business companies, we aim to improve the current understanding of the strategy-performance-link. First, we empirically ascertain a distinct set of value-adding and value-destroying drivers in multi-business companies. Second, we identify and specify observable, consistent, and effective parenting strategies in corporate practice. Third, we evaluate how these parenting strategies are associated with overall company performance. Our empirical results reveal that individual value added drivers exhibit large discrepancies in terms of their importance, with financing advantages leading the value creation toolbox. Six distinct parenting strategies can be observed that differ significantly in performance, and it turns out that avoiding value destruction plays a very important role.

5.2 Introduction

Over the last thirty years, the hypothesis that a diversified corporate portfolio is one of the major origins of discounted valuation at capital markets has found broad acceptance in the academic literature, caused a

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large body of theoretical and empirical research, and has generally shaped our current understanding of the performance of multi-business companies (e.g., Berger and Ofek, 1995; Lang and Schulz, 1994; Servaes, 1996). Empirical studies exist, however, that not only examine strong valuation differences depending on the selected geography or the applied timeframe, but that also focus on the contrasting hypothesis that a positive impact of related diversification on performance can be empirically confirmed (e.g., Bowman and Helfat, 2001; Fauver, Houston, and Naranjo, 1998; Wernerfelt and Montgomery, 1988; Rumelt, 1991; Villalonga, 2004). Although both research directions contribute valuable empirical insights to understanding the general valuation differences of multi-business companies, they both largely neglect the strategic perspective, as they do not sufficiently examine which activities within a multi-business company are positively associated with firm performance, and both offer only little standard guidance on how to manage a diversified corporate portfolio successfully.

In fact, most conceptual and empirical research has largely focused on analyzing the influence of business unit relatedness and allover diversification (structure) on performance, while attempts to specify the link between the applied parenting approaches of corporate headquarters (strategy) and performance have been rare (e.g., Brush, Bromiley, and Hendrickx, 1999; Campa and Kedia, 2002; Mansi and Reeb, 2002; Roquebert, Phillips, and Westfall, 1996). As a consequence, current strategic management research is not sufficiently clear on which value added activities that are accessible to the corporate parent or strategic business units substantially influence overall performance, how corporate parents of multi-business companies practically shape and configure their parenting strategy, and finally which strategies lead to superior performance.

Building on the concept of parenting advantage and a unique, hand-collected data sample of 150 global multi-business companies, this paper aims to close this apparent research gap and seeks to improve the current understanding of the strategy-performance-link. First, we empirically ascertain a distinct set of value-adding and value-destroying drivers in multi-business companies. Second, we aim to identify and specify observable, consistent, and effective parenting strategies in corporate practice. By using cluster analysis, we analyze how bundles of single value added drivers are configured and combined in multi-business companies. This exploratory analysis approach allows us to define a statistically robust typology of discriminatory parenting strategies and, furthermore, to substantiate broader parenting categories as explored in previous, mainly qualitative studies (e.g., Collis et al., 2007; Goold and Campbell, 1987c; Hill, 1988; Markides, 2002; Porter, 1987; van Oijen and Douma, 2000). Third, we evaluate how these parenting strategies are associated with overall company performance.

Our empirical results reveal that individual value added drivers exhibit large discrepancies in terms of perceived importance, with financing advantages leading the value creation toolbox. Six distinct parenting strategies can be observed in corporate practice. Performances of these identified strategies differ significantly, and it turns out that avoiding value destruction plays a very important role.

The chapter is structured as follows. First, we lay the ground by introducing and describing the conceptual framework for assessing the parenting strategies that guide the empirical study. We then outline the applied methodology by describing our 3-step analysis procedure, the management survey instrument, which was distributed among senior executives of global multi-business companies, the empirical data examined, and the measures used. Next, we present the results of the empirical analyses. A concluding section discusses the contributions to strategy research and the implications for corporate-level management.

5.3 Methodology

5.3.1 The Framework

After its introduction in the mid-1990s, the concept of parenting advantage was quickly adopted by many standard textbooks on strategic management. Empirical studies reveal that the concept is considered highly relevant for strategy formulation and portfolio management at the corporate level; however, its broader application in corporate practice has not lived up to expectations. We assume that this is due to two major limitations of the original concept: firstly, it neglects the indirect compositional effects of the portfolio that are not due to active involvement of the corporate parent, and secondly, the concept has not been sufficiently operationalized to the level of specific value-added activities.

In order to address this apparent gap, and given our basic research interest in identifying and evaluating the performance of parenting strategies, we first carried out comprehensive research on relevant activities of value added and value destroyed in the published literature on the parenting advantage concept and complemented it with selected, enhancing aspects from the strategic management, corporate strategy, and organizational literature. We define a parenting strategy as the distinct, consistent, and effective combination of value added activities. These can result from corporate-to-business (direct, vertical) interactions, but also from business-to-business (indirect, horizontal) activities without interference by the corporate parent. Consequently, aspects of the synergy research stream were also a key source of input.

We systemized all identified activities of value added and value destroyed in a three-dimensional structure that accounts for corporate-to-business as well as business-to-business interactions *(origin)*, value-added as well as value-destroyed activities *(impact)*, and strategic as well as operational activities *(type)*. A framework of eight fundamental levers of vertical and horizontal influence in multi-business companies results (for corporate-to-business effects see for example Rumelt, 1974; Chandler, 1991; Goold et al., 1994; for business-to-business effects see for example Ansoff, 1965; Porter, 1985; Goold and Luchs, 1993). We finally operationalized the framework by assigning single activities of value added or value destroyed to the eight levers. See the fourth chapter for the used literature as well as the full specification and discussion of the operationalization of the framework for assessing parenting strategies and evaluating their performance.

5.3.2 Analysis Procedure

We transfer the research questions into a 3-step analysis procedure. The first two steps address the exploration of distinct value drivers and the identification of consistent parenting strategies. The third is designed to evaluate the strategies with regard to performance.

- *Value driver audit*: By using factor analysis, we empirically explore distinct drivers of value-adding and value-destroying influence and then assess their relative importance. This analytical method reduces the total set of theoretically assumed value added activities (survey items) to a statistical concentrated set of actual value drivers (factors).

- *Strategy identification*: By using cluster analysis, we empirically identify observable and consistent parenting strategies by analyzing how bundles of distinct value drivers are effectively configured and combined. These analysis methods allow us to define a statistical robust typology of consistent and effective parenting strategies in corporate practice (clusters).

- *Performance*: By summarizing all drivers of value added and value destroyed and contrasting them with a separate self-perception of the survey participants of total net value creation in their company, we empirically discover the overall benefit of the observed parenting strategies. This aggregation of results allows us to assess the intensity of value added and value destroyed, and more importantly, to evaluate the performance of the different parenting strategies in terms of value creation for the businesses and the overall company.

5.3.3 Data, Sample, and Bias Tests

Detailed data on actually applied drivers of value added and value destroyed in corporate practice are required in order to examine our outlined research objectives. No public dataset offers such information, so we used key-informant techniques and conducted an online survey among global multi-business companies. Even though there might be some structural disadvantages (e.g., individual opinions may not reflect the overall view), alternatives to the applied technique can be prohibitively time-consuming and expensive (Lincoln and Guba, 1985).

We chose a top-down sample selection procedure, thus avoiding any sort of selection bias, and we gathered an original sample of 1,453 of the largest private and public companies ranked by total revenues in 2008 (sources: Bloomberg, Forbes, and Financial Times). To reach a robust sample that that matches the requirements of our study we researched our sample of companies and performed a cleansing procedure to shape the data quality.

We deleted from our sample 45 companies that could not be allocated to a specific industry segment (i.e., they had no SIC codes or SIC code 9999 for the first segment (non-classifiable establishments)) and thus could not be used for further data analysis. Moreover, we deleted 200 companies where total sales, market capitalization, minority interest, total debt or enterprise values are not available, zero or negative and where sum of segment sales deviates by more than five percent from total sales. Then, we removed 135 companies that provided no contact data at all in the publicly available sources such as websites or databases. Finally, we reduced the original sample by deleting 186 companies for which we could not identify the appropriate contact persons to participate in our study. This cleansing procedure resulted in a final sample of 888 companies.

We developed the self-administered survey instrument based on the framework for assessing parenting strategies in corporate practice as outlined in detail in chapter 2 and pretested it on more than 30 academics from different universities and chief strategists of multi-business companies. We approached one contact person per company (target sample; N=888) with a standardized invitation to complete the survey.

Questionnaires were mailed exclusively to Chief Executive Officers, Chief Financial Officers, executive managers of business units, or heads of corporate strategy, corporate development, and finance departments. After two rounds of follow-up reminders by phone and mail, we obtained valid responses from 150 companies (n) with effective response rate of 16.9%, which is very good, particularly taking the comparably high ranks of managers into account (Dennis, 2003). Responding companies have an average revenue size of 23.0B € and are characterized by a good match in terms of industrial allocation between the target and the final sample (Table 8).

Table 8. Industry Allocation

Geographies	*Target sample*	*Final sample (n = 150)*	*Delta*
Industrial Goods	18.8%	17.7%	-1.1%
Finance	16.6%	12.0%	-4.6%
Consumer Services	15.7%	14.0%	-1.7%
Energy	13.9%	14.6%	0.7%
Consumer Goods	13.2%	16.0%	2.8%
Basic Materials	9.3%	11.0%	1.7%
Telco/Technology	8.9%	10.2%	1.3%
Healthcare	3.5%	4.5%	1.0%
Sum	100.0%	100.0%	

To test for non-response bias, we compared the responses of those respondents who returned the first mailing of a questionnaire ($n_1 = 58$) with those who returned the third mailing ($n_3 = 43$) by means of two-tailed ANOVA. We did not find one item with statistically significant differences between the mean responses of the two groups ($p<0.05$), suggesting that non-response bias should not be a concern.

We also test for the key informant bias. According to our empirical dataset, the survey participants are exclusively located in corporate headquarters and are characterized by a homogenous functional background. Responding participants are largely educated in corporate development, corporate strategy, or M&A topics (>90 percent), whereas only very few participants have a technology or marketing background. In addition, 76.5 percent are current members of the executive board or are heads of central corporate functions (e.g., head of corporate strategy, head of corporate development). Only 8 percent rank more than two management levels below the executive board. To conclude, the homogenous affiliation of participants with central departments, high level management, and an appropriate background ensure the high quality of the empirical data, guarantee a largely common view on our research questions on corporate value creation, and prevent a key informant bias occurring in the data sample.

Finally, we tested for the common method bias by using Harman's single factor test. All activities of value added were entered into a single factor analysis. We found that nine factors with Eigenvalues greater than 1.0 jointly accounted for 70.6 percent of the variance in the data. The single factor extracted explains 19.5 percent of variance. The ninth factor accounts for 3.6 percent of total variance. Neither a single factor emerged, nor did one general factor account for >50 percent of the variance. Results indicate that the common method bias is not a serious issue for further data analysis.

5.3.4 Survey Measures

To investigate the importance of different sources of value creation and value destruction, respondents were asked to evaluate the perceived relevance of 29 single activities of value added and 19 single activities of value destroyed on a 6-point Likert scale, ranging from "0" = "Not at all" to "5" = "Extensively".

Corporate-to-Business: Value added

We used 9 activities to measure ‘Strategic guidance and support’ and 9 activities to measure ‘Central resources and services’. Table 9 summarizes all 18 variables describing value creation in the corporate-to-business dimension.

For the ‘Strategic guidance and support’ lever, we largely adapted measures provided by the parenting advantage concept. It comprises benefits for the business units from enhanced strategic decision-making by the corporate parent through strategic directions, expertise on strategic topics, support in M&A projects and business development, efficient resource allocation, protection from capital markets, tight performance monitoring, operational improvement activities, fostered operational cooperation between the business units, and encouraged sharing of knowledge and management talent.

For the ‘Central resources and services’ lever, we also build mostly on measures from the parenting advantage concept. The lever assesses benefits from central assets provided by the corporate parent (e.g., brands, patents), superior management capabilities (e.g., risk management), centrally bundled functions (e.g., procurement, IT), favorable external funding (e.g., greater negotiation power), short-term bridge financing to avoid expensive debt, optimized tax across the portfolio, lowered external reporting requirements, higher attractiveness as an employer, and the benefit of a broader pool of management talent.

Table 9. Corporate-to-Business: Value Added

Corporate-to-business | Value added
How relevant are the following activities as sources of value creation for the BUs in your company (0 = "Not at all" to 5 = "Extensively")?
Strategic guidance and support
1. HQ provides an overall vision or strategic direction to the BUs
2. BUs are supported by the HQ with specific strategic expertise
3. HQ actively promotes BUs' M&A projects
4. Company resources are allocated efficiently by the HQ
5. HQ staff reduces value-destroying behavior through tight performance monitoring
6. Operational performance is improved by HQ interference
7. BUs pursue longer-term perspectives due to protection from capital market pressure
8. HQ actively fosters cooperation between BUs
9. BUs are encouraged by the HQ to share knowledge and talent
Central resources and services
1. BUs benefit from corporate assets provided by the HQ
2. HQ provides essential managerial capabilities to the BUs
3. BUs realize cost advantages by using centrally bundled functions
4. BUs benefit from short-term internal financing to avoid expensive external debt
5. HQ offers lower cost of external funding than BUs could achieve
6. BUs benefit from tax optimization across the corporate portfolio
7. External reporting requirements for the BUs are minimized
8. BUs benefit from a higher attractiveness as an employer
9. BUs benefit from a broader pool of management talent

Notes: HQ = Corporate headquarters; BUs = Business units

Corporate-to-Business: Value destroyed

We used 7 activities to measure ‘Negative influence’ and 5 activities to measure ‘Overhead costs’. Table 10 summarizes all 12 variables describing value destruction in the corporate-to-business dimension.

The 'Negative influence' lever largely relies on the disadvantages of corporate influence provided by the literature of internal capital markets. It comprises drawbacks for the business units from insufficient expertise and skills at the corporate parent with regard to the critical success factors of the businesses, politically driven decision-making at the corporate-level, corporate parents spending capital only in industries they are familiar with (managerial entrenchment), corporate managers focusing primarily on growth for the erection of empires, favoring risk diversification over value creation, a lack of performance pressure, and being less motivated due to constant interference by corporate executives.

Table 10. Corporate-to-Business: Value Destroyed

Corporate-to-business | Value destroyed
How relevant are the following activities as sources of value destruction for the BUs in your company (0 = "Not at all" to 5 = "Extensively")?
Negative influence
1. HQ has insufficient expertise and skills with regard to BU success factors
2. Central decision-making is dominantly driven by political matters
3. HQ prefers investing in BUs that corporate-level management is familiar with
4. HQ favors growth over value creation (empire-building)
5. HQ favors corporate risk diversification over value creation (minimized job risk)
6. BUs are eluded from beneficial capital market pressure due to portfolio membership
7. Ongoing HQ interference decreases BU managers' motivation
Overhead cost
1. HQ offers services which are not needed by the BUs
2. Overhead charges are too high given the scope and quality of the services offered
3. Some BU resources are only needed to fulfill HQs' requirements
4. HQ requirements prevent BU managers from running their businesses effectively
5. Complex HQ processes reduce flexibility and slow down decision-making

Notes: HQ = Corporate headquarters; BUs = Business units

The ‘Overhead cost’ lever covers the perceived disadvantages from direct overhead charges and indirect agency costs. In particular, it incorporates shortcomings for the business units from an oversized scope of activity at corporate-level, from overhead charges that are too high given the scope and quality of the services offered, from additional personnel expenses and management attention in order to fulfill requirements from the corporate parent (inward focus), and from slowed down decision-making due to complex processes established and operated by the corporate headquarters.

Business-to-Business: Value added

We used 6 activities to measure ‘Sales and managerial synergies’ and 5 activities to measure ‘Operating and investment synergies’. Table 11 summarizes all 11 variables describing value creation in the business-to-business dimension.

The ‘Sales and managerial synergy’ lever largely captures measures provided by publications examining increased revenues due to joint or bundled use of common distribution channels, sales administration, or warehousing of different products and services. The lever assesses the advantages of the cross-sale of products and services to the same customer base, bundling of different goods to joint marketing product, horizontally shared capabilities, shared market-related experiences, joint development of new strategic assets, and competing with the same set of competitors in multiple markets (market power through strategies of mutual forbearance).

For the ‘Operating and investment synergy’ lever, we also build on the comprehensive literature on synergy typologies. It covers the perceived relevance of the realization of economies of scope due to cooperative actions within an integrated value chain, economies of scale from combined activities (e.g., joint sales force, product platform), efficient and pooled utilization of research, planning, production, distribution, sales, and external marketing facilities, cost advantages through combined purchasing power on supplier markets, and finally the benefit from lower internal transfer pricing compared with arm's-length transactions on external markets.

Table 11. Business-to-Business: Value Added

Business-to-business | Value added
How relevant are the following activities as sources of value creation for the BUs in your company (0 = "Not at all" to 5 = "Extensively")?
Sales and managerial synergies
1. BUs increase sales through cross-selling to the same customer
2. BUs increase sales through product bundling of different BUs
3. BUs benefit from sharing capabilities with each others
4. BUs benefit from sharing market-related experiences with BUs
5. BUs benefit from joint development of new strategic assets with other BUs
6. BUs benefit from competing with the same competitors in multiple markets
Operating and investment synergies
1. BUs realize economies of scope due to cooperative actions with other BUs
2. BUs realize economies of scale from combined activities
3. BUs benefit from pooling assets among each other
4. BUs have cost advantages through combined purchasing power on supplier markets
5. BUs benefit from internal transfer pricing compared with arm's-length transactions

Notes: HQ = Corporate headquarters; BUs = Business units

Business-to-Business: Value destroyed

We used 3 activities to measure ‘Resource competition’ and 4 activities to measure ‘Cost of complexity‘. Table 12 summarizes all 7 variables describing value destruction in the business-to-business dimension.

The ‘Resource competition’ lever again builds largely on the concept of parenting advantage and on complementing publications from the internal capital market literature. It comprises drawbacks from being deprived of the attention of corporate managers, from cross-subsidization of weak units in terms of resource allocation, and from disadvantages resulting from having to play a specific role in the portfolio that prevents a unit from realizing its full value potential.

Table 12. Business-to-Business: Value Destroyed

Business-to-business | Value destroyed
How relevant are the following activities as sources of value destruction for the BUs in your company (0 = "Not at all" to 5 = "Extensively")?
Resource competition
1. Marginal BUs are deprived of management attention at corporate level
2. Strong BUs have to subsidize weak BUs in terms of CAPEX allocation
3. BUs have to play a role in the portfolio that prevents from value maximum
Cost of complexity
1. BUs are wasting resources on additional coordination efforts for internal processes
2. BUs are wasting resources and time on tactical maneuvers
3. Decision-making processes are slowed down due to high coordination requirements
4. Internal power struggles lead to wrong decisions

Notes: HQ = Corporate headquarters; BUs = Business units

The ‘Cost of complexity’ lever refers not only to the rising variety of products and product-related services, but in particular to internal coordination processes and the resultant administrative cost. It incorporates wasted resources on additional coordination efforts for internal corporate processes, wasted resources and time on tactical maneuvers for influencing decision-making, slowed-down decision-making processes due to high horizontal coordination requirements, and wrong corporate decisions due to internal, horizontal power struggles.

Performance

We used a single survey question to measure the overall performance. To this end, we queried survey participants to evaluate the total net value creation by summarizing all vertical and horizontal, value-adding and value-destroying influences and assessing the aggregated result on a 7-point Likert-scale (<-30% valuation discount to >+30% valuation premium).

5.3.5 Multivariate Methods

In order to address our first research question, the ratings which were assigned by the participants to the single value-adding and value-destroying activities were factor analyzed. This analysis is used to investigate the interrelationships among a large number of activities (survey items), to reduce them to a concentrated set of actual value added drivers (factors), and finally to interpret them. We conducted an exploratory factor analysis to identify which activities of value added and which activities of value destroyed are perceived as distinct and relevant for value creation. The resulting factors were rotated using the Varimax transformation. While oblique transformations are sometimes argued to produce more theoretically meaningful constructs, orthogonal transformations such as Varimax are generally viewed as easier to interpret and are the appropriate rotation techniques when factors will be used in subsequent statistical analyses.

Our second research question is addressed by employing various cluster analysis methods. We used these multivariate analyses to identify and specify consistent and effective parenting strategies by grouping single survey participants into statistical homogenous clusters and then comparing them to other observed strategies from the dataset. We successively applied three common clustering methods in order to reach a robust statistical solution for follow-on analysis. In particular, we ran a single-linkage hierarchy cluster analysis to eliminate outliers that were numerically distant from the rest of the sample and then used a Ward linkage cluster method to identify the most appropriate number of clusters. Finally, we executed a k-means cluster analysis to refine the statistical solution and lay the ground for result interpretation.

5.4 Results and Discussion

5.4.1 Value Driver Audit

In order to derive a set of observable parenting strategies from our survey responses, we started by analyzing the value added activities from corporate-to-business and from business-to-business interactions.

Drivers of Value Added

Table 13 shows the result of a principal components factor analysis for the value added activities after Varimax rotation. We used the initial set of 29 survey items and extracted a 9-factor solution. All factor Eigenvalues exceed 1.0 (Kaiser Criterion) with sufficient reliability tests with Cronbach's alphas >0.7. Twenty-eight of 29 survey items load on a single factor at greater than 0.50. The extracted 9-factor solution explains 70.6 percent of the total variance. Variance explained by single factors ranges from 19.5 percent to 3.6 percent. The Kaiser-Meyer-Olkin measure of sampling adequacy is sufficient at the 0.69 level and the Bartlett's test for sphericity is significant at $p<0.001$ (1,113.4). Both tests indicate a highly appropriate factor extraction for further analysis and interpretation (Stewart, 1981). In order to evaluate the perceived relevance of the factor analyzed drivers of value added, we calculated unweighted means (initial scale: "0" = "Not at all"; "5" = "Extensively"). In detail, the factor analysis yields the following nice distinct drivers of value added:

- *Factor 1: Strategy development*: Corporate parents may add value through active involvement in business unit strategy development, leading to superior strategies and better decisions. They can do so by providing overall strategic direction, formulating top-down objectives, designing development roadmaps, and actively involving in M&A transactions.

- *Factor 2: Operational engagement*: Corporate parents may add value by noticeably influencing decisions on operating objects at business-level; for instance, very tight and detailed investment approval procedures, strict performance monitoring, or direct interference in business operations through centrally guided improvement initiatives (restructuring).

- *Factor 3: Financing advantage*: Business units may benefit from financing advantages as multi-business firms are ideally positioned to more easily acquire capital at lower interest terms than comparable stand-alone competitors. Capital markets reward reduced bankruptcy risk and greater bargaining volume with easier and cheaper access t funding. Moreover, businesses may benefit from tax optimization across the portfolio as well as from steady operational cash flows which can be used as valuable sources of internal funding.

- *Factor 4: HR advantages*: Business units benefit from a higher attractiveness of the overall company in the recruiting market, from a broader pool of management talent, and from the exchange of managers between the units (rotation programs).

- *Factor 5: Corporate assets*: Business units in the portfolio may also profit from corporate asset provision. Benefits may be realized through distinct corporate capabilities, specific technologies or corporate umbrella brands.

- *Factor 6: Central functions*: Business units in the portfolio may also profit from cost advantages through corporate functions. Benefits may be realized through bundled services, such as IT, accounting, procurement, or legal services.

- *Factor 7: Sales synergies*: Business units increase their sales or margins by bundling products with other units or by cross-selling to the same customer base.

- *Factor 8: Managerial synergies*: Business units benefit from sharing capabilities and market-related experiences and from the joint development of new strategic assets and capabilities.

- *Factor 9: Operational synergies*: Business units may realize economies of scope from cooperation, economies of scale from combining operations and benefits from pooled assets.

Table 13. Results of Factor Analysis: Value Added

Varimax rotation	*Components / factors*								
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
1. Strategic direction	0.76	0.19	0.07	0.03	0.22	-0.01	0.15	-0.01	0.15
2. Strategic Expertise	0.23	0.72	0.16	0.11	0.20	0.08	0.06	0.04	0.12
3. MA promotion	0.88	0.04	0.12	0.05	0.01	0.01	0.00	0.05	-0.05
4. Resource allocation	0.09	0.52	0.03	-0.03	0.08	0.14	-0.15	0.42	0.23
5. Performance monitoring	-0.01	0.81	0.13	-0.06	0.10	0.16	0.06	0.12	0.00
6. Operational initiatives	0.05	0.71	0.05	0.10	0.21	-0.17	-0.04	0.11	0.16
7. Capital market protection	-0.07	0.26	0.55	0.13	0.04	-0.39	-0.15	-0.06	-0.01
8. Fostering cooperation	-0.03	0.45	0.09	0.62	-0.07	0.15	0.19	0.12	-0.02
9. Sharing knowledge	0.04	0.48	0.10	0.59	-0.06	0.35	0.12	0.15	-0.07
1. Corporate assets	0.06	0.15	0.14	0.13	0.81	0.05	0.01	0.12	-0.03
2. Managerial capabilities	0.16	0.27	0.08	0.27	0.79	0.18	-0.04	0.04	-0.02
3. Central functions	0.13	0.27	0.00	0.02	0.50	0.57	0.02	-0.04	0.09
4. Internal financing	0.04	0.04	0.83	0.15	0.20	0.11	0.14	0.02	0.01
5. External funding	0.09	0.10	0.89	0.08	0.08	0.06	0.05	0.06	0.06
6. Tax optimization	0.26	0.12	0.60	0.13	-0.14	0.29	-0.17	0.09	0.16
7. External reporting	-0.09	0.10	0.29	0.11	0.20	0.64	-0.07	0.09	0.22
8. Employer brand	0.07	-0.09	0.15	0.78	0.29	-0.10	-0.05	0.06	0.15
9. Management pooling	0.04	-0.05	0.18	0.80	0.23	0.00	0.01	0.10	0.22
1. Cross selling	0.14	-0.01	0.04	0.07	-0.08	0.03	0.81	0.20	0.27
2. Product bundling	-0.02	0.04	-0.02	-0.03	0.00	-0.04	0.81	0.19	0.34
3. Capability sharing	0.06	0.11	0.04	0.11	0.02	-0.04	0.24	0.73	0.23
4. Market experiences	0.02	0.10	0.10	0.14	0.00	-0.03	0.19	0.86	0.08
5. Asset development	-0.05	0.19	-0.01	0.00	0.11	0.16	0.07	0.79	0.25
6. Multiple markets	0.07	-0.02	-0.06	0.15	0.10	0.03	0.50	0.47	0.15
1. Economies scope	0.00	0.11	0.05	0.15	-0.07	0.18	0.13	0.19	0.76
2. Economies scale	0.04	0.01	0.01	0.10	-0.04	-0.04	0.18	0.21	0.84
3. Pooling assets	-0.01	0.13	-0.03	0.04	0.01	-0.01	0.17	0.02	0.84
4. Purchasing power	0.11	0.02	0.10	0.04	0.07	0.21	0.07	0.13	0.71
5. Transfer pricing	-0.03	0.15	0.11	0.00	0.08	-0.13	0.35	0.28	0.53

Table 14 shows descriptive statistics for the extracted factors of value added (in order of decreasing perceived relevance).

Table 14. Drivers of Value Added

Factors	*Rank*	*Mean*	*S.D.*	*Range*
Financing advantage	1	4.1	1.0	0.0 - 5.0
Strategy development	2	3.9	1.0	0.0 - 5.0
Central functions	3	3.6	1.1	0.0 - 5.0
Corporate assets	4	3.5	1.1	0.0 - 5.0
HR advantages	5	3.3	0.9	0.0 - 5.0
Operational engagement	6	3.2	0.9	0.0 - 5.0
Managerial synergies	7	3.0	1.0	0.0 - 5.0
Operational synergies	8	3.0	1.1	0.0 - 5.0
Sales synergies	9	2.5	1.3	0.0 - 5.0
Average		3.3	0.6	0.0 - 5.0

A comparison of perceived relevance draws a clear picture, as single value-adding drivers rank from 4.1 (financing advantages) to 2.5 (sales synergies), with an unweighted mean value of 3.3, and a total spread of 1.6. Drivers of value added resulting from corporate-to-business interactions largely dominate the value creation toolbox, whereas business-to-business interactions are mostly perceived as a less relevant source of value creation (rank 7, 8, and 9).

The empirical data suggest that financing advantages (4.1) and strategy development (e.g., business visions and formulation of top-down objectives; (3.9)) are the most important drivers of value added in multi-business companies. Both drivers refer to the core responsibilities of corporate parents. Moreover, it can observe that achieving cost advantages through central functions (3.6) and providing and leveraging corporate assets and managerial capabilities (e.g., brands, technology or administrative excellence; (3.5)) are also key drivers of value added. According to the empirical data, a strong performance monitoring system and operational engagement of the corporate parent through corporate-wide initiatives are not perceived as major sources of value added (3.2). The same is true for advantages from efficiently coordinated human resource activities (3.3). But most importantly, the exploitation of operational (3.0), managerial (3.0) and sales synergies (2.5) are perceived as relatively less relevant than general corporate engagement. These results are particularly remarkable because operational improvement, HR, and synergies are historically well-established in the academic discussions on value creation in the multi-business company. Our empirical data now suggest that these drivers may be less important than previously thought.

Drivers of Value Destroyed

We explored distinct value-destroying activities by factor analyzing the initial set of 19 single survey items on value destruction.

We extracted a 5-factor solution with sufficient levels of Eigenvalues with 6.3, 2.1, 1.6, 1.2 and 1.0. Nineteen of 19 items load on a single factor at greater than 0.50, whereby the first factor accounts for 33.5 percent, the fifth factor for 6.4 percent. All five extracted factors together for 64.9 percent of total variance. The Kaiser-Meyer-Olkin measure is sufficient at the 0.849 level and the Bartlett's test for sphericity is significant at $p<0.001$ (1,194.5). All six factors are combinations of single activities of value destroyed at corporate and at business level. In order to evaluate the perceived relevance of the factor analyzed drivers, we calculated unweighted means (initial scale: "0" = "Not at all"; "5" = "Extensively"). In detail, the factor analysis yields the following nice distinct drivers of value destroyed:

Table 15. Results of Factor Analysis: Value Destroyed

Varimax rotation	*Components / factors*				
	1	*2*	*3*	*4*	*5*
1. Insufficient expertise and skills	0.55	0.35	-0.08	0.07	0.21
2. Political decisions	0.55	0.45	-0.08	0.13	0.27
3. Managerial entrenchment	0.51	0.37	0.17	0.01	0.01
4. Empire-building	0.43	0.63	0.01	0.28	0.07
5. Risk diversification over value	0.09	0.80	0.06	0.15	0.11
6. Missing market pressure	-0.04	0.63	0.09	-0.03	-0.03
7. Lack of motivation	0.15	0.54	0.46	0.03	0.26
1. Services are not needed	0.80	0.03	0.08	0.09	0.14
2. Charges are too high	0.63	-0.04	0.43	0.26	0.06
3. Resources to fulfill HQs' requirements	0.68	0.01	0.29	-0.13	0.28
4. Inward focus	0.19	0.40	0.65	0.07	0.17
5. Slow decision-making at corporate-level	0.49	0.05	0.62	0.00	0.25
1. Low level of management attention	-0.08	-0.09	0.48	0.67	0.15
2. Subsidization of weak BUs	0.05	0.19	-0.03	0.76	0.29
3. Unfavorable role in portfolio	0.18	0.14	-0.02	0.79	0.21
1. Wasted resources on internal processes	0.11	0.08	0.04	0.15	0.83
2. Coordination requirements	0.10	0.06	0.14	0.15	0.81
3. Power struggles	0.24	0.10	0.10	0.16	0.79
4. Tactical maneuvers	0.18	0.08	0.19	0.21	0.80

- *Insufficient expertise and skills*: Managers at the corporate center often do not recognize or understand the specific requirements and success factors within particular business units. As a result, they impose policies and services on the businesses that are inappropriate.

- *Conflict of goals*: The corporate center may have objectives that conflict with the optimum performance of individual businesses. For example, the head office may make a certain market or business a priority to the disadvantage of some businesses. Or the corporate parent may undertake a company-wide initiative to improve working capital productivity that makes it more difficult for managers in some units to deliver on a high-service strategy.

- *Inefficient processes*: Corporate processes imposed on the businesses can add cost and delays, not to mention considerable confusion over objectives and expectations on the part of hard-pressed business unit managers. A typical problem is the approval process for significant decisions, where operational managers may be put through reviews at the division and group level and still leave the final meeting without full clarity about what is expected of them.

- *Resource shortages*: Businesses may be deprived of adequate capital and managerial resources because they have to subsidize weaker business units or play a specific role in the corporate portfolio that prevents them from realizing their full value potential.

- *Cost of complexity*: Beyond centrally directed processes, businesses may waste time and resources on internal coordination with other business units in attempt to influence corporate policies or to compete for power.

Table 16 shows descriptive statistics for the extracted factors of value destruction (in order of decreasing perceived relevance). In general, the drivers of value destroyed are considered as clearly less relevant than the drivers of value added, and they display a much smaller variance of perceived importance. Single drivers of value destroyed rank from 2.3 (insufficient expertise and skills) to 2.1 (conflict of goals), with an unweighted mean value of 2.2, and a total spread of 0.2.

Insufficient expertise (2.3) and cost of complexity (2.2) are identified as key driver of value destroyed in multi-business companies. These observations may be explained by the fact that these costs are indirect, difficult to measure, have a comparably strong impact, and are hard to fight. The complexity of a multi-business portfolio may also translate into inefficient processes which are considered the second most important factor of value destroyed (2.3). Moreover, resource shortage is perceived as a relatively less relevant driver (2.1). This observation is consistent with the relative low importance of resource allocation as a driver of value added. It seems that the active re-allocation of resources (capital, management etc.) by the corporate parent is not very prevalent in multi-business companies.

Table 16. Drivers of Value Destroyed

Factors	*Rank*	*Mean*	*S.D.*	*Range*
Insufficient expertise	1	2.3	0.9	0.0 - 5.0
Inefficient processes	2	2.3	1.0	0.0 - 4.0
Cost of complexity	3	2.2	1.1	0.0 - 5.0
Resource shortages	4	2.1	1.0	0.0 - 5.0
Conflict of goals	5	2.1	0.9	0.0 - 4.0
Average		2.2	0.7	0.0 - 5.0

5.4.2 Strategy Identification

By using cluster analysis methods, we empirically analyzed how bundles of distinct drivers of value added (i.e., the extracted nine factors from the factor analysis above) are configured and combined. This multivariate approach allows us to define a statistical robust typology of consistent and effective parenting strategies observed in corporate practice.

We successively applied three common clustering methods in order to reach a robust statistical solution. First, we performed a single-linkage hierarchy cluster analysis to eliminate outliers that were numerically distant from the rest of the sample. Second, we determined the appropriate number of clusters using the hierarchical clustering algorithm developed by Ward. This analysis provided strong support for a 6-cluster solution. In addition, the stopping rule of Mojena shows the highest relative heterogeneity increase between a 6-cluster solution and a 7-cluster solution (a strong double-digit increase: 18.5 percent), also indicating the extraction of six clusters. Finally, we assigned the cases in our sample (survey participants) to the appropriate cluster by using the k-means clustering method. In order to develop a robust typology of consistent parenting strategies, we validate whether the identified clusters allow for meaningful interpretation.

Table 17 shows normalized cluster means for each of the previously identified value added drivers (factors) that had been used to identify the clusters in the first place. To determine significant differences for the nine drivers of value added, we used one-way ANOVA to compare the means of the clusters. Seven are significant at $p<0.01$ and two are significant at $p<0.05$.

In order to appropriately characterize the empirically observed parenting strategies, we highlight the relevant drivers of value added in each cluster. Reported values in Table 17 indicate average deviances from overall means. Positive values represent above average usage of a certain driver of value added (factor) in the respective parenting strategy (cluster). Negative values indicate below average application of a certain driver of value added in the respective parenting strategy.

Table 17. Result of Cluster Analysis

	Drivers of value added (factors)								
Parenting strategies (clusters)	Strategy development	Operational engagement	Financing advantage	HR advantages	Corporate assets	Central functions	Sales synergies	Managerial synergies	Operational synergies
1. Hands-off Owner (8)	-1.3	-0.9	-2.3	-0.3	-0.3	-0.4	-0.4	-0.5	-0.2
2. Financial Sponsor (19)	-0.4	-0.3	**0.7**	-0.5	-0.9	**0.6**	-0.3	0.0	-0.2
3. Synergy Creator (30)	0.1	-0.4	**0.4**	0.1	-0.4	-0.3	**0.6**	-0.1	**0.5**
4. Strategic Guide (33)	**0.4**	0.1	0.1	0.2	**0.3**	-0.6	-0.2	-0.4	-0.2
5. Functional Leader (34)	**0.5**	-0.1	-0.4	**0.5**	**0.3**	**0.8**	0.0	0.2	-0.2
6. Hands-on Manager (26)	-0.6	**0.9**	0.1	-0.6	**0.5**	-0.2	-0.1	**0.6**	0.2
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
F-Value	11.2 ***	8.8 ***	21.2 ***	5.8 ***	7.9 ***	14.6 ***	2.9 **	3.8 ***	2.5 **

* significant at p<0.1; ** significant at p<0.05; *** significant at p<0.01.

The following parenting strategies are based on the relative importance of the different drivers of value added when the six identified clusters are compared. A high relative importance of a driver of value added in a given cluster means that it is more prominent than in other clusters, not necessarily that it dominates the other drivers for the given cluster.

Hands-off Owner

A small number of companies, about 5 percent in our sample, pursue what is, in effect, an extremely cautious parenting strategy. We call this approach the hands-off owner. These companies focus on creating value by adding new businesses to the portfolio and divesting others, without any ambition to exercise central control over strategic or operating functions. In essence, they manage their business units as pure financial assets, limiting themselves to high-level financial target setting.

Hands-off owners tend to have very lean corporate centers. Most are so careful to avoid having a negative influence on their businesses that they even avoid providing shared services at the corporate level. A pure example of this parenting strategy can be found at many state-owned sovereign wealth funds.

Financial Sponsor

A second group of companies, 13 percent in our sample, builds its parenting strategy mainly on providing financial advantages. Businesses within the portfolio benefit from access to cheaper and more flexible funding and from a reduced tax burden (financing: +0.7). The corporate parent also offers protection from external capital markets—for instance, by reducing external reporting requirements (functions: +0.6) and lowering the cost of managing external stakeholders.

Apart from these financing benefits, however, the financial sponsor does not get deeply involved in strategy development (strategy: -0.4) or the operational activities of business units. Much like the hands-off owner, financial sponsors are extremely wary of destroying value through the center's inefficient involvement in business operations. To be sure, the center will intervene when there are significant performance issues, but then only temporarily.

Financial sponsors still occasionally experience value-destroying conflicts of goals between the corporate parent and individual businesses. For instance, the parent may insist on short-term financial returns that prevent a business unit from investing for long-term sustainability.

Synergy Creator

Another parenting strategy, practiced by 20 percent of the companies in our sample, focuses on deriving major benefits from synergies in sales (+0.6 compared to average), marketing and operations (+0.5) across the business units. The synergy creator assembles a portfolio of businesses with a natural fit and that can reach maximum advantage through internal collaboration. The business units, however, are fully accountable for their performance, and the corporate parent limits its interference in strategic or operational issues.

Synergy creators often do create additional value by offering beneficial funding sources for the businesses as well as central functions and services. For example, a strong HR function with central talent management and leadership development may support the exploitation of synergies (HR: +0.1 compared to average). And a strong employer brand may increase the attractiveness in the recruiting market. The potential downside of this more involved parenting strategy, however, is a growing cost of complexity due to coordination efforts, slow decision-making, and relatively costly internal processes. Examples of companies that have been built on natural synergies are producers of fast-moving consumer goods with a portfolio of strong and independent brands or chemical conglomerates built around synergies in production technologies and processes.

Strategic Guide

If the financial sponsor focuses on financial advantage, the strategic guide focuses on strategic advantage (strategy: +0.4 compared to average). The corporate parent adds value by having superior strategic insight and experience and defining a clear strategic direction for the businesses. A company following this parenting strategy may also actively promote specific M&A initiatives, develop new organic growth options, or help business units divest non-core assets by managing due diligence and the deal process.

This parenting strategy, which is used by 22 percent of the companies in our sample, does not necessarily require large corporate functions or complex corporate processes. It does, however, require the center to have a distinct set of managerial capabilities – in e.g., investment valuation, joint-venture management, or productivity improvement – that are relevant to the needs of the businesses and that complement their existing skills (assets: +0.3 compared to average). The downside of this strategy becomes apparent when such capabilities are lacking. Poor strategic guidance may lead the business units astray; inefficient resource allocation may prevent them from achieving their full potential. Many large diversified conglomerates with rather independent subsidiaries have chosen this parenting strategy.

Functional Leader

An even more active parenting strategy, used by 23 percent of the companies in our sample, is that of the functional leader. Companies pursuing this strategy focus on adding value to the businesses in their portfolio through functional excellence (asset: +0.3 compared to average), shared corporate resources, and central services (functions: +0.8). To this end, they build strong corporate functions that bundle expertise in areas that have a long-term influence on business units. Examples include strategy development (+0.5 compared to average), capital-investment management, and innovation.

Such centers of excellence establish company-wide policies, standardize key corporate processes, encourage the sharing of best practices across business units, and champion improvement initiatives in business-unit functions such as risk-management or procurement. A functional leader may also bundle support services such as IT, accounting services, and procurement in order to achieve cost advantages for the businesses. This active parenting strategy faces the risk of destroying value, however, through the establishment of costly overhead structures and inefficient processes due to intensive sharing of responsibilities between the center and the business units. This parenting strategy is the preferred approach at many of the world's leading globally integrated companies.

Hands-on Manager

By far, the most active parenting strategy, practiced by 17 percent of the companies in our sample, is that of the hands-on manager. In a company pursuing this strategy, the corporate parent goes beyond setting financial targets, providing strategic guidelines, or exerting functional leadership.

It gets deeply involved in the management of the business units by influencing operating decisions at the level of the individual business.

A corporate parent that is a hands-on manager will typically put in place a detailed and comprehensive strategic planning and budgeting process with decision-making authority resting in the corporate center (operational engagement: +0.9 compared to average). It may also have strict criteria for approving new capital investments or detailed reporting procedures so the center can closely monitor business-unit performance. Finally, some hands-on managers will actively intervene in operational activities by directing improvement initiatives across the portfolio or in specific units that are performing below expectations.

Obviously, such an activist parenting strategy carries the risk of value destruction from inefficient processes and high cost of complexity. It will only work if the insights and capabilities that the corporate parent adds to the business units overcompensate for these inevitable costs. Many companies with a focused portfolio in capital-intensive, mature markets use this parenting strategy. A good example is the utilities industry which has a highly integrated value chain and where operational excellence and effective resource allocation are critical.

5.4.3 Performance

To assess the performance of the six strategies represented in our sample, we calculate the average scores for each value-adding activity for the different parenting strategies. This analysis yields an overall measure of value-creation intensity for each strategy. In other words, the higher the score, the larger the contribution of the corporate parent to value creation of the businesses in the portfolio. As expected, we find that the level of value-adding intensity rises steadily with the degree of parental involvement. Hands-off owners report the lowest level; financial sponsors a somewhat higher level, and so on up to the hands-on managers who report the strongest gross value creation from parenting activities.

As Table 18 shows, the increase tends to flatten out among the most active strategies, suggesting diminishing returns for parent involvement.

Table 18. Performance Analysis

Parenting strategies	*Value added* [a]	*Value destroyed* [b]	*Net value added* [c]	*Excess Value* [d]	*Tobin's Q* [e]
1. Hands-off Owner	1.8	1.7	3.8%	-3.1%	1.27
2. Financial Sponsor	3.0	1.8	6.8%	5.8%	1.34
3. Synergy Creator	3.4	2.0	10.0%	6.2%	1.37
4. Strategic Guide	3.5	2.1	11.2%	8.1%	1.39
5. Functional Leader	3.6	2.2	13.8%	15.8%	1.44
6. Hands-on Manager	3.8	2.5	8.8%	0.2%	1.23
Average	3.4	2.1	10.2%	5.5%	1.34
n	150	150	150	88	124

[a] Means of all value-adding drivers: 5 = highest value; 0 = lowest value

[b] Means of all value-destroying drivers: 5 = highest value; 0 = lowest value

[c] Parent advantage premium on the enterprise value

[d] Premium of conglomerate market value vs. hypothetical sum-of-parts market value

[e] Ratio between the market value and replacement value of the same physical asset

By assessing the value destroyed of corporate activity, there is a similar increase – value-destroying intensity. This time, however, instead of diminishing returns, there is an acceleration of value destruction caused by the corporate parent for the most active parenting strategies, suggesting that once corporate intervention reaches a certain point, the costs associated with that intervention increase rapidly.

Taken together, these two findings suggest that there is an optimum level of parent involvement that strikes the best balance between value creation and value destruction. This conclusion is reinforced by the responses to another survey question. We also asked respondents to estimate their parent's total net value added in terms of what the respondents considered to be a "fair" conglomerate premium (or discount). To this end, we queried survey participants to evaluate the total net value creation by summarizing all vertical and horizontal, value-adding and value-destroying influences and assessing the aggregated result on a 7-point Likert-scale (<-30% valuation discount to >+30% valuation premium). As Table 18 shows, the most value-generating strategy, on average, is that of the functional leader. This result suggests that whatever additional value the hands-on manager strategy was delivering was more than offset by the additional value it destroys.

These assessments are based on the subjective opinions of the corporate executives who participated in the survey. In order to test the validity and robustness of the performance self assessment we compare the reported net value added of the companies that participated in the survey with diversification discounts or premia calculated based on externally available financial data.

Two analyses are widely accepted proxies for net value contribution of a parent company to its corporate portfolio. First, we calculate an individual valuation premium (or discount) for each of the companies in our study during the period from 2007 through 2009 (immediately before we began collecting survey data), using a "sum-of-the-parts" analysis in which each company's actual enterprise value was compared with the value of a matched portfolio of focused companies. Second, we calculate each company's "Tobin's q," or the ratio of the market value of the enterprise to its book value, during the same period (Table 18).

Although survey respondents overestimate the amount of average net value added delivered by the corporate parent at their companies (10.2 percent), still they were directionally correct. On average, these companies had a valuation premium of 5.5 percent during the period studied. More important, the respondents' ranking of the various corporate strategies in terms of corporate's net-value added has the same pattern as that found in the sum-of-parts analysis. The hands-off owner companies created the least value (indeed, they had a valuation discount of 3.1 percent), with steady rises up to the functional-leader companies (a double-digit valuation premium of 15.8 percent—even higher than the respondents from those companies estimated), and then a falling off for the hands-on manager companies. This pattern is also repeated in the Tobin's-q calculation (Table 18). To conclude, self assessment of survey respondents shows clear patterns of value added, value destroyed, and the resulting net value creation. Moreover, survey answers and multivariate data are heavily supported and validated by external financial market data and academically accepted valuation proxies (robustness).

5.5 Conclusion

Using data obtained from 150 global multi-business companies with an average revenue size of 23.0B €, this chapter has sought to improve the current understanding of the link between parenting strategy and company performance by investigating three main issues. First, by using factor analysis methods, we empirically explored distinct drivers of value-adding and value-destroying influence and assessed their relative importance. Second, by using cluster analysis methods, we identified observable, consistent, and effective parenting strategies by analyzing how bundles of distinct value added drivers are configured and combined. Third, we empirically discovered the overall benefit of the observed parenting strategies by correlating them with different performance metrics (net value creation). This aggregation of results allowed us to assess the relative intensity of value added and value destroyed as well as to evaluate the performance of the identified parenting strategies.

Findings provide a number of interesting insights for corporate strategy research and have important normative implications for corporate-level decision-making.

Relevance of Finance and Strategy

By extracting distinct drivers of value added and value destroyed, we find that financing advantages and strategy development are considered the most important sources of value added in multi-business companies. They are by far the most important levers of value added in the corporate context. Cost advantages from central functions and leveraging corporate assets and managerial capabilities follow in the value added toolbox of multi-business companies. By contrast, a very active role of the corporate parent – through, for instance, strong performance monitoring, operational improvement initiatives, or active corporate planning – is on average not perceived as a very relevant value contribution. Business-to-business interactions like the realization of operational, managerial or sales synergies play an even less significant role.

Typology of Parenting Strategies

By applying the outlined operationalization of parenting advantage, using various cluster analysis methods, and analyzing bundles of distinct drivers of value added (factors), we empirically developed a statistically significant typology of parenting strategies in corporate practice. We identified six observable, consistent and effective strategies on how corporate parents of multi-business companies configure their parenting role, manage their portfolio, and aim to add value to their business units: (1) hands-of owner, (2) financial sponsor, (3) synergy creator, (4) strategic guide, (5) functional leader, and (6) hands-on manager.

Prior attempts to develop typologies rarely follow an explorative route, do not build on a solid empirical foundation, and do not provide proper definitions and classification criteria (e.g., Collis et al., 2007; Goold and Campbell, 1987c; Hill, 1988; Markides, 2002; Porter, 1987; van Oijen and Douma, 2000). The elaborated typology of parenting strategies is, by contrast, derived from statistical data, has an exploratory character, and mirrors corporate practice. The results show that the single parenting strategies differ greatly with regard to the selection of applied value-adding drivers (strategic vs. operational), the scope of drivers used (focused vs. broad application), the general intensity of interaction (active vs. cautious), and the awareness of the risk of accompanying value destruction (highly considered vs. not considered).

The developed typology of alternative parenting strategies may not only provide guidance to corporate-level management for developing and communicating its specific corporate advantage to business units, financial markets, and other external stakeholders, but also may drive new theoretical research on how to shape and configure a consistent and value-adding corporate strategy, and finally, how to implement and realize the most effective management of a business portfolio (Rumelt, Schendel, and Teece, 1994).

Roots of Successful Parenting Strategies

The identified parenting strategies of multi-business companies differ significantly in their overall performance – self assessment and external financial market data. The empirical results can thus provide a robust explanation for valuation differences of multi-business companies that goes beyond structural factors such as the degree of diversification or the relatedness of the business units in the portfolio. In particular, parenting strategies that explicitly aim to avoid value destruction by the corporate parent and effectively balance their involvement (e.g., strategic guide and functional leader) are successful and equipped with high overall valuation performance.

On the other hand, maximizing the value added by headquarters may not necessarily lead to superior value added; parenting strategies that focus on active steering, close monitoring, and own operational improvement efforts (e.g., hands-on manager) are found to be less successful. They are accompanied by a rather high level of value destruction and a less successful positioning in overall performance. In order to effectively manage the business portfolio, a clear focus on one specific driver of value added – financing, strategy, or effective functional leadership – seems to be the most promising basis for an effective parenting strategy and portfolio management approach.

To conclude, the level of value-adding intensity rise steadily with the degree of parental involvement. Hands-off owners report the lowest level; financial sponsors a somewhat higher level, and so on up to the hands-on managers who report the strongest gross value creation from parenting activities. The same holds true for the value-destroying intensity, which rises with the degree of parental involvement. However, instead of diminishing returns, there is an acceleration of value destruction caused by the corporate parent for the most active parenting strategies, suggesting that once corporate intervention reaches a certain point, the costs associated with that intervention increase rapidly. Both observations suggest that there is an optimum level of parent involvement that strikes the best balance between value creation and value destruction (functional leader!).

Implications for Corporate-Level Management

Finally, our findings can be translated into advice for practitioners faced with the challenge of managing a multi-business company:

- Corporate-level managers should focus on creating a corporate advantage by increasing, developing, and protecting their own assets and managerial capabilities, as required by the business units.
- They should intensify and leverage their own skills in strategy development and financing – both are mostly needed by the business units and carry a relatively low risk of value destruction.
- Natural synergies in the corporate portfolio should be exploited more effectively. The informal sharing of market-related knowledge and the joint development of new strategic assets seem to be particularly fruitful sources of value added.

- As the level of value destroyed significantly determines overall performance, any value added activity should be checked for potential value destroying side effects. A stronger focus on avoiding value destroying behavior may be a more effective parenting strategy than searching for new ways to add value.

5.6 Appendix

How relevant are these corporate-to-business activities as sources of value added in your company (0 = "Not at all" to 5 = "Extensively")?

Strategic guidance and support			
Item text	*Mean*	*S.D.*	*Range*
HQ provides an overall vision or strategic direction to the BUs	3.9	1.1	0 - 5
BUs are supported by the HQ with specific strategic expertise	3.6	1.1	0 - 5
HQ actively promotes BUs' M&A projects	4.0	1.1	0 - 5
Company resources are allocated efficiently by the HQ	3.2	1.1	0 - 5
HQ staff reduces value-destroying behavior through monitoring	3.2	1.2	0 - 5
Operational performance is improved by HQ interference	3.2	1.1	0 - 5
BUs pursue longer-term perspectives	3.3	1.2	0 - 5
HQ actively fosters cooperation between BUs	3.3	1.1	0 - 5
BUs are encouraged by the HQ to share knowledge and talent	3.3	1.2	0 - 5

Central resources and services			
Item text	*Mean*	*S.D.*	*Range*
BUs benefit from corporate assets provided by the HQ	3.5	1.2	0 - 5
HQ provides essential managerial capabilities to the BUs	3.6	1.1	0 - 5
BUs realize cost advantages by using centrally bundled functions	3.5	1.2	0 - 5
BUs benefit from short-term internal financing	4.2	1.0	0 - 5
HQ offers lower cost of external funding than BUs could achieve	4.2	1.0	0 - 5
BUs benefit from tax optimization across the corporate portfolio	4.0	1.1	0 - 5
External reporting requirements for the BUs are minimized	3.8	1.2	0 - 5
BUs benefit from a higher attractiveness as an employer	3.6	1.1	0 - 5
BUs benefit from a broader pool of management talent	3.4	1.2	0 - 5

How relevant are these business-to-business activities as sources of value added in your company (0 = "Not at all" to 5 = "Extensively")?

Sales and managerial synergies			
Item text	*Mean*	*S.D.*	*Range*
BUs increase sales through cross-selling to the same customer	2.8	1.3	0 - 5
BUs increase sales through product bundling of different BUs	2.7	1.2	0 - 5
BUs benefit from sharing capabilities with each others	3.1	1.1	0 - 5
BUs benefit from sharing market-related experiences with BUs	3.0	1.1	0 - 5
BUs benefit from joint development of assets with other BUs	3.1	1.1	0 - 5
BUs benefit from competing in multiple markets	2.8	1.1	0 - 5

Operating and investment synergies			
Item text	*Mean*	*S.D.*	*Range*
BUs realize economies of scope due to cooperative actions	3.2	1.2	0 - 5
BUs realize economies of scale from combined activities	3.0	1.2	0 - 5
BUs benefit from pooling assets among each other	3.1	1.2	0 - 5
BUs have cost advantages through combined purchasing power	3.6	1.1	0 - 5
BUs benefit from internal transfer pricing	2.9	1.2	0 - 5

How relevant are these corporate-to-business activities as sources of value destroyed in your company (0 = "Not at all" to 5 = "Extensively")?

Negative influence			
Item text	*Mean*	*S.D.*	*Range*
HQ has insufficient expertise and skills	2.4	1.3	0 - 5
Central decision-making is driven by political matters	2.0	1.4	0 - 5
HQ prefers investing in familiar BUs	2.4	1.3	0 - 5
HQ favors growth over value creation (empire-building)	1.9	1.4	0 - 5
HQ favors corporate risk diversification over value	2.0	1.2	0 - 5
BUs are eluded from beneficial capital market pressure	2.2	1.2	0 - 5
Ongoing HQ interference decreases BU managers' motivation	2.2	1.3	0 - 5

Overhead cost			
Item text	*Mean*	*S.D.*	*Range*
HQ offers services which are not needed by the BUs	2.1	1.3	0 - 5
Overhead charges are too high	2.4	1.4	0 - 5
Some BU resources are only needed to fulfill HQs' requirements	2.5	1.3	0 - 5
HQ requirements prevent BUs from running their businesses	1.8	1.1	0 - 4
Complex HQ processes reduce flexibility	2.4	1.3	0 - 5

How relevant are these business-to-business activities as sources of value destroyed in your company (0 = "Not at all" to 5 = "Extensively")?

Resource competition

Item text	*Mean*	*S.D.*	*Range*
Marginal BUs are deprived of management attention	2.4	1.2	0 - 5
Strong BUs have to subsidize weak BUs	2.2	1.3	0 - 5
BUs have to play a role in the portfolio	1.9	1.2	0 - 5

Cost of complexity

Item text	*Mean*	*S.D.*	*Range*
BUs are wasting resources on additional coordination efforts	2.2	1.2	0 - 5
BUs are wasting resources and time on tactical maneuvers	2.5	1.3	0 - 5
Decision-making processes are slowed down	2.0	1.2	0 - 5
Internal power struggles lead to wrong decisions	2.1	1.3	0 - 5

6 Do Parenting Strategies Pay Off for PE Firms?

6.1 Abstract

This paper theoretically and empirically investigates the idea that private equity (PE) firms are not an economically superior organizational arrangement to public corporations but may profit from applying forms of parenting activities beyond governance measures. Using a unique sample of 143 global PE firms, evidence that PE firms that actively engage in managing their portfolio companies rather than purely relying on arbitrage and financial leverage add superior value to their shareholders was found. However, while results prove a strong positive association between the engagement of PE firms in actively developing business strategies for the portfolio companies and their overall performance they also show that PE firms underperform if they try to exploit synergies. Beyond providing empirical evidence of the explanatory power of the parenting advantage concept for the PE industry, this paper contributes to theory development in the field of strategic management.

6.2 Introduction

For a long time scholars and practitioners purport that private equity (PE) firms that predominantly impose principal agent theory related governance measures rather than getting involved in business operations of their portfolio companies should be taken as a role model for multi-business companies regarding maximizing firm value (e.g., Hass and Pryor, 2009). However, recent academic studies on PE strategies and business models increasingly cast such a one-best approach into doubt

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(e.g., Barber and Goold, 2007; Bruton, Filatotchev, Chahine, and Wright, 2010; Kaplan, 2007; Shadab, 2009). PE firms pursue a buy-to-sell business model that aims to boost market values of the portfolio companies between the date of acquisition and the date of sale by exploiting various sources of value-add (Norbäck, Persson, and Tag, 2010). Traditionally, taking advantage of externalities such as beneficial changes of the capital market environment (multiple arbitrage; Kaplan and Schoar, 2005) or taking advantage of debt over equity financing (financial leverage; Jensen, 1989a, 1989b) were preferred levers. Both levers constitute a rather hands-off type of management that does not require active involvement of the PE firm in operations of their portfolio companies. Additionally, PE firms also frequently apply another lever that does not require hands-on management. They implement rigid governance systems based on principal agent reasoning to motivating portfolio companies' management to increase market values of their firms.

They may compel portfolio companies' management to increase short-term profits through exerting tight performance monitoring, enforcing personnel turnover at the top management team level, and implementing goal aligning pay-for-performance compensation schemes (e.g., Thompson, Wright, and Robbie, 1992). As these governance measures are generally applicable, they do not require further understanding of the operational activities of the portfolio companies.

Research identifies two more levers that require hands-on management. First, PE firms may push for higher short-term profitability through cost cutting programs, optimized financing terms, and better utilization of fixed and current assets (e.g., Heel and Kehoe, 2005; Klier, Welge, and Harrigan, 2009; Leslie and Oyer, 2009; Klier, 2009). Secondly, requiring even more active involvement, PE firms may progressively develop strategic directions, profitable growth plans, and ‘buy-and-build’ strategies (Klier, 2009; Kaplan, 2007; Wiersema and Liebeskind, 1995).

Latest studies focusing on value creation within the PE industry report that PE firms increasingly make use of industry- or business-related expertise in order to gain competitive advantage and generate above-average returns (Acharya, Hahn, and Kehoe, 2010; Achleitner, Braun, Engel, Figge, and Tappeiner, 2010; Cressy, Munari, and Malipiero, 2007; Kaplan and Strömberg, 2009). These empirical observations indicate that at least some PE firms exert direct influence, strategic guidance, and operational involvement at the level of single PE investments, the portfolio companies (Wright, Gilligan, and Amess, 2009).

The question whether adopting such a parenting behavior—predominantly ascribed to multi-business firms at large—is arbitrary, consciously triggered by performance considerations, and is to some extent answered by empirical studies. Heel and Kehoe (2005), for instance, in analyzing sixty United Kingdom buyouts, find that active involvement in operations at the investments level accounts for approximately 62% of value creation, while only 32% can be explained by financial leverage and 5% by multiple arbitrage. Similarly, Pindur (2007), studying forty-two buyouts in Continental Europe from 1993 to 2004, shows that over 60% of value creation is derived from active involvement of PE firms in portfolio companies’ strategy formulation and business operations. According to Klier et al. (2009), active management of portfolio companies on different levels will gain further relevance in years to come as a consequence of major shifts of capital market conditions and access to debt sources in times of financial and economic crises.

Given the shift towards a more active management of portfolio companies, the question is reasonably to ask: what can PE managers learn from multi-business firms? Substantial research and a broad literature on how to manage a multi-business portfolio effectively can be found – ranging from early portfolio approaches (e.g., Bettis and Hall, 1981; Haspeslagh, 1982), corporate effect research dealing with roles, functions, and value-add of the corporate head office (e.g., Chandler 1962, 1991; Bowman and Helfat, 2001) to the parenting advantage concept explicitly addressing the question how corporate headquarters add net value to their businesses (Goold, Campbell, and Alexander, 1994, 1998). To date, only very few studies try to transfer these concepts to the PE context (e.g., Acharya et al., 2010). Prior research dominantly focuses on (a) earlier investment stages, venture capital funds (e.g., Gorman and Sahlman, 1989; MacMillan, Kulow, and Khoylian, 1988; Sapienza, 1992; Dushnitsky and Shapira, 2010); (b) the impact of active monitoring and legal steering of buyouts on long-term performance (e.g., Baker and Wruck, 1989; Kaplan, 1989; Muscarella and Vetsuypens, 1990); (c) the impact of parental contribution, but only from the perspective of the portfolio company (e.g., Folta and Janney, 2004); or (d) the impact of parental activities on firm performance by using solely qualitative statistical methods (e.g., Baker, 1992).

The objectives of this paper are to close this research gap by proving the relevance of different forms of active management exerted by PE firms for generating superior profitability, to elaborate how PE firms shape their role as parent organizations, and to analyze and assess the extent and type of parental levers they apply in order to increase value-add at the investment level.

This paper advances the field of strategic management research by (1) systematizing and operationalizing different parental activities of PE firms based upon an acknowledged concept, by (2) empirically testing the impact of different parental activities on PE firm performance, and finally by (3) assessing the relevance and impact of the distinct capabilities and managerial skills of the PE firm.

The paper contributes to theory development by proposing a comprehensive, conceptual framework and by proving the economic relevance of different parental activities a PE firm may apply in order to create value beyond simply following advice regarding efficient governance structures derived from principal agent theory. This research provides empirical evidence that strategy and business development, along with changes to organization and management systems are important success factors for PE firms, while financial and asset management, active governance measures, synergy management and central services have only weak or negative impacts on PE firm performance. As the paper is a first step to better understanding the continuum of managing diversified portfolios ranging from multi-business firms to PE firms, the research comprehensively highlight avenues for future research efforts and provide practical implications for PE firm management.

6.3 Conceptual Background and Framework

6.3.1 Similarities Between PE and Multi-Business Firms

Despite some already diminishing differences—mainly the principal 'buy-to-sell' versus 'buy-to-keep' business model (e.g., Barber and Goold, 2007), legal independence of portfolio entities (e.g., Jensen, 2007), and top management team incentive systems (e.g., Leslie and Oyer, 2009; Sharp, 2009)—the management of a public multi-business company and a PE firm share many similarities. Both, the PE firms' top-management and the corporate head office of multi-business firms exert various forms of control and influence on their sub-units. From a strategic management perspective, the key question for both models is which kinds of direct and indirect active measures add or destroy value. Research on the business models and success factors of the PE business (e.g., Cotter and Peck, 2001), as well as research on the value creation of multi-business firms (the diversification-performance linkage: Palich, Cardinal, and Miller, 2000) offer sufficient systematizations which are useful in developing a theoretical framework for actively managing portfolio companies.

6.3.2 Parenting Advantage and Why it Matters for PE Firms

In the 1990s, Goold, Campbell, and Alexander introduce the concept of the parenting advantage as a guideline for strategic decisions for multi-business firms at the corporate level (Campbell, Goold, and Alexander, 1995; Goold et al., 1994, 1998). They aim to answer two essential questions of strategic management: (1) In what businesses should a company invest its financial and managerial resources? (2) How should the corporate head office influence and relate to the businesses under its control? Certainly, these questions apply for the management of a PE firm. In answering these questions, the concept focuses on the capabilities and resources of the corporate parent and on the value it creates. The concept is rooted in the principles of competitive strategy (Ansoff, 1965; Porter, 1985) and in theoretical considerations of the role of the center (Chandler, 1991). Specifically, it is based on insights from a broad empirical investigation of various diversified companies in the UK. The authors primarily focus on the effect of the widely disseminated core competence theory (Prahalad and Hamel, 1990), observing that many multi-business firms act according to this concept, try to build up their portfolios around shared technical competencies, and develop structures and processes to expand and improve these competencies. They criticize the fact that (1) core competence theory provides no practical guidelines for the formulation of an overall corporate strategy, that (2) many companies currently do not have an overall strategy due to the exaggerated focus on core competencies, and that (3) the existence of successful multi-business firms with unrelated diversified businesses cannot be explained (Goold et al., 1994).

The parenting advantage concept addresses these deficits. It proposes that the corporate center should not only formulate an effective overall corporate strategy, but has to prove that the corporation is the best owner of every single business unit. According to the concept, the corporate parent must not only create value for their units, it must also guarantee that the value creation more than offsets related costs. Finally, headquarters must create higher value for its business units than is possible by any alternative owner; otherwise shareholder value is destroyed (Goold et al., 1994). Again, this reasoning is close to what PE firms' managers are expected to do: decide on the best point in time to sell the company at the best price. The authors of the parenting advantage concept further argue that the parent organization has four sources that add value for the business units (Campbell et al., 1995):

- *Stand-alone influence*: Corporate centers may impose direct influence on the strategies and performance of each individual business unit or portfolio company. For instance through implementing rigid governance systems, enforcing reengineering and restructuring, allocating financial resources, or challenging strategies. A look at the broad literature on management buyouts and private equity reveals that these measures are used by PE firms' managers, too.

- *Linkage influence*: In this case, corporate centers seek to create value for the whole organization by enhancing and fostering the search for operative synergies between the business units. This may include the active promotion of sharing knowledge, human talent, technologies, platforms, or the implementation of transfer pricing mechanisms. PE firms most likely differ from diversified public corporations. However, fostering the exchange of key personnel among groups of holdings may be a source of extra value creation.

- *Central functions and services*: The corporate center may offer privileged access to central services and functions (e.g., HR, R&D, corporate brand) that lead either to cost savings or benefits for the business units compared to market arm's length conditions. Again, with the exception of financial experts necessary to screen and optimize the financial structure of selected portfolio companies, PE firms may not add value to their investments.

- *Corporate development*: Finally, the corporate center may add value through actively managing and altering the corporate portfolio, for example, by supporting single business units to expand through mergers and acquisitions, by creating new ventures that provide profitable future growth opportunities, or by redefining businesses. Although, this strategy is not restricted to public corporations as the owner of a group of related companies may generate value through actively supplementing it, for instance, to receive a better price for the whole bundle, it seems to be a rare exception.

The parenting advantage concept provides guidelines for top management decision-making and support, especially with regard to (1) choosing appropriate businesses (portfolio composition), (2) exploring and exploiting the most effective value creation levers, (3) developing and applying advanced instruments for managing the portfolio, and (4) designing and implementing efficient organizational structures and governance systems.

As all four issues are of high relevance for PE firms too, investigating the applicability of the parenting advantage concept to the PE business model is past-due. This is even more important, because financial leverage as a source of value creation has become a commodity due to the development of the PE industry life cycle, and opportunities for multiple arbitrage tend to be rare recently.

Consequently, active management and providing parental contribution to their portfolio companies appears to be essential for PE firms. However, transferring the concept requires operationalizing the different sources of value creation in the light of the PE business model especially to allow for an empirical test.

6.3.3 An Enhanced Parenting Framework for PE Firms

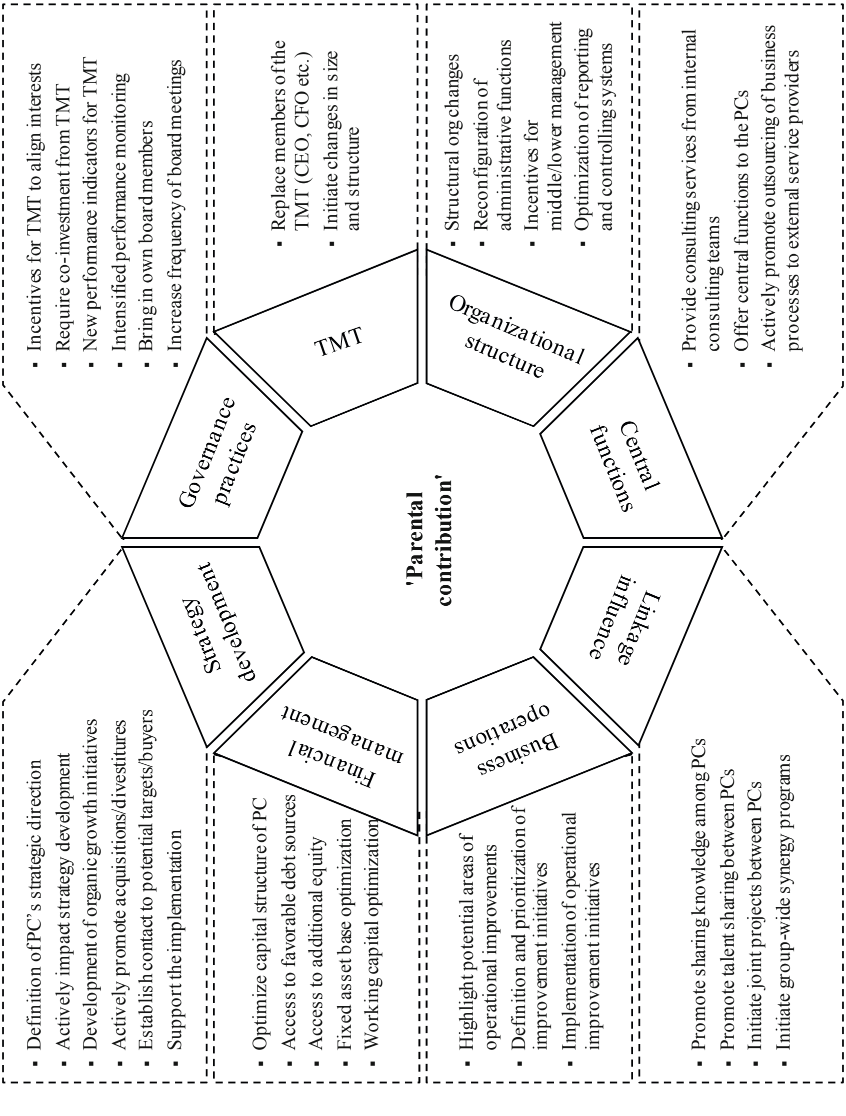
In classifying a PE firm and the portfolio companies as a special case of a multi-business firm, the applicability of the extensive knowledge on value creation through actively managing business units offered by the parenting advantage concept can be analyzed. Of the four sources of a corporate center for adding value to the businesses, corporate development activities have to be excluded as PE firms by definition pursue buy-to-sell business ventures and thus do not develop their portfolio at large or parts of it unlike multi-business firms that follow a buy-to-keep strategy. For the purposes of further elaborating and operationalizing the remaining three sources a PE firm has at its disposal to increase the market value of its portfolio companies—namely, stand-alone influence, linkage influence, and central functions and services—the relevant PE and strategic management research literature was reviewed extensively.

As the core competence of PE firms lies in exerting influence on the management and providing them with additional management and financial skills, PE firms' stand-alone influence is sub-divided into six sub-groups. Stand-alone influence is widely acknowledged to be an important lever of value creation for PE firms (Klier et al., 2009).

Stand-alone influence is divided into 'Strategy and business development', 'Financial and asset management', 'Governance practices', 'Top Management Team', 'Business operations', and 'Organizational structure and management systems'.

PE firms that focus on a small set of industries in which they invest may try to increase the value of their portfolio by imposing linkage influence on their portfolio company firms. PE firms may, for example actively promote knowledge sharing among a set of their portfolio companies or force them to provide customers with integrated solutions based upon products from different portfolio companies. Central functions and services is another performance lever PE firms may theoretically utilize. It is possible to offer, for example, central purchasing or IT services, or the central processing of accounting and tax tasks.

Figure 4. Adapted Parenting Framework for PE



6.4 Hypotheses Development

6.4.1 Stand-Alone Influence

Strategy and Business Development

The resource-based view of the firm argues that access to and exploitation of valuable resources constitutes a competitive advantage of a firm that translates into superior returns and profitability (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984). PE firms may add value to their portfolio companies by providing them with tangible and intangible resources to which the single investment has no access and/or cannot afford. PE firms can, for instance, support the re-formulation and implementation of competitive strategies of their portfolio companies through posting management experts to advisory boards, through task forces, or through frequent meetings with the holding's TMT (Fried and Hisrich, 1998; MacMillan et al., 1988). Easterwood, Seth, and Singer (1989) report that PE firms play an active part in the strategy formulation process of their investments by using 100 day or value creation plans.

PE managers are able to provide knowledge and skills regarding methods such as scenario planning techniques (Pindur, 2007), legal requirements and accounting standards, or investor relations. PE firms may further add value by leveraging their buy-and-build capabilities, transaction skills, and deep knowledge of various markets in order to support organic growth initiatives (Baker, 1992; Barney, Busenitz, Fiet, and Moesel, 1996), to design internationalization strategies, or to actively promote core-asset strategies of single portfolio companies by helping to sell unprofitable assets (Muscarella and Vetsuypens, 1990; Smit and De Maeseneire, 2005). They can support the implementation of acquired assets at the portfolio company level, such as due diligence support, negotiation, or post-merger integration (Sapienza, 1992). Robbie, Wright, and Albrighton (1999) emphasize that PE firms may have better access to possible acquisition candidates and potential buyers based upon their networks in the financial industry.

- *H1*: A PE firm's performance associates positively with its active involvement in the strategy formulation and business development process of its portfolio companies.

Financial and Asset Management

Resource-based view reasoning applies with regard to value added by PE firms by optimizing the financial structure of their investments and offering access to beneficial financial resources. PE firms, for example, reduce the cost of capital by leveraging their financial engineering skills and by providing access to cheap and flexible sources of external debt (Cotter and Peck, 2001; MacMillan et al., 1988; Smit and De Maeseneire, 2005). Portfolio companies may also gain access to additional equity from PE funds to fuel growth initiatives, which ultimately result in adding value to the single holding and a better valuation of the company by potential investors (Klier et al., 2009; Rogers, Holland, and Haas, 2002).

PE firms can assist their portfolio companies with the optimization of fixed assets. Identification and divestiture of unnecessary assets and slack resources such as plant, machines, unused property or patents reduces fixed assets without impairing productivity and returns (Fried and Hisrich, 1995). The released liquidity may be used to pay off debt (e.g., sale and lease back: Kitching, 1989). Other authors have pinpointed that many investments can tap considerable cash reserves through better managing their working capital by reducing buffer stock, or optimizing cash collection and payment cycles (Anslinger and Copeland, 1996; Baker and Wruck, 1989). Through their ongoing buy and sell activities, PE managers have accumulated specific knowledge in this field that is difficult to imitate and a valuable or substitute resource for the single holding.

- *H2*: A PE firm's performance associates positively with its active involvement in the financial and asset management of its portfolio companies.

Governance Practices

Principal agent reasoning offers a different theoretical perspective that helps to shape an understanding of PE firms' success (Coase, 1937; Fama, 1980; Jensen and Meckling, 1976; Ross, 1973). Building upon the assumption that the principal, the PE firm, has to contain the opportunistic, self-serving behavior of portfolio company managers, agency theorists propose implementing tight monitoring and goal alignment systems (Jensen, 1989a, 1989b; Kaplan, 1989). PE firms may accordingly increase the market value of their investments by linking the compensation of the TMT to profitability increases and sales profit through share option programs, equity contribution or other pay-for-performance compensation schemes (e.g., Denis, 1994; Kaplan and Stein, 1993; MacMillan et al., 1988; Muscarella and Vetsuypens, 1990; Singh, 1990) that align the interests of the TMT with those of the PE firm (Baker and Wruck, 1989; Cotter and Peck, 2001).

As an important part of imposing rigid governance systems on the acquired holding, PE firms often demand a substantial equity contribution from top managers which increases the likelihood that they will push a portfolio company's performance and selling price in their own interest (Baker and Montgomery, 1994; Wright, Wilson, Robbie, and Ennew, 1994). By implementing explicit performance indicators, tightening reporting requirements, and introducing sophisticated auditing standards, the PE firm is able to track changes in the portfolio companies' profitability (Heel and Kehoe, 2005; Holthausen and Larcker, 1996; Wright, Wilson, Robbie and Ennew, 1996). Finally, a few authors report that PE firms are less reluctant to signal and execute tougher sanctions if targets are not met (Bertoutsos, Freeman, and Kehoe, 2007; Magowan, 1989), leading to the following hypothesis.

- *H3*: A PE firm's performance associates positively with the implementation and execution of governance measures within its portfolio companies.

TMT Reconfiguration

Relating closely to agency theory-based measures addressing governance issues, PE firms may frequently decide to exchange single or all members of the TMT of their portfolio companies in order to boost profitability and market value. Some authors point out that PE firms that replace the CEO and other senior management personnel (Easterwood et al., 1989; Fried and Hisrich, 1995; Kaplan, 1989; Muscarella and Vetsuypens, 1990) modify the size and structure of the TMT (MacMillan et al., 1988), and/or restructure the board of the investment may add substantial value to the respective firm. Most studies emphasize the fact that top managers are important organizational change agents, especially with regard to supporting or retarding the implementation a new business strategy (Baker, 1992; Jensen and Murphy, 1990).

- *H4*: A PE firm's performance associates positively with its active involvement in reconfiguring the TMT of its portfolio companies.

Business Operations

The stand-alone influence exerted by PE firms in order to add value to their portfolio companies frequently targets the productivity of their business operations (Barney et al., 1996). It is not necessarily restricted to day-to-day, operational processes, but PE managers may offer advice on areas which may have potential for cost reduction and increased efficiency based upon their general management and industry-wide knowledge (Acharya et al., 2010).

Such productivity initiatives and programs may focus on improving business processes, for example, streamlining product portfolios or establishing a productivity-oriented organizational culture. Similarly, based on the rich experience gained from insights in various companies, managers of PE firms can challenge and benchmark their counterparts in the investments regarding cost reduction or profitability initiatives (Magowan, 1989). At least, PE firms can actively assist holdings' management with the implementation of such initiatives as reported by Muscarella and Vetsuypens (1990).

- *H5*: A PE firm's performance associates positively with its active involvement in the business operations of its portfolio companies.

Organizational Structure and Management Systems

As a final measure of stand-alone influence, previous studies highlight the fact that PE firms may add value to portfolio companies by actively restructuring the organization and advancing the management systems of their investments. They may reduce overhead costs by initiating changes in the organizational structure of the holdings, such as implementing standardized procedures or improving cross-functional information flow (Muscarella and Vetsuypens, 1990). Additionally, they may enforce major reconfigurations of administrative functions such as accounting, finance, and tax (Easterwood et al., 1989) and/or the implementation of sophisticated managerial accounting and revision systems. Another measure taken by PE managers is actively promoting the organization-wide introduction of pay-for-performance compensation schemes in order to additionally motivate middle management to pursue cost reduction and total quality programs at all levels of the organization.

- *H6*: A PE firm's performance associates positively with taking measures in altering the organizational structure and management systems of its portfolio companies.

6.4.2 Linkage Influence

Other value creating, parental contributions of PE firms may derive from encouraging and fostering collaboration among the portfolio companies. Referring to the resource-based view of the firm, transferring knowledge and practice has been frequently mentioned (Pindur, 2007). Other researchers—predominantly in the field of LBOs—emphasize that important skills can be exchanged and leveraged between portfolio companies through the use of talent pools, shared experiences, and integrated

R&D programs (Zahra and Fescina, 1991). Potential synergies may be exploited by initiating joint projects among portfolio companies, and PE firms may foster cross-portfolio synergy programs (Smit and De Maeseneire, 2005). While these arguments support the idea that PE firms adopt the role of a corporate center in consciously orchestrating synergies among their portfolio companies, however, a second thought may cast doubts on it. Firstly, the aforementioned studies do not provide empirical evidence for their general thoughts or are restricted to LBOs, of which the PE firm is most likely interested in selling the whole industry core consisting of several single companies as a whole. Secondly, an overwhelming literature exists which proves that deriving economic value add from exploiting synergies is hard to achieve (Goold and Campbell, 1998) and depends on dynamic capabilities PE firms neither have nor are willing to set up (Barber and Goold, 2007). Thus, despite some indications of a possibly positive impact on PE firm's performance related costs are likely to far outweigh this positive impact.

- *H7*: A PE firm's search for fostering synergies between its portfolio companies through respective active involvement has a negative impact on its performance.

6.4.3 Central Functions and Services

A similar argumentation holds for the attempt of a PE firm to deriving a value creating parenting advantage by cost-efficiently offering central functions and services, for example procurement, IT services, lobbying, or executive search (Klier et al., 2009; Wright et al., 1994). The major counter arguments are a lack of homogeneity among the portfolio companies which erode the chance of finding economies of scale on the supply side as well as restrictions with regard to long-term contracting frequently used by multi-business companies with largely diversified portfolios. Enforcing a heterogeneous group of portfolio companies to, for instance, outsourcing administrative processes to external service providers in order to save costs and increase value (e.g., operational HR activities), may even lower the market value of the single investment as it decreases the options of potential buyers.

- *H8*: A PE firm's search for adding value through offering central functions and services for a set of their portfolio companies has a negative impact on its performance.

Table 19. Literature Analysis on PE

Authors	**Year**	Strategy & business development	Financial & asset management	Governance practices	TMT reconfiguratio	Business operations	Org. structure & mgmt. systems	Linkage influence	Central functions & services
Acharya et al.	2010					X			
Anslinger / Copeland	1996		X						
Baker	1992	X		X	X				
Baker / Montgomery	1994			X					
Baker / Wruck	1989		X	X					
Barney et al.	1996	X				X			
Bertoutsos et al.	2007			X					
Cotter and Peck	2001		X	X					
Denis	1994			X					
Easterwood et al.	1989	X			X		X		
Fried / Hisrich	1995	X	X		X				
Fried et al.	1998	X							
Heel / Kehoe	2005			X					
Holthausen / Larcker	1996			X					
Jensen / Meckling	1976			X					

Authors	Year								
Jensen	1989a			X					
Jensen	1989b			X					
Kaplan	1989			X	X				
Kaplan and Stein	1993			X					
Kitching	1989		X						
Klier et al.	2009		X						X
MacMillan et al.	1988	X	X	X	X				
Magowan	1989			X		X			
Muscarella / Vetsuypens	1990	X		X	X	X	X		
Pindur	2007	X						X	
Robbie et al.	1993	X							
Rogers et al.	2002		X						
Sapienza	1992	X							
Singh	1990			X					
Smit / De Maeseneire	2005	X	X					X	
Wright et al.	1994			X					X
Wright et al.	1996			X					
Zahra / Fescina	1991							X	

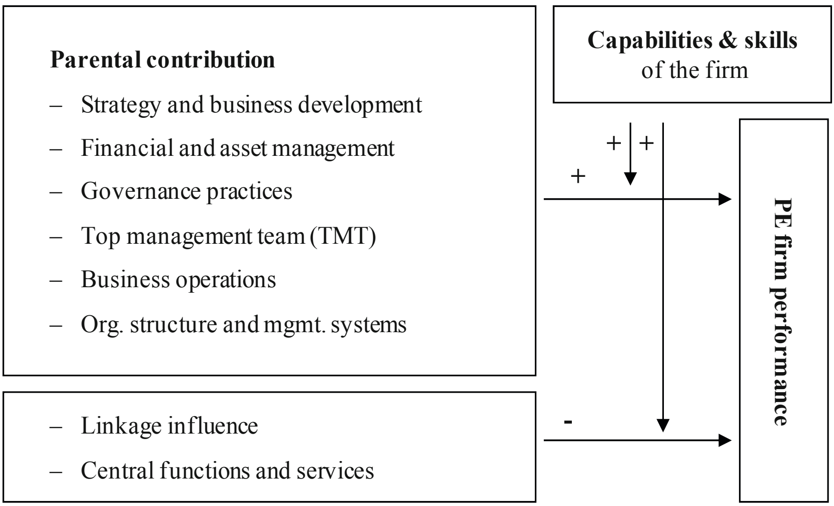
6.5 Method

6.5.1 Research Model

In order to analyze the parental contribution of PE firms for a broad set of firms (gathered through a pan-European survey), the empirical research model need to be specified firstly. In accordance with the outlined framework, eight levers of parental contribution (independent variables) may impact the PE firm's performance. Regarding the different levers of parental contribution (dependent variables) all sub-categories subsumed under stand-alone influence are assumed to have a positive effect on PE firm performance.

In contrast, PE firms that seek to add value through exploiting synergies among the portfolio companies or through offering standardized central services will sustain a negative effect on their overall performance. Developing respective dynamic capabilities and skills is a general moderator that may amplify both effects on PE firm's performance—for better and for worse.

Figure 5. Empirical Research Model



6.5.2 Sample

A pan-European online survey conducted in 2010 in Continental Europe, the United Kingdom, and the United States (only including PE firms with a considerable business interest in Europe) is the source of the used dataset. Based on the proposed framework (Figure 4) and a series of interviews with PE experts, a self-administered questionnaire was designed. It is composed of four sections: (1) characteristics of the PE firm, (2) description of the investment strategy, (3) involvement with portfolio companies in buyouts (parental contribution), and (4) value creation and trends in PE. The core component of the questionnaire was the section on the active involvement of PE firms with their investments in buyouts.

1,059 PE firms were identified by using membership databases from the EVCA (European Private Equity and Venture Capital Association; 424 PE firms) and local industry associations (AFIC, AVCO, BVA, BVK, NVCA, SECA, and SVCA; 313 PE firms), as well as from public directories and proprietary databases (PEdatabase.com, PEI Media, privateequityfirms.com, and ThomsonOne; 322 PE firms). First, PE firms with a different investment focus were excluded: venture capital firms (242), fund-of-funds players (27), or mezzanine capital providers (31). PE firms without appropriate contacts were eliminated from the sample (38 PE firms). The target sample in the finally consists of 720 PE firms (N). After several rounds of tests and modifications, the questionnaire was sent out to the target sample – one senior investment professional in each PE firm with a standardized letter. After two rounds of follow-up reminders by phone and mail, valid responses from 143 PE firms (n) were obtained. The corresponding response rate is 20%, with German and British PE firms accounting for approximately 40% of the target and the final sample.

No non-response bias is in the sample: Responses from the first mailing round were compared with those from the second reminder by means of two-tailed ANOVA. No single surveyed parenting activity (out of 33) with significant mean differences ($p<0.05$) was found. No key informant bias is in the sample: Survey participants have a very similar functional background; more than 85% of them are Managing Partners, all of them are located at the PE firm, and the average respondent has been with the firm for more than 5.5 years. Data homogeneity guarantees a largely common view and prevents a key informant bias occurring in the empirical data.

Table 20. Geographical Allocation

Geographies	Target sample *(N = 720)*	Final sample *(n = 143)*	Delta
United Kingdom	22.2%	19.1%	-3.1%
Germany	20.2%	22.8%	2.6%
France	10.6%	5.9%	-4.7%
United States*	10.0%	8.8%	-1.2%
Switzerland	5.6%	7.4%	1.8%
Sweden	4.6%	8.1%	3.5%
Netherlands	3.3%	2.9%	-0.4%
Spain	2.9%	5.1%	2.2%
Austria	2.6%	2.2%	-0.4%
Belgium	2.4%	3.7%	1.3%
Italy	1.7%	2.2%	0.5%
Norway	1.5%	5.1%	3.6%
Russia	1.3%	0.7%	-0.5%
Denmark	1.1%	0.7%	-0.4%
Luxembourg	1.0%	1.5%	0.5%
Portugal	1.0%	0.7%	-0.2%
Ireland	0.7%	0.7%	0.0%
Greece	0.7%	0.7%	0.0%
Estonia	0.6%	1.5%	0.9%
Other	6.0%	0.0%	-6.0%
Sum	100.0%	100.0%	

* US companies with an European subsidiary

A good match in terms of geographical allocation between the target and the final sample was reached (Table 20): all geographies are well represented. An important aspect of survey data is the high management level of survey participants, as respondents were mainly senior personnel or their direct designated appointee.

6.5.3 Measures

Independent Variable: Parental Contribution

Eight levers with which to exercise parental influence over portfolio companies were identified: 'Strategy and business development', 'Financial and asset management', 'Governance practices', 'TMT', 'Business operations', and 'Organizational structure and management systems', 'Linkage influence', and 'Central functions and services'. Respondents were asked to evaluate the extent to which their PE firm usually gets involved with the portfolio companies in buyouts with regard to these eight levers of value added on a 5-point Likert scale, ranging from 1 (not at all) to 5 (extensively).

In order to substantiate the empirical insights with respect to a firm's value creation, respondents were further asked to evaluate the involvement in 33 selected parenting activities (single items) on a 5-point Likert scale, ranging from 1 (not at all) to 5 (extensively). Each item relates to one of the eight levers discussed above. The unweighted averages of single items correlate strongly with the evaluations of the respective lever itself (all R-Squares >0.9; significant at $p<0.01$). Hence, the empirical data gathered by evaluating the eight levers provide a sufficient and robust data quality from which to test the formulated hypotheses and derive substantial implications.

Dependent Variable: PE Firm Performance

Many empirical studies show a positive relationship between active influence by the PE firm respectively its management team and the performance of the PE firm at large (e.g., Acharya et al., 2010; Sapienza, 1992; Sapienza, Manigart, and Vermeir, 1996). A proper metric for measuring performance is the internal rate of return (IRR). Due to the low number of publicly available sources and especially limited access to performance data of PE firms, respondents were asked to evaluate their company's performance relative to the market over the past five years on a 7-point Likert scale, ranging from <-10% (below average) to >+10% (above average).

The gathered data was validated with external performance data. The IRR assessment of the respondents significantly correlates with the external data (R-Square = 62%, significant at $p < 0.01$) indicating a solid robustness of the PE self-assessment. Participants were additionally asked to allocate percentages on the three sources of value creation over the past five years: financial leverage (value resulting from debt financing); multiple arbitrage (transaction arbitrage between entry and exit multiple); and value creation (EBITDA impact on valuation through cost reduction and increased revenues). IRR assessment was multiplied with the percentage of value creation. Finally, the result was transferred into a 5-point Likert scale to arrive at the subjective measure *PE firm performance*.

Industry-Specific Skills

According to the empirical research model, the distinctive capabilities and resources of the PE firm may positively moderate the PE firm's performance, given that qualifications and distinct capabilities are of importance for the success of a portfolio company (Acharya et al., 2010). In order to investigate this moderating effect, relevant capabilities and qualifications were defined as industry-specific skills and asked respondents to evaluate them. In particular, participants were asked to what extent they leverage distinct industry-specific skills (in-house) compared with external resources – for example, direct networks (industry experts or senior executive) or professional service firms (management consultants or legal advice). Again, respondents were asked to evaluate the degree of specific usage on a 5-point Likert scale, ranging from 1 (not at all) to 5 (extensively).

6.6 Results

6.6.1 Descriptive Statistics

Table 21 presents descriptive statistics and correlations of the variables studied. Involvement of the PE firm in the 'Strategy and business development' of the portfolio company has the highest mean value with 4.4, followed by 'Governance practices' with 4.3 and 'Financial and asset management' with 4.0; 'Linkage influence' (2.4) and the establishment of 'Central functions and services' (2.1) have the lowest mean values. All six stand-alone influence dimensions inter-correlate significantly with R-Squares between 0.24 and 0.53, significant at $p < 0.01$ or in the case of 'Strategy and business development' and 'Financial and asset management' at $p < 0.05$. While all stand-alone influence dimensions correlates positively with PE firms' performance, the other possible sources of value add, 'Linkage influence' (-0.01) and 'Central functions' (0.13) do not (Table 21).

Table 21. Means, Standard Deviations, and Correlations

	Mean	s.d.	1	2	3	4	5	6	7	8	9
1 STRA	4.4	0.7									
2 FIN	4.0	0.8	0.2 *								
3 GOV	4.3	0.6	0.5 **	0.4 **							
4 TMT	3.8	1.0	0.4 **	0.3 **	0.5 **						
5 OPS	3.5	1.0	0.5 **	0.3 **	0.4 **	0.4 **					
6 ORG	3.5	0.8	0.4 **	0.3 **	0.4 **	0.4 **	0.5 **				
7 LINK	2.4	1.0	0.0	0.1	0.0	0.0	0.2 *	0.2 *			
8 CEN	2.1	0.9	0.2 **	0.1	0.1	0.0	0.3 **	0.3 **	0.4 **		
9 SKILL	3.5	1.2	0.2	-0.1	0.1	0.1	0.3 **	0.2 *	0.2 *	0.3 **	
10 PERF	2.8	1.4	0.4 **	0.2 *	0.3 **	0.3 **	0.4 **	0.4 **	0.0	0.1	0.2 *

* significant at $p < 0.05$; ** significant at $p < 0.01$.

6.6.2 Hypotheses Testing

The eight hypotheses were tested by using multiple regression analyses (Table 22). For the hypothesized models, the F-values ($p<0.001$) and R-Squares (ranging from 0.358 to 0.413) suggest a good fit of the data. Significant changes in R-Square from Model 1 to Model 3 strongly support the explanatory power of the moderator variables ‘parent capabilities’ and ‘skills contribution’. Variance inflation factors (VIFs) for all three models are below 4.5, suggesting multicollinearity is not a significant concern (Neter, Kutner, Wasserman, and Nachtsheim, 2004). With a Durbin–Watson statistic of 1.679, the test for positive autocorrelation is inconclusive, while the test for negative autocorrelation indicates statistical evidence for negatively auto correlated error terms.

Table 22. Multiple Regression Models

	Model 1	Model 2	Model 3
(Constant)	2.827 ***	2.827 ***	2.861 ***
Strategy and business development[b]	0.663 **	0.650 **	0.745 **
Financial and asset management[b]	-0.067	-0.017	-0.031
Governance practices[b]	-0.112	-0.122	-0.305
Top management team (TMT)[b]	0.067	0.056	0.123
Business operations[b]	0.241	0.206	0.205
Organizational structure and mgmt. systems[b]	0.511 *	0.507 *	0.547 *
Linkage influence[b]	-0.246 +	-0.267 +	-0.364 *
Central functions and services[b]	-0.035	-0.063	0.021
Industry specific skills		0.135	0.100
Skills x Strategy and business dvlpmnt			0.346 +
Skills x Financial and asset management			0.099
Skills x Governance practices			0.180
Skills x Top management team (TMT)			-0.288
Skills x Business operations			-0.231
Skills x Org. structure and mgmt. sys.			0.264
Skills x Linkage influence			0.011
Skills x Central functions and services			-0.067
R-Square	0.358	0.367	0.413
Change of R-Square		0.010	0.046
Adjusted R-Square	0.300	0.303	0.289
F-Value	6.20 ***	5.7 ***	3.3 ***

[a] dependent variable: private equity firm performance (fundamental value creation)

[b] mean centered

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$, + $p \leq 0.1$

The estimation is unbiased with regard to negative autocorrelation and provides an efficient regressive adaption, and the multiple regression model consequently estimates the firm's performance with sufficient and robust quality.

Hypotheses 1-6 predict a positive relationship between stand-alone dimensions of parental contribution and the performance of PE firms, the empirical data shows a significant support only for two of them: ‘Strategy and business development’ (Models 1, 2 and 3, $p<0.01$) and ‘Organizational structure and management systems’ (Models 1, 2 and 3, $p<0.05$). Whereas ‘Business operations’ and ‘TMT’ at least show a tendency to have a positive impact on PE firm performance, the negative algebraic sign indicates that ‘Financial and asset management’ and ‘Governance practices’ may even be counter-productive, yet, no statistical evidence for this assumption can be find in the data.

Hypotheses 7 and 8 predict a negative relationship between the two non-stand-alone dimensions of parental contribution, synergies and shared central services, and the performance of PE firms. Data proves that ‘Linkage influence’ indeed has a significantly negative impact on PE firm performance at $p<0.1$ for Models 1 and 2, and at $p \leq 0.05$ for Model 3. Despite a negative impact for Models 1 and 2 no significance could be proven for ‘Central functions and services’ (Table 22).

Survey data confirm three out of eight hypotheses, namely a positive impact of the stand-alone parental activities ‘Strategy and business development’ (H1) and ‘Organizational structure and management systems’ (H6) as well as a negative impact of ‘Linkage influence’ (H7). Three hypotheses show the predicted direction, whether a positive impact (H4 and H5) or a negative impact (H8). Two hypotheses – (H2) and

(H3) – show some evidence for the opposite than predicted direction: ‘Financial and asset management’ and ‘Governance practices’. This is particularly remarkable, because according to the data, these established levers of value creation in PE do not constitute a significant discriminatory and value creating factor in the PE business model, rather than being possibly contra-productive, value destroying.

No significant relationship occurs between industry-specific skills and the PE firm's performance (Model 2). However, Model 3 indicates that the industry-specific skill set has a significant moderating effect, yet only for ‘Strategy and business development’ ($p \leq 0.1$). The strategic dimension of parental contribution shows not only the highest level of significance, but is also the only lever in which the positive effect on the PE firm's performance is enhanced and thus can be actively supported by internal resources, capabilities and qualification (industry-specific skills). No significant moderating effect could be identified for any other dimensions.

Table 23. Descriptive Statistics on Single Activities

Strategy and business development			
Item text	*Mean*	*S.D.*	*Range*
Get involved in the definition of PC’s strategic direction	4,6	0,7	2 - 5
Actively impact strategy development	4,4	0,8	1 - 5
Get involved in the development of organic growth initiatives	3,8	0,9	2 - 5
Actively promote acquisitions/divestitures at PC level	4,3	0,8	2 - 5
Establish contact between PC and potential targets/buyers	4,4	0,7	2 - 5
Support the implementation of acquisitions/divestments at PC level	4,5	0,7	2 - 5

Financial and asset management			
Item text	*Mean*	*S.D.*	*Range*
Optimize capital structure of PC	4,2	0,9	1 - 5
Provide access to new/more favorable sources of debt	3,9	1,1	1 - 5
Provide access to additional equity (for M&A or growth projects)	4,4	0,7	2 - 5
Get involved in the optimization of the fixed asset base	3,4	1,2	1 - 5
Get involved in the optimization of working capital	3,9	1,1	1 - 5

Governance practices			
Item text	*Mean*	*S.D.*	*Range*
Increase usage of incentives to improve alignment of interests	4,6	0,6	2 - 5
Require co-investment from PC's TMT	4,3	1,0	1 - 5
Introduce new performance indicators for the TMT	4,1	0,9	1 - 5
Intensify degree of performance monitoring	4,2	0,8	2 - 5
Bring in own board members	4,5	0,9	1 - 5
Increase frequency of board meetings	4,2	0,9	2 - 5

Top management team (TMT)			
Item text	*Mean*	*S.D.*	*Range*
Replace members of the TMT (CEO, CFO, COO, etc.)	3,6	1,1	1 - 5
Initiate changes in size and structure of the TMT	3,9	0,9	1 - 5

Business operations			
Item text	*Mean*	*S.D.*	*Range*
Highlight potential areas of operational improvements	3,6	1,1	1 - 5
Get involved in the definition and prioritization of initiatives	3,6	1,1	1 - 5
Support the implementation of improvement initiatives	3,4	1,1	1 - 5

Organizational structure and management systems			
Item text	*Mean*	*S.D.*	*Range*
Initiate changes in the organizational structure of PC	3,4	0,8	1 - 5
Support building up/reconfiguration of administrative functions	3,3	1,0	1 - 5
Actively promote higher incentives for middle/lower mgmt.	3,2	0,9	1 - 5
Support optimization of reporting & controlling systems	4,0	0,9	2 - 5

Linkage influence			
Item text	*Mean*	*S.D.*	*Range*
Actively promote sharing knowledge/best practices among PCs	3,1	1,2	1 - 5
Actively promote talent sharing between PC	2,0	1,1	1 - 5
Initiate joint projects between PC	2,3	0,9	1 - 5
Initiate group-wide synergy programs (procurement, sales)	2,1	1,2	1 - 5

Central functions and services			
Item text	*Mean*	*S.D.*	*Range*
Provide consulting services from internal consulting teams	2.3	1.4	1 - 5
Offer central functions to the PC (procurement, recruiting)	1.6	0.9	1 - 5
Actively promote outsourcing to external service providers	2.1	1.0	1 - 5

6.6.3 Robustness

Strategy and Business Development

H1 predicts a positive relationship between the involvement of a PE firm on strategic aspects with a general PE firm's performance (H1). Five out of six single parenting activities with regard to ‘Strategy and business development’ have means clearly above 4.0 on the scale 1 (not at all) to 5 (extensively). Only the involvement in organic growth strategies was evaluated with lower relevance—presumably due to the short holding period of respective portfolio companies.

In addition, the five parenting activities show relatively low standard deviations, indicating a relatively uniform evaluation (e.g., involvement in the definition of strategic directions (s.d. = 0.7) or the establishment of contacts between the portfolio company and potential M&A targets (s.d. = 0.7). Five parenting activities have not been evaluated by a single participant as being not relevant at all. Hence, subordinated strategic activities that are evaluated comparatively high and show comparably low standard deviations significantly support the value of the strategy dimension for PE firms.

Organizational Structure and Management Systems

H6 focuses on the organizational structure and predicts a positive influence on PE firm performance. All four subordinated parenting activities have means ≤ 4.0 and a low standard deviation (particularly the optimization of reporting and controlling systems). Hence, a homogeneous set of single parenting activity measures support the positive association of the organizational structure with the PE firm's performance.

Linkage Influence

'Linkage influence' is predicted to associate negatively with a firm's performance. The empirical data supports this hypothesis at large. A detailed view on the single parenting activities, however, reveals interesting differences in the respondents' assessments. The active promotion of knowledge and best practice sharing, for example, shows a mean value of 3.1 together with a standard deviation of 1.2, which is the second highest standard deviation value in the total sample. This may indicate that within the sample of PE firms some keep portfolio companies separated, while others foster cooperation. The same is true for group-wide operative synergy programs (s.d. = 1.2) or talent sharing among the portfolio companies respectively (s.d. = 1.1).

6.7 Discussion

The empirical results of the pan-European study support predictions and findings of some previous studies claiming that PE firms increasingly engage with their portfolio companies to create additional value add (e.g., Achleitner et al., 2010; Kaplan, 2007). Yet, more importantly, results show the need to develop further differentiating parental activities.

Findings indicate that changes in the competitive environment erode traditional levers of value added used by PE firms and seeking for new sources of profitability through more active management of portfolio companies bears chances and risks.

Apparently, traditional sources of generating value in PE firms such as supporting the single portfolio companies with advanced ‘Financial and asset management’ or ‘Governance practices’ no longer seem to be a differentiating factor in the PE industry. The findings, thus, confirm statements in the academic debate that PE firms need to go beyond financial engineering and governmental streamlining to generate value for their investors (Klier et al. 2009). Imposing more and more rigid and challenging governance measures seemingly produces less and less net profits as they come at costs that out-weigh additional benefits. As these levers seemingly became commodities, PE firms look for other parental activities to increase their profitability.

Other activities of exerting stand-alone influence, however, do not pay-off automatically. The empirical results indicate that changing key TMT members of newly bought portfolio companies, while having a small but insignificant positive impact on PE firm performance, apparently has to be used with caution. Such a change is a double edged sword. It may release new energies on lower levels of the organization or may be necessary to get new strategic initiatives developed and implemented. However, it may also deduct critical resources and capabilities from the portfolio firm, such as industry and technological know-how or may induce a drain of talent if important middle managers follow their bosses.

Similarly, the data indicates the need to better understand the impact of PE firm’s involvement in ’Business operations’ of the portfolio companies. Although an active involvement on the operative level of the portfolio company's businesses seems to have a positive impact on PE firm's performance this link is not significant. Possible explanations include that some PE firms in the sample may be focused on special industries allowing them to develop and exploit specific knowledge (e.g., customer needs, business processes, and order fulfillment).

Empirical results suggest that the area of strategy development is not only the arena in which PE firms are most actively involved with their portfolio companies, but is also the most suitable sphere in which to create competitive advantage and value. Apart from organic growth strategies, all other strategic activities in which a PE firm can be involved were strongly confirmed by the sample. The definition of the strategic direction (e.g., strategic marketing) as well as active involvement in the strategy development process (e.g., 100-day program or value creation plan) create substantial value for the portfolio company and finally for the PE firm itself. According to the empirical data, PE firms that leverage their specific expertise strategic management topics more intensively achieved superior value creation. Consequently, an advanced source of value creation is not the establishment of high-level contacts or a network of external experts, but also the active promotion of M&A projects, support of implementation processes of acquired targets, development of new growth options, and help in divestiture activities through active involvement.

Findings support the presumption that PE firms with deep industry knowledge can guide the strategic direction of their portfolio companies more successfully and thus increase firm's performance. Consequently, PE firms should build up, intensify, and also protect their industry-specific knowledge. The more value creation gains importance over leverage and multiple arbitrage, the more relevant is a set of distinct qualifications, industry-specific skills, and managerial capabilities to achieve superior value added over the holding period.

PE firms that try to identify and exploit parental activities such as seeking synergies and providing central services that exceed their traditional 'buy-to-sell' business model apparently struggle. Goold and Campbell (1998) note, that the pursuit of synergy pervades the management of most large multi-business firms. They claim a healthy dose of skepticism can help executives to distinguish real opportunities from mirages in order to create value. Results reveal that horizontal linkages between portfolio companies are enforced by only a few PE firms, and synergies are not indicated to be the way forward in the PE business model. Linkage influence seems to cause more value destruction than value creation, and that—following the empirical results—should only be pursued with caution.

6.8 Conclusion

This paper examines different levers of parental contribution PE firms use to differentiate themselves from rivals, to gain competitive advantage over competing organizational forms, and finally to improve the firm's performance and value to the investor. According to the objectives of research, the paper first (1) specify and operationalize the scope of parental contribution by assessing specific parental activities from the relevant literature. (2) The impact of the different parental activities on PE firm performance was empirically analyzed and (3) the relevance and impact of the distinct capabilities and managerial skills of the PE firm were explored. The results of the pan-European study show that PE firms frequently engage with their portfolio companies across most activities and positively influence their holdings through some—not all—of the predicted sources of value creation.

Positive outcomes are not determined by having the best compensation systems for executives in place. Rather, optimization of the organizational structure and management systems of the portfolio companies appears to be a key ingredient for PE firms to succeed in the market. Support in building up and reconfiguring administrative functions at the business level, or the active promotion of higher incentives for middle management, are supported by the empirical data as substantial sources of value creation. PE representatives may initiate changes in the organizational structure and may support the optimization of systems and processes in order to add value to the portfolio companies—both activities are supported by the empirical data. Distinct skills are considered as valuable resources and may be leveraged by the PE firm.

6.9 Contribution and Future Research

The contributions of this paper are manifold. (1) The potential of the parenting advantage concept is further exploited through the theoretical concretization adaption of the parenting advantage concept to the PE context. (2) This paper develops theory by contributing a comprehensive, conceptual framework on parental contribution of PE firms which is ready to apply to global PE markets. (3) The empirical investigation provides exclusive insights into the impact of the strategic, organizational, governmental, and operational influence of PE firms on value creation. Previous studies mainly focused on qualitative data. The study now reveals that parental contribution is a key lever for PE firms in order to improve a firm's performance and boost value creation. In particular, involvement in strategic and organizational aspects significantly correlates with a firm's performance. (4) From the vantage point of PE firms, this paper has practical implications regarding the management of a diverse portfolio of PE investments. According to the empirical findings, PE firms should be careful about pursuing somewhat innovative parenting activities, such as fostering cooperation between portfolio companies or building large centralized functions and services. By contrast, PE firms should make sure they get the groundwork right, in the form of financial and governmental engineering, and should focus their resources on aiding portfolio companies in strategic and organizational aspects.

Finally, consider the following potentially fruitful avenues for future research.

- *Portfolio perspective*: This study focuses on PE management's perception of parental contribution, and the data were collected from merely one representative per PE firm. This method is suitable for the major purpose of the research objectives, although deeper and more robust insights may be realized by approaching more than one contact and drawing representatives from portfolio companies as well as from PE firms.

- *The impact of value destroyed*: A further limitation of the hypotheses is the assumption that stronger involvement by a PE firm leads directly to higher value creation, without considering the potential value destruction caused by the PE firm’s interference. Follow-on research may elaborate on value-destroying activities and also link them to the value creation of the PE firm.

- *Governance*: Since some of the PE firms operate in less developed capital markets, such as Spain and Greece, future research may control for institutional affiliation and hypothetically consider the potential impact on the choice of certain sources of parental value creation as well as on a PE firm's performance (e.g., liberal market vs. coordinated market economies).

- *Typology of parenting strategies in the PE industry*: The presented analytical approach only investigates the impact of independent levers on PE firms' performance. By using multivariate analysis methods, future research may additionally identify consistent and effective parenting strategies by grouping single survey participants into distinct clusters (bundles of single parenting activities). This exploratory approach would allow the definition of a statistically robust typology of parenting strategies in the PE industry and the substantiation of broader categories as explored in previous, mainly qualitative studies. Finally, future research may evaluate the average performance of the identified PE strategies.

7 Conclusion

This study fundamentally investigates the ability and explanatory power of the parenting advantage concept to effectively manage business portfolios. It contributes to a largely ignored field of corporate strategy research: namely, the parenting role and value-added strategies of corporate parents (e.g., Bowman and Helfat, 2001; Collis et al., 2007; Foss, 1997; Goold et al., 1994; Hill, 1988; Markides, 2002; Porter, 1987; Roquebert et al., 1996; Rumelt et al., 1994). The concept of parenting advantage introduced by Goold et al. (1994) offers clear guidance on approaching this relevant area of corporate-level management.

The concept has been well received by academics, adopted by standard textbooks on strategy, and has become a key element in management teaching. Since its introduction, the concept has suffered from a lack of substantial development, resulting in five major deficits which hamper its broader application to this day. These shortcomings can be summarized as: (1) limited insights on the theoretical importance; (2) lacking test of practical relevance and actual application; (3) insufficient operationalization; (4) missing typology of parenting strategies; and (5) only partial transfer and adaption.

The theoretical, conceptual, and empirical research in this study addresses all deficits outlined above in five individual papers/chapters. The major findings provide a number of interesting insights and contributions for strategic management theory, reveal new avenues for future research, and have normative implications for corporate practice.

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7.1 Main Contributions

Several insights have emerged from the literature work and data analyses. Below, the most important contributions from this study are outlined: three can be classified under *theory development,* and three under *empirical evidence*.

7.1.1 Theory Development

Operationalization of Parenting Advantage

The potential of the parenting advantage concept is further exploited through the theoretical concretization and operationalization of the four basic sources of value added provided by the original concept of parenting advantage. In addition, the analytical scope is extended by including the business-to-business perspective as an indirect, compositional lever of corporate value added. As a result, this study contributes a robust, systematic, and operational framework to assess the net benefits to a given business of being part of a corporate portfolio, to identify and evaluate effective parenting strategies in corporate practice, and to specify the parenting advantage of a given company.

While previous studies have mainly focused on broad parenting approaches with low granularity (e.g., Goold and Campbell, 1987c; Hill, 1988), this framework allows one to substantiate earlier observations, draw finer distinctions between the applied strategies of corporate headquarters, investigate the core of superior value added approaches, and provide insights into which strategies lead to higher performance (i.e., which corporate headquarters manage their portfolio most effectively). Finally, the outlined framework may facilitate academic investigations of structural, strategic, and organizational roots of superior parenting strategies. In particular, it can be used to analyze the origin and underlying drivers of conglomerate discounts and premia, and thus enhance the understanding of capital market valuation of multi-business companies.

Typology of Parenting Strategies

By applying the outlined operationalization of parenting advantage, using various cluster analysis methods, and analyzing bundles of distinct drivers of value added (factors), this study empirically developed a statistically significant typology of parenting strategies. We identified six observable, consistent and effective strategies on how corporate parents of multi-business companies configure their parenting role, manage their portfolio, and aim to add value to their business units: (1) hands-of owner, (2) financial sponsor, (3) synergy creator, (4) strategic guide, (5) functional leader, and (6) hands-on manager.

Prior attempts to develop typologies rarely follow an explorative route, do not build on a solid empirical foundation, and do not provide proper definitions and classification criteria (e.g., Collis et al., 2007; Goold and Campbell, 1987c; Hill, 1988; Markides, 2002; Porter, 1987; van Oijen and Douma, 2000). The elaborated typology of parenting strategies is, by contrast, derived from statistical data, has an exploratory character, and mirrors corporate practice. The results show that the single parenting strategies differ greatly with regard to the selection of applied value-adding drivers (strategic vs. operational), the scope of drivers used (focused vs. broad application), the general intensity of interaction (active vs. cautious), and the awareness of the risk of accompanying value destruction (highly considered vs. not considered).

The developed typology of alternative parenting strategies may not only provide guidance to corporate-level management for developing and communicating its specific corporate advantage to business units, financial markets, and other external stakeholders, but also may drive new theoretical research on how to shape and configure a consistent and value-adding corporate strategy, and finally, how to implement and realize the most effective management of a business portfolio (Rumelt, Schendel, and Teece, 1994).

Parenting Framework for Private Equity Firms

By classifying a private equity (PE) firm and its portfolio companies as a special case of a diversified portfolio, this study provides an adapted parenting advantage framework for the PE business model. It applies the extensive knowledge on value creation in multi-business companies and defines eight fundamental levers of parental contribution: (1) strategy and business development; (2) financial and asset management; (3) governance practices; (4) top management team; (5) business operations; (6) organizational structure and management systems; (7) linkage influence; and (8) central functions and services.

Moreover, the scope of parental contribution is precisely specified and operationalized by assessing specific parental activities derived from the relevant literature. While previous studies have mainly focused on value added for the investments held by a PE firm (e.g., Bruining, Bonnet, and Wright, 2004; Folta and Janney, 2004), this framework now allows analyzing the impact on performance from the perspective of the PE firm itself. The contribution is a robust transfer and adaption of the parenting advantage concept to a new context and a ready-to-apply framework for evaluating the impact on the performance of different parenting activities and assessing the overall effectiveness of alternative PE parenting strategies by managing their business portfolios.

7.1.2 Empirical Evidence

Substance of Alternative Value Added Activities

Further empirical investigation reveals that drivers of value added resulting from corporate-to-business interactions (i.e., direct influence of the corporate headquarters) largely dominate the value creation toolbox, whereas business-to-business interactions (synergies) are mostly perceived as being a less relevant source of value creation.

Data suggest that financing advantages, strategy development, and effective functional leadership are the most important drivers of value added in multi-business companies. All three drivers refer to the core responsibilities of corporate parents. Moreover, it can be observed that leveraging corporate assets and a robust HR management are also key drivers of value added. A strong performance monitoring system and operational engagement of the corporate parent (e.g., improvement initiatives, centrally steered synergy programs) are not perceived as a major driver of value added by the corporate parent. The exploitation of synergies among the business units are perceived as relatively less relevant for value creation. This result is particularly remarkable because horizontal synergies are historically well-established in academic discussions on value creation in the multi-business company. Empirical findings now suggest that they may be of less importance than previously thought. Indeed, a high-quality skill set on financing and business strategy is confirmed by the empirical data as being the key driver of value creation and competitive advantage.

Roots of Successful Parenting Strategies

The identified parenting strategies of multi-business companies differ significantly in their overall performance – self assessment and external financial market data. The empirical results can thus provide a robust explanation for valuation differences of multi-business companies that goes beyond structural factors such as the degree of diversification or the relatedness of the business units in the portfolio. In particular, parenting strategies that explicitly aim to avoid value destruction by the corporate parent and effectively balance their involvement (e.g., strategic guide and functional leader) are successful and equipped with high overall valuation performance.

On the other hand, maximizing the value added by headquarters may not necessarily lead to superior value added; parenting strategies that focus on active steering, close monitoring, and own operational improvement efforts (e.g., hands-on manager) are found to be less successful. They are accompanied by a rather high level of value destruction and a less successful positioning in overall performance. In order to effectively manage the business portfolio, a clear focus on one specific driver of value added – financing, strategy, or effective functional leadership – seems to be the most promising basis for an effective parenting strategy and portfolio management approach.

To conclude, the level of value-adding intensity rise steadily with the degree of parental involvement. Hands-off owners report the lowest level; financial sponsors a somewhat higher level, and so on up to the hands-on managers who report the strongest gross value creation from parenting activities. The same holds true for the value-destroying intensity, which rises with the degree of parental involvement. However, instead of diminishing returns, there is an acceleration of value destruction caused by the corporate parent for the most active parenting strategies, suggesting that once corporate intervention reaches a certain point, the costs associated with that intervention increase rapidly. Both observations suggest that there is an optimum level of parent involvement that strikes the best balance between value creation and value destruction (functional leader!).

Relevance of Parenting Advantage for Portfolio Management

Data analyses provide empirical evidence that the concept of parenting advantage is considered relevant not only for corporate strategy, but also for corporate portfolio management. By evaluating single strategic business units, a large majority of practitioners assign a higher relevance to it than to the competitive position, value creation, or the risk profile of a business. The apparent relevance as a criterion for portfolio analysis is particularly remarkable because traditional portfolio management instruments such as the BCG growth-share matrix do not apply parenting considerations at all.

On the contrary, these frameworks focus strongly on assessing the attractiveness of markets and the current positioning of the business units in their competitive environment, or in the product life-cycle. However, parenting advantage suffers from the largest discrepancy between perceived relevance as a criterion and a quantitative operationalization among all portfolio evaluation criteria. According to the empirical data, this is due to absent, insufficient or impractical operationalization of parenting advantage, which is seen as a serious shortcoming of existing portfolio management instruments.

7.2 Future Research and Implications for Practice

The empirical research in this study addresses questions of high strategic relevance to academics and executives of multi-business companies, as well as to private equity firms. Below, two major directions for *future research* are outlined and some *practical implications* for managing a business portfolio effectively are suggested.

7.2.1 Future Research

Research in Strategic Management

A core empirical result of this study is the analytical development of a sound typology of alternative parenting strategies and the accompanying application of certain value-adding drivers. Although the presented research provides comprehensive insight on which strategy types can be observed in the corporate landscape and how they differ in terms of performance, there are some limitations that should be acknowledged and may offer future research options:

- *Diversification research*: The empirical analyses do not provide deep insight with regard to underlying drivers that can explain the choice of a certain parenting strategy. Future research should empirically analyze if the degree of diversification (i.e., relatedness of business units: Hill, 1994; Goold and Luchs, 1993; Markides, 2002; Rumelt, 1974) or different governance systems (i.e., impact of different corporate law conditions, capital market maturity, or property rights structures: Albert, 1993; Griffiths and Zammuto, 2005; Hall and Soskice, 2001) have an influence on certain strategies. Hill et al. (1992), for example, introduced the notion that the parenting role of headquarters should vary between ‘related’ and ‘unrelated’ diversified portfolios. Further empirical research may provide evidence for this notion.

- *Organizational contingency research*: Future research may also use the results of this study and discuss them in conjunction with the recent research from the organizational contingency theory, which roughly argues that the set of activities corporate parents undertake should be conditional not only to the overall strategy, but also to organizational design of a multi-business company (e.g., Dess et al, 1998; Galbraith, 1995; Hoskisson, 1987; Hoskisson and Hitt, 1990). Goold and Campbell (2002a) provide a precise guidance on how a company's organizational structure can be analyzed and reviewed for quality and value contribution. Further research should theoretically and empirical investigate if observed parenting strategies are reflected on corporate organizations.

- *Dynamic capabilities research*: Another stream of future research should analyze the relationship between the choice of a certain parenting strategy and dynamic capabilities (Helfat and Peteraf, 2003; Teece et al., 1997; Teece and Pisano, 1994). The research provided by Adner and Helfat (2003) delivers a proper starting point. They propose that dynamic capabilities are rooted in three underlying factors: namely, managerial human capital, managerial social capital, and managerial cognition. Moreover, they assume that these factors influence the strategic decision-making at corporate level, for example, the parenting role of the corporate center (Adner and Helfat, 2003). Further empirical analyses should test this argument and may deliver insights not only to corporate strategy, but also to the dynamic capability research stream.

- *Portfolio theory research*: Since data were only collected from the headquarter staff, a broader analytical scope may not only validate data quality, but also enhance the insight with regard to a corporate consensus on value added in a multi-business company. Future research should address the business level either by replicating the applied survey approach or by using comparative case study methods.

Research in Private Equity

The empirical investigation outlined in this study provides exclusive insights into the impact of the strategic, organizational, governmental, and operational influence of PE firms on fundamental value creation, although it is to some extent limited. Future research should direct effort to the following aspects.

- *Broader approach*: Data were collected from only one representative per PE firm; nevertheless, we believe this method to be suitable for achieving the major purpose of our research objectives, although deeper and more robust insights may be realized by approaching more than one contact and drawing representatives from *PCs* as well as from PE firms.

- *Net value added*: A further limitation of the used hypotheses is the simplified assumption that stronger involvement by a PE firm leads directly to higher value creation, without considering the potential value destruction caused by the PE firm's interference. Follow-on research may elaborate on value-destroying activities and also link them to the fundamental value creation of the PE firm.

- *Governance*: Since some of the PE firms operate in less developed capital markets such as Spain and Greece, future research may control for institutional affiliation and hypothetically consider the potential impact on a PE firm's performance.

- *Strategies*: The current analytical approach only investigates the impact of independent levers on the performance of PE firms. Future research may additionally focus on identifying and specifying consistent combinations of single parenting activities.

7.2.2 Practical Implications

Implications for Corporate Managers

Key findings can be translated into advice for practitioners faced with the challenge of managing a multi-business company.

- Corporate-level managers should focus on creating a corporate advantage by increasing, developing, and protecting their own assets and managerial capabilities, as required by the business units.

- They should intensify and leverage their own skills in strategy development and financing – both are mostly needed by the business units and carry a relatively low risk of value destruction.

- Natural synergies in the corporate portfolio should be exploited more effectively. The informal sharing of market-related knowledge and the joint development of new strategic assets seem to be particularly fruitful sources of value added.

- As the level of value destroyed significantly determines overall performance, any value added activity should be checked for potential value destroying side effects. A stronger focus on avoiding value destroying behavior may be a more effective parenting strategy than searching for new ways to add value.

Implications for Private Equity Executives

PE firms need to go beyond financial engineering and governmental streamlining to generate superior fundamental value for their investors. Involvement in business operations or replacing top management members does not drive returns on investments either. It is primarily the involvement in strategic and organizational aspects that creates fundamental value and competitive advantage over rivals. The following implications result.

- PE executives should focus their strategic activities not only on the establishment of high-level contacts of external experts, but also on the active promotion of M&A projects, support in the implementation processes of acquired targets, the development of new growth options, and support in divestiture activities.

- They should support the augmentation and reconfiguration of administrative functions and actively promote higher incentives for middle management, but should also initiate fundamental changes in the organizational structure of single investments.

- As industry knowledge correlates positively with firm performance, PE executives should expand, intensify, and also protect their industry-specific knowledge. The more fundamental value creation gains importance over leverage and multiple arbitrage, the more relevant is a set of distinct qualifications, industry-specific skills, and managerial capabilities for achieving superior value added over the holding period.

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