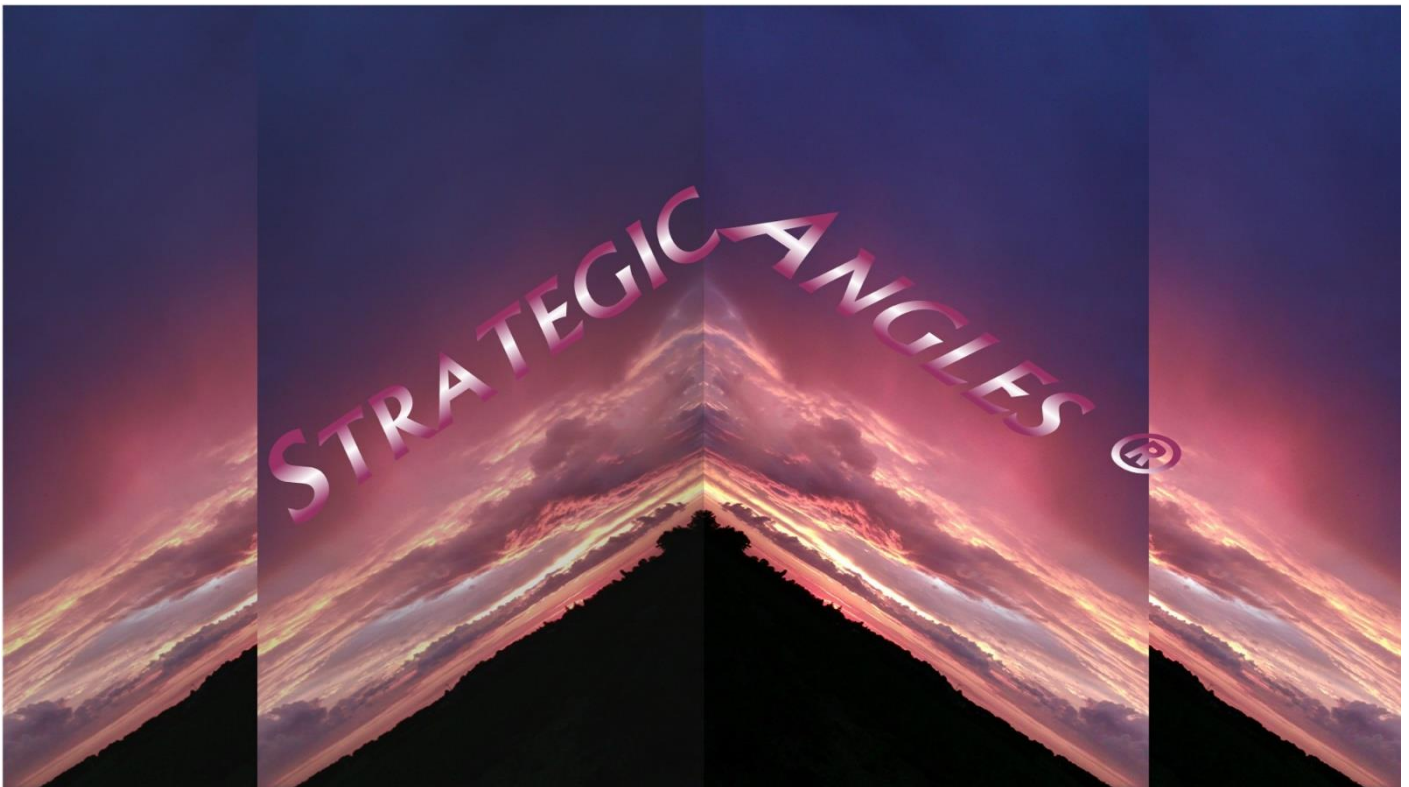


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On Corporate Strategy

CORPORATE CENTER 21.0: THE ULTIMATE SUPPORT FUNCTION

SERVING THE CORPORATE STRATEGY ULTIMATE AMBITION



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Invariably presented as the art and science of making the whole worth more than the sum of its parts, corporate strategy represents nothing less than the highest, and the most integrative and sophisticated level of enterprise strategy.

In this context and beyond the challenge of strategy definition, corporate strategists have always been under pressure—both internally and externally—to justify their existence and demonstrate their contribution to enterprise value creation.

Internally, some business units and support functions executives across industries have been seriously questioning the relevance of some corporate-level activities, viewing them as an additional management layer restraining business-level agility and value creation capacity.

Externally, financial markets have often been in a “*Love & Hate/Rise & Fall*” relationship with conglomerates and multi-divisions companies—and with their corporate centers. At times, they openly questioned the relevance of corporate centers and subsequently applied a conglomerate discount to diversified companies’ valuation. At other times, they praised conglomerates corporate centers’ managerial actions for

providing a suitable diversified investment option.

On top of these pressures, corporate centers are today under the society’s closer than ever scrutiny to define, articulate, and implement a strategic purpose allowing them to deliver on the promises of their societal agenda alongside their strategic, operational, and financial objectives.

If anything, this multiple, ever-increasing scrutiny highlights the need for a robust corporate-level, corporate center strategy that creates, captures, and sustains value beyond business-level value creation and competitive advantage.

In this context, achieving parenting advantage—i.e. creating a superior value to that of any other competing corporate parent—appears as corporate centers’ best justification of existence.

Nevertheless, it is a justification whose conceptual sophistication—introduced in 1994 by Goold, Campbell, and Alexander in their book *Corporate-Level Strategy: Creating Value in the Multibusiness Company*ⁱ—may have proved more challenging than it seemed to understand comprehensively and to put into practice successfully in the light of the key issues and questions raised by the parenting advantage assessment.

ⁱ The concept has been “revisited” and enriched by Goold, Campbell, Alexander, and Whitehead in their 2014 edition of the book “*Strategy for*

the Corporate Level: Where to Invest, What to Cut Back, How to Grow Organization with Multiple Divisions”, JOSSEY-BASS Edition.

Fundamentally, the corporate-level parenting advantage assessment is less straightforward than its business-level equivalent for the competitive advantage.

Indeed, as competitive advantage directly translates into business units’ superior economic performance, this provides a direct and absolute scale of comparison at business level. However, when it comes to the parenting advantage, the scale of comparison is indirect and relative for three reasons. The first reason is that parenting advantage is only achieved indirectly through the corporate center’s influence on the firms’ businesses. Furthermore, while some elements of corporate centers’ influence can be translated into quantifiable measures, that influence also rests on major qualitative items —e.g. the quality of leadership and communication, the decision-making effectiveness— whose assessment may comprise some elements of judgment or subjectivity. On top of that, in some cases, the thin boundary between the centers’ and businesses’ respective influence adds to the challenge of the comparison between competing parents.

The second reason is that a parenting advantage analysis can only be understood in the context of the strategic fit between the center and both the businesses and the key success factors of the industries they compete in —a key prerequisite of the framework.

The third reason lies in the fact that competing firms may differ notably in their definition of the parenting role, their internal ecosystems, and their skills and capabilities. Altogether, all these reasons make parenting advantage analysis inherently more complex than the “classical” competitive advantage analysis.

Beyond the challenge of analytical complexity, the parenting advantage assessment raises two critical strategic questions:

- ◆ **What value-creating strategic options do corporate centers have?**
- ◆ **How to architect corporate centers to successfully implement those strategies?**

We will address these questions by briefly restating the quintessence of the corporate strategy in which any parenting, “*Corporate Center Strategy*” inscribes itself. Subsequently, we will share our vision on corporate centers’ strategies and architectures, as well as on the corporate-level leadership challenge going on a par with them.

THE ESSENCE, AMBITION AND PURPOSE OF CORPORATE STRATEGY

Essentially, corporate strategy combines portfolio and parenting strategies, and ambitions a superior value creation to that of any other competing corporate parent.

The Portfolio Strategy aims to define the firm’s portfolio of businesses, industries, markets segments, and geographies to invest in or to divest. More broadly, it may also be considered the strategy definition of the internal ecosystem of the firm’s business models. Simply put, it defines the multidimensional business scope of the firm and manages its dynamic evolution at the rhythm of growth and divestment operations.

The Parenting Strategy is the support strategy of the portfolio strategy. Its role is to architect the firm’s structure—i.e. its compliance and governance, organizational structure, enterprise-wide processes, and functions—in the context of the portfolio strategy. Hence, as a support strategy, the parenting strategy is aligned with and as dynamic as the portfolio strategy it aims to support.

The ultimate corporate strategy ambition is the maximization of the corporate center’s parenting advantage i.e. the net added value resulting from the differential between the multi-business value creation and the costs incurred by corporate-level management layers.

That ambition rests on a two-fold capacity. Firstly, it rests on the corporate center’s capacity to help businesses achieve higher economic performance levels than if they were operating independently. Secondly, it rests on the

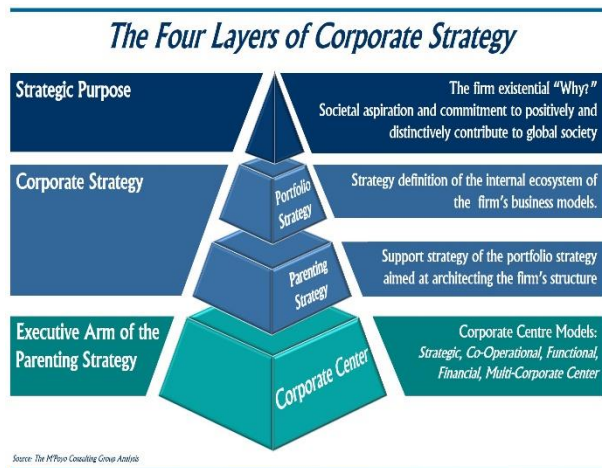
corporate center’s capacity to do it in a way that is not only superior to that of any other competing corporate parent but also in a way that substantially outweighs the costs of “supra-business” management layers.

Economically speaking, this implies that corporate centers generate a corporate-level strategic advantage when their parenting strategies translate into significantly higher revenue growth, cost reduction or cost-efficiency, or asset utilization than if their businesses had operated as stand-alone entities.

The Underlying Purpose of Corporate Strategy. Finally, beyond business considerations, corporate strategy should always inscribe itself in the context of the strategic purpose of the firm to support the achievement of the firm’s societal ambitions alongside its strategic, operational, and financial objectives. (see our article “*The Strategic Purpose of the Firm*”ⁱⁱ).

In particular, the portfolio should always strategically fit the firm’s purpose and the parenting strategy should always, through corporate center-led initiatives, help diffuse the purpose throughout the organization to ensure that corporate strategy ultimately aligns with its wider commitment to society.

ⁱⁱ “*The Strategic Purpose of the Firm*” on www.mainakmpoyo.com



Consequently, we see the key dimensions of corporate centers’ “internal business model” —i.e. their internal value proposition, the nature of their influence on and engagement with their internal clients, and their infrastructure— as an insightful framework to describe the different models of corporate centers.

PARENTING STRATEGIES AND THE CORPORATE CENTERS MODELS

THE CORPORATE CENTER: THE EXECUTIVE ARM OF THE PARENTING STRATEGY

Looking at the corporate center through the prism of the business model of a service delivery center allows to better apprehend the role of the corporate center at the heart of the firm’s corporate-level strategy.

Indeed, as the executive arm of the support strategy of the firm’s portfolio strategy, the corporate center is the corporate-level, ultimate support function, and as such, it is aimed at delivering services to its internal clients, namely business-level entities —i.e. business units and support functions. Similarly, as any company relies on a business model to implement its strategy, so does the corporate center.

Executing Parenting Strategy : The Five Corporate Center Models

The parenting advantage ambition and its underlying parenting strategy are not only the greatest strategic differentiators among the Corporate Center Models, they are also the cornerstones around which the Corporate Center will articulate the fulfilment of its purpose as the firm's ultimate support function.

CORPORATE CENTER (CC) MODELS KEY DIMENSIONS OF INTERNAL BUSINESS MODEL		STRATEGIC LEADER	CO-OPERATIONAL LEADER	FUNCTIONAL LEADER	FINANCIAL OWNER	MULTI- MODELS
Value Proposition	Parenting Advantage (Basis of corporate-level value creation)	Strategy-Based	Synergy-Based	Expertise-Based	Finance-Based	Multi-Form Balanced combination of the key features of the four major CC models according to the degree of diversification
	Parenting Strategy (Type of leadership services provided by CC)	- Provide strategic wisdom & guidance - Leverage CC strategy-making capabilities	- Identify, unlock, exploit synergies - Foster cooperation and coordination at business level	Provide cost-effective functional leadership and excellence	Portfolio-related financial decision-making	
Client	Type of CC Relationships with Internal Clients	CC direct, top-down, vertical, hierarchical influence	- CC indirect influence - Lateral interactions at business level	CC Business Partnership with all businesses of the portfolio	- CC minimal influence BUT - Occasionally, appointment of CEOs and key executives	
Infrastructure	Organization & Governance	Clear governance articulated around strategy-making process	- Strong governance guidelines - Incentivization & reward system	- Dual governance, dual reporting line (Business/Functional) - Balance of centralized vs. decentralized activities	Articulated around CC financial activities	
	Core Skills & Capabilities	Superior strategic capabilities (e.g. insights, industry knowledge)	- Synergy opportunity assessment & exploitation - Knowledge of business operations - Coordination	Mastery of central, support function expertise (e.g. finance, HR, IT, etc.)	Outstanding financial skills and capabilities	

Source: The M'Poyo Consulting Group Analysis

THE FIVE MAJOR CORPORATE CENTER MODELS

We see four distinctive corporate center models namely the *Strategic Leadership*, *Co-Operational Leadership*, *Functional Leadership*, and the *Financial Ownership* models on top of which we see a fifth one resulting from the combination of the four major models.

Beyond the definition of core governance and compliance guidelines, and the design of enterprise-wide policies, processes and procedures, these models distinguish themselves by their parenting strategies i.e. by the types of leadership services they provide, the type of value they aspire to create and the nature of the parenting advantage they pursue.

VERTICAL INFLUENCE & THE STRATEGIC LEADERSHIP MODEL

In this model, corporate-level value creation occurs through “vertical influence” from the corporate center i.e. from direct, top-down instructions and guidelines.

Internal Value Proposition

- In the ***Strategic Leadership*** model, the corporate center ambitions to achieve

parenting advantage by providing businesses with **strategic wisdom and guidance**. More specifically, the corporate center not only directly intervenes in strategy formulation, but it also leverages its strategy-making capabilities to chart the destiny of the businesses and help them achieve substantially higher results. These capabilities revolve around strategic thinking, planning, implementation, and monitoringⁱⁱⁱ.

Internal Client Dimension

- **A Top-Down Engagement with Business Units.** The corporate center directly and hierarchically engages with business units by crafting their strategies in ways aimed at leading to higher performance levels than without the corporate center’s direct, top-down influence.

Infrastructure Dimension

- The *Strategic Leadership* model requires **a clear governance structure between the corporate center and the businesses throughout the strategy-making process**^{iv} as well as **superior strategic capabilities at the center**. Actively engaged in strategy formulation, the *Strategic* corporate center leads the strategic thinking

ⁱⁱⁱ See our article “How Strategic is your Strategic Planning? Really.” on www.mainakmpoyo.com

^{iv} For a detailed description of the strategy-making process, see our article “How Strategic is your Strategic Planning? Really.” on www.mainakmpoyo.com

phase and is the ultimate accountable for its outcome.

As the intersection between strategic thinking and strategic implementation and monitoring, strategic planning should be a shared responsibility where we see the corporate center leading the strategic dialogue with the businesses to translate the outcome of the strategic thinking exercise into a proper strategic plan, at both corporate and business levels.

Finally, businesses are expected to be the sole driving force of the subsequent strategic implementation and monitoring phases.

- Obviously, the ***Strategic Leadership model*** relies on **superior strategic skills and capabilities** allowing the corporate center to articulate the firm’s corporate and business strategies thanks to superior strategic insights, deeper industry knowledge, superior performance management capabilities, and previous exposure to some of the strategic challenges its businesses might encounter.

LATERAL INFLUENCE & THE CO-OPERATIONAL LEADERSHIP MODEL

In this model, suited to portfolio of related businesses, value is created through the corporate center’s indirect influence on the business level by “laterally” exploiting the linkages among the businesses.

Internal Value Proposition

- In the ***Co-Operational Leadership model***, the corporate center aims to create **superior value through cross-business and cross-functional synergies** or, more broadly speaking, through initiatives fostering coordination and cooperation at business level—hence the name of the model.

Considering the various forms synergies may take, *Co-Operational* corporate center executives have a repertoire of synergistic initiatives at their disposal such as bolstering cross-selling initiatives among business units for higher revenue growth, pooling similar resources to either eliminate redundancy or achieve economies of scale or scope, or pooling different resources to create something new—just to name a few.

Internal Client Dimension

- The *Co-Operational* corporate center indirectly engages with businesses by

fostering cooperation and coordination among them. In this model, value is created “laterally” at business level.

Infrastructure Dimension

- The *Co-Operational Leadership* model requires **strong governance guidelines, and an equally strong incentives and rewards system** to influence behaviors towards effective cooperation among businesses.
- The *Co-Operational Leadership model* rests on three core complementary capabilities for superior value creation. First, the corporate center must be able to identify, accurately assess, materialize, and sustain synergies over time across businesses. Second, it also needs a deep knowledge of business-level operations. Finally, it should also possess strong project coordination capabilities. These skills and capabilities are particularly useful in mergers, acquisitions, and post-merger integration plans to materialize the ambited benefits of such operations.

CENTRAL INFLUENCE & THE FUNCTIONAL LEADERSHIP MODEL

In this model, corporate-level value creation—or destruction—is influenced by the central functions’ expertise services provided throughout the firm.

Internal Value Proposition

- In the *Functional Leadership* model, the corporate-level strategic advantage pursued by the corporate center consists in **leveraging its advanced functional expertise and providing cost-effective functional leadership—and excellence—**services, be it at corporate center level, business level or even in shared services entities if the firm has opted for this form of service delivery.

Internal Client Dimension

- **A client engagement under the form of business partnership.** From finance to IT and from HR to procurement, all support functions have been evolving from the strict boundaries of their initial core expertise to the expanded realm of business partnership. In this context, the *Functional* corporate center, as the ultimate support function, also acts as a business partner and interacts in that capacity with the firm’s businesses across its business lines, market segments, and geographies.

Infrastructure Dimension

- The *Functional* corporate center’s architecture must be articulated around a governance reflecting its dual functional and business partnership capacity.

Indeed, on the one hand, this governance must clearly articulate and formalize the balance of the functional activities that will be centralized vs. those that will be decentralized. On the other hand, as a business partner, the *Functional* corporate center must also establish the nature, as well as the modalities and expectations of its interactions with the businesses throughout the enterprise.

MINIMAL INFLUENCE & THE FINANCIAL OWNERSHIP MODEL

This model is well-suited to private equity firms and financial holdings owning and managing unrelated, autonomous, and independent companies.

Internal Value Proposition

- In the *Financial Ownership* model, the corporate center is the financial arm of the portfolio strategy where the business portfolio is, to a great extent, managed as a portfolio of financial assets.

Beyond the portfolio decisions, the *Financial* corporate center primarily exerts a financial control on the businesses —i.e. financial target-setting, planning, monitoring, and resource allocation.

Internal Client Dimension

- **Minimal interactions with business units, expected to be run autonomously as independent entities.**

While the *Financial* corporate center might, in some instances, appoint CEOs or senior executives in key positions at business level, its involvement is usually strictly financial. Indeed, neither does the *Financial* corporate center intervene in purely strategic activities nor in day-to-day operations.

Infrastructure Dimension

- Relying on outstanding financial skills and capabilities, the *Financial* corporate center governance should be articulated around its financial activities and should reflect the minimal influence the corporate center exerts on the autonomous businesses of the portfolio whose CEOs are held accountable for the companies’ results.

THE MULTI-CORPORATE CENTER MODEL: THE COMPLEXITY OF COEXISTENCE

In the light of the four models’ respective specificities, corporate center executives’ greatest challenge—and ultimate test of mastery—lies in the complexity of the coexistence of the *Strategic*, *Co-Operational*, *Functional*, and *Financial* models according to the degree of diversification of the companies combining at least two of these models.

This challenge is even greater in the context of growth and divestments operations which impact the firm’s internal ecosystem of business models.

Hence, in this variable geometry model, we view the overall consistency and alignment of the corporate center’s internal business models with the firm’s strategic purpose and with one another as the cornerstone of a value-creating coexistence.

In our article “*Leading the Strategic Complexity of Growth*”^v, we highlighted CEOs’ and leadership teams’ responsibility to manage the complexity of growth and the changing equilibrium of the firm due to the growth-derived

changes in value propositions, client relationships, and infrastructure.

By and large, the need for equilibrium is further extended in the case of a *Multi-Corporate Center* model because of the complexity of operating diverse models and pursuing various forms of parenting advantage simultaneously.

Parenting Strategy Assessment

To assess their parenting strategy effectiveness, Corporate Centers’ executives can rely on key ‘*Strategic Fit*’ questions throughout the four layers of their corporate-level strategy.

Pre-Assessment

STRATEGIC PURPOSE FIT

- Does the corporate portfolio fit the strategic purpose of the firm?

CORPORATE STRATEGIC FIT

- Do the corporate parent’s characteristics fit both the businesses and the key success factors of the industries they compete in?

Assessment

CORPORATE PARENTING STRATEGIC FIT

- Does the Corporate Center’s parenting strategy fit the firm’s corporate portfolio?
- Does the Corporate Center’s internal value proposition fit its Model? How effective is the delivery of this internal value proposition?

CORPORATE SKILLS & CAPABILITIES FIT

- Do the Corporate Center’s skills and capabilities fit its parenting strategy?

Source: The M’Poyo Consulting Group Analysis

^v See our article “*Leading the Strategic Complexity of Growth*” on www.mainakmpoyo.com

THE LEADERSHIP CHALLENGE OF CORPORATE CENTER STRATEGISTS

FROM COST CENTER TO VALUE-CREATING BUSINESS PARTNER TO SERVANT LEADER

Our client work experience has led us to make two striking observations.

First, it is rather easy for corporate center executives to be caught in the operational overloaded routine of their strategic activities, to be self-centered on the central teams to lead, the work to perform, the reports and analyses to produce, the enterprise-wide projects to spearhead, or the recommendations to formulate, and... to lose sight of the firm’s and the center’s purpose. Second, from the annual budgeting process to the actual charging of overheads to the business-level entities, the predominating view of the corporate center is that of a cost center.

It does not have to be this way and, honestly, we firmly believe it should not.

We envision a double leadership mindset shift that can help executives take their corporate center to the next level, regardless of the corporate center model they operate.

The first mindset shift is a shift from a self-centered cost center to a value-creating business partner. Such a shift starts with the self-awareness of one’s

own value creation —or destruction— potential as a center. From a corporate-level strategic standpoint, we see this as a game-changer because it moves the center away from a cost avoidance mentality to a value creation opportunity-seeker mentality. This first shift takes his final shape when the corporate center, as the ‘Ultimate Support Function’ —like any other support function within the firm— strives to truly partner with the businesses and help them reach higher performance levels than if they had operated in stand-alone mode.

The second mindset shift leads the corporate center from Business Partner to Servant Leader. In this shift, the corporate center transcends its Business Partner role with an even greater emphasis on excellent services to business-level entities, a commitment to grow them, and the willingness to provide both foresight and stewardship towards new levels of performance in alignment with the firm’s strategic purpose.

We are strongly convinced that the corporate center executives who will be able to embody these mindset shifts and act as servant leaders will be in a privileged position to serve the corporate strategy ultimate ambition and lead their corporate center towards the ultimate best version of itself i.e. the corporate center of the 21st century: ***The Corporate Center 21.0.***

Feedback can be shared at contact@mpoyoconsultinggroup.com