Designing Corporate HQ

Chapter 10
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Introduction

• The goal of corporate strategy is to define synergies that cannot be replicated merely by investing in financial diversified portfolio of stocks.
• The HQ is where the competitive advantage resides.
• Its goal is to answer this question: how to set up a multi-business strategy which worth is more than business operated indipendently?
• HQ is an administrative unit making strategic decisions cross multiple businesses.
• HQ can also be the location of shared service units.
Influence models available to HQ

• HQ make decisions about:
  – Portfolio composition;
  – Managing existing businesses;
  – Managing process of bringing businesses into the portfolio.

• Complementarities exist among:
  – Decision on value chains;
  – Organizational structure;
  – Influence model to derive synergies and generate corporate advantage.
• Corporate advantage depends on selection (portfolio assembly) and synergy (portfolio modification).
• Synergies are: the ways in which the cash flows and discount rates of businesses can be modified through administrative influence.
• Synergies are at the origin of corporate advantage and depends on administration.
• Financial investors can replicate such portfolio, but they don’t have administrative capability. Thus, synergies through administration is the very distinctive trait of corporate advantage.
• The appropriate influence model is contingent on the choice of how corporate advantage is being pursued.
Selection

• Selection is effective when decision makers are able to spot under-valued opportunities or to exit businesses at the right time.

• The strategic capabilities needed for selection are:
  – Environment scanning for new opportunities;
  – Expertise at M&A and alliances;
  – Expertise at refocusing.
Synergy

• Standalone vs. linkage influence
• Evaluative vs. directive influence
Horizontal dimension: standalone vs. linkage

• Under standalone influence, HQ does not encourage any meaningful B2B relationships.
• Under linkage influence, HQ encourages business to work together in alliance-like fashion.
Vertical dimension: directive vs. evaluative

- Directive influence: the control HQ exerts on businesses by directly influencing their strategic decisions and actions through approving, vetoing, or ordering. The main tool used is capital budgeting.

- Evaluative influence: the control is exerted through setting financial performance targets and evaluating outcomes.
Models of HQ influence: the four prototypes

- Directive/Linkage: sharing resources. Actively focusing on operational synergies through linkage between businesses.
- Evaluative/Linkage: setting context. Passively focusing on operational synergies, creating a fostering context. Synergies are elective rather than imposed.
Resource allocation by the HQ

- HQ has the power to allocate resources to the business, and that’s the main way it exerts its control.
- In directive control, there is major capital expenditures commitment.
- In evaluative control commitment is semi-automatical according to reached performance targets.
• Decisions depends on both synergy and uncertainty.

• Assumptions are the followings:
  – Businesses are interlaced and there are interections.
  – There are heuristics such as: investing in projects only if either their internal rate of return exceeds their weighted average cost of capital or they have a positive net present value.
• There is uncertainty when we do not know all the possible outcomes nor their probability of occurring.
• The main problem is the management of the trade-off between exploitation and exploration: what is the optimal degree of exploring?