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 were 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.

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- 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.
- Finacial investors can replicate such portfolio, but they don’t have administrative capability. Thus, synergies through administration is the very distinctive trait of corporate advantage.

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- 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: standalon vs. linkage

- Under standalone influence , HQ does not encourage any meaningful B2B relationships.
- Under linkage influence, tha 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/standalone: turnaround. Restructuring orientation. Similarities to private equity in relationship to exit approach.
- Directive/Linkage: sharing resources. Actively focusing on operational synergies through linkage between businesses.
- Evaluative/standalone: portfolio. Finacial target setting and performance management.
- 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.

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- 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 exeeds their weighted average cost of capital or they have a positive net present value.

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- There is unceratinty when we do not know all the possible outcomes nor they probability of occurring.
- The main problem is the management of the trade-off between exploitation and exploration: what is the optimal degree of exploring?