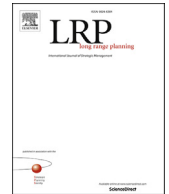




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### Editorial

## Rethinking the role of the centre in the multidivisional firm: A retrospective

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Nowadays, diversified companies or business groups are the norm rather than the exception. Most multibusiness or multi-unit firms are organised as a multidivisional firm (*M-form* firms). They are structured into semi-autonomous divisions or operating units that report to a corporate headquarters (CHQ) to guide, control and coordinate the group. There are many different ways to manage the role of such a corporate center. Also, over the past decades, these roles had to change, owing to the changing requirements from the business environment and new approaches to managing the roles.

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*Long Range Planning* (LRP) has long been a prominent outlet for discussions on managing multidivisional companies. In this retrospective special issue, we selected prominent articles published in LRP during the past three decades, with research questions of pertinent relevance, and asked researchers and practitioners to comment on them from today's perspective. Our introduction seeks to contextualise the articles featured in this retrospective special issue within contemporary research and to discuss some key issues and future research topics highlighted in the commentaries. The intention is to set the scene and to build bridges between the focal themes, rather than to provide a comprehensive review of the research in this field. This special issue was inspired by the discussion at a special conference of the Strategic Management Society held in May 2015 at the University of St. Gallen under the theme *Rethinking Corporate Headquarters: Innovative Approaches for Managing the Multidivisional Firm*.<sup>1</sup>

### Introduction

*"Uneasy lies the head that wears a crown."  
Act III, Scene I, King Henry IV by William Shakespeare*

It is widely accepted in management science and practice today that most of multibusiness or multi-unit firms are organised as a multidivisional firm. *M-form* firms, as they are also called, are usually led by a corporate headquarters (CHQ) and divided into business-level management and corporate-level management. Most scholars agree that the legitimisation of a multi-unit firm derives from the corporate level's ability to add more value to its businesses (*corporate surplus*), which they are not able to realise as standalone operations. For instance, Grant (2002, 90) explains this as follows: "Empirical research shows that there are no generally superior corporate strategies. The critical issue is achieving fit between the resources and capabilities of a company and its corporate strategy, organization structure and management system."

However, the question remains: *How well advanced are our scholarly and policy-oriented understandings of multidivisional firms? How can firms achieve this fit? Which levers can they use to add rather than destroy value?* While the phenomenon is certainly not under-researched, many of the key questions seem to occupy scholarly and managerial thinking today as much as 30 years ago. Informed by this observation, this retrospective special issue seeks to take a fresh look at influential research in the past and to shed light on these findings from today's perspective.

Since the late 1980s, a broad research stream has discussed the management of the multidivisional firm's corporate level (e.g. Chandler, 1991; Doz and Prahalad, 1991; Hedlund, 1986; Grant, 1996). Particularly, studies have paid attention to strategic

<sup>1</sup> <http://stgallen.strategicmanagement.net>.

direction (vision, mission, goals, values), the structure of the portfolio of businesses, the interplays between portfolio strategy and organisational structure, the CHQ's value-adding roles, and the realisation of synergies across operating units. Concerning the changing roles of the centre of multidivisional firms, over the last years, we have observed waves of centralisation and decentralisation – augmenting or reducing the roles and the power of the centre (see also [Ambos and Mahnke, 2010](#); [Kunisch et al., 2014](#); [Menz et al., 2015](#)).

When the CHQ defines its roles and extents of centralisation, it inevitably faces a dilemma: on the one hand, it must provide value to and positively impact on the divisions in relation to their sizes and costs; on the other hand, the more it interferes with the divisions' autonomy, the more it risks detracting value via bureaucracy, increasing questionable key costs, wasting employees' time and motivation, and so on. When multidivisional corporations are also multinational, this dilemma is exacerbated by the challenges to locally adapt to contextual differences or to globally integrate ([Doz and Prahalad, 1991](#)).

These general problems have occupied management scholars for decades. Today, we are seeing another surge of discussions about the firm's purposes and headquarters' roles, questions of distributed strategy-making, and the value of networks and other hybrid structures. We are also seeing another trend towards increased centralisation and, as a result, a more powerful CHQ. While emerging research provides many new insights on these issues, it also prompts us to ask whether we have really answered the field's core questions, such as: *What are appropriate value-adding roles of the corporate level? What is the optimal structure of the firm in relation to its corporate strategy? What is the most efficient leadership style to link the corporate and the business levels? How can we design an efficient corporate planning process? Or, do we have to answer these 'old' questions in different ways in view of changing contexts?*

### Rethinking the CHQ: a framework

The attempts to describe the CHQ's roles and functions are as diverse as the organisational models we see in research and practice. Thus, we decided to present a very simple model of the CHQ within the multidivisional firm, following the fundamental questions of strategy: *What, how, who and why* ([Watkins, 2007](#)). First, at the core of every diversified organisation is the question *what* the CHQ does to add – or, indeed, destroy – value. Second, *how* this is done is a question of implementation and depends on management practices, including corporate governance, information systems, and coordination and control tools. Third, the CHQ is shaped by and interacts with internal (divisions, subsidiaries, regional HQ, etc.) as well as external stakeholders (institutions, competitors, customers, etc.) (*who*). The fourth element refers to the vision, mission and values – *why* a certain strategy is followed. The CHQ can provide strategic orientation with a normative frame and a corporate strategy. [Figure 1](#) presents the fundamental questions that guided the organisation of this special issue.

We are seeing important changes in the following domains. First, *the nature of the multidivisional firm itself*. Also, many multibusiness firms are now much larger, more complex regarding the operating units (divisions, countries, brands, etc.) they must integrate, and their business environment is more dynamic and more interdependent. Almost all multidivisional firms are also multinationals and must cope with formal and informal differences in the institutional environment. Firms must adjust to new business models more quickly and must adopt new and flexible ways of organising, for instance, platform business models or other 'new' forms of organising ([Puranam et al., 2014](#)). Further, the efficiency of many national markets in emerging economies have changed, with major impacts on business groups' strategic rationales ([Colpan et al., 2010](#)). New questions about the corporate centre's roles also arise in state-owned enterprises and family firms, which are the dominant forms in these markets ([Bruton et al., 2015](#); [Meyer and Peng, 2016](#)). There are also new shareholder types, such as private equity firms or active shareholders, and companies are forging different partnership types that redefine a firm's boundaries. But do we know enough about how they manage, compete and practice corporate governance?

Second, *new management tools and means* are available to develop and steer multidivisional firms. For instance, new information and communication technologies have improved our possibilities to interact in such complex organisations and to integrate their activities. But the knowledge we have regarding new technologies' impacts on CHQs' roles and structures is very limited. Communication technology's roles in bridging distance and ensuring more efficient communication between organisational units has seen much attention (e.g. [Ambos and Ambos, 2009](#); [Minbaeva et al., 2003](#)). Also, new management tools and coordination mechanisms have changed how managers coordinate and control large organisations ([Menz et al., 2015](#)). And much richer data and data analytics provide new sources for more fact-based corporate decision-making.

Third, not only the questions but also the *methodologies* of academic research and the availability of (internationally comparable) data have advanced significantly. Although we still face challenges in data collection about large complex firms operating across national boundaries as well as on the new and emerging organisational forms, there is a much larger empirical basis for our research than some decades ago.

Several academic journals have dedicated special issues to the broad theme of CHQ, for instance, *Management International Review* ([Ambos and Mahnke, 2010](#)), the *Journal of International Management* ([Ciabuschi et al., 2012](#)) and, most recently, the *Journal of Management Studies* (forthcoming) – all focusing on headquarters' roles in multidivisional and multinational firms. A number of articles have provided comprehensive reviews of evolution in the field (e.g. [Ambos and Mahnke, 2010](#); [Menz et al., 2015](#); [Ciabuschi et al., 2012, 2015](#)). Thus, our aim was not to provide another review, but to take a fresh look at past research published in LRP and to reflect on their ideas, contexts and findings from today's perspective.

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