How to assess the corporate parenting strategy? A conceptual answer

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Introduction

There is a considerable stream of research claiming that multi-business companies are at a valuation disadvantage compared to their focused peers. Empirical studies show, however, that valuation discounts of diversified firms vary strongly by region, over time, and especially by company sample (Palich *et al.*, 2000). For example, in a recent study The Boston Consulting Group and HHL – Leipzig Graduate School of Management analyzed more than 1,100 diversified and focused companies over the period from 2005 through 2009 and found that the average conglomerate discount in Western Europe and North America shrank to −6.0 percent and −7.2 percent, respectively. In the Asia-Pacific region, a very small average conglomerate discount was transformed into a conglomerate premium (Beckmann *et al.*, 2012). Overall, the study found that more than 50 percent of the companies in the sample had a conglomerate premium by 2009. This supports the conclusion of many observers that it is not so much the degree of diversity that drives the value of a company but rather the way this diversity is managed by the corporate parent – its corporate parenting strategy.

But how can the parenting strategy of a corporate parent be described and analyzed? This paper tries to answer this question by outlining a comprehensive theory-based framework of parenting activities that may add or destroy value to the businesses in the corporate portfolio. The framework can also be used by corporate practitioners to understand the current implicit parenting strategy of their company, assess its performance and adjust it for improving the net corporate value creation.

The theoretical foundation of the framework is the concept of parenting advantage as presented by Goold *et al.* (1994). The concept claims that a company should strive to be the best possible owner for the businesses in its portfolio, or sell them at favorable terms to a better owner. In order to achieve parenting advantage, the characteristics of the corporate parent must be compatible with the critical success factors of the businesses and their specific needs. In this way, parenting advantage should determine in which operational activities a company invests its financial and managerial resources and how the corporate parent influences the business units under its control.

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, and became a major component in MBA curriculums at most international business schools. Several academic studies demonstrated that the concept is relevant for strategy formulation, corporate governance, and portfolio management at corporate level (e.g. Sadtler, 1999; Junnonen, 1998; Moore and Birtwistle, 2005; Mishra and Akbar, 2007; Kruehler and Pidun, 2011). However, its broader application has not lived up to expectations. We assume that this is mainly due to the fact that the concept has not been sufficiently operationalized to the level of specific value-adding activities.

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This paper aims to close this gap. To this end, we will:

- concretize the concept of parenting advantage by identifying specific corporate activities that add or destroy value; and
- summarize and systemize all activities in a holistic framework for assessing the implicit parenting strategy of a given company.

We thus lay the conceptual basis for defining the specific parenting advantage of a multi-business firm and for identifying and evaluating consistent and effective corporate parenting strategies in management practice.

What is the parenting advantage concept?

In the 1990s, Goold, Campbell and Alexander introduced the parenting advantage concept as a guideline for strategic decisions at the corporate level. The concept is meant to serve as an aid in selecting and managing businesses. 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 theories of competitive strategy (Porter, 1985) and the role of the center (Chandler, 1962).

The concept of parenting advantage is clearly distinguished from the widely known concept of core competencies (Prahalad and Hamel, 1990). Goold *et al.* criticize the core competence theory's sole focus on technical or operative core competencies and the resulting failure to deliver practical guidelines for the formulation of an overall company strategy and inability to explain the existence of successful 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 original 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.

The key prerequisite for the corporate parent being able to create value for its businesses is the fit between its characteristics and the needs of the businesses. Since the individual sub-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.

There are a variety of studies within strategic management research discussing the impact of corporate headquarters activities (value adding as well as loss preventing) and the effect of different parenting approaches (e.g. Collis *et al.* 2007; Van Oijen and Douma, 2000; Hill,

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1988; Doz and Prahalad, 1984; Bower, 1970). Most of them use exploratory research methods and refine through their empirical results our current understanding of different headquarter strategies. However, we could not find published research in the strategic management and corporate strategy literature that describes what an appropriate framework for specifying a corporation's parenting advantage could look like and how to conceptually determine consistent and effective parenting strategies.

Holistic framework for assessing corporate parenting strategies

We define a corporate parenting strategy as the consistent and effective combination of value creating activities, resulting either from direct corporate parent activities or from the composition of the portfolio (interactions between businesses without direct intervention of the corporate parent). 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 businesses as well as the compositional/horizontal one among the various business units. Only the explicit and balanced consideration of both sources allows a comprehensive picture of value added and value destroyed in a multi-business company to be drawn.

R1. The framework should incorporate both the direct/vertical and the compositional/horizontal perspective on value creation.

The original concept of parenting advantage considers not only the value creation by the corporate parent but also the value-destroying effects of its activities. 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. 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, potential synergies from joint activities and shared resources must be compared to the value-destroying effects of horizontal interactions, such as rising complexity from coordination between business units. The consideration of both perspectives determines the total effect for individual business units from being part of the portfolio.

R2. The framework should incorporate value-adding activities as well as the occurring value-destroying effects on all organizational levels.

The third prerequisite of an effective framework is to consider strategic as well as operational types of value-adding activities and value-destroying effects. 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 (operational activities). The same applies to horizontal interactions that can be operational or strategic as well.

R3. The framework should incorporate strategic and operational types of value-adding activities and value-destroying effects.

The three requirements translate into a three-dimensional framework for assessing parenting strategies. The framework distinguishes the origin of the activities (direct/vertical vs compositional/horizontal), their impact (value-adding vs value-destroying), and the activity type (strategic vs operational), resulting in eight fundamental levers of the parenting strategy of a multi-business company (Figure 1). In the following, we will operationalize the framework by describing the specific corporate activities that lay behind the eight parenting levers. This operationalization is based on a comprehensive review of the relevant literature in the fields of corporate diversification, transaction cost economics, internal capital markets, resource-based view, economies of scope and corporate organization.

Operationalization of the framework

Strategic guidance and support

Corporate parents may add value to the business units by fostering better strategic decisions than business units as stand-alone entities individually exposed to capital markets (Bowman and Helfat, 2001). Choosing the right degree of strategic guidance is essential for company performance, because a poor choice can lead to detrimental strategic advice or undermine entrepreneurship.

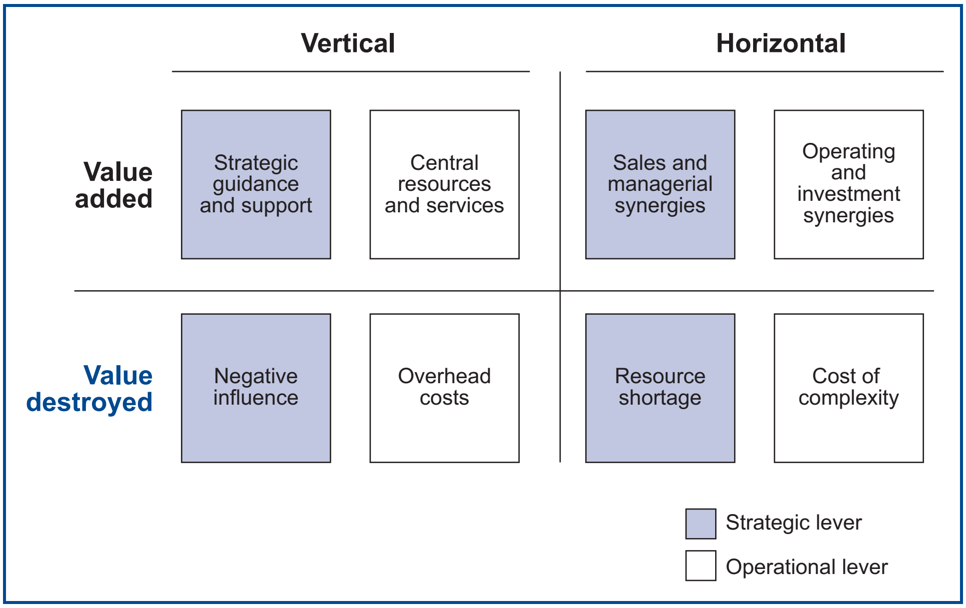
Strategic direction. Corporate parents may add value to business units by providing them with a superior overall strategic direction. They can create a specific business vision, formulate top-down objectives, and design a superior development roadmap to gain competitive advantage and improve market position, income and value creation potential (Doz and Prahalad, 1984).

Strategic expertise. Business units may be supported by the corporate parent with specific strategic expertise. This involves three aspects:

1. Transfer of methodical competences, for example, regarding the strategic planning process, scenario planning techniques, or capital expenditure reviews (Chandler, 1991).
2. Sharing of industry-specific expertise, for example, regarding market trends or strategic success factors.
3. Support with experience in specific strategic situations and challenges, for example, the internationalization of businesses or the introduction of new product innovation processes.

Business development and growth. Corporate parents may add strategic value to businesses by providing support on business development and the management of growth. They may leverage their capabilities in order to actively promote merger and acquisition

Figure 1 Three-dimensional framework for assessing parenting strategies



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).

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 (''smarter-money'' effect). Two mechanisms 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 (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''; Stein, 1997).

Protection from capital markets. 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).

Performance monitoring. Corporate parents may add value to the business units by closely monitoring their performance with diligence and at a level of detail that is 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 (Rappaport, 1990).

Operational improvement. Corporate parenting may add value to business units by helping to significantly improve the operational performance through interference in ongoing business activities. The corporate parent can use formal authority to replace weak-performing business unit managers (Barker *et al*., 2001), guide single business units through turn-around processes, improve internal processes to optimize and synchronize total supply chain, and utilize initiatives and objectives to align overall performance.

Synergy fostering. Corporate parents may add value by actively fostering cooperation between the business units, trying to support the realization of horizontal synergies. They may promote joint operations, marketing and sales activities or research and development efforts, but also encourage the informal sharing of internal knowledge, business-related experiences, and personnel talent through more efficient interactions (e.g. initiate corporate initiatives: Goold and Campbell, 1998).

Negative influence

Corporate parents can also harm the business units in the corporate portfolio, resulting in worse or more expensive overall strategic decisions than those made by units as stand-alone entities.

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 an insufficient understanding at corporate level of the strategic success factors and the specific market rhythms of the business units. As a consequence, group-wide synergy initiatives, for instance, fall short of corporate management's expectations, target savings fail, and maximum value is not reached (Goold and Campbell, 1998).

Managerial entrenchment. Corporate parents may destroy value for business units by using the company's internal cash flows to keep unfavorable projects alive, 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

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skills increases, and frequently the result are large, mostly inflexible diversified portfolios (Westphal, 1999).

Empire-building. Businesses 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). Executives may be less interested in the future success of the company, but pursue growth and expansion to increase their own influence within the company (Shin and Stulz, 1998).

Risk aversion. Corporate parents may destroy value by favoring corporate risk diversification over value creation. In this case, the fundamental motivation of corporate executives is to reduce their own employment risk by diversifying the portfolio in order to make operational cash flows less volatile and dependent on one single industry or market segment (Amihud and Lev, 1981).

Lack of performance pressure. The downside of the protection from capital markets 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 (Rajan *et al.*, 2000).

Lack of motivation. Business unit managers may suffer from a lack of motivation and wrong incentives due to constant interference by corporate executives, for example, central overruling practices and generally low decision-making authority at business level. Reduced motivation and misguided incentives are especially common for business units with a weak profit forecast (Brusco and Panunzi, 2005).

Central resources and services

In addition to strategic guidance, 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.

Corporate assets. Business units in the corporate portfolio may benefit from central assets provided by the corporate parent. Joint marketing across various business units based on a well-known corporate brand or reputation may increase the growth potential of the individual business units, provide orientation for employees and customers, and improve overall market penetration. Also, a specific patent or technology can be the particular rent-yielding resource for the business units in the corporate portfolio.

Management capabilities. Corporate parents may provide superior management capabilities to 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 (Grant, 1991; Wernerfelt, 1984). The ability to transfer and leverage these capabilities from corporate to business level is a key success factor and significantly determines the competitive advantage, sustainable profits, and the value creation potential of the strategic business units in particular (Barney, 1991).

Central functions. Businesses 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. 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 (Yavitz and Newman, 1982).

External funding. Multi-business companies are ideally positioned to more easily acquire external capital at lower interest terms than comparable stand-alone competitors (''more money'' effect: Lamont, 1997). This effect stems from the relatively low correlation among the cash flows of 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).

Internal funding. 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 (Shin and Stulz, 1998).

Tax optimization. Corporate parents may add value to 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.

External reporting requirements. Business units benefit from a reduced effort to meet external reporting requirements due to consolidated disclosures (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.

Labor market advantages. Businesses 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). 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.

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.

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 *et al.*, 1995).

Costly charges. Corporate parents may destroy value of 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

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contractors. Value destruction for the business units may be expressed in price differences or inferior service levels (Van Oijen and Douma, 2000).

Additional resources. 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, 2002).

Inward focus. Corporate requirements do not only cause additional personnel costs at business level, but may also prevent the heads of 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.

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).

Sales and managerial synergies

The first type of compositional/horizontal 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.

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 (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. In addition, revenue synergies can come from cross-selling products and services to the same customer base (sale of complementary goods) or from increasing the effectiveness of customer acquisition and loyalty programs.

Capabilities and experiences. Business units may benefit from sharing capabilities and market-related knowledge. 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. Mechanisms to achieve this may involve the leveraging of market experiences, internal benchmarking, or best-practices sharing through knowledge management (Tanriverdi and Venkatraman, 2005).

Joint development of strategic assets. 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

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business units to build new strategic assets more quickly and efficiently than their competitors – which will finally lead to sustainable supernormal profits.

Mutual forbearance. 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.

Resource shortage

Horizontal linkages may not only add value to the involved units – they can also have negative influences on profitability and value creation.

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.

Cross-subsidization. Businesses 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 incentives may be financed from operational cash flows of the other businesses, which stretches their profitability, and establishes the intended cross-subsidization, but leads to value destruction for high-performing units (Rajan *et al.*, 2000).

Portfolio role. 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.

Operating and investment synergies

The second type of compositional/horizontal value-adding activities that emerged from our review of the relevant literature can be summarized as operating and investment synergies.

Economies of scope. Business units may benefit from economies of scope due to cooperative operations within an integrated value chain. 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: Teece, 1980).

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

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).

Purchasing power. Businesses 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).

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. 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.

Additional internal coordination. 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).

Tactical maneuvers. Businesses 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 (without creating value for the overall company) are called influence costs (Milgrom and Roberts, 1988). If a corporate parent takes organizational measures to avert tactical maneuvers and to control the influence costs of the business units, this may also lead to additional costs.

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. In addition to the resultant direct costs, these internal power struggles may lead to wrong corporate decisions for individual business units due to the influencing activities of their peers. Similar to the inward focus caused by the corporate parent, struggles among business units can prevent them from focusing their attention on the market, competition and value creation (Gupta and Seshadri, 1994).

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Contributions

The major attempt of this paper is to give a conceptual answer to the question on how to describe and assess corporate parenting strategies. To this end, we developed a three-dimensional framework that accounts for:

1. direct/vertical as well as compositional/horizontal effects;
2. value added activities as well as their potential value destroying effects; and
3. strategic as well as operational activities.

In this way, we contribute to management theory by advancing and complementing the original parenting advantage concept.

We operationalized the resulting framework of eight core levers of a corporate parenting strategy by assigning and describing a broad set of individual activities for each of the levers, based on a comprehensive review of the relevant finance, strategic management and organization literature. The developed concept can be used by corporate practitioners to better understand the current implicit parenting strategy of their company, assess its performance and adjust it for improving the net corporate value creation

Which fields of application are conceivable?

Survey instrument. Our framework can be easily applied as a diagnostic survey instrument for corporate executives. Senior managers can be asked for their assessment of the relevance of the different value-adding and value-destroying activities in their company. Using commonly known questionnaire techniques and data analyses methods a strong picture of the key sources of value added, the implicit corporate parenting strategy, and its overall performance will result.

Table I Operationalization of the parenting strategy framework

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

Value creation audit. If this survey instrument is employed among a broader sample of managers from the corporate center as well as from the business units it can be used for a representative value creation audit. Such an exercise will reveal potential areas of conflict where the corporate center and the business units have diverging views on the value of parenting activities. However, it may also point to corporate activities that business units currently miss and that may improve the overall value contribution by the center.

Corporate parenting strategies. The developed framework can also be the basis for the derivation of a typology of corporate parenting strategies. We define a corporate parenting strategy as the consistent and effective combination of the value creating activities that we summarize in Table I. If we have data on the relevance of the different activities for a sufficiently large number of companies we can use the framework to identify patterns of activities that work together and assess their relative performance. This will improve our understanding of performance differences of multi-business firms and may finally contribute to solving the puzzle of the conglomerate discount.

Keywords:
Corporate strategy,
Parenting advantage,
Multi-business firm,
Parent companies,
Performance measures

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