Gordon Institute of Business Science
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Value-creation by corporate parents in multi-business firms: Assessing effectiveness and congruence

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ABSTRACT

This study used an exploratory case study of a diversified multi-business firm operating in the South African food and agricultural sector to evaluate whether subsidiaries perceived that the corporate parent created value in the multi-business portfolio and to analyse the extent of congruence across the firm with respect to value-creation. The study's research objectives were addressed using the triangulated perspectives of corporate-level executives and their subsidiaries.

It was found that the corporate parent in the case multi-business firm created value for subsidiaries and that this value was largely delivered through the its vertical influence mechanisms. While scholars have highlighted the importance of horizontal influence mechanisms in parental value-creation, the study found that the corporate parent placed little emphasis on these influence mechanisms. With regard to the second research objective, the study evaluated the extent to which there was strategic congruence across the multi-business firm. Though significant alignment was found between the parent's value-creation corporate strategy and the structures that prevailed in the firm, uncertainty regarding the limits of subsidiary autonomy posed a risk to future strategic implementation.

Numerous scholars have lamented the lack of theoretically-sound tools to assess the performance of corporate parents in multi-business structures. The primary contribution of this research was the construction of a value-creation composite index which allows researchers to drill further into concepts of corporate strategy when assessing value-creation by corporate parents

KEYWORDS

Multi-business Firms, Corporate Parents, Strategic Congruence, Value-creation

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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CHAPTER 1. INTRODUCTION TO THE RESEARCH PROBLEM

1.1 CONTEXT OF THE STUDY

Multi-business firms are business groupings that comprise a portfolio of operating entities synchronised by a corporate parent which acts as the corporate headquarters and intermediary between internal and external markets (Chandler, 1991; Menz, Kunisch, & Collis, 2015). Given their responsibility for the important tasks of market intermediation, portfolio management and overall resource allocation in the firm, these corporate parents have become critical for the creation of value in large businesses (Menz et al., 2015).

With increasing diversification and globalisation, these large and complex firms have also become the dominant organisational form of business around the world (Castellaneta & Gottschalg, 2016). By 2012, multi-business firms had generated global revenues in excess of $57 trillion which represented 90% of the global Gross Domestic Product (Dobbs et al., 2013). Dobbs et al. (2013) further highlighted that the dominance of these firms was expected to grow as global revenues generated by multi-business firms was estimated to reach $130 trillion by 2025. While the multi-business firm was historically a developed market phenomenon, Ramachandran, Manikandan, and Pant (2013) noted the rapid rise of multi-business formations in emerging countries noting that in India and China, these firms accounted for 45 and 20 of the 50 largest entities respectively.

In South Africa, data from the Johannesburg Stock Exchange (JSE) shows that all 40 of the largest listed companies by market capitalisation were organised as multi-business firms (FTSE Russell Publications, 2018). These companies collectively constitute 80% of the total market capitalisation of JSE-listed companies (Klein, 2017).

As the popularity of multi-business firms has continued to increase, so too has investor scrutiny and scepticism of this type of businesses (Ramachandran et al., 2013). While it was generally accepted that multi-business structures were efficient vehicles for expansion and diversification, recent failings of multi-business firms have called into question the ability of these large and complex structures to create shareholder value (Pidun, 2017). Greater transparency on the part of multi-business firms has been demanded by investors and as a result, these firms are now compelled by international accounting standards such as International Financial Reporting Standard (IFRS) 8, to disclose the financial performance of each component of the firm.

While these accounting standards allow investors to measure the value created by subsidiaries and the multi-business firm as a whole, no standardised mechanism exists to assess the performance of corporate parents and their effectiveness as stewards of the subsidiaries in their portfolios (Kruehler, Pidun, & Rubner, 2012). The lack of credible methodologies to assess the performance of corporate parents has led to increasing speculation on the causes of multi-business failures as well as frequent changes of corporate parent-level executives to whom such failures have been attributed (Goold, Campbell, & Alexander, 1998). Goold et al. (1998) agree that although in some instances, multi-business failures may be traced back to ineffective corporate parenting, in some cases, complex corporate governance structures and significant subsidiary autonomy render the effects of corporate parenting negligible. In these latter cases, Adner and Helfat (2003) found that market effects and operational inadequacies had greater impacts on overall firm performance and failure.

The above-highlighted issues raise two critical questions: 1) What role do corporate parents play in multi-business structures and 2) Given that corporate parents incur costs in performing their parental duties, how should the performance of corporate parents be assessed? In addressing the first question, Porter (1987), supported by Chandler (1991) and Campbell, Goold, and Alexander (1995b); argued that the primary role of corporate parents was to create value to the businesses under their stewardship. As such, in addressing the second question, this study sought to be assess the performance of corporate parents against this primary role of value-creation. Objectively assessing the effectiveness of corporate parents in creating value to subsidiaries will not only allow for more holistic assessments of multi-business performance, it will also facilitate swifter and more accurate root cause identification in instances of multi-business failure.

1.2 THE RESEARCH PROBLEM

While investors are often quick to attribute the successes and failings of multi-business firms to executives in corporate parenting structures, scholars still appear unconvinced on the extent to which corporate parents influence the performance of their subsidiaries (Campbell, 2017). As such, the measurement of corporate parenting effects has been a prominent area of focus in academic research. Despite significant research on the effects of corporate parenting, Kruehler et al. (2012) still lamented the lack of tools for the assessment of performance by corporate parents towards the firm’s subsidiaries.

In an attempt to quantitatively measure the performance of corporate parents, researchers including Roquebert, Phillips, and Westfall (1996), Chang and Hong (2002) and Nell and Ambos (2013) conducted studies aimed at drawing causal links between the activities of corporate parents and the financial performance of their subsidiaries. While these studies contributed to the advancement of diversification theories, their empirical findings have been criticised by Kunisch, Menz, and Ambos (2015) and Castellaneta and Gottschalg (2016) among others on the basis of incorrect alienation of corporate parenting effects from the whole and the narrowness of their scopes.

These cynics argued that complex organisational structures prohibited the isolation of parental activities in a manner suited to the causative studies conducted by Chang and Hong (2002) and Nell and Ambos (2013). Kunisch et al. (2015) and Castellaneta and Gottschalg (2016) further contended that assessments of the extent to which corporate parents create value must extend beyond the financial metrics of subsidiaries given the broad aims of modern firms which include sustainability and innovation. Campbell, Goold, and Alexander (1995a) also highlighted that in assessing a subjective construct such as “value”, it was important to evaluate value-creation from the perspective of the receivers of value which are the revenue-generating subsidiaries in multi-business firm. In other words, to assess if a corporate parent is indeed creating value, it must be perceived by its subsidiaries to be creating value (Campbell et al., 1995a).

Despite ongoing debates in the academic fraternity regarding the assessment of corporate parenting effectiveness; multi-business structures and their corporate parents continue to permeate the rapidly-changing business landscape, often with undesirable results. Ramachandran et al. (2013) highlight that notwithstanding the popularity of the multi-business formation, in many companies, the mechanisms appropriate for value-creation by the corporate centre are little-understood and thus seldom assessed. Cusumano, Kahl, and Suarez (2015) speculate that it is perhaps the lack of focus on the assessment of parenting effects that has contributed to the much-publicised instances of multi-business firm failings and value-destruction in recent years. As evidence of this widespread value destruction, Ramachandran et al. (2013) cite the increasing prevalence of large diversified companies with market values that are lower than their sum-of-the-parts values. Campbell et al. (1995a) also refer to anecdotal evidence of instances where the corporate parent’s interventions have caused subsidiary managers to make incorrect decisions which have led to wide-spread resentment by these managers toward their corporate parents. In many of these instances of value-destruction, Campbell et al. (1995a) cited that corporate parents were often unaware of their impact and exhibited unconscious biases regarding their own value-creation. This, according to the scholars, perpetuated the cycle of value-destruction by corporate parents in multi-business structures.

1.3 AIMS AND OBJECTIVES OF THE STUDY

Noting the importance of multi-business firms and their corporate parents in the global economic landscape, and with cognisance of the challenges associated with the assessment of parental effects, this study had the following objectives:

Objective 1: To assess value-creation by the corporate parent from the perspectives of its subsidiaries who are deemed to be the recipients of such value

Objective 2: To assess the extent to which there is congruence across the multi-business firm regarding value-creation by the corporate parent

1.4 RESEARCH MOTIVATION

Kruehler et al. (2012) emphasised the importance of continuously measuring the effectiveness of corporate parents in creating value and thus having a mechanism of holding corporate parents accountable for their role in the multi-business structure. In contrast to earlier-mentioned studies (Chang & Hong, 2002; Nell & Ambos, 2013; Roquebert et al., 1996) which aimed to measure parental value-creation by drawing causal links between the financial performance of subsidiaries and the monitoring activities of the corporate parent, this study adopted a broader approach and sought to assess value-creation from the perspectives of subsidiaries while also taking into account the role of the corporate parent in providing a conducive environment for profit-generation by subsidiaries.

Given the concern raised by Campbell et al. (1995a) regarding the unconscious biases exhibited by corporate parents regarding their own value-creation, there was also a need for the study to assess the extent to which there was alignment between the corporate parent and its subsidiaries regarding parental value-creation

1.4.1 Academic contribution

Noting the knowledge gaps highlighted above, this study focused on value-creation by corporate parents in multi-business firms by essentially assessing the efficacy of activities undertaken by corporate parents in creating value to the subsidiaries in their portfolio. In the research, an exploratory case study methodology augmented an extensive literature review to contribute to the existing body of knowledge regarding the role of corporate parents.

Despite the dominance of multi-business firms and the centrality of the corporate parent in the effective functioning of these structures, understanding regarding the assessment of value-creation by corporate parents remains fragmented (Nippa, Pidun, & Rubner, 2012). While there appears to be a general recognition that corporate parents should create value in multi-business structures, the measurement of such value-creation has received little academic attention (Kruehler et al., 2012).

In addition, research regarding value-creation by corporate parents is dated and knowledge in this area has advanced little since the ground-breaking work of Goold and Campbell on corporate parenting strategies in the 1990s (Ambos & Mueller-Stewens, 2017). While the work of these researchers has been instrumental in our understanding of the functioning of multi-business structures, Ambos and Mueller-Stewens (2017) highlight that much of their research was based on consulting insights with little emphasis on theory-building. Although more academic rigour has been applied by scholars investigating the role of the corporate parent in recent years, the existing body of research has, to date, not been able to answer the fundamental question of how the corporate parent's value-creation role can be measured. This frustration was echoed by Kruehler et al. (2012) who lamented the lack of a theoretically-sound framework for the assessment of value-creation by corporate parents.

In this study, the construction of theoretically-based value-creation composite index addresses the challenge of measuring value-creation by corporate parents. The construction of this framework is aided by the research's case study approach which provided for the use of multiple data collection techniques to triangulate the perspectives of the corporate parent and its subsidiaries with respect to value-creation. By so doing, the study augments the body of academic literature on corporate parenting by providing a basis for assessing corporate parent value-creation based on measures broader than the financial measures predominantly considered by researchers in this field.

1.4.2 Contribution to business

In multi-business firms, which now constitute the majority of large businesses globally, the most senior business leaders are positioned in the corporate headquarters. These leaders as attach thus great importance to the role corporate centre and its effect on the multi-business firm as a whole (Collis, Young, & Goold, 2007). As evidence of this, Kunisch et al. (2015) note the high frequency of major changes to the structure of corporate headquarters and found that over two thirds of large firms in North America and Europe had made changes to the corporate parent structures over a four year period. Collis et al. (2007) also note the tendency for newly-appointed Chief Executive Officers to make changes to corporate parenting structures within a few weeks of their appointment.

Given the emphasis that business leaders place on the corporate headquarter coupled with the increasing prevalence of multi-business firms, a focus on the value created by corporate parents has become vital. Natividad (2013) noted that while corporate strategy was a principal area of focus for corporate-level executives, the assessment of its effectiveness and its implications on firm structure was little-understood. As such, these executives often pursued strategies that were incongruent with the multi-business firm's stated objectives and ambitions (Natividad, 2013). To facilitate the assessment of corporate parenting and corporate strategy, this study constructs a value-creation composite index. This index quantitatively measures value-creation by corporate parents by deconstructing the vertical and horizontal influence mechanisms of corporate parents into specific activities. This deconstruction allows for the easy identification of shortcomings and the tracking of progress made in relation to corporate parenting.

1.5 SCOPE AND DELIMITATIONS

This study adopted a case study approach to the assessment of value-creation by corporate parents and employed both quantitively and qualitatively data to understand the perceptions of the corporate parent and its subsidiaries regarding parental value-creation at a point in time. The study's scope was limited to two mechanisms of corporate parent influence derived from a review of academic literature, namely, vertical mechanisms and horizontal mechanisms.

The study did not assess the financial performance of the case multi-business firm or analyse its positioning in relation to other multi-business firms. Additionally, the study was limited to one case of a diversified multi-business firm in the Food and Agricultural Sector in South Africa. This was adequate for the purpose of the study.

CHAPTER 2. LITERATURE REVIEW

2.1 INTRODUCTION

This study focussed on value-creation by corporate parents. In the study, this value-creation was assessed by firstly evaluating the effectiveness of the mechanisms employed by these parents and secondly, by analysing the extent of congruence across the multi-business with respect to value-creation. This Chapter contains a synthesis of dominant scholarly literature on corporate parenting and multi-business firms. The Chapter commences with a review of the evolution of multi-business firm structures, followed by a discussion on the overarching roles of corporate parents in these structures. This narrative is followed by a discussion on the mechanisms through which corporate parents create value. The Chapter then provides perspectives on strategic congruence in multi-business firms followed by a review of the challenges associated with the assessment of value-creation by corporate parents.

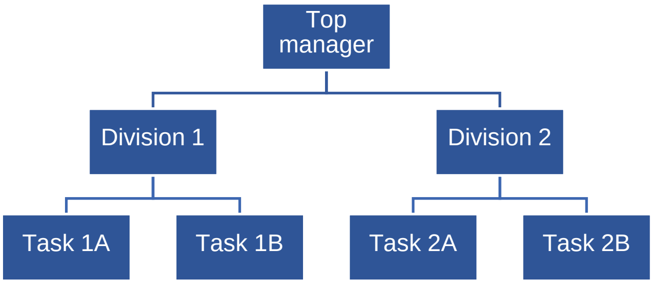
2.2 EVOLUTION OF MULTI-BUSINESS FIRMS

2.2.1 Origins of multi-business firms

One of the first authors to give academic prominence to the multi-business structure as an organisational form was Chandler in his 1962 study on the effective management of growing businesses and the decentralised corporate structures they often adopted. The author noted in the research on the evolution of business forms that structure followed strategy and that it was due to evolving corporate strategies that the multi-business structure became the dominant organisational form in modern business (Chandler, 1991).

Fruin (2009) highlighted that until the late nineteenth century, firms were simple, functional organisations with limited scope. With the emergence of transportation and communication technology brought about by the second industrial revolution, the production and distribution of goods accelerated and organisational structures had to evolve to facilitate mass production and widespread distribution (Fruin, 2009). Chandler (1991) described that it was in this period that the U-form (unitary form) as a type of organisational structure gained prominence as it allowed coordination, control and expansion into new markets. Qian, Roland, and Xu (2006) described the U-form as one characterised by complementary specialised units in a centralised administrative structure as illustrated in Figure 1.

Figure 1: U-form organisational structure

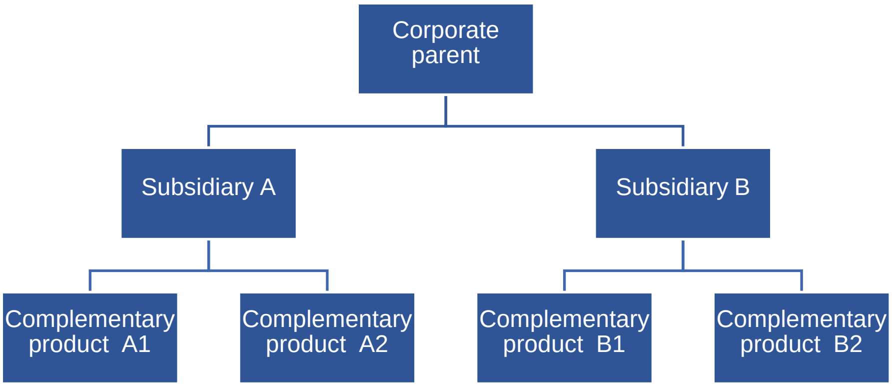


Adapted from Qian et al. (2006)

While the U-form had been sufficient in the post-Civil War period as expansion relied on production and distribution, Chandler (1991) noted that the advent of sophisticated communication technology led to rapidly-increasing geographical and product diversification. Such diversification, the author noted, placed strain on the coordination efforts of unitary enterprises as they found it difficult to respond timeously to large flows of information and to manage the increased complexity associated with decision-making (Chandler, 1991). In addition, the growth of firms necessitated additional hierarchical levels of control that would essentially allow senior executives to devote more time to strategic and long-range planning (Hill, Norton, & Pittman, 1985).

It was in response to these dynamics that Du Pont, General Motors and other firms began to explore the M-form (the multi-divisional form adopted by multi-business firms) as an organisational structure as, in contrast to the U-form, the M-form was decentralised and allowed for more responsive decision-making (Fruin, 2009; Johnston, 2005). Hill et al. (1985) highlighted that in the M-form, semi-autonomous operating divisions were created on the basis of product or geography. These operating divisions reported to a corporate parent that was responsible for long-range planning, performance monitoring and group-wide resource allocation (Hill et al., 1985). Multi-business firms arranged according to the M-form comprise a portfolio of diverse operating entities coordinated by a corporate parent which acts as the corporate headquarters and intermediary between internal and external markets (Chandler, 1991; Menz et al., 2015). Figure 2 provides an illustration of the M-form organisational structure.

Figure 2: M-form organisational structure



Adapted from Qian et al. (2006)

2.2.2 Balancing autonomy and collaboration

Like the diversified food and agricultural firm that is the subject of this study, most large-scale enterprises have adopted the M-form or variants thereof (Ambos & Mueller-Stewens, 2017). Proponents of the M-form argue that the dominance of this structure is a natural development for large firms as, in addition to providing for faster decision-making, the M-form also allows managers in the parent company to monitor the performance of subsidiaries separately and to rapidly expand into new markets by simply creating additional subsidiaries, at limited risk to established business units (Hill et al., 1985; Natividad, 2013; Williamson, 1975).

Despite the popularity of the M-form in academic literature pertaining to multi-business structures, Goold and Campbell (2003) stated that in practice, few firms were organised by what can be defined as a pure M-form and that in reality, firms adapted this form to accommodate inter-subsidiary linkages. These authors argued that while simple M-form structures had the advantages of enhancing accountability and speeding up decision-making, these structures were unsatisfactory in instances where the firm faced multiple dimensions of competition and where competitive advantage hinged on a combination of product excellence, customer focus and geographic responsiveness. In these instances, firms adopting the pure M-form risked focussing on one element of competitiveness at the expense of others and often failed to take advantage of internal networks that may enhance overall competitiveness (Goold & Campbell, 2003).

To mitigate the downsides of the pure M-form, some authors including Burton, Obel, and Håkonsson (2015) proposed the adoption of matrix structures when firms seek to implement strategies that involved balance and coordination across multiple dimensions of competition.

While Burton et al. (2015) argued that matrix structures were most appropriate for the modern diversified firm given their ability to accommodate increasing complexity, the authors conceded that many firms that had adopted these structures had struggled to obtain the benefits thereof as consensus-building was time-consuming and reporting lines were ambiguous. This limited the effectiveness of the matrix organisational form (Burton et al., 2015).

To alleviate the challenges posed by both the pure M-form and matrix structures, Goold and Campbell (2003) highlighted that in practice, most diversified firms had opted for a combination of the two models in what the authors termed “structured networks”. These authors stated that structured networks allowed for the retention of autonomy by subsidiaries while fostering extensive collaboration through voluntary networking between subsidiaries. This form of organisation, the authors argued, provided the structure, subsidiary autonomy and efficiency offered by the M-form while allowing firms to derive the benefits of interdependence offered by the typical matrix.

Literature on structured networks and network organisational designs by Goold and Campbell (2003) and more recently, authors such as Ambos and Mueller-Stewens (2017), Cusumano et al. (2015) and Snihur and Tarzijan (2017) places significant emphasis on the autonomy and self-management of individual subsidiaries; noting that central influence should be minimal and that inter-subsidiary networking should be self-managed rather than driven by the corporate parent. Kunisch (2017) noted the dominance of the structured network in today’s multi-business firms and highlighted that this emphasis on subsidiary autonomy and decentralisation had important implications for the understanding of corporate parents and their roles in the multi-business firm. From the literature reviewed, it is evident that scholars of organisational theory, particularly as it pertains to multi-business firms, place decentralisation of decision-making to subsidiary managers at the core of the network structure as these managers are deemed to have more knowledge about operational dynamics of their businesses.

The issue of centralisation was studied in great detail by Hungenberg (1993) who observed that few multi-business firms managed to find a suitable balance between centralisation and decentralisation. The author noted that this challenge was exacerbated by increasing acquisitive growth in multi-business firms and higher environmental pressures (Hungenberg, 1993). While highlighting the importance of corporate parents, Hungenberg (1993), much like Natividad (2013) noted the downsides of over-centralisation and central problem-solving.

These downsides included slower response times to environmental changes and sluggish innovation activity (Hungenberg, 1993).

2.3 THE ROLE OF THE CORPORATE PARENT IN THE MULTI-BUSINESS FIRM

2.3.1 Hands-on versus hands-off approaches to corporate parenting

The preceding section highlights the dominant thinking on the role of corporate parents in multi-business firms from an organisational design point of view. Organisational theorists appear to advocate maximum decentralisation and minimal interference by the corporate parent in the multi-business firms that follow the structured network on the basis of reducing costs associated with excessive hierarchies and the need to avoid bottlenecks from centralised decision-making. Collis et al. (2007); N. J. Foss (1997); Holmström Lind and Kang (2017) were critical of this view that corporate parents should adopt a "hands-off" approach in the multi-business structure. These authors advocated active parenting by the corporate centre (centralisation), highlighting that the view held by organisational theorists largely disregarded the importance of long-range strategic planning, coordination and resource allocation; all of which were tasks best carried out by the corporate parent given the portfolio-wide perspective of this component (Collis et al., 2007; N. J. Foss, 1997; Holmström Lind & Kang, 2017). While organisational theorists do support minimal corporate parental involvement, the criticism levied by their opponents is perhaps slightly iniquitous. Although the proponents of the "hands-off" and "hands-on" approaches to corporate parenting may appear divergent at first, both schools of thought do advocate at least some corporate parental involvement in the network of the multi-business firm. Goold and Campbell (2003) who were supporters of the "hands-off" approach to corporate parenting, highlighted that although subsidiary autonomy is considered to be fundamental to the effective functioning of the multi-business structured network, corporate parents do have a key role to play in enhancing the network structure but that such a role should be limited to carrying out tasks that subsidiary managers are ill-equipped to fulfil.

In this regard, it appears that there is consensus that the corporate parent should play a role in the operations of subsidiaries in its portfolio and that it should exert some influence on these formations. The point of debate however, is the nature of that role and thus, the extent to which the corporate parent should exert influence on subsidiary businesses.

2.3.2 The loss-prevention and value-creation roles of the corporate parent

In academic literature on corporate parenting, the roles of the parent company are extensively discussed and provide more substance to the “hands-on” versus “hands-off” debate. Authors of academic literature on corporate headquarters, multi-business firms and multi-national corporations articulate the roles of the corporate parent in two distinct categories: loss prevention and value-creation. These roles are described in the sections that follow.

Chandler's (1991) research on multi-business firms originally articulated three main roles of the corporate parent:

1. The coordination and integration of the output of subsidiaries;
2. The provision of centralised and specialised services; and
3. Allocation of resources and monitoring of performance.

Since this study, numerous authors including (Collis (1996), N. J. Foss (1997), Hungenberg (1993, and Pettifer (1998) have presented arguments for the refinement of these roles into what may be summarised as:

1. The performance of statutory functions;
2. The provision of central services such as centralised human resources management information technology and marketing; and
3. The creation value to subsidiaries.

Collis (1996) and Kunisch et al. (2015) argued that these roles of the corporate parent were rooted in different rationales. The first two roles were described by Chandler (1991) as loss-preventative while the author described the third as entrepreneurial. This third role has also been described as “value-creation” in more contemporary literature (Kunisch et al., 2015).

The loss-prevention or control role centres on the tasks that the corporate parent undertakes to prevent opportunistic behaviour by its subsidiaries and on the tasks linked to providing incentives that foster goal congruence throughout the multi-business firm (Chandler, 1991; N. J. Foss, 1997; Holmström Lind & Kang, 2017; Williamson, 1975). To this role, Collis et al. (2007) added the tasks of performance evaluation of subsidiary firms by the corporate parent. The loss-preventative role assumes that the corporate parent should automatically exercise control over its subsidiaries to prevent losses arising from the self-interest of subsidiary-level managers and information asymmetries (Collis et al., 2007). This largely administrative role assumes a top-down hierarchical association between the corporate parent and its subsidiaries; consistent with classical management theory that views the corporate headquarter as the strategic and higher level tactical decision-maker, and the subsidiaries as the executers of these decisions (Egelhoff, 2010).

The factors that commonly affect the efficacy with which the corporate parent is able to perform this loss-prevention role are often researched through the lens on agency theory. Kostova, Nell, and Hoenen (2017) argued that the agency theory perspective was theoretically appropriate for this purpose as the relationship between the corporate parent and its entities is essentially of an agency nature wherein the parent acts as the principal while the subsidiary acts as the agent. In the context of the multi-business firm, the principal (corporate parent) delegates decision-making to the agent (subsidiary) and this relinquishing of control by the corporate parent may lead to goal incongruence and information asymmetry (Kostova et al., 2017; Nippa et al., 2012). In the framework of agency theory, it is hypothesised that subsidiary-level managers are self-serving and that monitoring, together with the provision of incentives can foster greater goal congruence between the corporate parent and its subsidiaries (Jensen & Meckling, 1976; Kostova et al., 2017). This relational challenge may result in an agency problem which adversely affects the ability of corporate parent to effectively carry out the parenting aspects related to its monitoring role (Kostova et al., 2017). Thus Holmström Lind and Kang (2017) argued that the loss-prevention role of the parent company may be summarised as one of solving agency problems (Foss, 1997; Holmström Lind & Kang, 2017).

In contrast to the corporate parent's monitoring or loss-prevention role, academic literature on corporate strategy often highlights the more active value-adding role of the corporate parent (Campbell, 2017; Campbell et al., 1995b; Collis et al., 2007; K. Foss, Foss, & Nell, 2012; Holmström Lind & Kang, 2017). This includes coordinating functions that determine the development, allocation and deployment of corporate resources (Chandler, 1991). Ultimately, this value-creation role of the corporate parent entails the deployment of corporate-wide resources in a manner that converts them into distinctive competence (Campbell et al., 1995a). In line with a resource-based view of the firm, the corporate parent's effective performance of this role should result in enhanced competitiveness for the multi-business firm (Rumelt, 1991; Wernerfelt, 1984). This competitive advantage that is gained by the subsidiaries through the involvement of the corporate parent has been termed by Campbell et al. (1995b) as "parenting advantage". The concept of parenting advantage has enjoyed great support in contemporary corporate parenting literature and is premised on the requirement that the corporate parent must actively create value for its businesses by ensuring that its costs are offset by the tangible benefits that it provides (Ambos & Mahnke, 2010; Ciabuschi, Forsgren, & Martín Martín, 2017).

Contrary to the loss-prevention role of the corporate parent which assumes a top-down and control-based relationship between the parent and its subsidiaries, proponents of the value-creating role of the parent argue that corporate parents have no automatic right to intervene in the affairs of its subsidiaries and must continually justify their existence and ongoing stewardship of the businesses in their portfolios (Campbell et al., 1995b; Goold et al., 1998). In this justification, Porter (1987) noted that corporate parents must demonstrate that due to their contribution, their subsidiaries perform better under their ownership than they otherwise would. Hungenberg (1993) further highlighted that with increasing demands on organisations, the role of the corporate parent has evolved beyond the monitoring of subsidiaries and now entails value creation. The author also cautioned however, that with increasing internationalisation and a growing number of mergers and acquisitions ambiguity regarding the role of corporate parent has intensified (Hungenberg, 1993).

2.4 MECHANISMS BY WHICH CORPORATE PARENTS CREATE VALUE

The above section establishes two main roles of the corporate parent: loss-prevention and value-creation. In fulfilling these roles and thus influencing their subsidiaries, the corporate parent adopts various mechanisms of influence; vertical mechanisms and horizontal mechanisms (Nippa et al., 2012). It is through these mechanisms that corporate parents undertake various operational activities and decide on the financial and managerial resources to invests in (Kruehler et al., 2012). Both mechanisms are used by corporate parents to fulfil their loss-prevention and value-creation roles (Kruehler et al., 2012). However, as this research aimed to understand value-creation by corporate parents, this section explores the application of vertical and horizontal influence mechanisms as they relate to the value-creation role of the corporate parent.

Parenting literature highlights two ways in which a corporate parent can influence its subsidiaries. The first is through vertical intervention in individual businesses (as stand-alone entities) to improve performance, and the second is through horizontal coordination across several business units to create synergies (Landau & Bock, 2013).

2.4.1 Vertical influence mechanisms to create value

Through vertical mechanisms, corporate parents influence their subsidiaries with the aim of creating alignment to ensure the achievement of the organisation's overall goals (Cusumano et al., 2015). It is also through these mechanisms that corporate parents may add value to subsidiaries by monitoring performance (Kruehler et al., 2012). Goold, Campbell, and Alexander (1994) assert that it is this influence by the corporate parent on its subsidiaries as stand-alone entities that constitutes its most important role. It is thus unsurprising that in studies of the relationships between corporate parents and their subsidiaries, authors have placed great emphasis on the corporate parent's vertical influence mechanisms and the activities associated with such mechanisms. Goold et al. (1994) highlighted that vertical influence mechanisms typically include activities such as budgeting, capital expenditure planning and strategic planning. While seemingly mundane, Goold et al. (1994) stated that these activities are critical tools used by corporate parents to create value. Adding to this, Campbell et al. (1995b); Cusumano et al. (2015); Kruehler et al. (2012) noted that some corporate parents that have adopted a hands-on approach to corporate parenting expanded their vertical influence to include tasks such as the provision of shared services, the determination of marketing strategies, pricing decisions and human resources management (appointment of senior executive in subsidiaries).

In addition to the aforementioned activities associated with vertical influence, other authors have specified an array of other strategic activities undertaken by corporate parents to create value. These include:

1. Providing overall strategic direction such crafting the vision of the multi-business firm and setting top-down objectives for long-term value creation (Doz & Prahalad, 1984; Kruehler et al., 2012). The setting of top-down priorities is perhaps at the core of multi-business reasoning as it is assumed that the corporate parent is in control of its subsidiaries and that these subsidiaries, in turn, benefit from their membership in the corporate portfolio (Menz et al., 2015).

2. Leveraging the effect of coinsurance which describes the combining of cash flows from unrelated businesses to reduce cash flow variability and in turn increase the firms overall ability to access debt from capital markets to support long-term growth (Martin & Sayrak, 2003; Menz, Kunisch, & Collis, 2013). Landau and Bock (2013) noted that this role of the corporate parent is particularly relevant when subsidiaries lack financial resources and cannot obtain debt to pursue growth opportunities. Linked to this internal capital market activity, subsidiaries often benefit from internal cash-flows that may be used to bridge the short-term funding needs (Duchin & Sosyura, 2013).

3. Providing support to subsidiaries on activities related to acquisitions and growth in the form of strategic guidance and involvement in deal processes and implementation.

Kruehler et al. (2012) and Menz et al. (2015) highlighted that corporate parents often create value to subsidiaries through leveraging their capabilities and financial resources to actively promote activities related to business development such as mergers and acquisitions, and the pursuit of organic growth options. Owen and Harrison (1995) and Untiedt, Nippa and Pidun (2012) further highlighted the critical role played by corporate parents in the divestiture of non-core and poorly-performing assets to support the overall performance of the firm's portfolio.

4. Resource allocation using internal capital markets that have the ability to distribute available capital among subsidiaries more efficiently than external capital markets (Kruehler et al., 2012). Corporate parents achieve this efficient allocation by more accurately estimating future returns than internal investors and by using its views on future performance to reallocate capital away from stagnating subsidiaries towards future high performers (Nippa et al., 2012; Williamson, 1975). While studies have highlighted the corporate parent's role in capital allocation, Bardolet, Fox, and Lovallo (2011) cite that this process of resource allocation in multi-business firms can be undermined by the unconscious biases of corporate parents, leading to over-investment in under-performing businesses and under-investment in subsidiaries that perform well. The authors attribute these biases to the natural tendency to use even allocations as a starting point and insufficiently adjusting allocations due to differentiating factors.

5. Fostering synergies between subsidiaries through promoting joint operations and sharing of knowledge (Fernandes & Gonec, 2016; Kunisch, 2017).

In addition, corporate parents may, through their vertical influence, improve the operational performance of subsidiaries by participating in decision-making related to business activities and using their top-down authority replace poorly-performing managers, institute turn-around processes and reduce costs by efficiently providing shared back-office resources (Barker, Patterson, & Mueller, 2001; McBride, 2014). Through these interventions, corporate parents may also help to create a culture of administrative excellence throughout the multi-business firm (Wernerfelt, 1984).

Along with the strategic activities highlighted above, corporate parents also have at their disposal, operational levers to exercise their value-creating vertical influence. These relate to the provision of central services and resources to produce cost-savings across the multi-business firm. Central resources and assets provided by corporate parents include intangible assets such as brands and patents to enhance the competitive positioning of subsidiaries (Kruehler et al., 2012). Through centralising functions, corporate parents may also assist to multi-business firm's tax administration by combining the losses incurred by some units with profits by others and decreasing the burden of financial reporting by subsidiaries through undertaking consolidated reporting (Dischinger, Knoll, & Riedel, 2014; Kim & Tan, 2016).

Evidently, corporate parents exercise vertical influence in many different ways and while scholars have highlighted the benefits of this influence to subsidiaries, Goold et al. (1994) cautioned that vertical influence can also lead to value destruction. This, the authors argued, is usually the case when corporate parents impose unrealistic targets, inappropriately allocate internal resources or encourage wasteful investment (Goold et al., 1994).

2.4.2 Horizontal influence mechanisms to create value

The second way in which a corporate parent can influence its subsidiaries is through horizontal coordination. This mode of influence, also referred by Campbell et al. (1995b) as "linkage influence", is concerned with the creation of value by fostering cooperation between businesses in the portfolio and providing central functions and services with the aim of achieving economies of scale in the procurement of central services (McBride, 2014; Menz et al., 2013).

Kruehler et al. (2012) highlighted that horizontal influence mechanisms have two primary benefits: the achievement of sales and managerial synergies, and the enhancement of operating synergies. Kräkel and Müller (2015), building on the work of Ansoff (1965) described sales synergies as the increase in sales volumes as a result of the use of shared distribution channels and administration. The scholars further defined managerial synergies as the application of shared managerial resources to enhance decision-making and problem-solving (Kräkel & Müller, 2015). With respect to the achievement of sales synergies, Kruehler et al. (2012) noted the bundling of products and services to customers and the cross-selling of different products and services to the same clients as critical.

To achieve managerial synergies, Holmes, Hoskisson, Kim, Wan, and Holcomb (2018) and Kruehler et al. (2012) highlighted that capabilities, best practices and market knowledge may be shared among subsidiaries to obtain operational excellence and value-creation across the multi-business firm. Popli, Ladkani, and Gaur (2017) cited that cross-holdings across subsidiaries and interlocking directors are key mechanisms in the pursuit of managerial synergies. This emphasis on interlocking directorships was echoed by Singh and Delios

(2017) who found that in multi-business groups with interlocking directorships, subsidiaries were more likely to undertake bolder expansion initiatives which led to superior performance in the long-term. In addition to pursuing managerial synergies through the sharing of expertise, Kruehler et al. (2012) argued that multi-business firms should also aim to jointly develop rare and costly strategic assets in order to maintain a competitive over stand-alone competitors. By so doing, firms in the multi-business network were able to develop these assets at a faster rate and more cheaply than competitors.

The coordinated development and exploitation of strategic assets may also result in significant economies of scope and scale as greater integration in the value chain is achieved and fixed costs are distributed across related subsidiaries (Helfat & Eisenhardt, 2004). Further, the coordination of activities provides the multi-business firm with advantages with respect to the effective utilisation of production facilities and enhanced purchasing power (Kruehler et al., 2012).

Although scholars agree that corporate parents can create value through horizontal mechanisms, Pidun (2017) cited that it should be noted that the potential to create value through horizontal coordination is contingent on the relatedness of the multi-business portfolio with respect to both markets and the stage of business development. Linked to this assertion, Landau and Bock (2013) noted that value created through horizontal influence was considerably higher in related multi-business than in unrelated portfolios as more opportunities for the achievement of scale and scope economies existed.

While a number of authors cite the creation of horizontal synergies as key in the corporate parent's value-creation arsenal, Davies, Glaister, Gruca, Nath, and Mehra (1997) found that most multi-business firms are unsuccessful in deriving the desired competitive advantage from these synergies. The reason, the authors found, was that the conditions under which effective synergies arose were ill-understood and that although resource-sharing is a necessary condition in the creation of synergies, it is not sufficient (Davies et al., 1997). This implies that the mere sharing of corporate resources does not imply synergy. In order to create synergy from the sharing of resources, Davies et al. (1997) highlighted several preconditions relating to the nature of the resource. The first precondition is that the resource must be critical to the value chain of the organisation and that there should a direct correlation between the resource and the creation of output. Further, the resource must be flexible and strategically substitutable across multiple outputs and that the costs associated with coordination (e.g. managerial time and new organisational systems) should be low. Lastly, the authors indicate that the shared resources should be unique to the organisation and non-imitable if the objective is to achieve sustainable competitive advantage.

Linked to the assertions of Davies et al. (1997) regarding the failure of multi-business firm to achieve synergies, Goold and Campbell (2000) highlighted two factors that they deemed as “synergy killers” in multi-business firms. The first of these “synergy killers’ identified by Goold and Campbell (2000) was the perpetuation of individual performance management which disincentivised collaboration unless there was a short-term benefit. Goold and Campbell (2000) noted that to address this challenge, corporate parents had to employ a broader set of performance criteria and reward subsidiary managers that demonstrated team-work. The second “synergy-killer” defined by Goold and Campbell (2000) was the undermining of corporate-level staff by subsidiary managers. Though corporate-level staff members had a crucial role to play in coordinating activities across the multi-business firm, their efforts were often undermined by subsidiary managers who did not regard them as sufficiently knowledgeable in subsidiary-level affairs (Goold & Campbell, 2000).

2.5 CONGRUENCE IN MULTI-BUSINESS FIRMS

Grant (1995) made a distinction between competitive strategy and corporate strategy, based on activities undertaken at each level of the multi-business firm. According to the author, while the former deals with the manner in which an individual entity or standalone firm competes in a given market, the latter is concerned with the ways in which the corporate centre influences the businesses in its portfolio (Grant, 1995). Based on research conducted by Teece, Pisano, and Shuen (1997) on dynamic capabilities, Bowman, Ward, and Kakabadse (2002) defined four corporate strategies employed by corporate parents to create value in multi-business portfolios. These strategies are based on capabilities exploited by corporate parents and, the vertical and horizontal interventions undertaken by these parents in the multi-business portfolio (Bowman et al., 2002).

The four corporate strategies defined by Bowman et al. (2002) were financial control, scale, leverage and creativity. The authors cited that each corporate strategy was characterised across four main dimensions: 1) the extent of subsidiary autonomy, 2) measures used to measure the performance of subsidiaries, 3) the association between the corporate parent and its subsidiaries and 4) the level of coordination across subsidiaries in the multi-business firm (Bowman et al., 2002).

According to Bowman et al. (2002), in the financial control corporate strategy, the corporate parent aims to create value by setting and administering tough financial controls through a well-defined corporate governance framework to provoke learning. The scholars noted that in multi-business firms that had adopted the financial control strategy, subsidiary autonomy was high, interaction between the corporate parent and its subsidiaries was limited strategy and minimal cooperation across subsidiaries was observed. As key activities carried by corporate parents pursuing financial control as a corporate strategy, Bowman et al. (2002) highlight mergers and acquisitions and high-level strategic planning, activities both associated with vertical influence. The scholars noted that this strategy was common among diversified multi-business firms.

In the second corporate strategy defined by Bowman et al. (2002), scale, core resources and processes were consolidated within the structures of corporate parent company (headquarters) with the aim of achieving economies of scale across the multi-business firm. As these core resources were centralised, there was little need for subsidiaries to coordinate as they were only accountable to the corporate parent which provided close supervision (Bowman et al., 2002).

The third corporate strategy articulated by Bowman et al. (2002) was leverage which involved the replication of knowledge-based resources across the multi-business firm. Bowman and Ambrosini (2003) cited that parents that had adopted the leverage corporate strategy sought to extend the scope of resources created in some subsidiaries or in the corporate parent’s own to other subsidiaries or market domains. An example of a resource that could be leveraged in this manner is a strong brand that was controlled by the corporate parent and may be applied to a wider range of products, negating the need for individual subsidiaries to build their own brands at a high cost (Bowman & Ambrosini, 2003). Bowman et al. (2002) stated that the Leverage corporate strategy was consistent with high levels of autonomy with regard to strategic planning by subsidiaries, moderated by the requirement to adhere to standardised processes dictated by the corporate parent.

The last corporate strategy defined by Bowman et al. (2002) was creativity. The authors cited that with this corporate strategy, the parent encouraged and supported learning across its portfolio of subsidiaries. Bowman et al. (2002) noted that as the autonomy of subsidiaries was guided by organisation wide values related to collaboration and creativity, the role of the corporate parent was to provide leadership by incentivising behaviour consistent with the organisation’s values.

Bowman et al. (2002) noted that as each corporate strategy was distinct, each strategy required the adoption of differentiated structures and systems. These scholars cited that once a corporate parent had determined the corporate most appropriate for the multi-business firm, suitable structures and systems had to be adopted to ensure congruence across the multi-business firm. A failure to correctly align structures and systems to the dominant corporate strategy was likely to result in incongruence and ultimate value-destruction by the corporate parent (Bowman et al., 2002).

Bowman et al. (2002) define congruence in the context of multi-business firms as alignment between structures and systems, and the dominant corporate strategy. Linked to this, Campbell et al. (1995a) define congruence as an alignment between the perceptions of the corporate parent and its subsidiaries regarding the value-created by the corporate parent. Campbell et al. (1995a) cited that corporate parents were often unaware of their impact on subsidiaries and thus often exhibited unconscious biases regarding their own value-creation in the multi-business firm. This, according to the scholars, perpetuated the cycle of value-destruction by corporate parents in multi-business structures. To prevent value-destruction by corporate parents, Campbell et al. (1995a) emphasised that it was critical that corporate parents are aware of their influence on the subsidiaries in their control. Campbell et al. (1995a) highlighted that such awareness was key to value-creation as it allowed corporate parents to appropriately alter their parenting approaches or make decisions regarding the composition of their multi-business portfolios.

2.6 CHALLENGES IN ASSESSING THE VALUE CREATED BY CORPORATE PARENTS

Pidun (2017) highlighted that while it is now widely accepted that corporate centres must prove their right to exist by demonstrating value-creation, the author also noted the difficulty of assessing the extent of this value-creation. While scholars such as Campbell et al. (1995) and Porter (1987) have theorised that corporate parents have a significant impact on their subsidiaries and should thus aim to create value in their loss-preventing and explicit “value-creating” entrepreneurial roles, the results of empirical research on the effects of corporate parenting in a multi-business setting have been mixed.

Kunisch et al. (2015) highlighted that studies on the performance of corporate parents in multi-business firms have investigated causal relationships between the activities of corporate parents and outcomes such as entrepreneurship and innovation at the subsidiary level. Other studies such as those conducted by Collis and Montgomery (1998) and Collis et al. (2007) focussed on the determinants of the cost of the corporate parent with a view of determining parameters for the benchmarking of corporate costs. In their study, Collis and Montgomery (1998) found that direct costs of operating the corporate parenting structures in their sample constituted approximately 1% of overall revenue and recommended that as a minimum, investors benchmark the costs of corporate parents with the fees charged by other diversified managers. Kunisch et al. (2015) argued that while determining corporate costs was easy, measuring the benefits provided by the corporate parent to its subsidiaries was more difficult given the need to isolate the specific influence of the corporate parent in such an exercise.

Despite the challenge in measuring corporate parent performance, a number of studies have boldly attempted to determine, through various quantitative techniques, the link between the activities of the corporate parent and the performance of its subsidiaries. Nell and Ambos (2013) in a quantitative study on the value added by corporate parents to their subsidiaries found that corporate parents were indeed able to add value if they had sufficient knowledge about the important actors within their subsidiary networks. In addition, (Roquebert et al. (1996) in a study on the effects of corporate parents on firm profitability found that the corporate parent had a significant impact on financial performance in its subsidiaries. These findings were also supported by subsequent research of a similar nature conducted by Chang and Hong (2002), Natividad (2013) and others. Chang and Hong (2002) who found that corporate effects on firm profitability were significant in a Korean setting concluded that the observed divergence in the research findings related to corporate parenting effects was largely the result of variations in the size and maturity of businesses with many studies having been conducted in developed markets. The authors contended that corporate parenting effects were likely to be greater in developing markets where market inefficiencies were most prevalent.

The importance of distinguishing between different settings was also noted by Kruehler et al. (2012) who cited that although a number of studies have found that multi-business firms were at a financial valuation disadvantage in relation to more singular businesses, such discounts must be critically reviewed to take into account factors such as region and timeframe. In commenting on the widely-reported valuation discounts of multi-business firms, the authors argued that the it was the parenting strategy adopted by the corporate parent that determined the success of the multi-business enterprise as this determined the effectiveness of the diverse businesses in its portfolio (Kruehler et al., 2012).

Despite the above findings, Castellaneta and Gottschalg (2016) and other sceptics have highlighted that the financial benefits of corporate parenting be overstated in academic literature. These sceptics of the use of finance-based quantitative techniques highlight the financial success of several businesses under the stewardship of seemingly inactive corporate parents as well as the failure of some businesses despite the implementation of a theoretically sound corporate parenting strategy. In addition, as highlighted above, findings emanating from empirical research on the impact of corporate parenting have produced mixed results. Rumelt (1991) found that the profitability of the multi-business firm was largely attributable to business unit and industry effects (to a smaller extent) and that actions undertaken by the corporate parent were negligible. This view was supported by quantitative studies conducted by Hoskisson, Hill, and Kim (1993) which concluded that corporate effects on company performance did not exist.

As shown above, studies aiming to quantitatively assess the performance of corporate parents, particularly from a financial perspective, have produced inconsistent results. Critiquing the credibility of these studies, Kunisch et al. (2015) noted that this outcome was unsurprising given the difficulty of isolating the effects of the corporate parent when assessing overall financial performance. In support of this view, Ciabuschi, Forsgren, Martín Martín, et al. (2017) added that the application of financial performance measures to corporate parents were unlikely to be credible as it was empirically and conceptually impossible to demarcate the corporate parent entity within multi-business firms, particularly where complex structures were dominant.

2.7 GUIDING PRINCIPLES FOR THE ASSESSMENT OF VALUE-CREATION BY CORPORATE PARENTS

The challenges of quantitatively determining value-creation by corporate parents do not eliminate the need to assess the effectiveness of corporate parents in their parenting activities (Kruehler et al., 2012). As highlighted in Section 2.2.2, the primary role of the corporate parent is create value to the businesses in its portfolio of subsidiaries and Campbell et al. (1995b) argue that corporate parents should continuously assess the extent to which they are fulfilling this role. In the absence of such assessments, Campbell et al. (1995b) cautioned that corporate parents ran the risk of actually destroying value. Given the need to assess parental value-creation and the lack of credible quantitative techniques, how then does one assess value-creation by corporate parents? In addressing this question, research conducted by Bowman et al. (2002); Campbell et al., (1995a, 1995b) and Kruehler et al. (2012) is instructive and provides guiding principles on the construction of a tool to assess value-creation by corporate parents in multi-business firms.

Guiding principle 1: Value-creation by corporate parents must be assessed from the perspectives of its subsidiaries

Campbell et al. (1995b), echoing Porter (1987) emphasized that the corporate parent must continually justify its existence in the corporate portfolio by continuously adding value. This implies that the giver of value is corporate parent while the subsidiaries under its control are the receivers of such value. Thus, in assessing a subjective construct such as “value”, it is important to evaluate value-creation from the perspective of the receivers of value (Campbell et al., 1995b). In other words, if a corporate parent is indeed creating value, it must be perceived by its subsidiaries to be creating value (Campbell et al., 1995b). This implies that in order to assess value-creation by corporate parents, subsidiaries should be provided the opportunity to assess the extent to which parental activities create value in their enterprises.

Guiding principle 2: The financial performance of subsidiaries is not a good indicator of value-creation by corporate parents

Campbell et al. (1995b) supported by Castellaneta and Gottschalg (2016) further highlight that in assessing value-creation by corporate parents, measures of the financial performance of subsidiaries or the firm as a whole were inappropriate as financial performance was the result of value-creation or destruction by corporate parents given that these entities were not involved in the production of goods or services. This distant causal link between the financial performance of subsidiaries and the activities of the corporate parent further explains the divergence of empirical research results in studies attempting to financially quantify the impact of corporate parenting such as those highlighted in Section 2.5.

Guiding principle 3: The assessment of parental value-creation should incorporate both the vertical and horizontal mechanisms used by corporate parents to influence their subsidiaries

Further to the guidance provided by Campbell et al. (1995b) on the assessment of value-creation, Kruehler et al. (2012) noted that in order to evaluate the performance of corporate parents, one must first deconstruct their vertical and horizontal influence mechanisms into specific activities and then evaluate the effects of these activities as perceived by subsidiaries. This the authors indicated, would allow for more specific responses by subsidiaries and more rigorous analysis of parental value-creation (Kruehler et al., 2012). To facilitate this process, Kruehler et al. (2012) proposed a framework encompassing four elements relating to vertical and horizontal influence mechanisms: the provision of strategic guidance and support, the provision of central resources and services, the promotion of sales and managerial synergies and the promotion of operating synergies. These elements as well as their related parenting activities are discussed in this literature review. Table 1 provides a summary of the vertical and horizontal activities and outcomes associated with corporate parenting as detailed in this literature review.

Guiding principle 4: Congruence within multi-business firms is a prerequire for sustained value-creation by corporate parents

Bowman et al. (2002) cited that congruence in multi-business firms is a requirement for value-creation by corporate parents. The scholars asserted that congruence in multi-business firms is found when the corporate strategy is aligned to structures and systems that prevail in the firm (Bowman et al., 2002). Campbell et al. (1995a) noted that congruence in multi-business firms may also be determined by the extent to which there is alignment between perceptions of the corporate parent and its subsidiaries regarding the value-created by the corporate parent.

Table 1: Vertical and horizontal value-creation mechanisms of corporate parents

Influence mechanism	Theme		Corporate parenting activity or outcome at subsidiary level	Authors	Literature review section
Vertical mechanisms	Strategic guidance and support	1	Provision of strategic direction	Doz and Prahalad (1984), Kruehler et al (2012) and Markus Menz et al. (2015)	2.4.1
		2	Setting the overall vision for subsidiaries		
		3	Formulation of top-down strategic objectives for subsidiaries		
		4	Supporting subsidiaries with specific strategic expertise	Nell and Ambos (2013)	
		5	Actively promoting the merger and acquisition activities of subsidiaries	Markus Menz et al. (2015), Oehmichen and Puck (2016), Owen and Harrison (1995) and Untiedt et al. (2012)	
		6	Working with subsidiaries to develop new organic growth options		
		7	Helping subsidiaries to divest non-core or non-performing assets		
		8	Allocating the Group's resources effectively to promote growth	Holmström Lind and Kang (2017)	2.3.1
		9	Allowing subsidiaries to pursue long-term objectives due to the parent's protection from external capital markets	Martin and Sayrak (2003) and Stein (1997)	2.4.1
		10	Enhancing the operational performance of subsidiaries	McBride (2014) and Wernerfelt (1984)	
		11	Promotion of cooperation between subsidiaries	Fernandes and Gonec (2016) and Kunisch (2017)	
	Central resources and services	12	Providing benefit by providing central assets provided (for example brands)	Kruehler et al. (2012)	
		13	Promoting the use of centrally bundled services (e.g. IT, procurement) to realise cost advantages	Collis (1996) and Hungenberg (1993)	

		14	Providing short-term internal financing to avoid expensive external debt	Duchin and Sosyura (2013) and Landau and Bock (2013)	
		15	Offering a reduced cost of external funding	Kruehler et al. (2012) and Purkayastha et al. (2012)	
		16	Providing tax optimisation	(Dischinger et al. (2014) and Kim and Tan (2016)	
		17	Minimising external reporting requirements of subsidiaries due to consolidated disclosures		
Horizontal mechanisms	Sales and managerial synergies	18	Promoting cross-selling across subsidiaries to	Nippa et al. (2012)	2.4.2
		19	Promoting bundling of products to increase sales	Kruehler et al. (2012)	
		20	Promoting capability-sharing across subsidiaries	Holmes et al. (2018)	
		21	Promoting knowledge-sharing across subsidiaries		
		22	Promoting joint develop of new strategic assets jointly to gain an advantage over stand-alone competitors	Helfat and Eisenhardt (2004)	
	Operating synergies	23	Realisation of economies of scope by subsidiaries due to cooperation within the value chain	Helfat and Eisenhardt (2004)	
		24	Realisation of economies of scale by subsidiaries due to combined activities (can produce cheaper)	Kruehler et al. (2012)	
		25	Pooling production assets (e.g. manufacturing)		
		26	Realisation of cost advantages by subsidiaries due to combined purchasing power		

Source: Synthesis of academic literature

CHAPTER 3. RESEARCH QUESTIONS

3.1 RESEARCH OBJECTIVES

Based on the research problems articulated in Chapter 1 and the literature reviewed in Chapter 2, the study had two objectives:

1. To evaluate whether subsidiaries perceive that the corporate parent creates value in the multi-business portfolio

2. To analyse the extent of congruence across the multi-business with respect to value-creation by the corporate parent.

3.2 RESEARCH QUESTIONS

Baxter and Jack (2008) noted that research questions help to define the parameters of case study research. To address the objectives of the study, the following questions were compiled:

3.2.1 Research question 1: Do subsidiaries perceive that the corporate parent creates value in the multi-business portfolio?

As advocated by Campbell et al. (1995a), this research question was addressed from the perspectives of subsidiaries with the aid of a value-creation index which incorporated the vertical and horizontal influence mechanisms of corporate parents as advocated by Kruehler et al. (2012). The research question was addressed by first determining the activities undertaken by the corporate parent to create value to subsidiaries, followed by an evaluation of the extent to which subsidiaries perceive the corporate parent to be creating value.

3.2.2 Research question 2: Is there congruence across the multi-business firm regarding value-creation by the corporate parent?

Collis et al. (2007, p389) asserted that “structure follows strategy”. Linked to this assertion, Bowman et al. (2002) indicated that congruence in multi-business firms was found when the value-creation corporate strategy was aligned to the structures and systems that prevailed in the firm. To address this research question, the firm’s dominant value-creation corporate strategy was first assessed. This was followed by an analysis of the alignment between this value-creation corporate strategy and the structures and systems that are prevalent within the multi-business firm

CHAPTER 4. RESEARCH METHODOLOGY

4.1 INTRODUCTION

The study firstly aimed to assess evaluate the value created by corporate parent to the businesses in its multi-business portfolio and secondly to evaluate the extent of congruence across the multi-business firm regarding value-creation by the corporate parent. The literature reviewed in Chapter 2 revealed that addressing the study's dual objectives required multiple data collection methods, in-depth analysis across multiple levels of the multi-business firm and a triangulation of findings across several dimensions of the research. According to Yin (2009), studies structured in this manner were most aptly addressed through case study research. Yin (2009) indicated that case study methodology was well-established and widely-used in social science research. This approach has grown in reputation and is now regarded as effective in investigating complex issues in a real-world context (Harrison, Birks, Franklin, & Mills, 2017). Furthermore, as the case study approach relies on multiple sources as evidence, it is considered to be ideal in the holistic assessment of complex constructs (Harrison et al., 2017).

The research adopted an exploratory case study approach, using a single case (multi-business firm) with embedded units (subsidiaries). The use of a single case firm not only allowed the researcher to adhere to the guiding principles on the assessment of value-creation detailed in Section 2.7 within the allotted timeframe, it also allowed the researcher to control for variables such as portfolio relatedness which may introduce variability that limits triangulation.

In line the guidance of Yin (2003) on case study research, the study utilised two sources of evidence; surveys and semi-structured interviews. As such, data collection and analysis were guided by two sets of methodological principles. In this Chapter, the overall design of the study, the research approach and the unit of analysis are firstly discussed. Following this, a description of the methodology adopted in relation to the survey component of the research is discussed. This was followed by methodological details pertaining to the collection and analysis of interview data. The Chapter closes with a discussion of the ethical considerations applicable to this study as well as the methodological limitations of the research undertaken.

4.2 DESIGN OF THE STUDY

The design of the study was guided by Serfontein, Basson, and Burden (2009) in their case study research on entrepreneurial organisations. These authors indicated that with respect to case studies, three elements were to be articulated in describing the research design, namely the research approach, motivation for the use of a case study as well as the research methodology.

4.3 RESEARCH APPROACH

Research approach is described by Creswell (2013) as a philosophical worldview while Saunders, Lewis, and Thornhill (2012) describe research approach as a paradigm. Case study research approaches may be postpositivist realist, pragmatic constructivist, relativist constructivist or interpretivist (Harrison et al., 2017). This case study research adopted a postpositivist realist approach as it sought rivalling explanations rather than generalisability. In addition, an exploratory approach was adopted in line with the guidance provided by Yin (2003) who posited that such an approach was suited to situations in which the investigated phenomenon had no clear outcomes. For these reasons, the study did not make use of research hypotheses but rather posed the questions articulated in Chapter 3 to achieve the stated research objectives. This approach, proposed by Yin (2009), is appropriate for this study as it minimised subjectivity during the case research process.

4.4 MOTIVATION OF THE USE OF A CASE STUDY IN THE RESEARCH STRATEGY

In case study research, the researcher undertakes a detailed analysis of a case, often at the levels of programs, events, activities, processes or individuals (Yin, 2003). This research focused on a single case study with emphasis on determining (using survey and interview data) the corporate parent's value-creation from the perspectives of both subsidiaries and the corporate parent. The research then aimed to analyse the data received to evaluate the extent of congruence between the parent company and its subsidiaries with respect to value-creation.

Case study research designs are particularly useful in investigating contemporary constructs in their real-world setting when the borders between such constructs and the context are ill-defined (Rolland & Herstad, 2000; Yin, 2003). Darke, Shanks, and Broadbent (1998) indicated that in case studies, the aim is to obtain a deep understanding of phenomena for which little prior knowledge exists. Darke et al. (1998) further highlighted that case study research is beneficial in instances where theory is at its early stages, as is the case with parenting theory.

While scholars have investigated the impact of corporate parents, using varying techniques, in developed markets, Chang and Hong (2002) noted that parenting effects were likely to more pronounced in developing markets where markets were immature and market failures were prevalent. The literature reviewed thus provides motivation for a deep investigation of parenting effects in developing market contexts.

In addition to the ability to delve deeply into complex constructs, a major benefit of case the case study approach is its ability to obtain deep insights and accommodate the analysis of a larger number of variables than survey study approaches (Johnson & Stake, 1996). Given this, case studies are considered powerful theory-building tools (Johnson & Stake, 1996).

While recognising the benefits of the case study approach, some scholars have criticised the use of case studies in academic research citing difficulties in generalisation (Rolland & Herstad, 2000). Rolland and Herstad (2000) however provided a counter-argument to this pessimistic view of case studies. While Rolland and Herstad (2000) conceded to the challenges of statistical extrapolation from single or multiple cases, the author highlighted that in considering the validity of case studies one should consider aspects beyond statistical validity and also take into account interpretive merits. Expanding this argument, Rolland and Herstad (2000) asserted that generalisability and extrapolation from case study research depended not on representativeness from a statistical point of view but on the credibility and strength of the logical reasoning used in the description of results. The scholars thus refuted the argument that it was unscientific to draw generalisations based on case study research but clearly noted that such generalisations were different from statistical generalisations.

Darke et al. (1998) stated that in designing case study research, a comprehensive literature was a prerequisite to understand the existing literature and to frame the research questions in a manner appropriate to the context. In the case of this study, a comprehensive literature review was undertaken, and the results thereof detailed in Chapter 2. This review of the literature provided insight on the existing understanding of corporate parenting. The literature also provided guidance regarding the design of future research, cautioning against the blind use of quantitative techniques to establish causality between subsidiary performance and corporate parenting.

Case study research can take the form of single or multiple case studies. With regard to a single case study approach, Darke et al. (1998) highlighted the benefit of being able to investigate phenomena in depth and provide rich descriptions that are valuable for theory-testing and development. The study involved a single case with embedded units. Yin (2003) indicated that single case studies were appropriate when one sought to investigate the same issue (value-creation) across multiple units (subsidiaries and the corporate parent) within a single larger case which in the case of this research is the multi-business firm. The author posited that the power of this approach lay in its ability to facilitate within case analysis and cross-case analysis, leading to deeper insights.

Yin (2003) further noted that single case research was applicable where the case represented a critical case. Flyvbjerg (2006) define a critical case as one which has strategic importance relative to the overall problem. The author noted that critical cases displayed relevant elements that were typical to other cases using the logic that “If it is valid for this case, it is valid for all (or many) cases”. In identifying critical cases, Flyvbjerg (2006) notes that no universal methodological principles existed but advised that researchers should consider cases that would, by virtue of their characteristics, most likely confirm or refute existing theory.

4.5 THE RESEARCH SETTING (UNIT OF ANALYSIS)

In this study, the case company selected was considered typical of most multi-business firms as it followed the typical structured network organisational form and governance processes typical of multi-business firms in South Africa. The company has also followed a similar diversification strategy to other large diversified firms in South Africa. It was thus likely that the relationship between the corporate parent and its entities would be typical.

In selecting the case organisation, consideration was given to practicality in line with the guidance provided by Harrison et al. (2017). The study required the researcher to assess the same phenomenon at several levels of the same organisation to determine the extent to which there was alignment between the corporate parent and its subsidiaries with respect to parental value-creation. The researcher therefore had to control for multi-business organisational characteristics such as size and extent of portfolio relatedness while collecting data across the firm. The study further required access to executives at the highest levels of both the corporate parent and subsidiaries as these subjects were likely to have insight into the relevant strategic components of corporate parenting. As multi-business firms in South Africa tend to be large (having diversified over time), having access to multiple high-ranking executives within the same multi-business firm required significant corporate sponsorship and executive buy-in. The researcher, through discussions with the Chief Executive Officer (CEO) of the parent company obtained this buy-in and was unlikely to secure similar commitment from other corporate parent CEOs to pursue the cross-sectional study envisaged.

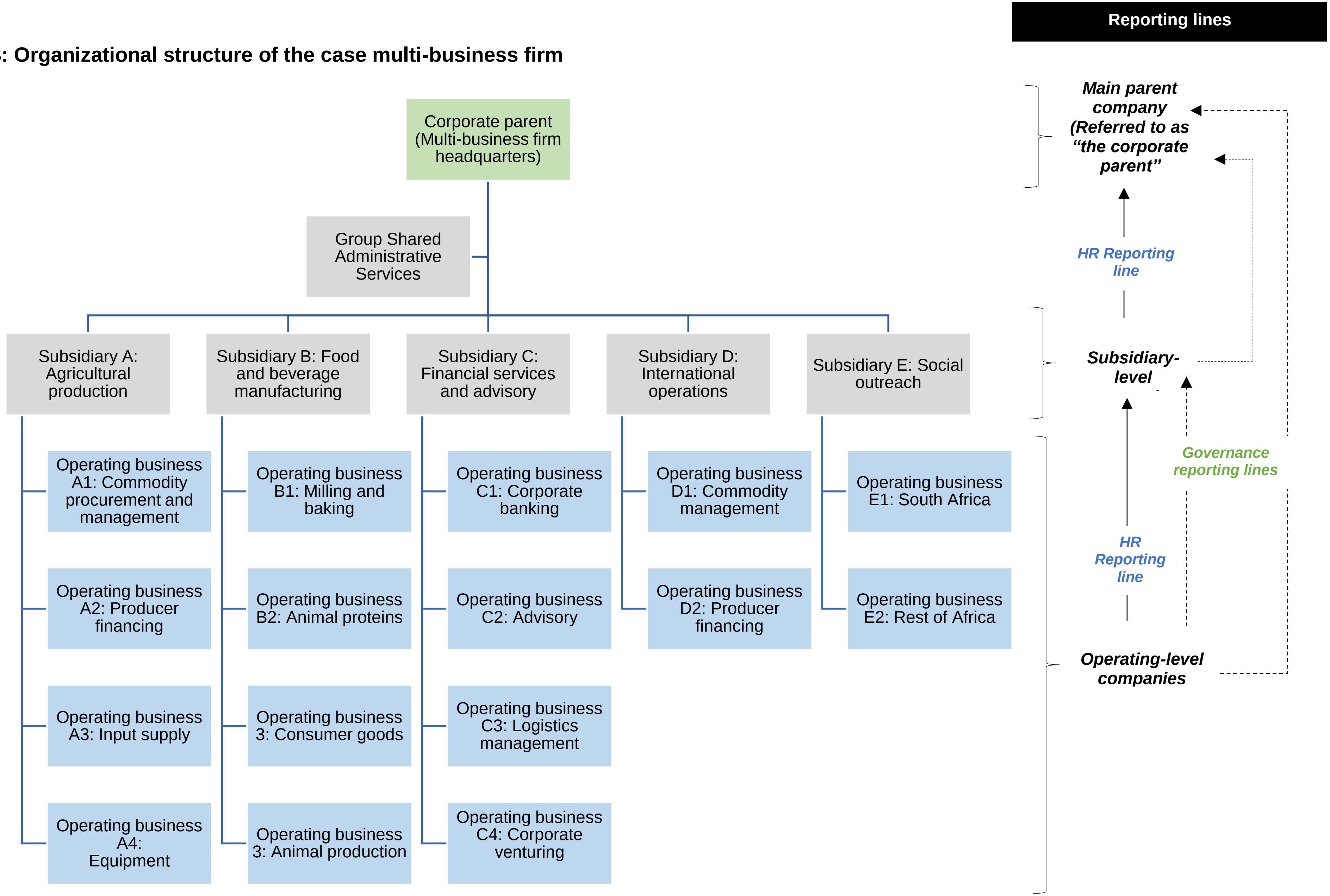
The research was conducted at a private, large and diversified multi-business firm in the South African food and agricultural sector. Details regarding the structure and activities undertaken by the multi-business firm in the case were provided by a human resources manager in the firm, with the permission of the Group CEO.

The firm operates across all South African provinces and in eight African countries. The parent company is owned by three institutional investors and a consortium of black investors. These investors collectively own 100% of the parent company which in turn holds a majority stake in each of its subsidiaries. The parent company, which sits at the helm of the multi-business structure is led by a Group CEO and corporate-level executives. The parent company is accountable to the Group's board of directors for the performance of the multi-business group as a whole and has as such, centralised functions that it deems important for the Group's performance at the headquarters of the multi-business firm. These functions include treasury, finance, legal services and investment management.

In addition to the above-mentioned strategic centralised functions, the corporate parent, through a separate division, also provides shared services to its subsidiaries with the aim of enhancing cost efficiencies by eliminating duplication of administrative functions within the Group's structures. Human resources (HR) management, risk management, procurement, information technology and facilities management services are provided by the corporate parent through this structure.

The multi-business firm operates across four main product lines or verticals, each managed by independent subsidiaries (separate registered formal companies). These segments are agricultural production which is the responsibility of Subsidiary A, food and beverage manufacturing which is housed in Subsidiary B, financial services and advisory (Subsidiary C) and international operations which are managed in Subsidiary D. In addition, the multi-business firm has an entity (Subsidiary E) which focusses on its outreach programs both in South Africa and on the rest of the African continent. The case multi-business firm's organisational structure is illustrated in Figure 3.

Figure 3: Organizational structure of the case multi-business firm



Adapted from personal communication (August 2018)

4.6 METHODOLOGY RELATING TO SURVEY DATA COLLECTION AND ANALYSIS

4.6.1 Sampling methods for survey data collection

Saunders et al. (2012) indicated that the sampling frame as the entire list of members of the target population. In the case of the survey component of this research, the population comprised executives in the subsidiary or operating businesses (hereafter referred to as subsidiaries). This definition of the population was deemed appropriate for addressing the first research objective which sought to assess the views of subsidiaries and operating companies on the effect of corporate parenting activities. Many of these activities were of a strategic nature and it was it was important to identify employees with sufficient seniority and knowledge of the corporate parent's strategic influence as well as those with a sufficiently wide view of the impacts of the corporate parent on subsidiaries.

The first step in the specification of the population was the determination of who comprised "executives" in the subsidiaries of the multi-business firm. For this task, the federated structure of the multi-business firm, as detailed in Figure 3, was used. This structure allowed for the identification of executives within the multi-business firm as each subsidiary had a formalised leadership structure which was consistently applied throughout the multi-business firm. The organisational structure indicated that each of the six subsidiary companies had a CEO and a chief financial officer (CFO) which comprised the executive team. Subsidiaries A and B also had, as part of their executive teams, a chief strategy officer and an operations director respectively. In addition, each subsidiary managed a set of operating businesses that were led by managing directors (MDs) and financial directors (FDs) who comprised the executive teams at the level of operating businesses.

The second step of defining the population entailed assessing which executives had direct interaction with the corporate parent and would thus be in a position to respond to the survey questions posed. It was noted by the corporate parent that although the organisational structure illustrated in Figure 3 indicated it was only the main subsidiaries that reported directly to the corporate parent, the firm's governance framework was complex and facilitated the corporate parent's involvement even at the level of the operating companies. Within the firm's governance framework, subsidiaries are accountable to the parent company through subsidiary-level boards comprised of executives of the corporate parent (who act as non-executive directors) and executives of subsidiary companies who act as executive directors. These subsidiary-level boards also include audit and risk committees as well as social and ethics committees.

In addition, the main corporate parent had identified several activities of operating level entities of strategic importance in the multi-business firm. As the main corporate parent monitored these activities directly, these operating level entities had a dual reporting structure. Firstly, they were accountable to the executives of subsidiary companies (that represent their immediate corporate parents) and secondly, to the executives deployed by the corporate parent to monitor specific operational elements. For instance, Operating Business 1 reported to a board of directors comprising the CEO and CFO of Subsidiary A as well as the CFO from the main corporate parent. This cross-directorship arrangement was found across all operating level entities in multi-business firm to varying degrees. As such, it was found that all subsidiary-level (including operating entities) had direct interaction with the corporate parent.

Using the above criteria of seniority and direct interaction with the corporate parent, it was established that the population consisted of 14 executives at the subsidiary level and 30 executives at the operating business level. This resulted in a total population of 44 executives across the multi-business firm. Give this small defined population and the rarity of the characteristics of members of the population, sampling was not considered necessary (Saunders et al., 2012). As such, the entire population was included for examination. This is indicative of total population sampling. The sampling frame is provided in the Table 2.

Table 2: Sampling frame for survey data collection

		Inclusion criteria	
Executives	Total number in the sampling frame	Seniority in the multi-business firm?	Direct interaction with the corporate parent?
CEOs of Subsidiaries A to E	5	Yes	Yes
CFOs of Subsidiaries A to E	5	Yes	Yes
Chief Strategy Officer of Subsidiary A	1	Yes	Yes
Operations Director of Subsidiary B	1	Yes	Yes
MDs of Operating Businesses	16	Yes	Yes
FDs of Operating Businesses	16	Yes	Yes
Total population	**44**		

4.6.2 Design of the survey collection instrument

In designing the instrument, a comprehensive literature review was first undertaken to determine the mechanisms, interventions and activities undertaken by corporate parents to create value to their subsidiaries. As discussed in Chapter 2, corporate parents exert influence on the businesses under their control through vertical and horizontal influence mechanisms. Through these mechanisms, corporate parents undertake numerous strategic interventions and activities to create value.

Having established, from the literature, the mechanisms, interventions and activities associated with value-creation by corporate parents, Table 1 in Chapter 2 was compiled to facilitate a systematic assessment of corporate parental value-creation. This table which was used as the basis for the survey data collection instrument provided in Appendix A. To facilitate statistical analysis, the mechanisms through which corporate parents exert influence were referred to as sub-scale constructs while the strategic interventions associated with the mechanisms were referred to as themes. Activities and subsidiary-level outcomes associated with each sub-scale construct were referred to as variables.

As the first objective of the study entailed the assessment of value-creation from the lens of subsidiaries, the activities associated with each sub-scale construct were converted into 26 statements to which respondents could relate. For example, for the activity associated with the provision of strategic direction, respondents were requested to indicate the extent to which they agreed or disagreed with the statement: “The HQ provides its subsidiaries with overall strategic direction”. For the purposes of data collection, the term “HQ” was used to refer to the corporate parent, in line with the language consistently used within the multi-business firm.

To assess the extent to which respondents agreed or disagreed with the statements posed in relation to the activities of the corporate parents or the outcomes of such activities, a three-point Likert-like rating scale was used. The survey featured three possible responses that participants could select: agree, disagree and neutral. These response options and their sequences were kept consistent throughout the survey to avoid confusion.

4.6.3 Survey data collection methods

As many of the concepts and related questions required significant subjectivity on the part of respondents, it was important to obtain the views of both the corporate parent and subsidiaries to get a balanced view on value-creation. However, given the sample size of 44, it would have been impractical for the researcher to conduct semi-structured interviews with all subsidiary-level executives and the corporate parent's leadership within the available time. A self-administered structured questionnaire was thus deemed appropriate and practical for obtaining data from subsidiary-level executives. Email requests for the completion of the survey questionnaire were sent, to all executives in the population between August and September 2018. Email reminders were also sent to all participants at the start of October 2018 to encourage the completion of surveys. Ultimately, responses were received from 33 out of 44 executives in the population which indicates a response rate of 75%.

4.6.4 Survey data analysis

The first research question: "Do subsidiaries perceive that the corporate parent creates value in the multi-business portfolio?", entailed two assessments:

1. An assessment of the activities most undertaken by the corporate parent to create value and,
2. A measurement of the extent of value-creation by the corporate parent from the perspective of its subsidiaries.

To determine the activities most undertaken by the corporate parent to create value, survey responses were collated and coded as follows: Agree=2, Disagree=1 and Neutral=0. Descriptive statistics were then used to analyse response frequencies relating to each response. This provided an indication of the activities most undertaken by the corporate parent to create value, from the perspective of subsidiary executives.

To measure of the extent of value-creation by corporate parents, the coded survey data received was used to construct a composite index of parental value-creation. Jefmański and Błoński (2014) define composite indices as multivariate models that combine numerous individual indicators into a single value. Nardo et al. (2005) highlighted that the use of composite indices is appropriate when measuring multi-dimensional concepts (such as value-creation by corporate parents) that cannot be captured by a single indicator. Jefmański and Błoński (2014) further noted the increasing popularity of indices in academic research seeking to measure performance as such measures had the advantage of allowing for the characterisation of complex phenomena using a single number.

4.6.4.1 Construction of the value-creation composite index

In compiling the value-creation composite index, the recommendations provided by Nardo et al. (2005) and the methodology used by Nenonen, Storbacka, and Frethey-Bentham (2018) were used as guidance. Both sets of authors highlighted the importance of transparently addressing methodological issues related to the construction of composite indices to avoid data manipulation and misrepresentation.

4.6.4.1.1 Selection of variables

Nardo et al. (2005) noted that the first step in the sound construction of composite indices entailed a thorough review of existing literature to motivate the selection and combination of individual variables. The author advocated that as the strength of a composite index depended on the quality of its underlying variables, variables should be selected based on their analytical reliability, measurability and bearing on the phenomenon being assessed. Jefmański and Błoński (2014) noted that credible data selection was crucial for the collection of credible data. In this study, data selection was informed by the literature review and data was collected in line with the guidance provided by (Campbell et al. (1995b) and Kruehler et al. (2012). These authors provided guidance in the determination the mechanisms, strategic interventions and activities which make up the multi-dimensional concept of value-creation by corporate parents. The variables selected are detailed in Appendix A.

4.6.4.1.2 Imputation of missing data

In a few survey responses received, executives did not record responses related to some statements. To improve the statistical power of the analysis, imputation was considered as proposed by Nardo et al. (2005) to complete the dataset. To ensure that the responses of subsidiaries were recorded “as is” in the descriptive analysis, the imputation of data was conducted once the descriptive analysis had been completed.

A Little’s Missing Completely at Random (MCAR) test was conducted to understand if the missing values are random within the dataset. Upon discovering that the values were missing values at random, an imputation technique was employed to the dataset at the variable level. This imputation technique utilised predicted values, using the expectation maximisation algorithm of respondents as advocated by Nardo et al. (2005) for data MCAR. Multivariate analysis to assess internal consistency

Nardo et al. (2005) cautioned that in some instances, the selection of individual variables for the construction of composite indices was undertaken with little consideration of interrelationships which led to confusion and misrepresentation. To prevent this outcome, the authors noted that the underlying nature of the data needed to be analysed prior to the finalisation of a composite index to ensure its validity.

In line with Nenonen et al. (2018), multivariate analysis was undertaken to assess the reliability of the variables selected using Cronbach's alpha. Cronbach's alpha is widely used to measure the internal consistency of constructs (Tavakol & Dennick, 2011). These coefficients measure a test's internal consistency by assessing the extent to which the variables in the test measure the same construct (Tavakol & Dennick, 2011). The level of acceptability for the Cronbach's alpha was 0.6 as proposed by Hair, Black, Babin, and Anderson (2010). All variables with Cronbach's alpha values of less than 0.6 were removed from the sub-scale constructs.

4.6.4.1.3 Weighting and aggregation

Nardo et al. (2005) remarked that weighting can be a point of contention as it requires a judgement by the researcher on the relative importance of the sub-scale constructs on the underlying phenomenon. As a point of departure, the authors noted that literature should be used to assign relative importance to sub-scale constructs. In the case of value-creation by corporate parents, the literature reviewed highlighted no superiority of parental activities over others in creating value. As such, equal weights were assigned to each sub-scale construct in the composite index; an approach adopted by most constructors of composite indices, particularly in instances where there is no consensus on causal relationships (Nardo et al., 2005). To avoid discrepancies and over-weighting, the variables within the sub-scale constructs were averaged to normalise the effect of one sub-scale construct comprising more variables than others.

Parallel to the process of weighting, the variables which constituted the sub-scale constructs of Vertical Mechanisms and Horizontal Mechanisms were analysed for correlations and multicollinearity. Spearman correlation coefficients were used to analyse correlation among variables, using the guidelines of Pallant (2001) to determine the state of correlation. The variables which had strong correlation (≥0.50) were regarded as highly correlated and were removed to avoid double counting. This process was further confirmed with multicollinearity analysis using variance inflation factor (VIF). As per the guidelines of Daoud (2017), VIF values greater than 5.0 was regarded as an indication of the existence of multi-collinearity. A

VIF values greater than 5.0 are a common cut-off criterion for suggesting that there is a multi-collinearity problem (Daoud, 2017).

Mazziotta and Pareto (2013) proposed that the overall index be obtained by means of aggregating the partial indexes obtained from sub-scale constructs, which in this study were the Vertical Mechanisms and Horizontal Mechanisms. As such, the value-creation composite was specified as follows:

Equation 1: Value-creation composite index

Overall value-creation composite index = Vertical Mechanism Partial Index + Horizontal Mechanisms Partial Index

4.6.5 Reliability pertaining to survey data collection

Hardeman, Van Roy, and Vertesy (2013) highlighted the importance of data quality when seeking to design data collection instruments; indicating that the better the quality of data, the more insight could be gained about a specific phenomenon. In the paragraphs that follow, two main types of data quality issues that were considered in designing the survey instrument are discussed: reliability and validity.

To ensure reliability, the data collection instrument used to measure the activities of the corporate parent was provided to executives across the across the multi-business. To eliminate participant error and to ensure consistency, the sample included managers of similar levels across the multi-business firm within a similar timeframe. In designing the data collection instrument, survey questions were drafted in line with the findings of the literature review summarised in Table 1 and using the guidance obtained from Campbell et al. (1995b) and Kruehler et al. (2012). As the data collection instrument expanded on an framework crafted by Kruehler et al. (2012) confirmatory factor analysis (CFA) was preferred. However, it was not possible with the very small sample size of 33. As such, only a test of reliability was conducted using Cronbach alpha.

The quality of the data was further ensured by adhering to the sample relevance and sample adequacy guidelines provided by Guetterman (2015). Objectivity was enhanced using an evidence-based approach the triangulation of responses in line with Shenton (2004).

4.7 METHODOLOGY RELATING TO INTERVIEW DATA COLLECTION AND ANALYSIS

4.7.1 Sampling methods for interview data collection

The second research question aimed to assess to congruence within the multi-business firm regarding the corporate parent's value-creation. This entailed an assessment in which semi-structured interviews were held with five executives in the corporate parent structure of the multi-business firm.

For this purpose, the population included a total of six executives in the corporate parent structure. Five respondents were interviewed. This was the minimum required for semi-structured interviews as proposed by Morse (1992) and Saunders et al. (2012).

Furthermore, the second research question required an assessment of the responses received from subsidiaries during the survey component of the research. As such in addition to the six executives in the corporate parent, the sampling frame pertaining to Research Question 2 also encompassed the subsidiary level managers specified in Table 2.

4.7.2 Design of the interview data collection instrument

The interviews conducted served a confirmatory purpose and sought to test the extent of alignment between the corporate and its subsidiaries with respect to value-creation. As such, it was important that the interview guide be based on the same set of theoretical thematical areas as the those applied in the survey instrument. This ensured that the findings emanating from the semi-structured interviews were comparable with those obtained via the survey questionnaires. This alignment also enhanced the ease of coding when analysing the interview data. A copy of the interview guide is attached as Annexure B.

4.7.3 Interview data collection

Face-to-face interviews were conducted with executives at the office of the corporate parent and recorded to facilitate transcribing. The data collected through this process was transcribed and the responses coded according to the same thematic areas as those used in the survey (detailed in Table 1) to ensure consistency and comparability.

4.7.4 Interview data analysis

In relation to the semi-structured interviews conducted, all the responses were recorded and transcribed as soon as possible after the end of the interview. A content analysis was conducted, and responses were manual coded according to the aforementioned themes. This simple coding deemed to be adequate considering the small number of interviews conducted.

As the second research proposition also required triangulation between the survey and interviews data collected. The coded results were then compared with the those emanating from the survey research.

4.7.5 Credibility and trustworthiness

According to Potter (1996) the credibility of qualitative research is enhanced through triangulation. The author notes that triangulation is achieved by obtaining perspectives from multiple sources in order to assess whether common themes emerge (Potter, 1996). In this study, the five interviews conducted with parent-level executives provided for contrasting views which facilitated the process of triangulation. In addition, the data obtained from interviews was contrasted with data received from survey responses. This enhanced the credibility of the data obtained in the interview process.

To ensure trustworthiness, guidance provided by Shenton (2004) was used. Shenton (2004) indicated that to ensure trustworthiness, researchers should meticulous document their findings and provide details regarding the data collection process.

4.8 ETHICAL CONSIDERATIONS

As the case multi-business firm is a private company, the researcher was sensitive to the requirement for confidentiality and the protection of company information. To mitigate any potential risks related to the disclosure of information, no financial or market-specific questions was asked in both the survey and interview elements of the study. In addition, the interview data collection instrument did not request any demographic or descriptive information.

In addition, as subsidiary-level executives reported to the corporate parent’s leadership, it was assumed that uneven power dynamics may exist between the corporate parent and its subsidiaries. While the executives of the parent company were comfortable with speaking openly about the role of the corporate parent through semi-structured interviews; anonymity and confidentiality in data collection were considered to be important at the level of subsidiaries to eliminate the possibility of any adverse consequences that may have arisen from their participation in the study. For this reason, a hybrid data collection approach was adopted.

4.9 METHODOLOGICAL LIMITATIONS

Like any research study, this study had some methodological limitations. The first of these limited related to the small sample size of the survey study. This limited the application of conventional weighting methods such as PCA or SEM-PLS. Despite this, the data met the threshold of 30, which was adequate to perform quantitative analysis (descriptive statistics and multivariate analysis).

Secondly, the often-hierarchical nature of the relationship between corporate parent and business level managers presented a further limitation as business level managers may be hesitant of expressing their true views on the value creation activities of the parent company. This possibility was mitigated by conducting anonymous surveys with subsidy-level executives and face-to-face interviews with executives the corporate office.

The last limitation pertained to the nature of composite indices. Nardo et al. (2005) noted that while composite indices were useful in measuring complex phenomena, they were only proxies and did not constitute a perfect representation of the underlying phenomena.

CHAPTER 5. RESULTS

5.1 INTRODUCTION

The study aimed to evaluate the effectiveness of mechanisms employed the corporate parent to create value to its subsidiaries. The study further aimed to analyse the extent of congruence across the multi-business with respect to value-creation by the corporate parent.

As the study adopted a case study approach, two data collection methods were employed. With respect to survey data collection, responses were received from 33 of 44 potential respondents. This represented a 75% response rate. Within these 33 responses, a cut-off of 5% for missing data was adhered to as proposed by Schafer (1999). From 33 responses, only one response did not meet the threshold and this response was not used for the analysis. As such, 32 responses were utilised for further data analysis. Regarding interview data collection, audio recordings were transcribed verbatim and then coded according to thematic areas. The findings emanating from both data collection methods are presented in this Chapter in preparation for the discussion detailed in Chapter 6.

This Chapter presents the findings relating to survey data followed by a discussion of the findings emanating from the interview process. In Chapter 6, these findings are detailed in line with the research questions presented in Chapter 3.

5.2 ANALYSIS OF SURVEY DATA

The survey data collected culminated in a value-creation composite index that measured the extent to which the corporate parent in the case multi-business created value. In analysing survey data, the steps detailed in Chapter 4 were followed.

5.2.1 Descriptive statistics

The descriptive statistics relating to the two sub-scale constructs of value-creation by corporate parents are presented in this section. Descriptors for the variable codes are stipulated in Appendix A.

Respondents were requested to indicate the extent to which they believed that the corporate parent performed tasks associated with vertical and horizontal influence mechanisms. As required by Research Question 1A, the results obtained provided an indication of the tasks most undertaken by the corporate parent to create value to its subsidiaries.

5.2.1.1 Vertical influence mechanisms

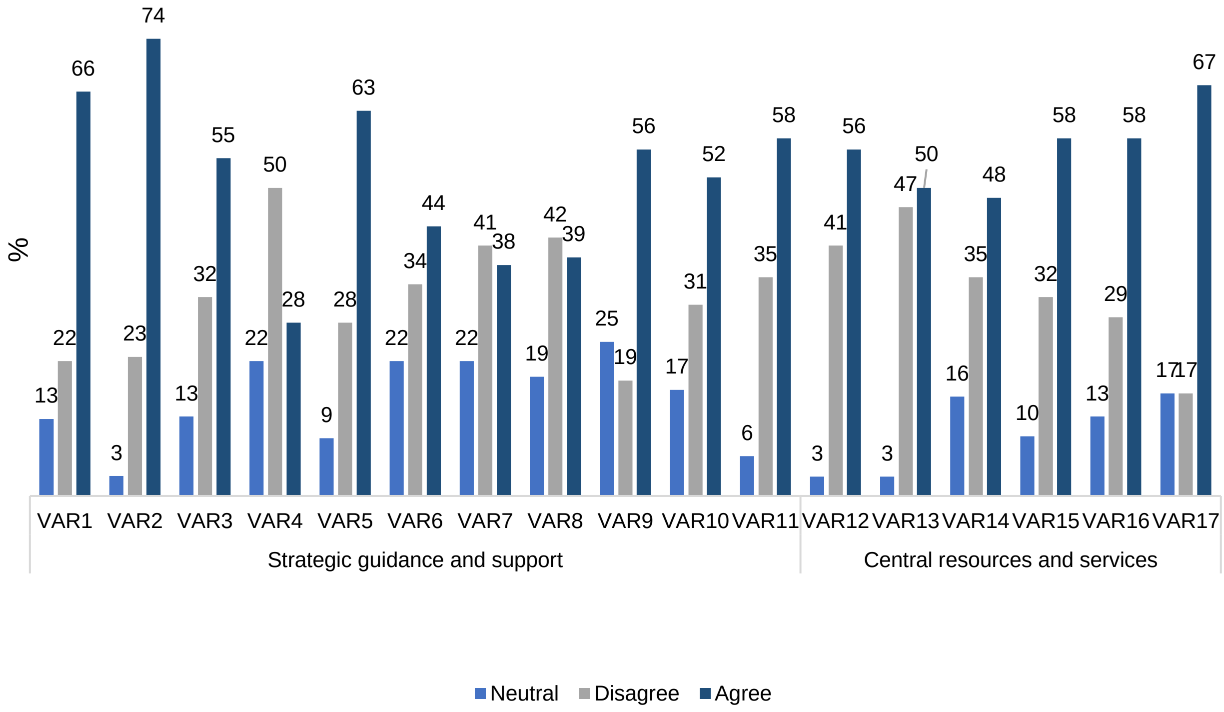
In the survey instrument, 17 statements (variables) pertained to the corporate parent's activities associated with vertical influence. An analysis of response frequencies presented Figure 5 shows that 74% of respondents agreed that the corporate parent set the multi-business firm's overall vision (VAR2) while 66% of respondents agreed that the corporate parent provided strategic direction for their specific entities (VAR1). Interestingly, mixed responses were observed in relation to the statement pertaining to the corporate parent's formulation of top-down strategic objectives for subsidiaries (VAR3) with 55% agreeing that the related statement was true. With respect to the corporate parent's provision of strategic expertise (VAR4), 50% disagreed they had received the parent's support.

As shown in Figure 5, it was found that 63% of respondents agreed that the corporate parent actively promoted the merger and acquisition activities of subsidiaries (VAR5) and 56% agreed that they were able to pursue longer-term objectives because the corporate parent provided them with protection from external capital markets through an effective internal capital market (VAR9). Interestingly, 39% of respondents were of the view that the corporate parent did not allocate resources effectively throughout the firm to promote growth (VAR8). Results pertaining to the parent's assistance with the development of organic growth options and the divesture of non-core assets were mixed. An analysis of response frequencies revealed that 44% of subsidiaries agreed that the corporate parent worked closely with them to develop new organic growth options (VAR6) while 41% disagreed that the parent helped to divest the non-core assets of subsidiaries (VAR7). Surprisingly, 51% agreed that their operational performance of was enhanced by the corporate parent's involvement

As shown in Figure 5, most participants (58%) agreed that they benefited from central assets such as brands and other intangible assets provided by the corporate parent (VAR12). Half of the respondents agreed that the corporate parent promoted the use of centrally-bundled services provided to realise cost advantages (VAR13). Forty-eight percent of respondents agreed that they benefited from short-term internal financing (VAR14) and 58% were of the view that the corporate parent provided funding at a lower cost than what they could receive on their own (VAR15).

Fifty-eight percent of respondents reported that they benefited from tax optimization while 67% of respondents agreed that their external reporting requirements were minimised due to consolidated disclosures.

Figure 4: Response frequencies: Vertical influence mechanisms (in percentages)



5.2.1.2 <u>Horizontal influence mechanisms</u>

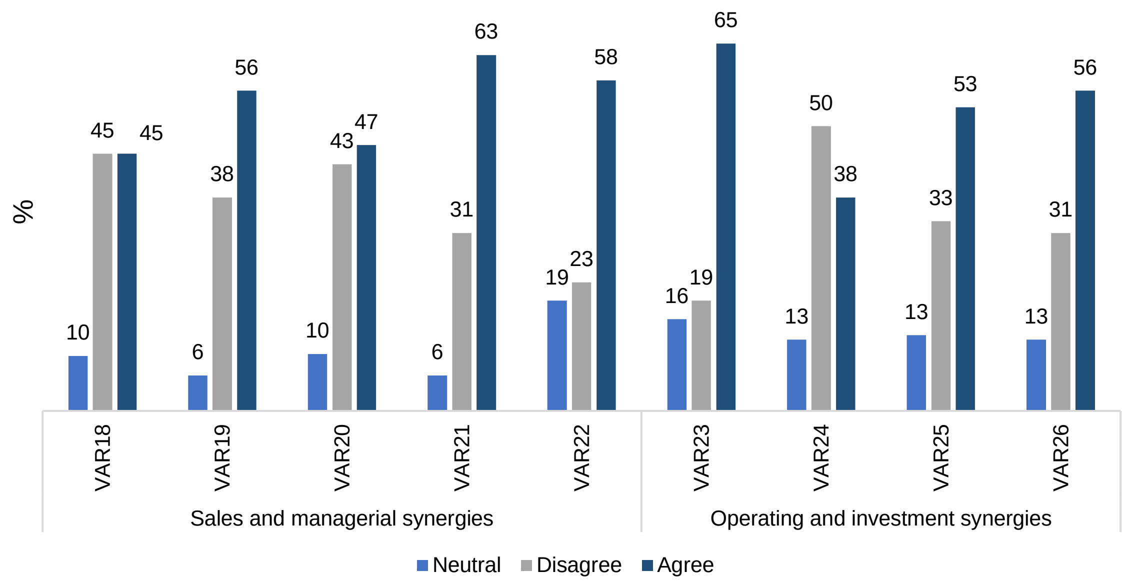
The survey instrument included nine statements pertaining to the corporate parent's horizontal influence mechanisms. Figure 6 presents a summary of response frequencies in this regard.

The analysis showed that only 45% of participants agreed that the corporate parent encouraged cross-selling across subsidiaries (VAR18). On the other hand, 56% of respondents reported that the parent promoted the bundling of products to increase sales (VAR19). The results further indicated that 65% of respondents agreed that there was a realisation of economies of scope by subsidiaries due to cooperation within the integrated value chain (VAR23), while 63% also agreed that corporate parent was promoting knowledge-sharing across subsidiaries (VAR21).

There were more respondents who disagreed (50%) compared to those who agreed (38%) that there was a realisation of economies of scale by subsidiaries due to combined activities

(VAR24). There were also split views on the corporate parent's promotion of cross-selling across subsidiaries (VAR18) as a similar proportion (45%) of agreement and disagreement was found.

Figure 5: Response frequencies: Horizontal influence mechanisms (in percentage)



5.2.2 Imputation of missing data

Following the descriptive analysis, a Little's Missing Completely at Random (MCAR) test was conducted to understand whether the missing values were random within the dataset. The results of the test showed that the estimated means of the missing values were random, with p-values higher than .05. As such imputation of the missing data was conducted in the data set, χ^2 (513) = 478.657, p = .859. Table 3 presents the results of the chi-square test for MCAR.

Table 3: Results of Little's MCAR test

Chi-Square	478.657
Sig.	.859

As there were few missing values, predicted values were utilised to replace the missing values, employing the expectation maximisation algorithm. The values were imputed at the sub-scale construct level with the two constructs being vertical influence mechanisms and horizontal influence mechanisms. This was done because variables from the same constructs are expected to be correlated, thus keeping the items homogeneous improved the predictability of values accuracy.

5.2.3 Multivariate analysis

As the data collection instrument was adapted from a framework proposed by Kruehler et al. (2012), it would have been ideal to conduct confirmatory factor analysis (CFA), be it partial least squares (SEM-PLS) or covariant (SEM-CB). However, the requirement of 10 responses to one question or a minimum of 100 rendered the application of CFA inappropriate.

5.2.3.1 Testing reliability using Cronbach's alpha

Despite this weakness, the researcher was still able to test the internal consistency reliability of the instrument and the two sub-scale constructs using Cronbach's alpha. The overall instrument and its sub-scale constructs were found to be reliable with a Cronbach's alpha greater than 0.6 which is the minimum acceptable reliability as proposed by authors such as (Hair et al. (2010)

The overall instrument with all 26 variables included had a Cronbach's alpha of 0.808. Following an assessment of the instrument's overall reliability, the reliability of the two sub-scale constructs was assessed. The sub-scale construct "vertical influence mechanisms" comprised 17 items. The inclusion of all 17 of the variables related to this construct resulted in poor reliability as tested through Cronbach's alpha. Following the iterative removal of VAR2, VAR3, VAR4, VAR6, VAR9 and VAR11, 11 variables remained which formed the final construct with α=0.701. For the sub-scale construct "horizontal influence mechanisms", only VAR 26 was removed which resulted in α=0.721. The two sub-scale constructs ultimately used in the construction of the value-creation index were found to be reliable based on the guidelines of minimum of 0.6 by Hair et al. (2010). These results are reflected in Table 4.

Table 4: Reliability of the overall construct and sub-scale constructs

	Cronbach's alpha	N of Items
Vertical mechanism	0.701	11
Horizontal mechanism	0.721	8

5.2.3.2 Testing correlation using Spearman's rank correlation coefficients

A Spearman's correlation analysis was conducted to assess the level of correlation between the remaining variables of the two sub-scale constructs. With the sub-scale construct "vertical influence mechanisms", a few variables were found to be significantly correlated. However, none showed strong correlation (≥0.500) and were thus retained for further use in the index as there was no expectation of double counting (Table 5).

Table 5: Spearman's rho correlation of Vertical Mechanisms variables

	VAR 1	VAR 5	VAR 7	VAR 8	VAR 10	VAR 12	VAR 13	VAR 14	VAR 15	VAR 16
VAR 5	0,000									
VAR 7	0,264	0,048								
VAR 8	0,226	0,268	.445*							
VAR 10	0,019	-0,077	-0,180	-0,063						
VAR 12	0,189	0,094	0,285	0,116	-0,150					
VAR 13	0,074	0,165	0,166	0,120	0,256	0,059				
VAR 14	0,152	0,124	-0,168	0,139	0,287	-0,215	0,258			
VAR 15	0,197	0,256	-0,200	0,065	0,076	0,178	0,273	.479**		
VAR 16	0,136	0,046	.366*	0,274	.440*	0,152	0,252	0,232	-0,015	
VAR 17	-0,010	0,105	0,033	0,104	0,200	0,210	0,269	.499**	.434*	0,273

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Table 6 presents the outputs of Spearman's correlation analysis for the variables pertaining to the sub-scale construct of horizontal influence mechanisms. It was found that that VAR21 had a strong correlation with VAR 18, r= 0.589, p<.01. As VAR 21 was also correlated with VAR19, it was excluded in the construction of the index to avoid double counting.

Table 6: Spearman's rho correlation of Horizontal Mechanism variables

	VAR 18	VAR 19	VAR 20	VAR 21	VAR 22	VAR 23	VAR 24
VAR 19	0,038						
VAR 20	0,232	0,066					
VAR 21	.589**	.415*	0,308				
VAR 22	0,191	0,079	0,170	.391*			
VAR 23	0,093	.370*	0,055	0,270	0,182		
VAR 24	-0,014	0,119	0,031	0,208	.375*	0,169	
VAR 25	0,103	0,212	0,155	0,290	0,333	-0,031	.445*

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

5.2.3.3 Testing multicollinearity using variance inflation factors

Overall, there was low correlation levels between the variables of the two sub-scale constructs. Further analysis was conducted to understand if there was collinearity, using variance inflation factors (VIF) and tolerance (Table 7). The VIF combinations showed VIF values of less than 5.0. As such, it was concluded that there were no problems with multicollinearity. The two sub-scale constructs (made up of the variables in Table 10 excluding VAR21) were used to construct the composite index.

Table 7: VIF and tolerance values the collinearity tests of the sub-scale constructs

Variables	Collinearity Statistics		Variables	Collinearity Statistics	
	Tolerance	VIF		Tolerance	VIF
VAR 5	0,908	1,102	VAR 19	0,743	1,345
VAR 7	0,558	1,792	VAR 20	0,868	1,153
VAR 8	0,708	1,412	VAR 21	0,649	1,540
VAR 12	0,653	1,531	VAR 22	0,783	1,277
VAR 13	0,783	1,277	VAR 23	0,820	1,219
VAR 14	0,411	2,432	VAR 24	0,741	1,350
VAR 15	0,594	1,682	VAR 25	0,697	1,436
VAR 16	0,699	1,431			
VAR 17	0,589	1,698			
a. Dependent Variable: VAR 1			a. Dependent Variable: VAR 18		

Weighting

Equal weights were assigned to each sub-scale construct. The arithmetic means of the variables relating to each sub-scale construct were computed using the below formula where x represents reliable variables. The mean of the eleven variables which were part of the reliable indicators of the construct of vertical influence mechanisms was 1.42, while the mean of the seven variables (excluding VAR21) was 1.38.

Table 8: Arithmetic means of constructs

	Computed value
Vertical Mechanism Partial Index (Partial index 1)	1.42
Horizontal Mechanisms Partial Index	1.38

5.2.4 Aggregation

The overall value-creation composite index was obtained by aggregating the partial composite indexes, which represent the arithmetic means of the reliable variables comprising each sub-scale construct. As such the value-creation composite index was constructed as a linear function of the two partial indices indicated in Table 8. This for a given multi-business firm i, the structure of the value-creation composite index is as follows:

Overall value-creation composite index	=	Vertical Mechanisms Partial Index	+	Horizontal Mechanisms Partial Index
	=	1.42	+	1.38
	=	**2.8**		

A dummy variable was created for a perfect agreement that the corporate parent created value to the subsidiaries in its portfolio. A perfect overall index of 4 was specified. As such the overall index of 2.8 is 70% of the overall perfect overall index.

5.3 INTERVIEW DATA ANALYSIS

This section presents the results obtained from data collected in semi-structured interviews with executives within the corporate parenting structure of the case multi-business firm. Details pertaining to the collection of data collection were discussed in Chapter 4. The data obtained from semi-structured interviews was from five participants who were all permanent senior employees within the corporate parenting structure of the case multi-business firm. Due to concerns relating to confidentiality and the small population, no demographic information was required from participants.

Respondents were asked several broad questions regarding the activities and outcomes of corporate parenting in the multi-business firm. Their responses were then transcribed and thematically coded by the researcher according to Table 1 which provides a link between these activities and outcomes, and corporate parenting. This deconstruction allowed for rich discussion as participants were unlikely to be familiar with the terminology used to the study describe the concepts related to corporate parenting. Appendix B provides a copy of all interview transcriptions.

In the sections that follow, the responses received from interview participants for each question asked are described. These responses are analysed in detail in Chapter 6 to address research question 2.

5.3.1 Question 1: What do you view as the role of the corporate parent in this multi-business firm?

Participants were asked to state their views on the role of the corporate parent in the case multi-business firm. Most respondents stated that they were of the view that the overarching role of the corporate parent was to provide overall strategic guidance to the subsidiaries in its portfolio. Four out of five participants explicitly highlighted the word “guidance” in describing the role of the corporate parent. Respondent 1 indicated:

> “The role of the holdings group (corporate parent) is to give guidance and direction and to provide all important elements like the value drivers, systems, everything that needs to be in place for the final subsidiary to run the business properly.”

Closely linked to this, Respondents 5 stated:

> “I would say guidance, governance and investment decisions” (Respondent 2)

Interestingly, Respondent 4 noted that in exercising its duties, the corporate parent’s approach was guided by the concept of parenting in the real world. The respondent noted that as with parents and their children, the corporate parent’s role was to provide protection to its children (subsidiaries) and to ensure that all prerequisites for their survival were in place.

While most respondents noted that the role of the corporate parent was to provide guidance, responses regarding the nature of this guidance were divergent. While some respondents indicated that the corporate parent’s guidance only entailed the setting of strategic parameters within which subsidiaries should operate, others alluded to a more active role of the corporate parent.

To illustrate this divergence, the responses provided by Respondents 1 and 4 are indicated. Respondent lamented the lack of control by the corporate parent over the activities of its subsidiaries. The respondent noted:

> “I don't see that we (the corporate parent) have an active role. They set their own targets. I think from where we sit, it's results-based. So, things happen and then we collect the results.”

This implied that while the corporate parent set the overall direction for the multi-business firm, the subsidiaries had significant autonomy and that the corporate parent had limited influence over the performance of subsidiaries.

On the other hand, Respondent 4 indicated that the corporate parent did have limited control over the performance of subsidiaries, indicating that part of the corporate parent’s role was the setting of key performance indicators (KPIs) for subsidiaries. This, the respondent noted, determined the targets of subsidiaries and facilitated monitoring by the corporate parent. In support of this view, Respondent 4 noted:

> “The holding company provides strategic direction. Everyone (subsidiaries) will have their own pre-determined KPIs agreed with the holding company so that we (the corporate parent) be not be surprised. We'll know what to expect.”

Oversight and governance were other major themes which emerged from discussions with interviewees. As indicated in Chapter 4, the corporate parent’s interventions in the activities of subsidiary firms was largely facilitated by the multi-business firm’s corporate governance framework. Respondent 5 indicated that while the corporate parent was not involved in the day-to-day activities of its subsidiaries, it did provide oversight over areas which it considered important. The respondent noted:

> “On the day-to-day side, we give oversight… in terms of, for instance, internal audit or treasury. There’s definitely an oversight role to play also in terms of capital adequacy and liquidity process. But from on operational decision-making, I'm not involved at all.” (Respondent 5)

Although it was apparent that governance and oversight were important in regulating parent-subsidiary relationships in the case multi-business firm, it was also found that the predetermined rules pertaining to governance and oversight were inconsistently enforced by the corporate parent. This was evident in a statement made by Respondent 3 who indicated:

> "The governance framework is supposed to be entrenched in your boardroom and then filtered from your boardroom down into the rest of the organization. What we have now is a scattered approach."

Respondent 5 also indicated that the firm's corporate governance framework posed a challenge and highlighted the corporate parent's shortcomings in exercising oversight in line with established rules. The respondent asserted:

> "I think we can definitely improve our corporate governance structure because sometimes we tend to do too much from the parent's side…. I think we can probably better our oversight role because I think on the one side we sometimes go too far to the controlling side and sometimes we allow too much independence. We need to close the loop on our oversight."

The reported shortcomings related to governance and oversight alluded a general lack of understanding across the multi-business firm on the role of the corporate parent. According to Respondent 5, subsidiaries did not understand the parameters of their independence which led to some confusion in the multi-business firm. At the same time however, the responses of executives within the parent structure also appeared to differ on their views regarding the role that the parent plays.

In reflecting on the parent-subsidiary relationships in the multi-business firm, Respondent 4 noted:

> "Communication is a big challenge in the group (the multi-business firm) …I think that some people think "I want to be the boss" and they don't look in the interest of the company as a whole."

According to Respondent 4, confusion on the role of the corporate parent and subsidiary independence was exacerbated by poor communication between the parent and its subsidiaries. The respondent noted as the multi-business firm had evolved over time, some subsidiary-level executives were confused as to what was expected from them. To resolve the challenges related to oversight and governance, Respondent 4 recommended that in addition to improving communication, a complete overhaul of the multi-business firm's corporate governance framework was needed.

Respondent 4's views on the shortcomings of the firm's corporate governance framework echoed those expressed by Respondent 5. Respondent 3 was however of the view that the corporate governance framework was well-designed and that the challenge lay not the framework itself but rather in the manner the corporate parent applied the framework. Thus, in contrast to the consultative approach recommended by Respondent 4 to address the prevailing challenges, Respondent 3 noted that the corporate parent needed to take a tougher stance in enforcing the rules contained in the framework. According to the respondent, the corporate parent had allowed subsidiaries too much flexibility which led to inconsistencies and confusion. Emphasising this point, Respondent 3 asserted:

> "Governance is not something that people should be given an option to say you can subscribe, to it or you can't subscribe to it. Group (the corporate parent) sets the tone, and everybody should follow."

Respondent 3 further stated that changes to the multi-business firm's corporate governance structure were likely to bring about instability across the firm as subsidiaries were still adjusting to the governance structure's current provisions. This was in disagreement with the recommendation made by Respondent 4 that an overhaul of the corporate governance framework was necessary. Respondent 3 cautioned that

> "There is a consequence to structuring and restructuring, it takes a toll on people. You need highly skilled individuals at that (subsidiary) level and if you don't retain them, people leave. Those people are very, very mobile."

The responses of executives in the corporate parenting structure highlight that within the structure, there was no common understanding regarding the parameters of parenting influence. The responses allude to a challenge across the multi-business firm on the extent of decentralisation afforded to subsidiaries. It also appeared that the multi-business firm's corporate governance framework may not be sufficient in regulating parent-subsidiary relationships across the firm. Furthermore, even in instances where the governance framework did provide the requisite guidance, it was evident that the corporate parent was ineffective in enforcing its provisions. To address these challenges, executives in the parent structures expressed divergent recommendations, ranging from top-down enforcement of the existing corporate governance framework to bottom-up consultation and redesign of the framework.

5.3.2 Question 2: Do you think that your portfolio of businesses performs better under your stewardship than they would on their own?

In Chapter 2, it was highlighted that corporate parents create value when the businesses in their portfolios perform better under their stewardship than they otherwise would as fully independent entities. Respondents were asked to indicate whether, in their opinion, the businesses in the corporate parent's portfolio performed better under their stewardship than they overwise would.

According to Respondent 4, the autonomy provided by the corporate parent already allowed subsidiaries to operate as independent entities as there was limited interference from the parent on operational matters. In responding to Question 2, Respondent 4 noted:

> "I don't think so necessarily because they (subsidiaries) already operate independently"

With respect to the autonomy of subsidiaries, Respondent 1 expressed dissatisfaction with the corporate parent's limited control over the operations of subsidiaries, alluding that a more active parent could enhance the performance of subsidiaries. The respondent noted:

> "I imagine if someone was more hands-on, they (subsidiaries) could be better"

In contrast to Respondent 1, Respondent 2 was of the view that the corporate parent was instrumental in ensuring the sustainability of subsidiaries. While the respondent speculated that some subsidiaries may benefit from complete autonomy, the respondent also stated:

> "There are very few of the investee companies (subsidiaries) in the group that could survive on their own independently without the support of the corporate office."

According to Respondent 2, without the financial support provided by the corporate parent, some subsidiaries in the multi-business structure would not be able to operate. This view was shared by Respondent 5 who highlighted the role that the corporate parent played in ensuring capital adequacy and liquidity across the multi-business firm. This, according to the respondent, enhanced the overall performance of the multi-business firm.

Respondent 4 further alluded that subsidiaries benefited from the scale provided by the multi-business firm. According to the respondent, for subsidiaries to grow at a faster rate, they needed the support of other subsidiaries the multi-business firm. The respondent said:

> “We are building a bigger entity. If you look at a subsidiary it's a small company; to be a bigger player, you have to be big yourself and have big players behind you. No company wants to remain small”

5.3.3 Question 3: Which activities do you most rely on to create value to subsidiaries?

In asking this question, the researcher provided examples of typical parenting activities associated with value-creation by corporate parents.

An analysis of responses revealed that activities most emphasised by respondents were of a financial nature. It thus appeared that financial activities linked to vertical influence mechanisms were the dominant form of intervention for the corporate parent. Respondents 1, 2 and 5 all described the actions taken by the corporate parent to provide financial support to subsidiaries. Respondent 1 stated:

> “We provide guidance in terms of investments and do proper capital allocation”

Respondent 2 described the benefit of the corporate parent’s financial interventions:

> “The centralised credit function utilises the group’s balance sheet and gets the best rates possible. So, I don't see that an investee company (subsidiary), on its own, without the benefit of cross security and the balance sheet of the rest of the group can get cheaper funding”

In congruence, Respondent 1 remarked:

> “Having the corporate parent relationship, they (subsidiaries) have a pool to always draw from when they need an injection of capital for whatever.”

Respondent 1 however cautioned that the corporate parent’s financial interventions did, at times, have negative consequences on the efficiency of subsidiaries. In this regard, the respondent remarked:

> "There's an inherent complacency that comes with having the funds always there and ready. Sometimes they (subsidiaries) just run for working capital from central treasury. I believe that stuff like that make things slightly more relaxed."

5.3.4 Question 4: How important are synergies in this multi-business firm?

When probed about synergies between subsidiaries in the multi-business firm, most respondents noted their importance but highlighted that there were challenges in achieving synergies across the multi-business firm.

Respondent 1 said:

> "In a group such as this one, synergies are everything because it looks like the businesses that we take a stake in all offer something or contribute something to the bigger picture. Synergies always need to come through and that's how the portfolio does better overall; when everybody's bringing their part to the table".

In alignment with Respondent 1, Respondent 4 noted that in constructing the multi-business portfolio, the corporate parent sought to invest in related companies that should create value to one another. Expanding on this, Respondent 4 stated:

> "To me, if they (subsidiaries) belong to one parent, your children will be glued to one pattern. As the parent we want to see our children working together, making sure that they win in whatever. Because if you it is free for all, they even become rivals."

Respondent 2 stated that there were no synergies in the multi-business firm. The respondent stated:

> "No, I don't think we do that (collaborate). I think we've been struggling with that (collaboration) for a while. It also a requires a culture change within the company."

Respondent 5 showed slight disagreement with the sentiments expressed by Respondent 4 on synergies. According to the respondent, there were synergies across the multi-business firm but in some instances, synergy was limited by complex shareholding arrangements. According to the respondent, despite the multi-business firm being vertically integrated, some subsidiaries were not wholly owned by the corporate parent and in those subsidiaries, minority shareholders demanded that products be provided at market prices to other subsidiaries in the multi-business firm. Respondent 5 explained:

> “There are synergies. The problem with synergies in the group is when you sit with subsidiaries with different minority shareholders, you always have a transfer pricing question. Which means that for your minority shareholder, it's important for them to understand and feel secure in the relationship with the other subsidiaries.”

Expanding on these statements, Respondent 5 further indicated that minority shareholders often demanded that subsidiaries provide services to one another at market prices and not at a discount. According to the respondent, while this may be better for the purchasing subsidiary, it had a negative impact on the multi-business firm as a whole. To explain this situation, Respondent 5 stated:

> “To give you an example. if one subsidiary buys from another one, they will always want market-related prices. So even though there's synergy, if it's a brother or sister company providing that product, the one doing the purchasing will still go into the market and then source that same product from another person or another company. So, there's that minority shareholding problem where even though synergies exist, it’s more difficult just to buy within company because they (the minority shareholders) will always argue. They (minority shareholders) say if they can get something cheaper elsewhere then it's better for them to buy elsewhere… From the parent point of view, it does not make sense because even though they (purchasing subsidiaries) may save a five or 10 percent on a product or on the raw material, it will actually be negative for us as a shareholder in both those entities.”

5.3.5 Question 5: How do you balance short-term financial performance with the need by subsidiaries for build future resources and assets?

All respondents noted that the corporate parent placed emphasis on monitoring the short-term financial performance of its subsidiaries. The respondents did however note that while this was the case, in monitoring performance, consideration was also given the long-term objectives of subsidiaries and the multi-business firm as a whole.

Respondent 1 was of the view that the corporate parent placed too much emphasis on monitoring short-term financial performance, particularly as the corporate parent sought to hold businesses that were viable over the long-term. In highlighting the dangers of this approach, the respondent stated:

> "Short term performance is only good in the sense that it gives you something for this year, but it's not sustainable. It means nothing for a parent company like ours. When it comes to monitoring performance, there are some schools of thought that say that you can actually sacrifice short-term performance in order to build a business of the future. So, we need to make room for making mistakes or losing money or whatever. So, you shouldn't penalise businesses in the short term if you understand you're trying to do good things in the long-term."

Respondent 1 who earlier advocated for a more hands-on parenting approach, was of the view that the corporate had to allow more flexibility to enhance the long-term sustainability of its subsidiaries. The responded alluded that the corporate was, in part, responsible for the extent to which subsidiaries created future resources. In this respect, the Respondent 1 indicated:

> "Being a parent company, our aim is not to buy companies, make money and then sell them. We buy it to hold. For us, it means nothing for a company to just give us short-term bouts of great performance. We have to make sure that these subsidiaries are putting systems and innovation in place or whatever it is that they need to put in place to make sure that the short-term performance can be like kept sustainably into the future."

It appeared that subsidiaries had, in the past, made what the parent company considered to be mistakes in an attempt to create future resources and assets. With respect to these mistakes, Respondent 5 said:

> "I think by default we allow them (subsidiaries) to make mistakes because when they do make mistakes, we don't fire them on the spot."

This view was shared by Respondent 3 who, contrary to Respondent 1, was of the view that the corporate was too lenient on subsidiaries with respect to financial performance. Respondent 3 noted:

> "If you think about it, when you have business units that are underperforming, we let them slide horizontally."

Linked to the comments by Respondent 3 on the lack of consequences for poor financial performance, Respondent 2 noted some corporate parents allowed subsidiaries to perform poorly at the expense of competitiveness and productivity. With respect to corporate parents in general, the respondent stated:

> “I wouldn't say the parent should definitely look at short-term performance otherwise you don't incentivise the right behaviour. But, you need both long- and the short-term performance to win.”

With respect to applying pressure for short-term financial performance, Respondent 5 indicated that the corporate parent adopted differentiated approaches across its group of subsidiaries depending on their maturity and past financial performance. The respondent expressed:

> “I think the, for me, there are different approaches to different subsidiaries depending on the life cycle of that subsidy. If I have a subsidiary that's been in business for a while, I view this subsidiary as a very strong entity with strong historical performance. I will treat them much more say aggressively. Their targets are much more stretched, and I would expect more dividend payments from that particular subsidiary. If a subsidiary that's in the growth phase where I as a shareholder have agreed to grow them and double their EBITDA in the next two to three years, I will allow them probably more rope. So, it really depends on the life-cycle of the subsidiary.”

Having said this however, Respondent 5 also echoed the sentiments of Respondent 2 that loose financial monitoring could lead to complacency. The respondent indicated that in considering the performance of subsidiaries, the corporate parent tried to maintain a balance between growth and performance. The Respondent stated:

> “You don't necessarily want a subsidiary to get a culture of non-performance because that's not the idea. So, even if it’s a growing subsidiary, you may get to a point where they make bad investments. You then start to put more pressure on them in terms of that particular line (short-term financial performance).”

5.3.6 Summary of findings: Semi-structured interviews

It thus appears that in the case multi-business firm, the corporate parent's activities centred on governance, oversight and financial sponsorship. Views were mixed on the extent to which the corporate parent placed emphasis on short-term financial performance. While some respondents were of the view that the corporate parent's stringent short-term financial targets were a threat to sustainability, others expressed that the corporate parent was flexible in this respect. Most respondents acknowledged the importance of synergies in across the multi-business firm but highlighted that the firm had struggled with achieving these.

CHAPTER 6. DISCUSSION OF RESULTS

6.1 INTRODUCTION

The objectives of the study were as follows:

1. To evaluate whether subsidiaries perceive that the corporate parent creates value in the multi-business portfolio

2. To analyse the extent of congruence across the multi-business with respect to value-creation by the corporate parent.

As stipulated in Chapter 3, these objectives were addressed through research questions 1 and 2.

The approach to the investigation was to employ an exploratory, single case study design using as the case firm, a diversified food and agricultural multi-business firm in South Africa. Two methods of data collection were utilised which were survey questionnaires directed at executives within the multi-business firm's subsidiaries and semi-structured interviews with executives in the corporate parent structure. The outcomes of this investigation were presented as findings in Chapter 5. In this Chapter, these findings are discussed and contrasted with the literature presented in Chapter 2.

6.2 CREDIBILITY OF THE STUDY

As discussed in Chapter 4, the total target populations pertaining to the two research questions posed were 44 executives in the multi-business firm's subsidiaries and six executives in the corporate parent structure. In line with the guidelines stipulated by Leedy and Ormrod (2010) regarding research sampling, total population sampling was applied with respect to both research questions. Of the 44 members of the subsidiary-level senior manager population, responses were received from 33 which constituted a response rate of 75%. This response rate was above the typical response rate for online survey research which Nulty (2008) specified as 35%. Despite this high response rate, the number of total respondents was still low from a quantitative perspective. This limited the scope of statistical analysis in the study as only those techniques suited to small sample sizes could be used in the data analysis process. The analysis of data using these techniques was still statistically sound as the number of responses were above the minimum threshold of 30 responses as proposed by Zikmund, Babin, Carr, and Griffin (2012) regarding quantitative data analysis.

Although the survey element of the study entailed a small data set, this data was complemented with data obtained through the semi-structured interviews conducted with executives in the corporate parent structure to address the overall objective of the study. A total of five interviews were conducted which was in line with the guidelines for semi-structured interviews provided by Morse (1992) and Saunders et al. (2012).

Both the corporate parent and its subsidiaries were represented in the sample frames. This allowed the researcher to obtain a balanced perspective and, where applicable, triangulate the data as per the recommendations of Shenton (2004) for data credibility. Given this and in light of the above, it can be concluded that the study met the requirements for data adequacy and relevance stipulated by Guetterman (2015).

As the data collection instrument was adapted from the framework proposed by Kruehler et al. (2012), it would have been ideal to conduct confirmatory factor analysis (CFA). However, the requirement of 10 responses to one question or a minimum of 100 responses rendered the data unsuitable for a CFA (Kline, 2013). Notwithstanding this weakness, the researcher was still able to perform an internal consistency reliability test of the two sub-scale constructs using Cronbach's alpha. The two sub-scale constructs, horizontal mechanisms and vertical mechanisms, were found to be reliable with a Cronbach's alpha greater than 0.6 which is the minimum acceptable reliability as proposed by authors such as Hair et al. (2010). In summary, it can thus be concluded that there was adequate data for this study.

6.3 RESEARCH QUESTION 1: DO SUBSIDIARIES PERCEIVE THAT THE CORPORATE PARENT CREATES VALUE IN THE MULTI-BUSINESS PORTFOLIO?

As advocated by Campbell et al. (1995a), this research question was addressed from the perspectives of subsidiaries. The research question was addressed in two parts. The first entailed an assessment of the activities most undertaken by the corporate parent to create value while the second part entailed a measurement of the extent of value-creation by the corporate parent from the perspective of its subsidiaries.

The activities most undertaken by the corporate parent to create value for the subsidiaries in its portfolio were identified through an analysis of the descriptive statistics detailed in Section 5.2. The literature highlighted that corporate parents create value through two key categories of mechanisms: 1) Vertical mechanisms, 2) Horizontal mechanisms. Each of these mechanisms is linked to specific activities carried out by the corporate parent (Kruehler et al., 2012). As discussed in Chapter 2, a review of these activities provides an indication of the mechanisms most employed by corporate parents to create value for their subsidiaries. These activities also provide the basis for assessing parental value-creation as the deconstruction to activity level allows researchers to effectively engage with the recipients of value (subsidiaries) by simplifying broad concepts related to corporate strategy into tangible and observed activities.

The sections below provide a detailed discussion of the findings related to the activities carried out by the corporate parent from the perceptives of subsidiaries as they pertain to each influence mechanism.

6.3.1 Activities associated with vertical influence mechanisms

Vertical influence mechanisms, also known as "stand-alone influence", relate to the mechanisms employed by the corporate parent to influence its subsidiaries as individual entities. Kruehler et al. (2012) highlighted two components of vertical influence used by corporate parents: 1) the provision of strategic guidance and support and 2) the provision of central resources and services.

6.3.1.1 Activities related to the provision of strategic guidance and support

In the study, respondents were requested to indicate the extent to which they believed that the corporate parent undertook the tasks related to vertical influence specified in the questionnaire. With respect to the corporate parent's activities associated with the provision of strategic guidance and support, it was found that while the corporate parent provided strategic direction to subsidiaries and the multi-business firm as a whole, it did not get involved in the detail by prescribing strategic objectives for subsidiaries nor did it adopt a hands-on approach to strategic planning at the subsidiary level. This approach was advocated by Hungenberg (1993) and Natividad (2013) who highlighted the disadvantages of over-centralisation and central problem-solving, citing that subsidiary-level managers were best placed to make tactical business decisions given their proximity to the operating environment.

Bowman et al. (2002) noted that this stratified approach to strategic planning was indicative of a financial control corporate strategy which, as the authors noted, was characterised by high levels of decentralisation that afforded subsidiaries the flexibility to formulate their own strategic objectives, guided by the overall strategy, while drawing on the expertise of the corporate parent as required. Bowman et al. (2002) found that the financial control corporate strategy enacted in this manner appeared to be the dominant parenting style in large, diversified multi-business firms. The approach of the multi-business firm in this study, as a highly diversified organisation with multiple levels of reporting, was thus expected and typical of most large and diversified multi-business firms.

Regarding the corporate parent's role in the development and growth of its subsidiaries, it was found that the parent had limited its role in the business development of subsidiaries to the promotion of occasional merger and acquisition activities, and the funding of business activities to allow for consistent growth. In line with its apparent financial control corporate strategy, the corporate parent was relatively inactive with respect to the development of new organic growth options for its subsidiaries. It was also found that the corporate parent did not assist subsidiaries to divest non-core assets.

These findings are consistent with the assertions of Landau and Bock (2013) who found that corporate parents in highly-diversified portfolios largely limited their portfolio management roles to financial sponsorship and monitoring given limited capacity at the corporate centre and the typically acquisitive nature of these enterprises. Despite the predominance of the hands-off approach to business development among corporate parents with highly-diversified portfolios, Owen and Harrison (1995) highlighted significant disadvantages regarding this approach. These scholars argued that corporate parents, given their strategic orientation, had a crucial role to play in enhancing the market positioning and performance of the businesses under their control. Owen and Harrison (1995) further highlighted the that the divestiture of non-core and poorly-performing assets to support the overall performance of the firm's portfolio was core to the financial success of the multi-business firm as a whole. Goold and Campbell (1987a) posited that a hands-off approach to subsidiary business development may be indicative of a poor fit between the corporate parent and its subsidiaries as it was likely that inactivity by the corporate parent resulted from its limited understanding of the market dynamics experienced by subsidiaries. This poor fit, the authors argued, was likely to result in value-destruction by the corporate parent in the long-term.

Despite the lack of active assistance from the corporate parent in promoting growth, 56% of respondents agreed that they still derived growth-inducing benefits from the corporate parent's activities. As the corporate parent maintained an effective internal capital market, most subsidiaries were of the view that they were able to pursue longer-term objectives as they were protected from the pressures posed by external capital markets. Kruehler et al. (2012), described that in protecting subsidiaries from the pressures of external capital markets, these subsidiaries were able to adopt longer-term perspectives with respect to investment decisions.

Interestingly, 42% of respondents were of the view that the corporate parent did not allocate resources effectively throughout the firm to promote growth. The corporate parent's provision of an effective internal capital market appears contradictory to its perceived misallocation of firm-wide resources as effective allocation of resources is a prerequisite of the latter (Nippa et al.,2012). These contrasting findings are unsurprising as Nippa et al. (2012) stated that corporate parents achieve efficient resource allocation by using their views on future performance to reallocate capital away from stagnating subsidiaries towards future high-performers. It may thus be the case that respondents who cited that the corporate parent did not allocate resources effectively were part of underperforming subsidiaries from which the corporate parent had removed resources on the grounds of underperformance or other internal factors. These respondents would thus have displayed a perception bias in relation to the statement regarding the parent's resource allocation activities. Therefore, while the reported misallocation of corporate resources negatively affected the overall value-creation measure computed using the composite index, the true extent of value-creation through resource-allocation activities remains unclear.

Nevertheless, the perceived misallocation of corporate resources by the corporate parent, should at the very least, warrant closer inspection by the corporate parent as (Collis et al., (2007), N. J. Foss (1997) and Holmström Lind and Kang (2017) cited that effective corporate resource-allocation for the promotion of growth was critical to the success of multi-business firms and was one of the corporate parent's most critical responsibilities.

Surprisingly, most respondents agreed that their operational performance was enhanced by the corporate parent's involvement. It thus appears that while the corporate parent had adopted a relatively hands-off approach to corporate parenting both with respect to strategic planning and business development, 52% of subsidiaries were of the view that the corporate parent's activities added value at an operational level. Barker et al. (2001), McBride (2014) and Wernerfelt (1984) indicated that operational activities undertaken by corporate parents typically included the replacement of poorly-performing managers, the institution of turn-around processes and the promotion of a culture of administrative excellence. As alluded to in Chapter 4, in the case multi-business firm, the corporate parent predominantly exercised vertical influence through its representation on the boards of subsidiaries. While the study did not investigate the nature of discussions that took place at board meetings, it is likely that the performance of managers and administrative matters were discussed, and that subsidiaries found the contributions of the corporate parent helpful. This implies that the afore-mentioned assumption made by Goold and Campbell (1987a) that corporate parents that were not active in assisting their subsidiaries to build new organic growth options had limited operational understanding may not be warranted in relation to the case multi-business firm.

6.3.1.2 Activities related to the provision of central resources and services

In addition to the strategic levers discussed in the previous section, corporate parents also have at their disposal, operational levers to exercise their value-creating vertical influence. These relate to the provision of central services and resources to produce cost-savings across the multi-business firm.

Findings in the preceding section regarding the effectiveness of the multi-business firm's internal capital market were contradicted by respondents as some did not agree that the corporate parent provided short-term internal funding that helped them to avoid expensive external debt. 58% of survey respondents did however agree that they were able to obtain cheaper external funding due to the corporate parent's activities. The finding regarding short-term internal funding was unexpected as the corporate parent's organisational structure illustrated in Chapter 4 makes provision for a central treasury function which allocates funds within the multi-business firm and sources external funding for subsidiaries. Furthermore, according to Landau and Bock (2013), both the provision of internal funding and the ability to obtain cheap external funding are key components of an effective internal capital market.

While peculiar in relation to the literature, the view that the corporate parent did not effectively provide internal funding is consistent with the view highlighted in the preceding section that the parent did not effectively allocate resources across the multi-business firm. It thus appears that subsidiaries are mixed in their perceptions regarding the allocation of capital by the corporate parent. The assertions of Martin and Sayrak (2003) provide some insight on this outcome. These authors highlighted the effects of coinsurance in leveraging the strengths of high-performing businesses to the benefit of poor-performers in multi-business firms. This implies that while high-performers may be able to source cheap external funding, their ability to do so was moderated by the combined performance of the multi-business firm. It thus stands to reason that executives of high-performing subsidiaries may not hold the view that the internal capital market enhances their ability to obtain the best funding rates, both internally and externally.

In addition, most participants agreed that they benefited from central assets such as brands and other intangible assets provided by the corporate parent. This finding was expected as the multi-business firm enjoys a good reputation and wide-spread market presence, having been in operation for over 90 years (Respondent 5, October 2018). Responses were mixed regarding whether the corporate parent promoted the use of centrally bundled services such procurement and information technology with the aim of reducing overall costs. The provision of central assets and bundled services was described by Chandler (1991) as one of the corporate parent's loss-prevention roles. The author asserted that in justifying their existence, corporate parents had to, at a minimum, effectively perform their loss-prevention roles (Chandler, 1991).

Findings related to the benefit derived by subsidiaries in relation to financial compliance and taxation were contrary to expectations of high levels of agreement. In the case of the multi-business firm, financial reporting and tax administration were centralised in the corporate parent structure and overseen by a Group Chief Financial Officer. All activities related to tax administration and external financial reporting are carried out by the corporate parent. As such, on the assumption of an effective central finance function, it was expected that a large majority of respondents would agree that the corporate parent facilitated tax optimisation and reduced financial reporting requirements. On the contrary, 29% of respondents disagreed that they benefited from tax optimization while 17% of the respondents disagreed that their external reporting requirements were minimised due to consolidated disclosures. Thus, in relation to the value-creation composite index used in this study, it was concluded that while the corporate parent did appear to be creating value through its administrative finance functions, this value was lower than expected.

That being said however, Dischinger et al. (2014), Kim and Tan (2016) and Egelhoff (2010) highlighted that financial reporting and tax optimisation were largely loss-prevention functions that were carried out not with the view of creating value to individual subsidiaries but rather of solving agency problems arising from the self-interest of subsidiary-level managers and minimising losses across the multi-business firm. It could thus be proposed that the value-creation effects of the corporate parent's administrative finance activities may be observable at a consolidated multi-business level, rather than at an individual subsidiary-level. The testing of this proposition was not within the scope of this research.

6.3.2 Activities associated with horizontal influence mechanisms

The second way in which a corporate parent can influence its subsidiaries is through horizontal influence. This mode of influence, also referred to by Campbell et al. (1995b) as “linkage influence”, is concerned with the creation of value by fostering cooperation between businesses in the portfolio and providing central functions and services with the aim of achieving economies of scale in the procurement of services (McBride, 2014; Menz et al., 2013). Kruehler et al. (2012) highlighted that corporate parents carry out activities associated with horizontal influence for two primary reasons: the achievement of sales and managerial synergies, and the enhancement of operating synergies.

6.3.2.1 Sales and managerial synergies

The study assessed whether the corporate parent carried out activities to promote collaboration across the multi-business firm and whether this collaboration had yielded benefits at the subsidiary level. While cooperation did not appear to have an explicit impact on sales, subsidiaries did appear to benefit from sharing knowledge to enhance strategic positioning and operational efficiency as evidenced by the positive responses received from most subsidiary-level managers. Furthermore, 58% of participants agreed that they developed new strategic assets jointly to gain an advantage over stand-alone competitors.

A review of the organisational structure of the case of the multi-business firm presented in Chapter 4 highlights the complex corporate governance structures within the firm and the structured network organisational structure of the multi-business firm. These complex corporate governance and organisational structures make provision for cross-subsidiary directorships. Popli, Ladkani, and Gaur (2017) highlighted that it was these cross-subsidiary directorships that were key in the pursuit of managerial synergies. Singh and Delios (2017) also found that in multi-business groups with cross-subsidiary directorships, subsidiaries were more likely to undertake bolder expansion initiatives which led to superior performance in the long-term. In the previous section on vertical mechanisms, the inactivity of the corporate parent on matters relating to the business development of subsidiaries was discussed. The findings in this section related to the support that subsidiaries provide to one another through cross-subsidiary directorships may thus be considered to be a mitigating factor in the growth and investment pursuits of subsidiaries across the Group.

6.3.2.2 Operating synergies

Kruehler et al. (2012) argued that multi-business firms should also aim to jointly develop rare and costly strategic assets to maintain competitive advantage. While the majority of respondents agreed that such joint development took place within the multi-business firm, there were mixed results regarding whether such collaboration resulted in the achievement of scale and scope economies. This may be the result of the moderate level of relatedness within the case multi-business firm's portfolio which spans several industry sectors including manufacturing and financial services. The existence of unrelated subsidiaries within the multi-business firm provides limited scope for the reduction and distribution of fixed costs across the firm (Davies et al., 1997). This finding is consistent with the findings of Helfat and Eisenhardt (2004) who cited that opportunities for scale and scope economies were greater across related subsidiaries.

6.3.3 Measured value-creation

The activities carried out by the corporate parent were identified from an analysis of the descriptive statistics detailed in Chapter 5. Having identified these activities, the researcher measured the extent of value-creation by the corporate parent. For this purpose, a value-creation composite index was constructed taking into account the above-indicated vertical and horizontal value-creation mechanisms and activities of the corporate parent.

As discussed in Chapter 5, the value-creation composite index was constructed after the exclusion of variables (activities) that did not meet reliability criteria. The computed overall value-creation composite index was obtained by aggregating the partial composite indices, which represent the arithmetic means of the reliable variables comprising each sub-scale construct (Vertical Mechanisms and Horizontal Mechanisms). The overall composite index was found to be 2.8 out of a perfect score of 4. This indicates that while the corporate may be deemed to be creating value to the subsidiaries in its portfolio at an aggregate level, room for improvement exists.

With respect to value-creation via vertical mechanisms, a partial index value of 1.42 was obtained. This indicates a moderate level of value-creation by the corporate through these mechanisms. While it was found that the corporate parent did generally create value by providing strategic guidance and support to subsidiaries, the parent's ineffectiveness in the promotion of subsidiary business development was cause for concern as this may negatively impact the long-term growth of subsidiaries.

These findings were unsurprising as it was found that the corporate parent employed a relatively hands-off approach in exerting its vertical influence. The corporate parent restricted its activities to high level strategic planning and major business development as although subsidiaries were afforded high levels of autonomy with regard to operational matters, the corporate parent in the case multi-business firm retained financial control through a central treasury function which oversaw all major strategic business development activities. The efficiency of the corporate parent in providing an effective internal capital market was questionable as respondents provided mixed responses on the extent to which they derived benefits from the corporate parent's efforts in this regard.

Regarding the corporate parent's value-creation via horizontal mechanisms, a partial index value of 1.38 was computed. Overall, it was found that subsidiaries benefited from the corporate parent's horizontal influence mechanisms, particularly from a strategic point of view. Respondents reported that there was some cooperation across the multi-business firm and they jointly developed strategic assets such as brands. This cooperation however, did not appear to explicitly yield benefits in relation to operational performance as increases in sales or efficiencies were not consistently observed by subsidiaries. Davies et al. (1997) highlighted that this was a common occurrence in multi-business firms. The authors cited that the mere sharing of corporate resources did not imply synergy and that while resource-sharing was a necessary condition for value-creation through horizontal mechanisms, it was not sufficient.

The findings of this study call into question the value-created by the corporate parent through performing activities linked to horizontal mechanisms, particularly in light of the high level of diversity in the multi-business firm's portfolio. Pidun (2017) in a study on horizontal value-creation mechanisms cautioned against the pursuit of synergies in diversified portfolios, highlighting that the potential to create value through horizontal coordination was contingent on the relatedness of the multi-business portfolio with respect to both markets and the stage of business development. Consistent with the pessimistic view by Pidun (2017) regarding horizontal influence mechanisms, Goold et al. (1998) boldly noted that the importance of synergies in value-creation was overrated and that corporate parents should rather direct their efforts towards vertical influence mechanisms. These authors posited that in many instances, attempts made by the corporate parent to foster internal collaboration led to value-destruction as subsidiaries should be able to naturally find common ground if collaboration made commercial sense.

In conclusion, it was assessed that subsidiaries did perceive that the corporate parent created value in the multi-business portfolio and that this value-creation was largely facilitated by the corporate parent's vertical influence mechanisms.

6.4 RESEARCH QUESTION 2: IS THERE CONGRUENCE ACROSS THE MULTI-BUSINESS FIRM REGARDING VALUE-CREATION BY THE CORPORATE PARENT?

The second research question aimed to assess congruence across the multi-business firm regarding the parent's value-creation. The literature review presented in Chapter 2 highlights that with respect to value-creation by corporate parents, congruence in the multi-business firm may be defined as an alignment between structures and systems in the multi-business firm, and the dominant value-creation corporate strategy (Bowman et al., 2002).

In this study, congruence was assessed by triangulating of the perspectives of executives across the multi-business firm to determine the dominant value-creation corporate strategy adopted by the corporate parent in the multi-business firm followed by an assessment of structures and systems that prevail in the firm.

6.4.1 The dominant value-creation corporate strategy adopted by the corporate parent in the multi-business firm

Grant (1995) defined corporate strategy in the context of multi-business firms as the manner in which the corporate parent influences the businesses in its portfolio. Bowman et al. (2002) defined four distinct corporate strategies that corporate parents may adopt to create value to the subsidiaries under its stewardship, namely, financial control, scale, leverage and creativity. Linked to the definition provided by Grant (1995), Bowman et al. (2002) noted that these strategies are discernible based on the capabilities exploited by corporate parents and, the vertical and horizontal interventions undertaken by these parents in the multi-business portfolio. In order to achieve strategic congruence in the multi-business firm, Bowman et al. (2002) asserted that there should be alignment between the corporate parent's identified corporate strategy and the systems and structures within the organisation. For this to occur, the authors emphasised that "corporate executives need to be very clear on the predominant resource creation strategy they are pursuing" (Bowman et al., 2002, p.675).

From the interviews with executives in the corporate parent, it was found that no value-creation corporate strategy had been explicitly defined. An analysis of interview and survey data did however allow the researcher to infer the corporate parent's value-creation corporate strategy. Bowman et al. (2002) cited that a corporate parents value-creating corporate strategy was determined by three factors:

- The level of subsidiary autonomy
- The centrality of the corporate parent to the growth and development of subsidiaries
- The emphasis placed by the corporate parent on cross-subsidiary cooperation

6.4.1.1 Strategy determinant 1: The level of subsidiary autonomy

Bowman et al. (2002) highlighted that subsidiary autonomy both with respect to strategy-setting and operations, was a key determinant of corporate strategy. The authors noted that greater subsidiary autonomy was consistent with the financial control corporate strategy wherein subsidiaries exercised significant control over their strategic planning process and the role of the corporate was to set and monitor financial targets and provide funding as needed. At the other extreme, the authors highlighted the scale corporate strategy that provided for minimal subsidiary autonomy and active corporate parenting with the aim of maximising synergies in the multi-business firm (Bowman et al., 2002).

With respect to the autonomy of subsidiaries regarding strategic planning, divergent views were expressed by executives in the corporate parent structure. Most respondents agreed that the corporate parent provided overall strategic direction for the multi-business firm, a finding that was consistent with the results of the assessment of the views of subsidiary-level executives described in Section 6.3.2. However, while some corporate-level respondents noted that the corporate parent did not get involved in strategic planning at subsidiary-level, others alluded to a more hands-on approach by the corporate parent to subsidiary-level strategic planning. As an illustration of this hands-on approach, one of the executives cited that the corporate parent set KPIs for subsidiaries and set top-down performance targets.

It was evident that regarding the strategic autonomy of subsidiaries, there was no common understanding among corporate-level executives and that the multi-business firm struggled to maintain a balance between centralisation and decentralisation of strategic decision-making in the firm. Respondent 5 conceded to this challenge, noting that subsidiaries had limited understanding of the limits to their autonomy, an outcome which, according to some respondents, was worsened by inadequate communication and oversight

The issue of subsidiary strategic autonomy and its implications on multi-business firm structure and effectiveness has been studied in great detail and the debate regarding centralisation versus decentralisation in multi-business firms continues (Hungenberg, 1993). While most scholars agree that the corporate parent has an important role in the multi-business firm, authors such as Ambos and Mueller-Stewens (2017), and Cusumano et al. (2015) advocated minimal involvement by the corporate parent in subsidiary-level strategy-setting. On the other hand, Collis et al. (2007); N. J. Foss (1997) and Holmström Lind and Kang (2017) advocated for active parenting by the corporate centre (centralisation), highlighting that the task of strategic planning was best carried out by the corporate parent.

Given the conflicting views that prevail even in academic circles regarding the optimal level of subsidiary autonomy in the strategic planning process, the divergent responses received from corporate level executives were unsurprising, particularly as no clear corporate strategy had been articulated to executives in the corporate parent. This finding was in line with Goold and Campbell (1987) who highlighted that one of the key challenges of the structured network organisational design was ambiguity regarding subsidiary autonomy and the role of the corporate parent. This ambiguity, the authors cited, negatively affected the corporate parent’s ability to create value in the multi-business firm. Despite conflicting views regarding the strategic autonomy of subsidiaries, there appeared to be some alignment across the multi-business firm regarding the operational autonomy of subsidiaries. The views expressed by corporate level executives that the parent did not partake in decision-making was corroborated by subsidiary-level managers through the survey study. The responses of corporate level managers indicated that the corporate parent was of the view that this approach was most appropriate for creating value. This approach was supported by organisational theorists such as Cusumano et al. (2015) and Snihur and Tarzijan (2017) who advocated maximum decentralisation and minimal operational interference by the corporate parent. This the scholars noted, reduced the costs associated with excessive hierarchies and bottlenecks (Cusumano et al., 2015; Snihur & Tarzijan, 2017).

The findings in this section indicate that while there were conflicting views regarding subsidiary-level strategic planning, the corporate appeared to have adopted a stratified approach to strategic planning in the multi-business firm. In addition, the findings show that with respect to operational decision-making, subsidiaries functioned independently of the corporate parent. It may thus be concluded that a significant level of subsidiary autonomy existed in the case multi-business firm.

6.4.1.2 Strategy determinant 2: The centrality of the corporate parent to the growth and development of subsidiaries

The second determinant of corporate strategy concerns the extent to which the growth and operational effectiveness of subsidiaries centres around or is driven by the corporate parent (Bowman et al., 2002). According to the taxonomy of corporate strategies defined by Bowman et al. (2002), the corporate parent was central to the growth and operational effectiveness of its subsidiaries in multi-business firms where the scale corporate strategy had been adopted. On the other hand, in firms where the financial control corporate strategy had been adopted, the role of the corporate parent in the growth of its subsidiaries was primarily portfolio construction and resource allocation (Bowman et al., 2002).

6.4.1.2.1 Centrality in the growth and development of subsidiaries

Regarding the corporate parent's role in the development and growth of its subsidiaries, subsidiaries reported that the corporate parent's role was limited to the promotion of occasional merger and acquisition activities and that the parent did not work with subsidiaries to develop new growth options or divest under-performing assets. This hands-off approach to subsidiary business development was consistent with the view expressed by executives in the parent structure. These managers highlighted that in so far as business development was concerned, their involvement was in providing oversight and monitoring and ensuring effective allocation of capital.

With respect to capital allocation to facilitate growth, the results of the survey study revealed that subsidiary-level managers were of the view that the corporate parent was ineffective. This view was not shared by corporate-level managers who repeatedly emphasised the effectiveness of the corporate parent's internal capital market. An explanation for this divergence may be found in one interviewee's (Respondent 1) remarks. The interviewee noted that the corporate parent's actions, at times, led to complacency on the part of subsidiaries as these entities felt entitled to corporate support. This implies that in some instances, the corporate parent allocated resources to subsidiaries that had not demonstrated past performance. The observation supports the findings of Bardolet et al. (2011). These authors found that the process of capital allocation in multi-business firms was at times undermined by the biases of corporate parents, leading to over-investment in under-performing businesses and under-investment in subsidiaries that perform well.

Despite their perception of the shortcomings of the corporate parent in the assistance that it provided in terms of capital allocation, subsidiaries mostly agreed that the corporate parent did allow them to pursue longer-term growth objectives as they were protected from the pressures of external capital markets. This view was shared by corporate level executives, many of whom emphasised the corporate parent's centrality to the financial sustainability of subsidiaries. Most interviewees were of the view that the corporate parent maintained an effective capital market that not only allowed subsidiaries to access cheap funding but also ensured their ability to operate as going concerns.

6.4.1.3 Strategy determinant 3: The emphasis placed on cross-subsidiary cooperation

While corporate level executives stated that synergies were important, most executives indicated that the multi-business firm had not managed to achieve these. There was also no indication from these executives that the corporate parent had prioritised collaboration across the multi-business firm. This finding was consistent with the views of subsidiary-level managers who did not indicate strong agreement that the corporate parent promoted collaboration. Bowman et al. (2002) cited that this lack of emphasis by corporate parents on internal cooperation was consistent with a financial control corporate strategy.

Although the multi-business firm appeared to be unsuccessful in achieving synergies and cooperation, the responses received from corporate-level executives indicated a strong desire by the corporate parent to improve this situation. According to Respondents 1 and 3, the attainment of synergies would serve as an indicator of success in the corporate parent's portfolio construction. The respondents were of the view that to a large extent, the corporate parent had invested in businesses that were able to mutually benefit one another and should thus seek collaboration. It was evident that despite the assertions of Goold et al. (1998) that the importance of synergies was overrated, executives in the corporate parent still considered them to be important.

Pidun (2017) noted that the struggle to achieve synergies was common in multi-business portfolios, particularly those with subsidiaries that operated in unrelated sectors. While this may have been the cause for the low levels of synergies in the portfolio of the case multi-business firm, senior managers highlighted two additional inhibitors of synergy. According to respondents, the first inhibitor related to the culture in the multi-business firm. Respondents noted that this culture promoted the prioritisation of the subsidiary's success over the prosperity of the multi-business firm as a whole. Goold and Campbell (2000) in a study on the horizontal mechanisms employed by corporate parents highlighted this outlook by subsidiaries as a "synergy killer" that was often fuelled by the perpetuation of individual performance targets set by corporate parents which disincentivised collaboration.

The second inhibitor of internal cooperation noted by respondents was the complexity of shareholding arrangements in subsidiary companies wherein the corporate parent was not the sole shareholder. One respondent (Respondent 5) noted that the existence of minority shareholders in some subsidiaries negatively affected operational collaboration across the multi-business firm as these shareholders insisted that subsidiaries should be looked at as individual entities and not as key components and part of the corporate parent's integrated portfolio. The respondent indicated that while this was sometimes positive for the individual subsidiaries in which minority shareholding existed, it meant that sometimes, scale and scope economies associated with horizontal synergies were often not attained at the multi-business level.

The matter of complex shareholding arrangements is under-researched by scholars as many assess multi-business synergies and parenting activities under the assumption that the corporate parent is the sole shareholder in its group of subsidiaries. An assessment of corporate parenting in the context of complex shareholding arrangements may provide more insight on additional constraints to effective corporate parenting from the point of view of investment theory or behavioural economics.

6.4.1.4 The corporate parent's assessed value-creation corporate strategy

Table 9 provides a summary of the findings relating to the three determinants of the corporate parent's value-creation corporate strategy. From the table and the preceding paragraphs, it is evident that out of the four value-creation corporate strategies defined by Bowman et al. (2002), financial control was dominant. To a smaller extent, scale was also used by the corporate parent to create value.

Table 9: Summary of findings on the corporate parent's value-creation corporate strategy

	Strategic determinant		Manifestation in the multi-business firm	Related corporate strategy according to Bowman et al. (2002)
1	The level of subsidiary autonomy	Strategic autonomy	Moderate	Financial control
		Operational autonomy	High	Financial Control
2	The centrality of the corporate parent to the growth and development of subsidiaries	Parental centrality in business development	Low	Financial control
		Parental centrality in capital allocation and funding	High	Scale
3	The emphasis placed by the corporate parent on cross-subsidiary cooperation	Prioritisation of coordination	Low	Financial Control
		Desire for coordination	Moderate	Scale

6.4.2 Alignment between the dominant value-creation corporate strategy adopted by the corporate parent and the structures and systems within the multi-business firm

Bowman et al. (2002) noted that the performance measures applied by corporate parents were an indicator of the structures and systems prevailing within the multi-business firm as subsidiaries were likely to behave in a manner that was consistent with the firm's incentivisation mechanisms. The authors cited that the monitoring of short-term financial performance was consistent with the Financial Control corporate strategy as the aim of corporate parents that had adopted this corporate strategy was to provoke learning through imposing struct financial targets.

In the study, corporate-level executives agreed with the need to find a balance between short-term financial performance and longer-term growth requirements. Despite this recognition, respondents highlighted that the corporate parent disproportionally emphasised the monitoring of short-term financial targets, largely with the aims of dissuading undesirable behaviour by subsidiaries.

An analysis of the value-creation corporate strategy and the above performance measures used by corporate parents allowed for the assessment of strategic congruence in the multi-business firm (Bowman et al., 2002). While authors such as Bowman and Ambrosini (2003) criticised the tendency of some corporate parents to prioritise short-term measures over more strategic measures, the emphasis on short-term financial performance when assessed against the case firm's dominant value-creation corporate strategy is considered to be positive. This is because the strict monitoring of short-term financial performance is consistent with the financial control corporate strategy according to the taxonomy of corporate strategies provided by Bowman et al. (2002). This is an indicator of a high level of congruence between the multi-business firm's dominant value-creation corporate strategy and the structures and systems that prevail within the firm.

6.5 CONCLUSION

From the analysis of survey and interview data, it was found that the corporate parent in the case multi-business firm created value to the subsidiaries in its portfolio. This value-creation was largely carried out through the corporate parent's vertical influence mechanisms. While authors such as McBride (2014) and Menz et al. (2013) highlighted the importance of horizontal influence mechanisms in parental value-creation, the study found that the corporate parent placed little emphasis on these influence mechanisms and that subsidiary collaboration was likely to be driven by the subsidiaries themselves.

While corporate-level executives expressed a desire to enhance synergies within the multi-business firm, Goold et al. (1998) cautioned that the importance of synergies was overrated. These authors posited that in many instances, attempts made by the corporate parent to foster internal collaboration led to value-destruction as subsidiaries should be able to naturally find common ground if collaboration made commercial sense. Thus, in line with Goold et al. (1998) and Pidun (2017) recommended that corporate parents direct their scarce resources towards vertical influence mechanisms.

The second objective of the study was to assess the extent to which there was congruence across the multi-business firm with respect to the corporate parent's value-creation. In this regard, significant alignment was found between the parent's value-creation corporate strategy and the structures and systems that prevailed in the firm.

CHAPTER 7. CONCLUSION

7.1 INTRODUCTION

Scholars of corporate strategy concur that in the multi-business firm, the primary role of the corporate parent (headquarter) is to create value to the subsidiaries under its control (Pidun, 2017). As the chief custodians of multi-business portfolios, corporate parents create value by influencing their subsidiaries in a manner that enhances their performance and competitive positioning (Chandler, 1991). Campbell et al. (1995a) supported by authors such as Ciabuschi, Forsgren, and Martín Martín (2017) and Landau and Bock (2013) oulined two value-creation influence mechanisms at the disposal of corpoarte parents. The first of these mechanisms, referred to as vertical influence, compasses the actions taken by the corporate to create value to their subsidiaries as stand-alone entities (Campbell et al., 1995b). The second mechanism, horizontal influence, refers to the activities taken by the corporate parent to foster collaboration and promote synergies across the multi-business firm (Campbell et al., 1995b).

While the aforementioned scholars assigned a value-creation role to corporate parents, Kruehler et al. (2012) and Tallman (2017) indicated that the assessment of the extent to which corporate parents fulfil this role remains elusive. As such, Campbell et al. (1995a) asserted that many corporate parents, unaware of their impact on subsidiaries, pursue interventions that ultimately result in value-destruction within multi-business portfolios. This, according to Bowman et al. (2002) increased the risk that corporate parents may implement corporate strategies that are at odds with the ultimate aims of multi-business firms.

To address these challenges, Kruehler et al. (2012) indicated that corporate parents should continually assess the extent to which they create value in multi-business. As advocated by Campbell et al. (1995b), Kruehler et al. (2012) noted that such an assessment should be conducted from the point of view of subsidiaries who are deemed to the recipients of parenting value. Furthermore, Bowman et al. (2002) expressed that corporate parents should be clear on which value-creation strategies they pursue and ensure that such strategies are congruent with the aims and structures of their multi-business firms.

In light of these challenges and assertions, this study pursued an exploratory case study of a diversified multi-business firm operating in the South African food and agricultural sector to achieve two main objectives:

1. To evaluate whether subsidiaries perceive that the corporate parent creates value in the multi-business portfolio

2. To analyse the extent of congruence across the multi-business firm with respect to value-creation by the corporate parent

The first objective was addressed from the point of perspective of subsidiary-level managers while the second entailed a triangulation of responses received from executives in the subsidiaries and the corporate parent structure of the case multi-business firm.

7.2 PRINCIPAL FINDINGS

To evaluate whether subsidiaries perceived that the corporate parent created value, the effectiveness the corporate parent's activities, as perceived by subsidiaries, were measured using a value-creation composite index. The value-creation composite index, constructed as part of the study using a framework proposed by Kruehler et al. (2012) assessed both the vertical and horizontal activities of the corporate parent.

It was found that the corporate parent in the case multi-business firm created value, particularly through the enactment of its vertical influence mechanisms. The study found that while the corporate parent retained strategic control in the multi-business firm, subsidiaries had a high level of autonomy with respect to operational matters. Bowman and Ambrosini (2007 and Natividad (2013) found that this stratified approach was common in diversified multi-business firms.

Goold and Campbell (1987a) stated that such a hands-off approach by the corporate parent to operational matters demonstrated limited understanding by parent of the market dynamics experienced by its subsidiaries and was thus indicative of a poor fit between the corporate parent and its subsidiaries. In the study, it was found that this did not appear to the case in the case multi-business firm as subsidiaries reported that they derived growth-inducing benefits from the corporate parent's activities. These benefits included competitive funding rates and the provision of central assets that enhanced the competitive positioning of subsidiaries.

While most subsidiary-level executives agreed that the corporate parent maintained an effective internal capital market, the study found indications that this internal capital market may disincentivise high-performing subsidiaries as funding was sourced with the consolidation of the multi-business firm's balance sheet, which encompassed poor-performing subsidiaries.

This finding was consistent with the views of Martin and Sayrak (2003) who found that the effects of coinsurance in leveraging the strengths of high-performing businesses to the benefit of poor-performers in multi-business firms may lead to ineffective capital allocation in multi-business firms.

The study also found that cross-subsidiary coordination was a challenge in the case multi-business firm. Landau and Bock (2013) noted that this challenge was prevalent in the diversified portfolios. While scholars such as Goold et al. (1998) and Van Oijen and Douma (2000) have attributed this challenge to portfolio relatedness, the study found that complex shareholding arrangements wherein the corporate parent did not wholly own subsidiaries also contributed negatively to the achievement of synergies. This in respect, the study expanded existing literature by introducing elements of corporate finance and governance to the synergy discussion.

The study also found that as the corporate parent had not defined and articulated its value-creation corporate strategy, the limits of subsidiary autonomy were not well-understood across the multi-business firm. Divergent views were also expressed within the corporate parenting structure regarding the role that the corporate parent should play in the multi-business portfolio. While this created some confusion in the firm, the largely hands-off stance of the corporate parent of the corporate parent with respect to operational matters and the low level of cross-subsidiary collaboration which existed were found to be congruent with the largely financial control-based parenting approach of the corporate parent. As such, it was found that the inferred corporate strategy which Bowman et al. (2002) term “Financial Control” was congruent with the structures which prevailed within the multi-business firm.

7.3 CONTRIBUTION

Pidun (2017) highlighted that while it is now widely accepted that corporate centres must prove their right to exist by demonstrating value-creation, the author also noted the difficulty of assessing the extent of this value-creation. Existing literature provides a theoretical base for determining multi-business strategy but does not provide tools to measure parental value-creation (Kruehler et al., 2012). The primary contribution of this study was construction of a value-creation composite index that allows researchers to drill further into concepts of corporate strategy when assessing value-creation by corporate parents.

In addition, the case study approach adopted in this study provided for the use of multiple data collection techniques to obtain deep insights on value-creation from both the perspectives of both the corporate parent and its subsidiaries. Studies such as those conducted by Chang and Hong (2002) and Nell and Ambos (2013) assessed value-creation by corporate parents using quantitative techniques to draw establish causal relationships between corporate parenting and financial performance. While noting their contribution to the advancement of diversification theories, Castellaneta and Gottschalg (2016) and Ciabuschi, Forsgren, Martín Martín, et al. (2017) were critical of their findings noting such narrow definitions of parental performance required a clear alienation corporate effects from basket of factors affecting subsidiary performance. To address this concern, this study obtained a balanced view of value-creation, taking into account measures broader than the financial.

This research also contributed to the growing body of literature on corporate parenting by highlighting the implications of complex shareholding structures on synergy-creation within multi-business firms. Although studies conducted by Alscher and Brauer (2015) and Makridakis (1991) highlight the effects of minority shareholdings on multi-business firm portfolio construction and corporate governance, few studies have investigated the implications of these shareholding arrangements on the horizontal influence mechanisms of corporates in multi-business structure.

7.4 IMPLICATIONS FOR MANAGEMENT

Despite the emphasis that multi-business executives and investors place on the corporate centre, (Natividad, 2013) noted that the corporate strategy was elusive and difficult to assess. The value-creation composite index constructed in this study, serves a tool that may be used by practitioners to evaluate corporate strategy and the performance of corporate parents in multi-business structures. In line with the assertion of (Collis et al. (2007) that a firm’s structure must be aligned to its strategy, the composite index constructed in this study may also serve as a guide regarding appropriate firm structures.

Nardo et al. (2005) noted that composite indices were helpful in deconstructing complex and multi-faceted phenomena into their relevant indicators. These authors also stated that such measures were useful in tracking progress over time as assessments could be conducted at various points. As such, the value-creation composite index may also be used to assess the relative positions multi-business firms with respect to value-creation. This has the potential to provide strong comparative data that can be used by consultants to draw industry-wide insights and recommendations in instances of multi-business failure.

7.5 LIMITATIONS OF THE RESEARCH

While the case study approach adopted in this study was instrumental in addressing the its research objectives, this approach limited the extent to which the research findings may be extrapolated from a statistical point of view. A further limitation lay in the study's definition of value-creation by corporate parents. In the study value-creation was assessed along the dimensions of vertical and horizontal influence mechanisms. While these two dimensions were dominant in the literature reviewed, Adner and Helfat (2003) cited that market effects also had an implication on value-creation by corporate parents.

7.6 RECOMMENDATIONS FOR FUTURE RESEARCH

Emergent from this study, were number of themes beyond the scope of the research conducted. The first of these themes related to the role of the multi-business firm's corporate governance framework in providing stability to the parent-subsidiary relationship. In line with Chandler (1991), respondents in the study acknowledged that it was the corporate parent's responsibility to ensure sound corporate governance. The findings of this study reveal however, that the corporate parent had allowed a high level of flexibility which led to a lack of adherence to the provisions stipulated in the firm's corporate governance framework. While Kostova et al. (2017) assessed corporate governance in multi-business firms from an agency theory perspective, an assessment of multi-business governance frameworks from a value-creation perspective would greatly contribute to the body of knowledge on multi-business firm effectiveness.

An additional emergent theme related to the dynamic capabilities of corporate parents and their role in creating new valuable resources for the multi-business firm. Since the popularisation of the construct of dynamic capabilities by Teece et al. (1997), there has been little progress towards its theoretical development despite increasing uptake among practitioners (Pisano, 2017). Although authors such as Bowman and Ambrosini (2003) and Adner and Helfat (2003) have contributed to the scholarly understanding of the role of the corporate parent in resource-creation, studies on the matter remain limited (Menz et al., 2013; Snihur & Tarzijan, 2017). Further scholarly research on the application of dynamic capabilities may help to provide practical advice on how corporate parents may build these dynamic capabilities.

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APPENDICES

APPENDIX A: SURVEY DATA COLLECTION INSTRUMENT

Informed consent

Research title: Value-creation by corporate parents in multi-business firms: Assessing effectiveness and congruence
Institution: Gordon Institute of Business Science (GIBS)
Program: MBA

I am conducting research on the mechanisms and capabilities through which corporate parents (headquarters) in multi-business firms create value to the businesses in their portfolios. To that end, you are asked to indicate your views on the statements presented as they relate to your parent company. This will help us better understand the roles of corporate parents and should take no more than 20 minutes of your time. Your participation is voluntary, and you can withdraw at any time without penalty. Your participation is anonymous and only aggregated data will be reported. By completing the survey, you indicate that you voluntarily participate in this research. If you have any concerns, please contact my supervisor or me. Our details are provided below.

Researcher: Rethabile Nkosi
Email: rethabile.nkosi@gmail.com
Phone: 079 401 7223

Research Supervisor: Matthew Birtch
Email: birtchm@gibs.co.za
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Questionnaire

A	***Strategic guidance and support***			
	Indicate the extent to which you agree or disagree that the following statements (HQ refers to Group-level)	**Agree**	**Disagree**	**Neutral**
A1	The HQ provides its subsidiaries with overall strategic direction			
A2	The HQ sets the overall vision for the Group of companies			
A3	The HQ formulates top-down strategic objectives for subsidiaries			
A4	The HQ supports subsidiaries with specific strategic expertise (e.g. strategic planning expertise or scenario planning expertise)			
A5	The HQ actively promotes the merger and acquisition activities of subsidiaries			
A6	The HQ works closely with subsidiaries to develop new organic growth options			
A7	The HQ helps subsidiaries to divest non-core or non-performing assets			
A8	The HQ allocates the Group's resources effectively to promote growth			
A9	Subsidiaries are able to pursue longer-term objectives because the HQ provides them with protection from external capital markets			
A10	The operational performance of subsidiaries is enhanced by the HQ's involvement			
A11	The HQ actively promotes cooperation between subsidiaries			
B	***Central resources and services***			
	Indicate the extent to which you agree or disagree that the following statements (HQ refers to Group-level)	**Agree**	**Disagree**	**Neutral**
B1	Subsidiaries benefit from central assets provided by the HQ (e.g. brands)			

B2	Subsidiaries realize cost advantages by using centrally bundled services (e.g. IT, procurement)			
B3	Subsidiaries benefit from short-term internal financing to avoid expensive external debt			
B4	The HQ offers subsidiaries a lower cost of external funding than they can achieve on their own			
B5	Subsidiaries benefit from tax optimization across the Group			
B6	External reporting requirements of subsidiaries are minimized due to consolidated disclosures			
C	***Sales and managerial synergies***			
	Indicate the extent to which you agree or disagree that the following statements (HQ refers to Group-level)	**Agree**	**Disagree**	**Neutral**
C1	Subsidiaries increase sales through cross-selling to the same customer base			
C2	Subsidiaries increase sales through bundling of products across the Group			
C3	Subsidiaries benefit from sharing capabilities with each other (e.g. customer knowledge)			
C4	Subsidiaries benefit from sharing knowledge with each other in order to maximize operational excellence			
C5	Subsidiaries develop new strategic assets jointly to gain an advantage over stand-alone competitors			
D	**Operating and investment synergies**			
	Indicate the extent to which you agree or disagree that the following statements (HQ refers to Group-level)	**Agree**	**Disagree**	**Neutral**
D1	Subsidiaries realize economies of scope due to cooperation within the integrated value chain			
D2	Subsidiaries realize economies of scale from combined activities (can produce cheaper)			
D3	Subsidiaries benefit from pooling production assets (e.g. manufacturing)			
D4	Subsidiaries have cost advantages through combined purchasing power			

APPENDIX B: INTERVIEW GUIDE

Informed consent

Research title: Value-creation by corporate parents in multi-business firms: Assessing effectiveness and congruence
Institution: Gordon Institute of Business Science (GIBS)
Program: MBA

Thank you for agreeing to be interviewed as part of the above research project. I am conducting research on the mechanisms and capabilities through which corporate parents (headquarters) in multi-business firms create value to the businesses in their portfolios. I am trying to assess how these mechanisms and capabilities affect structure and control.

Our interview is expected to last 30 minutes, and will help us understand how corporate parents view value creation in multi-business firms. **Your participation is voluntary, and you can withdraw at any time without penalty**. All data will be reported confidentially, with identifiers used in place of your and your company's name(s). These findings will be made available should you be interested.

If you have any concerns, please contact my supervisor or me. Our details are provided below.

Researcher: Rethabile Nkosi
Email: rethabile.nkosi@gmail.com
Phone: 079 401 7223

Research Supervisor: Matthew Birtch
Email: birtchm@gibs.co.za
Phone: 011 771 4000

Signature of participant: ________________________________

Date: _____________________

Signature of researcher: ________________________________

Date: _______________________

<u>Semi-structured interview schedule</u>

Question 1	What do you view as the role of the corporate parent in this multi-business firm?
Question 2	Do you think that your portfolio of businesses performs better under your stewardship than they would on their own?
Question 3	Which activities do you most rely on to create value to subsidiaries?
Question 4	How important are synergies in this multi-business firm?
Question 5	How do you balance short-term financial performance with the need by subsidiaries for build future resources and assets?

APPENDIX C: ETHICAL CLEARANCE

Gordon Institute of Business Science
University of Pretoria

14 August 2018

Nkosi Thabi

Dear Thabi

Please be advised that your application for Ethical Clearance has been approved.

You are therefore allowed to continue collecting your data.

Please note that approval is granted based on the methodology and research instruments provided in the application. If there is any deviation change or addition to the research method or tools, a supplementary application for approval must be obtained

We wish you everything of the best for the rest of the project.

Kind Regards

GIBS MBA Research Ethical Clearance Committee

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